

TOWN OF WATTS, OKLAHOMA
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED
JUNE 30, 2022



Certified Public Accountants, PLLC

124 SOUTH MAIN, MIAMI, OK 74354

22 SOUTH ADAIR, PRYOR, OK 74361

918-542-4401 OFFICE

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Town of Watts, State of Oklahoma

OPINIONS

We have audited the accompanying 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 Watts, State of Oklahoma (the "Town"), as of and for the year ended June 30, 2022, 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 financial statements referred to above present fairly, in all material respects, the respective modified cash-basis financial position 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, as of June 30, 2022, and the respective changes in modified cash-basis financial position and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1C.

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 issued by the comptroller General of the United States (Government Auditing Standards). 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.

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, which is described in Note 1C. This includes 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.

In preparing the financial statements, management is required to evaluate whether 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 twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 generally accepted 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 generally accepted 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 MATTERS

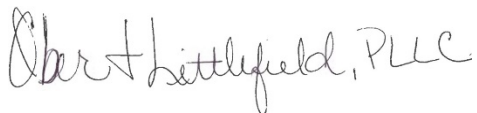
Emphasis of Matter

We draw attention to Note 1C of the financial statements, which describes the basis of accounting. The financial statements are prepared 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. Our opinion is not modified with respect to this matter.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 23, 2022, 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 the Town's internal control over financial reporting, and compliance.

Sincerely,



OBER & LITTLEFIELD, CPAS, PLLC
MIAMI, OKLAHOMA
NOVEMBER 23, 2022

TOWN OF WATTS, STATE OF OKLAHOMA
 STATEMENT OF NET POSITION - MODIFIED CASH BASIS - GOVERNMENT-WIDE
 YEAR ENDED JUNE 30, 2022

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 126,818.87	\$ 57,752.71	\$ 184,571.58
Due from - PWA	38.47	-	38.47
Current restricted assets			
Cash and cash equivalents	-	35,046.25	35,046.25
Total current assets	126,857.34	92,798.96	219,656.30
Non-current assets			
Capital assets, net of accumulated depreciation	177,352.26	1,819,841.87	1,997,194.13
Total assets	<u>\$ 304,209.60</u>	<u>\$ 1,912,640.83</u>	<u>\$ 2,216,850.43</u>
Liabilities			
Current liabilities			
Payroll taxes payable	\$ 5,443.10	\$ 2,268.85	\$ 7,711.95
Due to - Town	-	38.47	38.47
Retirement payable	746.39	1,437.77	2,184.16
Current portion of long-term debt	-	6,955.83	6,955.83
Total current liabilities	<u>6,189.49</u>	<u>10,700.92</u>	<u>16,890.41</u>
Long-term liabilities			
Utility deposits	-	35,046.25	35,046.25
Notes payable	-	10,732.98	10,732.98
Total long-term liabilities	<u>-</u>	<u>45,779.23</u>	<u>45,779.23</u>
Total liabilities	<u>6,189.49</u>	<u>56,480.15</u>	<u>62,669.64</u>
Net position			
Invested in capital assets, net of related debt	177,352.26	1,802,153.06	1,979,505.32
Unrestricted	120,667.85	54,007.62	174,675.47
Total net position	<u>298,020.11</u>	<u>1,856,160.68</u>	<u>2,154,180.79</u>
Total liabilities and net position	<u>\$ 304,209.60</u>	<u>\$ 1,912,640.83</u>	<u>\$ 2,216,850.43</u>

The accompanying notes are an integral part of these financial statements

TOWN OF WATTS, STATE OF OKLAHOMA
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS - GOVERNMENT-WIDE
YEAR ENDED JUNE 30, 2022

