

TOWN OF WELLSTON
Report on Audit of Financial Statements
For the Period Ending June 30, 2023

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Independent Auditor's Report

To the Board of Trustees
Town of Wellston, Oklahoma

Report on the Audit of the Financial Statements

Opinions

We have audited the modified cash basis financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Wellston (Town) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the Town, as of June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter—Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 1, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2023 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town’s internal control over financial reporting and compliance.



Oklahoma City, Oklahoma
December 8, 2023

Town of Wellston
Statement of Net Position - Government-Wide - Modified Cash Basis
For the Year Ended June 30, 2023

ASSETS

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current Assets:			
Cash	330,402.90	247,387.62	577,790.52
Restricted Cash	199,684.83	919,695.93	1,119,380.76
Total Current Assets	<u>530,087.73</u>	<u>1,167,083.55</u>	<u>1,697,171.28</u>
Non-Current Assets:			
Capital Assets, Net	384,771.81	2,052,520.64	2,437,292.45
Total Non-Current Assets	<u>384,771.81</u>	<u>2,052,520.64</u>	<u>2,437,292.45</u>
Total Assets	<u>\$ 914,859.54</u>	<u>\$ 3,219,604.19</u>	<u>\$ 4,134,463.73</u>

LIABILITIES

Current Liabilities:			
Current Portion of Long-Term Debt	-	45,000.00	45,000.00
Meter Deposits	-	39,973.76	39,973.76
Total Current Liabilities	-	<u>84,973.76</u>	<u>84,973.76</u>
Non-Current Liabilities			
Notes Payable, Net of Premiums, Discounts, & Current Portion	-	2,130,000.00	2,130,000.00
Premium on Note Payable	-	337,727.48	337,727.48
Total Non-Current Liabilities	-	<u>2,467,727.48</u>	<u>2,467,727.48</u>
Total Liabilities	-	<u>2,552,701.24</u>	<u>2,552,701.24</u>

NET POSITION

Invested in Capital Assets, Net of Related Debt	384,771.81	(460,206.84)	(75,435.03)
Restricted	199,684.83	879,722.17	1,079,407.00
Unrestricted	330,402.90	247,387.62	577,790.52
Total Net Position	<u>914,859.54</u>	<u>666,902.95</u>	<u>1,581,762.49</u>
Total Liabilities & Net Position	<u>\$ 914,859.54</u>	<u>\$ 3,219,604.19</u>	<u>\$ 4,134,463.73</u>

The accompanying notes are an integral part of these financial statements.

Town of Wellston
Statement of Activities - Government-Wide - Modified Cash Basis
For the Year Ended June 30, 2023

Functions/Programs	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Primary Government						
Streets Maintenance	20,068.71	-	-	(20,068.71)	-	(20,068.71)
Emergency Services	29,075.82	-	11,500.00	(17,575.82)	-	(17,575.82)
Senior Citizens	34,870.64	25,736.60	-	(9,134.04)	-	(9,134.04)
Fire Department	83,521.88	25,626.06	92,882.85	34,987.03	-	34,987.03
Police Department	427,925.78	56,563.75	300.00	(371,062.03)	-	(371,062.03)
General Government	416,664.62	85,551.36	80,012.08	(251,101.18)	-	(251,101.18)
Court	300.00	-	-	(300.00)	-	(300.00)
Cemetery	12,285.81	36,264.60	-	23,978.79	-	23,978.79
Total Governmental Activities	<u>1,024,713.26</u>	<u>229,742.37</u>	<u>184,694.93</u>	<u>(610,275.96)</u>	<u>-</u>	<u>(610,275.96)</u>
Business-Type Activities						
Water Department	444,208.27	401,397.38	-	-	(42,810.89)	(42,810.89)
Sewer Department	121,529.31	93,244.80	92,882.85	-	64,598.34	64,598.34
Garbage Department	139,707.24	101,096.80	-	-	(38,610.44)	(38,610.44)
Post Office	39,903.28	39,751.89	-	-	(151.39)	(151.39)
Miscellaneous	34,879.41	39,945.68	-	-	5,066.27	5,066.27
Total Business-Type Activities	<u>780,227.51</u>	<u>675,436.55</u>	<u>92,882.85</u>	<u>-</u>	<u>(11,908.11)</u>	<u>(11,908.11)</u>
Total Primary Government	<u>\$ 1,804,940.77</u>	<u>\$ 905,178.92</u>	<u>\$ 277,577.78</u>	<u>\$ (610,275.96)</u>	<u>\$ (11,908.11)</u>	<u>\$ (622,184.07)</u>
General Revenues:						
				482,954.80	-	482,954.80
				160,881.24	-	160,881.24
				708.00	12,912.41	13,620.41
				<u>644,544.04</u>	<u>12,912.41</u>	<u>657,456.45</u>
				34,268.08	1,004.30	35,272.38
				880,591.46	665,898.65	1,546,490.11
				<u>\$ 914,859.54</u>	<u>\$ 666,902.95</u>	<u>\$ 1,581,762.49</u>

The accompanying notes are an integral part of these financial statements.