Functions/Programs	Expenses	Program Revenues			Net (Expense)/Revenue and Changes in Net Position		
		Charges for Services	Operating Grants	Capital Grants	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 120,554.56	\$ -	\$ 45,833.56	\$ -	\$ (74,721.00)	\$ -	\$ (74,721.00)
Public safety	195,774.27	-	-	-	(195,774.27)	-	(195,774.27)
Streets	6,517.13	-	-	-	(6,517.13)	-	(6,517.13)
Total governmental activities	322,845.96	-	45,833.56	-	(277,012.40)	-	(277,012.40)
Business-type activities:							
Water utilities	546,839.32	469,415.11	7,000.00	38,334.65		(32,089.56)	(32,089.56)
Total	\$ 869,685.28	\$ 469,415.11	\$ 52,833.56	\$ 38,334.65		(32,089.56)	(309,101.96)
General revenues:							
Taxes:							
Sales and use tax					147,999.92	-	147,999.92
Franchise taxes					3,570.03	-	3,570.03
Other public service taxes					10,288.77	-	10,288.77
Miscellaneous					4,760.20	804.32	5,564.52
Donations					8,199.00	-	8,199.00
Interest income					39.16	-	39.16
Insurance proceeds					2,863.14	8,009.91	10,873.05
Fines and fees					130,154.02	-	130,154.02
Transfers					(42,440.01)	42,440.01	-
Total general revenues and transfers					265,434.23	51,254.24	316,688.47
Change in net position					(11,578.17)	19,164.68	7,586.51
Net position - beginning					309,598.28	1,836,996.00	2,146,594.28
Net position - ending					\$ 298,020.11	\$ 1,856,160.68	\$ 2,154,180.79

The accompanying notes are an integral part of these financial statements

TOWN OF WATTS, STATE OF OKLAHOMA
 BALANCE SHEET - MODIFIED CASH BASIS - GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2022

	General Fund	Street Fund	Total
Assets			
Cash and cash equivalents	\$ 118,877.93	\$ 7,940.94	\$ 126,818.87
Due from PWA	-	38.47	38.47
Total Assets	<u>\$ 118,877.93</u>	<u>\$ 7,979.41</u>	<u>\$ 126,857.34</u>
Liabilities and fund balance			
Liabilities			
Payroll taxes payable	\$ 5,443.10	\$ -	\$ 5,443.10
Retirement payable	746.39	-	746.39
Total liabilities	<u>6,189.49</u>	<u>-</u>	<u>6,189.49</u>
Fund balance			
Assigned	-	7,979.41	7,979.41
Unassigned	112,688.44	-	112,688.44
Total fund balance	<u>112,688.44</u>	<u>7,979.41</u>	<u>120,667.85</u>
Total liabilities and fund balance	<u>\$ 118,877.93</u>	<u>\$ 7,979.41</u>	<u>\$ 126,857.34</u>
Total fund balance, governmental funds			\$ 120,667.85
Amounts reported for governmental activities in the statement of net position - modified cash basis are different because:			
Capital assets, net of depreciation, used in governmental activities are not current financial resources and therefore, are not reported in the governmental activities of the statement of net position - modified cash basis.			
			<u>177,352.26</u>
Net position of governmental activities in the statement of net position - modified cash basis			<u><u>\$ 298,020.11</u></u>

The accompanying notes are an integral part of these financial statements

TOWN OF WATTS, STATE OF OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
MODIFIED CASH BASIS - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2022

	General Fund	Street Fund	Total Governmental Funds
Revenues			
Sales and use tax	\$ 147,999.92	\$ -	\$ 147,999.92
Franchise fees	3,570.03	-	3,570.03
Alcohol and cigarette tax	540.36	-	540.36
Gasoline tax	383.00	-	383.00
County taxes	9,365.41	-	9,365.41
Fines and fees	130,154.02	-	130,154.02
Interest	23.75	15.41	39.16
Grant revenue	45,833.56	-	45,833.56
Insurance proceeds	2,863.14	-	2,863.14
Donations	8,199.00	-	8,199.00
Miscellaneous income	4,760.20	-	4,760.20
Total revenues	<u>353,692.39</u>	<u>15.41</u>	<u>353,707.80</u>
Expenditures			
Personal services	162,724.01	-	162,724.01
Maintenance and operations	150,963.47	6,517.13	157,480.60
Capital outlay	33,101.50	-	33,101.50
Total expenditures	<u>346,788.98</u>	<u>6,517.13</u>	<u>353,306.11</u>
Excess/(deficiency) of revenues over/(under) expenditures	6,903.41	(6,501.72)	401.69
Other financing sources/(uses)			
Transfers in - restricted sales tax	(14,752.29)	14,752.29	-
Transfers out - business-type	(18,333.56)	(24,106.45)	(42,440.01)
Total other financing sources/(uses)	<u>(33,085.85)</u>	<u>(9,354.16)</u>	<u>(42,440.01)</u>
Net change in fund balance	(26,182.44)	(15,855.88)	(42,038.32)
Fund balance, beginning	138,870.88	23,835.29	162,706.17
Fund balance, ending	<u>\$ 112,688.44</u>	<u>\$ 7,979.41</u>	<u>\$ 120,667.85</u>

The accompanying notes are an integral part of these financial statements

TOWN OF WATTS, STATE OF OKLAHOMA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES -
MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2022

Net change in fund balances - total governmental funds \$ (42,038.32)

Amounts reported for governmental activities in the statement of net position -
modified cash basis are different because:

In the governmental funds, capital outlays are reported as expenditures, while in the
government-wide statement of activities - modified cash basis, depreciation expense
is reported to allocate those expenditures over the life of the assets.

Capital outlay expenditures	33,101.50
Depreciation expense	<u>(2,641.35)</u>

Change in net position of governmental activities in the statement of net position - modified cash basis \$ (11,578.17)

The accompanying notes are an integral part of these financial statements

TOWN OF WATTS, STATE OF OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2022

	<u>Public Works Authority</u>
Assets	
Current unrestricted assets	
Cash and cash equivalents	\$ 57,752.71
Current restricted assets	
Cash and cash equivalents	<u>35,046.25</u>
Total current assets	92,798.96
Non-current assets	
Capital assets, net of accumulated depreciation	<u>1,819,841.87</u>
Total assets	<u><u>\$ 1,912,640.83</u></u>
Liabilities	
Current liabilities	
Payroll taxes payable	\$ 2,268.85
Retirement payable	1,437.77
Due to - Town	38.47
Current portion long-term debt	<u>6,955.83</u>
Total current liabilities	<u>10,700.92</u>
Non-current liabilities	
Utility deposits	35,046.25
Long-term debt, less current portion	<u>10,732.98</u>
Total non-current liabilities	<u>45,779.23</u>
Total liabilities	<u>56,480.15</u>
Net position	
Invested in capital assets, net of related debt	1,802,153.06
Unrestricted	<u>54,007.62</u>
Total net position	<u>1,856,160.68</u>
Total liabilities and net position	<u><u>\$ 1,912,640.83</u></u>

The accompanying notes are an integral part of these financial statements

TOWN OF WATTS, STATE OF OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
MODIFIED CASH BASIS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2022

	Public Works Authority
Operating revenues	
Water revenue	\$ 333,262.19
Sewer revenue	111,452.78
Trash revenue	11,355.80
Penalties and fees	12,055.34
Fire revenue	1,289.00
Total operating revenue	<u>469,415.11</u>
Operating expenses	
Advertising	448.61
Contractual maintenance	150.00
Depreciation	85,996.00
Director fees	3,450.00
Dues and memberships	1,163.28
Fire contributions	1,310.00
Fuel	15,993.67
Insurance	14,799.00
Miscellaneous	109.82
Office supplies	6,636.28
Payroll taxes	6,448.61
Professional fees	14,000.00
Repairs and maintenance	17,237.55
Retirement expense	9,774.28
Salaries	77,371.01
Supplies	24,893.40
Telephone	4,178.83
Testing	826.00
Trash	13,440.00
Utilities	9,753.37
Water purchased	237,081.00
Total operating expenses	<u>545,060.71</u>
Operating income/(loss)	<u>(75,645.60)</u>
Other financing sources/(uses)	
Miscellaneous income	804.32
Grant income	45,334.65
Insurance reimbursement	8,009.91
Interest expense	(1,778.61)
Transfers in/(out)	42,440.01
Total other financing sources/(uses)	<u>94,810.28</u>
Change in net position	19,164.68
Total net position - beginning	<u>1,836,996.00</u>
Total net position - ending	<u>\$ 1,856,160.68</u>

The accompanying notes are an integral part of these financial statements

TOWN OF WATTS, STATE OF OKLAHOMA
STATEMENT OF CASH FLOWS – MODIFIED CASH BASIS – PROPRIETARY FUND
YEAR ENDED JUNE 30, 2022