Town of Wellston
Balance Sheet - Governmental Funds - Modified Cash Basis
For the Year Ended June 30, 2023

	General Fund	Cemetery Fund	Total Governmental Funds
ASSETS			
Cash - Unrestricted	330,402.90	-	330,402.90
Cash - Restricted	72,795.44	126,889.39	199,684.83
Total Assets	403,198.34	126,889.39	530,087.73
FUND BALANCES			
Unassigned	330,402.90	-	330,402.90
Assigned	-	-	-
Restricted	72,795.44	126,889.39	199,684.83
Total Liabilities & Fund Balances	\$ 403,198.34	\$ 126,889.39	\$ 530,087.73

***Reconciliation of Total Governmental Fund Balance to Net Position
of Governmental Activities***

<i>Total Governmental Fund Balances</i>	530,087.73
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Amounts reported for governmenta activities in the statement of net position are different because:

<i>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</i>	384,771.81
<i>Net Position of Governmental Activities</i>	\$ 914,859.54

The accompanying notes are an integral part of these financial statements.

Town of Wellston
Statement of Revenues, Expenditures, and Changes in Fund
Balances - Governmental Funds - Modified Cash Basis
For the Year Ended June 30, 2023

	General Fund	Cemetery Fund	Total Governmental Funds
Revenues:			
Taxes	643,836.04	-	643,836.04
Charges for Services	25,626.06	36,264.60	61,890.66
Fines	56,563.75	-	56,563.75
Interest	708.00	-	708.00
Total Revenues	1,022,716.74	36,264.60	1,058,981.34
Expenditures:			
Street Maintenance	20,068.71	-	20,068.71
Fire Department	75,526.88	-	75,526.88
Police Department	420,525.38	-	420,525.38
Court	300.00	-	300.00
Cemetery	-	11,343.81	11,343.81
General Government	395,836.54	3,111.25	398,947.79
Total Expenditures	976,203.97	14,455.06	990,659.03
Excess Revenues Over (Under) Expenditures	46,512.77	21,809.54	68,322.31
Fund Balances, Beginning of Year	356,685.57	105,079.85	461,765.42
Fund Balances, End of Year	\$ 403,198.34	\$ 126,889.39	\$ 530,087.73

***Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund balances
of Governmental Funds to the Statement of Activities***

<i>Net Change in Fund Balances - Total Governmental Funds</i>	68,322.31
<i>Depreciation is recorded as an expense in the government-wide financial statements but not recorded in the fund financial statements.</i>	(34,054.23)
<i>Change in Net Position of Governmental Activities</i>	\$ 34,268.08

The accompanying notes are an integral part of these financial statements.

Town of Wellston
Statement of Net Position - Proprietary Fund - Modified Cash Basis
For the Year Ended June 30, 2023

ASSETS

Current Assets:

Cash - Unrestricted	247,387.62
Cash - Restricted	919,695.93
Total Current Assets	1,167,083.55

Non-Current Assets:

Capital Assets, Net	2,052,520.64
Total Assets	\$ 3,219,604.19

LIABILITIES

Current Liabilities:

Meter Deposits	39,973.76
Current Portion of Long-Term Debt	45,000.00
Total Current Liabilities	84,973.76

Non-Current Liabilities:

Notes Payable, Net of Current Portion	2,130,000.00
Premium on Notes Payable	337,727.48
Total Liabilities	2,552,701.24

NET POSITION

Invested in Capital Assets, Net of Related Debt	(460,206.84)
Restricted	879,722.17
Unrestricted	247,387.62
Total Net Position	666,902.95
Total Liabilities & Net Position	\$ 3,219,604.19

The accompanying notes are an integral part of these financial statements.