	Public Works Authority
Cash flows from operating activities	
Receipts from customers	\$ 469,415.11
Payments to suppliers and employees	<u>(468,434.31)</u>
Net cash provided/(used) by operating activities	<u>980.80</u>
Cash flows from noncapital financing activities	
Other income	804.32
Interfund transfers in/(out)	<u>42,440.01</u>
Net cash provided/(used) by noncapital financing activities	<u>43,244.33</u>
Cash flows from capital and related financing activities	
Principal paid on capital debt	(14,893.57)
Interest paid on capital debt	(1,778.61)
Purchase of fixed assets	(38,334.65)
Proceeds from grant receipts	45,334.65
Proceeds from insurance	<u>8,009.91</u>
Net cash provided/(used) by capital and related financing activities	<u>(1,662.27)</u>
Net increase/(decrease) in cash and cash equivalents	42,562.86
Cash and cash equivalents, beginning of year	<u>50,236.10</u>
Cash and cash equivalents, end of year	<u>\$ 92,798.96</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income/(loss)	\$ (75,645.60)
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	85,996.00
Change in assets and liabilities:	
Increase/(decrease) in accrued liabilities	<u>(9,408.07)</u>
Net cash provided/(used) by operating activities	<u>\$ 980.80</u>
Reconciliation to statement of net position - modified cash basis	
Cash and cash equivalents	\$ 57,752.71
Restricted cash	<u>35,046.25</u>
Total cash and cash equivalents	<u>\$ 92,798.96</u>

The accompanying notes are an integral part of these financial statements

Note 1 - Summary of Significant Accounting Policies

The following notes to the financial statements are an integral part of the Town of Watts, State of Oklahoma (the “Town”)’s financial statements. As discussed further in Note 1C, 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), established by the Governmental Accounting Standards Board (GASB). 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 measurements and recognition criteria of the modified cash basis of accounting.

1A. Financial Reporting Entity

The Town’s financial reporting entity is comprised of the following:

Primary Government:	Town of Watts, State of Oklahoma
Blended Component Unit:	Watts Public Works Authority (the “Authority”)

In determining the financial reporting entity, the Town complies with the provisions of Governmental Accounting Standards Board Statement No. 14, “The Financial Reporting Entity,” and includes all component units of which the Town appointed a voting majority of the units’ board, and the Town is either able to impose its will on the unit, or a financial benefit, or burden, relationship exists.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria, described above, and whose governing body is the same, or substantially the same, as the Town Council, or the component unit provides services entirely to the Town. The component unit’s fund is blended into those of the Town’s, by appropriate activity type, to comprise the primary government presentation.

Blended Component Units

Component units that are blended into the reporting activity types of the Town’s reports are presented below:

Component Unit	Brief Description/Inclusive Criteria	Reporting
Watts Public Works Authority	Created to finance, develop, and operate the utilities service activities. The current Town Council serves as the governing body (Trustees).	Enterprise Fund

1.B. Basis of Presentation

Government-Wide Financial Statements

The statement of net position – modified cash basis and statement of activities – modified cash basis display information about the reporting government, as a whole. 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, or governmental revenues, and other non-exchange revenues. Business-type activities are financed, in whole or in part, by fees charged to external parties for goods and services.

Note 1 - Summary of Significant Accounting Policies (continued)

1.B. Basis of Presentation (continued)

The statement of activities – modified cash basis presents a comparison between direct expenses and program revenues, for the different business-type activities of the Town, and for each function of the Town’s governmental activities. Direct expenses are those that are specifically associated with a program, or function and, therefore, are clearly identifiable to a particular function.

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, which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. 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, liabilities, revenues, or expenditures/expenses of that individual governmental, or enterprise, fund are at least ten percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund, or enterprise fund, are at least five percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below.

Governmental Funds

General Fund

The General Fund is the primary operating fund of the Town and is always classified as a major fund. It is used to account for all activities except those legally, or administratively, required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are either legally restricted to expenditures for specified purposes, or designated to finance particular functions, or activities, of the Town.

Proprietary Funds

Enterprise Funds

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:

Fund

Watts Public Works Authority

Brief Description

Accounts for the activities of the public trust in providing utility services to the public.

Note 1 - Summary of Significant Accounting Policies (continued)

1.C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded, regardless of the measurement focus applied.

Measurement Focus

In the government-wide statement of net position – modified cash basis, and statement of activities – modified cash basis, 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 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 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 adjustments 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.

Note 1 - Summary of Significant Accounting Policies (continued)

1.D. Assets, Liabilities and Equity

Cash and cash equivalents

Oklahoma Statutes authorize the Town to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments, provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the Town can invest in direct debt securities of the United States.

For financial statement presentation, and for purposes of the statement of cash flows – modified cash basis, the Town's cash and cash equivalents are considered to be cash on hand, demand deposits, and certificates of deposit, with a maturity date of three months or less. Debt instruments, with a maturity date of more than three months from date of issue, are considered investments.

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. Accordingly, actual results could differ from those estimates.

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 with an original cost of \$2,500 or more, arising from cash transactions, or events, are accounted for as assets in the statement of net position – modified cash basis. All capital assets are valued at historical cost, or estimated historical cost, if actual 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 – modified cash basis, with accumulated depreciation reflected in the statement of net position – modified cash basis. Depreciation is provided over the assets' estimated useful lives, using the straight-line method of depreciation.

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 the same as in the government-wide statements.

The financial statements of Watts Public Works Authority include property and equipment.

Note 1 - Summary of Significant Accounting Policies (continued)

1. D. Assets, Liabilities and Equity (continued)

Fund Financial Statements (continued)

Depreciation is computed using the straight-line method over the following estimated useful lives in years:

Buildings	40
Furniture, fixtures & equipment	5-20
Land improvements	40
Vehicles	5
Infrastructure	15

Long-Term Obligations

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 arising from cash transactions, or events, of governmental funds is 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 for proprietary funds is the same in the fund financial statements as the treatment in 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, and outflows, of resources attributable to capital assets and related debt.
2. *Restricted* – Consists of restricted assets reduced by liabilities, and deferred inflows or 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 amount 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.

Note 1 - Summary of Significant Accounting Policies (continued)

1.D. Assets, Liabilities and Equity (continued)

Fund Financial Statements

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, and 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.

Assigned – Amounts constrained by the Town's intent to be used for specific purposes, but that are neither restricted, nor committed.

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

When an expenditure is incurred for purposes for which amounts in any of the fund balance classifications of committed, assigned or unassigned could be used, the Town considers the expenditure spent out of the committed fund balance.

Note 1.E. Revenues, Expenditures, and Expenses

Sales tax

The Town presently levies a sales tax on taxable sales within the Town. The sales tax is collected by the Oklahoma Tax Commission, and remitted to the Town, in the month following receipt by the Oklahoma Tax Commission. The Tax Commission receives the sales tax approximately one month after collection by vendors. The sales tax is recorded entirely in the General Fund.

Operating Revenue 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.

Note 1 - Summary of Significant Accounting Policies (continued)

1.F. Interfund Transfers

Permanent re-allocations of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the statement of activities – modified cash basis, all interfund transfers between individual governmental funds have been eliminated.

1.G. Use of Estimates

The preparation of the financial statements, in accordance with the modified cash basis of accounting, requires management to make estimates, and assumptions, that affect reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance and Accountability

By its nature as a local government unit, the Town, and its component units, are subject to various federal, state and local laws and contractual regulations. An analysis of the Town’s compliance with significant laws, regulations, grants and contracts, and demonstration of its stewardship over the Town resources follows

2.A. Fund Accounting Requirements

The Town complies, in all material respects, with state and local laws and regulations requiring the use of separate funds. The legally required funds used by the Town include the following:

<u>Fund</u>	<u>Required By</u>
Public Works Authority Fund	Trust Indenture

2.B. Deposit and Investment Laws and Regulations

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral, valued at the lower of market or par. Acceptable collateral includes certain U.S. Government, or Government agency, securities, certain State of Oklahoma or political subdivision, debt obligations or surety bonds. As required by 12 U.S.C.A., Section 1823 (e), all financial institutions pledging collateral to the Town must have a written collateral agreement approved by the board of directors, or loan committee. As reflected in Note 3.A., all deposits were fully insured or collateralized for the fiscal year ended June 30, 2022.

Investments of the Town (excluding Public Trusts) whose population exceeds 3,000 according to the latest census information are limited by state law to the following:

1. Direct obligations of the U.S. Government, its agencies, or instrumentalities, to the payment of which the full faith and credit of the Government of the United States is pledged, or obligations to the payment of which the full faith and credit of this state is pledged;

Note 2 - Stewardship, Compliance and Accountability (continued)

2.B. Deposit and Investment Laws and Regulations (continued)

2. Certificates of deposit, or savings accounts, that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions;
3. Negotiable certificates of deposit, prime bankers' acceptance, prime commercial paper, and repurchase agreements, with certain limitations;
4. County, municipal, or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district;
5. Notes or bonds secured by mortgage, or trust deed, insured by the Federal Housing Administrator, and debentures issued by the Federal Housing Administrator, and in obligation of national mortgage associations;
6. Money market funds regulated by the SEC, and in which investments consist of the investments mentioned in the previous paragraphs 1., 2., 3., and 4.