Town of Wellston
Statement of Revenues, Expenses, & Change in Net Position - Proprietary
Fund - Modified Cash Basis
For the Year Ended June 30, 2023

Operating Revenues:	
Water Sales	401,397.38
Sewer Fees	93,244.80
Garbage Fees	101,096.80
Miscellaneous	39,945.68
Total Operating Revenues	<u>768,319.40</u>
Operating Expenses:	
Water Department	444,208.27
Sewer Department	121,529.31
Garbage Department	139,707.24
Miscellaneous	34,879.41
Total Operating Expenses	<u>780,227.51</u>
Operating Income (Loss)	(11,908.11)
Non-Operating Revenues (Expenses):	
Interest Income	<u>12,912.41</u>
Change in Net Position	1,004.30
Net Position, Beginning of Year	665,898.65
Net Position, End of Year	<u><u>\$ 666,902.95</u></u>

The accompanying notes are an integral part of these financial statements.

Town of Wellston
Statement of Cash Flows - Proprietary Fund - Modified Cash Basis
For the Year Ended June 30, 2023

Cash Flows from Operating Activities:

Cash Received from Customers	\$	635,490.87
Cash Received from Rental Activities		39,945.68
Cash Received from Donations and Grants		92,882.85
Cash Paid to Employees		(92,838.18)
Cash Paid to Suppliers		(434,852.42)
Cash Paid for Interest		(89,144.98)
Net Cash Provided by (Used for) Operating Activities		151,483.82

Cash Flows from Capital & Related Financing Activities

Purchase of Fixed Assets	(888,343.67)
Increase (Decrease) in Meter Deposits	159.69
Principal Paid on Capital Debt	(45,000.00)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(933,183.98)

Net Increase (Decrease) in Cash and Cash Equivalents	(781,700.16)
Cash and Cash Equivalents, Beginning of Year	1,948,783.71
Cash and Cash Equivalents, End of Year	\$ 1,167,083.55

Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for)

Operating Activities:

Operating Income (Loss)	1,004.30
Premium Amortization	(12,912.41)
Depreciation Expense	163,391.93
Net Cash Provided by (Used for) Operating Activities	\$ 151,483.82

The accompanying notes are an integral part of these financial statements.

**TOWN OF WELLSTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

Note 1 – Summary of Significant Accounting Policies

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). These modified cash basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

1.A. Financial Reporting Entity

The Town of Wellston, Oklahoma is a statutory Town Government under Oklahoma Statutes. The Town provides the following services: public safety, streets and highways, sanitation, public improvements, utilities, and general administrative services.

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of the Town's operations include how the budget is adopted, whether debt is secured by general obligation of the Town, the Town's duty to cover any deficits that may occur, and supervision over the accounting functions. Any separate accounting entities would be considered component units. There are no agencies, organizations, or activities meeting any of the above criteria that are excluded from the Town's reporting entity. As of June 30, 2023, the Town has one component, the Wellston Public Works Authority.

1.B. Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole within the limitations of the modified cash basis of accounting. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities.

Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed, in whole or part, by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, deferred outflows, liabilities, deferred inflows, net position or fund balance, revenues, and expenditures or expenses. The Town's funds are organized into two major categories: governmental and proprietary. The Town presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures or expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type;
- b. Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures or expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described subsequently:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the Town and always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

Special Revenue Funds

Special Revenue Funds are used to account for and report the proceeds of the specific revenue sources that are either restricted or committed to expenditures for specified purposes other than debt service or capital projects. The reporting entity includes the following special revenue funds, all of which are reported as nonmajor funds: Cemetery Fund.

Proprietary Funds

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund that is reported as a major fund: Wellston PWA.

1.C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting , as subsequently defined in item (b).

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery) , net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position or balance sheets cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, interfund receivables and payables, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the Town utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

1.D. Financial Position

CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less. Trust account investments in open-ended mutual fund shares are also considered cash equivalents.

INVESTMENTS

Investments classified in the financial statements consist entirely of certificates of deposit acquired with cash whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

CAPITAL ASSETS

The Town's modified cash basis of accounting reports capital assets resulting from cash transactions or events and reports depreciation, when appropriate. The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund and similar discretely presented component unit operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, capital assets arising from cash transactions or events are accounted for as assets in the Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual cost is unavailable. Depreciation of all exhaustible capital assets arising from cash transactions or events is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' useful lives using the straight-line method. A capitalization threshold of \$500 is used to report capital assets. The range of estimated useful lives by type of asset is as follows:

Buildings	40-50 years
Improvements other than buildings	10-25 years
Machinery, furniture, and equipment	3-20 years
Utility property and improvements	10-50 years
Infrastructure	24-50 years

Fund Financial Statements

In the fund financial statements, capital assets arising from cash transactions or events acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

LONG-TERM DEBT

All long-term bonds, notes, and other debt arising from cash transactions or events to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements.