Public trusts created under O.S. Title 60 are not subject to the above noted investment limitations, and are primarily governed by any restrictions in their trust or bond indentures. For the year ended June 30, 2022, the Town and its public trusts complied, in all material respects, with these investment restrictions.

2.C. Revenue Restrictions

The Town has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

<u>Revenue Source</u>	<u>Legal Restriction of Use</u>
Special Sales Tax	Street and Alley Purposes
Utility Revenue	Debt Service and Utility Operations

For the year ended June 30, 2022, the Town complied, in all material respects, with those revenue restrictions.

2. D. Debt Restrictions and Covenants

General Obligation Debt

Article 10, Sections 26 and 27 of the Oklahoma Constitution, limits the amount of outstanding general obligation bonded debt of the municipality, for non-utility or non-street purposes, to no more than 10% of net assessed valuation. For the year ended June 30, 2022, the Town had no outstanding general obligation debt.

Note 2 - Stewardship, Compliance and Accountability (continued)

2. D. Debt Restrictions and Covenants (continued)

Other Long-Term Debt

As required by the Oklahoma State Constitution, the Town (excluding Public Trusts) may not incur any indebtedness that would require payment from resources beyond the current fiscal year revenue, without first obtaining voter approval. For the year ended June 30, 2022, the Town incurred no such indebtedness.

2. E. Fund Equity Restrictions

Deficit Prohibition

Title 11, Section 17-211 of Oklahoma Statutes, prohibits the creation of a deficit fund balance in any individual fund. The Town complied with this statute, in all material respects, for the year ended June 30, 2022.

2.F. Budgetary Accounting and Control

The Town operates under the Oklahoma Estimates of Needs (Title 68) budget law. A budget is legally adopted by the Board of Trustees for the General Fund of the Town. The budget is prepared using the cash basis, and budget laws, of the State of Oklahoma. The financial statements are prepared using the modified cash basis of accounting. The Board of Trustees can legally amend the budget, once it has been approved, by filing a supplemental appropriation with the state auditor and inspector, and town clerk. Budget transfers between funds have to be approved by the Board of Trustees. There were no supplemental appropriations made during the fiscal year. All appropriations lapse at year-end. The level of control at which expenditures may not legally exceed appropriations is the fund level for each legally adopted fiscal operating budget.

Note 3. Detail Notes – Transaction Classes/Accounts

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues and expenditures/expenses.

3.A. Cash and Investments

Authorized Investments

State statutes govern the Town's investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit, of savings and loan associations, and bank and trust companies; and savings accounts, or savings certificates, of savings and loan associations and trust companies. Collateral is required for demand deposits, and certificates of deposit, for all amounts not covered by federal deposit insurance. Investments are stated at cost. The Town invests entirely in certificates of deposit.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Town's deposits may not be returned to it. The Town's cash deposits, including interest-bearing certificates of deposits, are maintained in financial institutions. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2022, none of the Town's investments were exposed to custodial credit risk.

Note 3 - Detail Notes – Transaction Classes/Accounts (continued)

3.A. Cash and Investments (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

<u>Type</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>On Demand</u>	<u>Less Than One</u>	<u>1-5</u>
Demand deposits	N/A	<u>\$219,656.30</u>	<u>\$219,656.30</u>	<u>\$ -</u>	<u>\$ -</u>

Reconciliation to statement of net position - modified cash basis:

Cash and equivalents	\$184,610.05
Restricted cash and equivalents	<u>35,046.25</u>
	<u>\$219,656.30</u>

3.B. Debt Compliance

Under the terms of the Rural Development loan agreement, the Authority is required to maintain deposits sufficient to cover the annual payments on Rural Development notes. The Authority must maintain this balance until the loans are paid off. As of year-end, the loan has been paid off. See the schedule of findings and responses.