Long-term debt items arising from cash transactions or events of governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as other

financing sources, and payment of principal and interest is reported as expenditures. The accounting treatment for long-term debt is the same for proprietary funds and the government-wide statements.

NET POSITION / FUND BALANCE CLASSIFICATIONS

Government-Wide Statements

Net Position is classified and displayed in three components:

1. *Net investment in capital assets.* Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows of resources attributable to capital assets and related debt.
2. *Restricted.* Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets, with restriction constraints placed on the use either by external groups, such as creditors, grantors, contributors, or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
3. *Unrestricted.* Net amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the Town's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

Fund Financial Statements

Governmental Funds

The difference among assets, deferred outflows, liabilities, and deferred inflows of governmental funds is reported as fund balance and classified as nonspendable, restricted, committed, assigned, or unassigned based on the respective level of constraint. These constraints are defined as follows:

Nonspendable: amounts that cannot be spent because they either are not in spendable form or are legally or contractually required to be maintained intact.

Restricted: Amounts constrained regarding use from restrictions externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or by restrictions imposed by law through constitutional provisions or enabling legislation.

Committed: Amounts constrained regarding use for specific purposes pursuant to requirements imposed by formal action of the Town's highest level of decision-making authority. (In the case of the Town of Wellston, commitments are evidenced by adoption of an ordinance by the Town Council.)

Assigned: Amounts constrained by the Town's intent to be used for specific purposes but that are neither restricted nor committed. (In the case of the Town of Wellston, assignments are evidenced either by resolution of the Town Council or by the Town Manager in written form as approved by vote of the Town Council pursuant to Town policy.)

Unassigned: The residual classification of the General Fund for spendable amounts that have not been restricted, committed, or assigned to specific purposes.

It is the Town's policy to first use restricted fund balances prior to the use of unrestricted fund balances when and expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. It is also Town policy to use committed fund balances before assigned fund balances and assigned fund balances before unassigned amounts when an expenditure is incurred for purposes for which amounts in those classifications are available to be used.

Proprietary Funds

The difference among assets, deferred outflows, liabilities, and deferred inflows of proprietary funds is reported as net position and classified in the same manner as the government-wide financial statements, as previously described.

1.E. REVENUES, EXPENDITURES, AND EXPENSES

PROGRAM REVENUES

In the Statement of Activities, modified cash basis revenues that are derived directly from each activity or from parties outside the Town's taxpayers are reported as program revenues. The Town has the following program revenues in each activity: General Government, Streets, and Public Works.

All other governmental revenues are reported as general revenues. All taxes are classified as general revenues even if restricted for a specific purpose.

OPERATING REVENUES AND EXPENSES

Operating revenues and expenses for proprietary funds and the similar discretely presented component unit result from providing services and producing and delivering goods or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

GASB 34 IMPLEMENTATION

The Town has implemented the new financial reporting model, as required by the provisions of GABS Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis-for State and Local Governments, as of June 30, 2004.

1.G. USE OF ESTIMATES

The preparation of financial statements in conformity with the modified cash basis of accounting used by the Town requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

NOTE 2. DEPOSITS WITH FINANCIAL INSTITUTIONS

The accounts of the Town are required by state law to be secured by collateral pledged by the financial institution and/or FDIC insurance. The Town of Wellston is considered a separate entity from the Wellston Public Works Authority for FDIC deposit insurance.

In accordance with GASB No. 3, deposits are to be classified into the following three categories:

1. Insured or collateralized with securities held by the entity or by its agent or in the entity’s name (referred to as Category 1);
2. Collateralized with securities held by pledging financial institution’s trust department or agent in the entity’s name (referred to as Category 2);
3. Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity’s name (referred to as Category 3).

All of the Town of Wellston’s government and enterprise fund cash and investment accounts are considered Category 1 up to its FDIC limits of \$250,000 for the governmental funds and

\$250,000 for the Wellston Public Works Authority. The remaining funds are considered Category 3.

NOTE 4. CAPITAL ASSETS AND DEPRECIATION

Governmental Funds

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Land & Improvements	281,535	-	-	281,535
Equipment	328,850	-	35,000	293,850
Buildings & Improvements	311,142	-	-	311,142
Total	921,527	-	35,000	886,527
Accumulated Depreciation	502,701	34,054	35,000	501,755
Net Capital Assets	<u>\$ 418,826</u>			<u>\$ 384,772</u>

As of June 30, 2023, the governmental funds had no capital assets that were not being depreciated or had not been depreciated, over than land. Depreciation is computed using the straight-line method of depreciation over the estimated useful lives of the assets. Assets are recorded at cost or their estimated fair market value for those assets where recorded amounts are not available.

Proprietary Funds

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Equipment	240,258			240,258
Post Office	373,724			373,724
Water System	2,564,080	864,510		3,428,590
Sewer System	1,413,976	8,667		1,422,643
Total	4,592,039	873,177	-	5,465,215
Accumulated Depreciation	3,249,303	163,392	-	3,412,695
Net Capital Assets	<u>\$ 1,342,736</u>			<u>\$ 2,052,521</u>

As of June 30, 2023, the Public Works Authority had not capitalized assets that were not being depreciated or had not been depreciated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Assets are recorded at cost or their estimated fair market value for those assets where recorded amounts are not available.

NOTE 5. NOTES PAYABLE

Wellston Public Works Authority

As of June 30, 2023, the Wellston Public Works Authority had one long-term note outstanding with the Oklahoma Water Resources Board. The note carries an interest rate based on a weighted average of the principal amounts for each year outstanding. The interest rate varies from 3.2% to 5.2%. The bond was issued at a premium of \$365,647, to be amortized over the life of the bond based on the percentage of principal outstanding. The monthly payment varies, and amounts required to satisfy this obligation are as follows:

FY	<u>Principal</u>	<u>Interest</u>		
2024	45,000	87,705	Balance, Beginning of Year	2,220,000
2025	45,000	85,815	Principal Paid During Year	<u>45,000</u>
2026	50,000	83,345	Balance, End of Year	2,175,000
2027	50,000	80,745		
2028	50,000	78,645	Premium on Bond	350,640
2029-2033	295,000	290,380	Less: Amortization	<u>(12,912)</u>
2034-2038	355,000	299,005	Balance, End of Year	<u>337,727</u>
2039-2043	420,000	228,708	Total Long-Term Liability	2,512,727
2044-2048	505,000	140,910		
2049-2050	360,000	30,660	Interest Paid During Year	\$ 89,145
	<u>2,175,000</u>	<u>1,405,917</u>		

NOTE 6. VOLUNTEER FIREFIGHTER PENSION PLAN

The Town participates in the Oklahoma State Firefighters Pension and Retirement system, which is a defined contribution plan applying only to the Town’s volunteer firefighters. Vesting occurs after 10 years of service and payments begin at age 50, or after 20 years of service, whichever is later. Contributions are made by the town at the rate of \$60 per volunteer firefighter per year. The total contribution for FY 2023 was \$660 and covered 11 volunteers.

NOTE 7. DEFINED BENEFIT PENSION PLAN

Plan Description: The Town of Wellston contributes to the Oklahoma Municipal Retirement Fund, (the Fund), a cost-sharing multiple-employer defined benefit pension plan administered by the Trust Department of Liberty National Bank of Oklahoma City. The Fund provides retirement, death and disability benefits to plan members who are regular full-time employees of participating municipalities, except for employees covered under other retirement plans. The authority to establish and amend benefit provisions to the Fund rest with the Fund’s Board of Directors. The Oklahoma Municipal Retirement Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Fund, including 10-year historical information. That report may be obtained from the Fund administrator, Nations Bank.

Funding Policy – The required contribution rate for the Town in fiscal year 2023 was 7.29% of gross monthly salary. There was no required employee contribution for the year. These rates are actuarially determined and may be amended by the Fund’s Board of directors. The Town’s contributions to the Fund for the year ending June 30, 2023 were \$19,512.54. Total covered payroll was \$319,228.94. These amounts were equal to the required contributions. Total payroll for the Town and Public Works Authority for the year was \$405,734.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Town Council
Town of Wellston, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Wellston (Town) as of and for the year ended June 30, 2023, and the related notes to the financial statements, and have issued our report thereon dated December 8, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material

weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Wellston's Response to Findings

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Russell + Williams CPA's, P.C.

Oklahoma City, Oklahoma

December 8, 2023