3.C. Restricted Cash

Cash is restricted for the following purposes:

<u>Utility Deposits</u>	
Utility deposit liability	<u>\$ 35,046.25</u>
Total restricted cash - PWA	<u>\$ 35,046.25</u>

Note 3 - Detail Notes – Transaction Classes/Accounts (continued)

3.D. Capital Assets

Capital Asset Activity - Governmental Type

Capital asset activity from modified cash basis transactions, or events, for the year ended June 30, 2022, was as follows:

Governmental

	Balance 06/30/2021	Additions	Disposals	Balance 06/30/2022
Non-depreciable assets:				
Land	\$ 5,000.00	\$ 33,101.50	\$ -	\$ 38,101.50
Depreciable assets:				
Infrastructure	214,947.85	-	-	214,947.85
Buildings and improvements	33,204.50	-	-	33,204.50
Vehicles	101,110.05	-	-	101,110.05
Total capital assets being depreciated	349,262.40	-	-	349,262.40
Accumulated depreciation	(207,370.29)	(2,641.35)	-	(210,011.64)
Governmental activities capital assets, net	<u>\$ 146,892.11</u>	<u>\$ 30,460.15</u>	<u>\$ -</u>	<u>\$ 177,352.26</u>

Depreciation expense was charged to general government.

Business Type

	Balance 06/30/2021	Additions	Disposals	Balance 06/30/2022
Water and sewer systems	\$ 4,246,260.29	\$ 38,334.65	\$ -	\$4,284,594.94
Equipment	211,869.51	-	-	211,869.51
Automobiles	38,170.62	-	-	38,170.62
Total property, plant, and equipment	4,496,300.42	38,334.65	-	4,534,635.07
Accumulated depreciation	(2,628,797.20)	(85,996.00)	-	(2,714,793.20)
Business-type activities capital assets, net	<u>\$ 1,867,503.22</u>	<u>\$ (47,661.35)</u>	<u>\$ -</u>	<u>\$1,819,841.87</u>

The fixed assets are stated at cost. Depreciation is computed using the straight-line method, over the estimated useful life, which is forty years for the water system, between seven and forty years for the lift station, and between five and seven years for office furniture and equipment. Expenditures for major renewals, and betterments, which extend the useful life of the fixed assets are capitalized. Expenditures for maintenance and repairs are expensed as incurred.

Note 3 - Detail Notes – Transaction Classes/Accounts (continued)

3.E. Long-Term Debt

The reporting entity's long-term bonds, notes, and other debt arising from cash transactions, or events, is segregated between amounts to be repaid from governmental activities, and amounts to be repaid from business-type activities.

Business-Type Activities:

	Balance June 30, 2021	Issued	Retired	Balance June 30, 2022
People's Bank - 2007 Case Tractor	\$ 9,592.30	-	\$ (9,592.30)	\$ -
People's Bank - 2019 Chevy Silverado	22,990.08	-	(5,301.27)	17,688.81
	<u>\$ 32,582.38</u>	<u>\$ -</u>	<u>\$ (14,893.57)</u>	<u>\$ 17,688.81</u>

The maturities of long-term debt are as follows:

Business-Type Activities:

Year Ended June 30	Principal Reductions	Interest	Debt Service Requirements
2023	6,955.83	578.59	7,534.42
2024	10,732.98	186.20	10,919.18
Total	<u>\$ 17,688.81</u>	<u>\$ 764.79</u>	<u>\$ 18,453.60</u>

Note 4 - Other Information

4.A. Risk Management

Internal Balances

In the process of aggregating the financial information for the government-wide statement of net position – modified cash basis and statement of activities – modified cash basis, some amounts reported as interfund activity, and balances in the fund financial statements, have been eliminated, or reclassified.

Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disaster. The Town maintains insurance for claims and judgments through employee health, property and liability, workers' compensation, and unemployment insurance programs. These insurance programs are accounted for in the General Fund, and the Public Works Authority Fund. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Town. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

Commitment and Contingencies

As of the date of this report, the Town has a current pending lawsuit. Although the outcome of these lawsuits is not presently determinable, in management's opinion, the resolution of these matters may or may not have a material adverse effect on the financial condition of the Town.

Economic Dependence

The Authority is dependent upon the City of Siloam Springs, Arkansas, for the Authority's water supply. If the Authority could not purchase its water, the Authority's alternative would be to build its own plant at substantial costs or find an alternative supply.

Subsequent Events

Management has evaluated and disclosed subsequent events up to November 23, 2022, the date that the financials were available to be issued, and no additional disclosures are required.



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 Board of Directors
Town of Watts, State of 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, and each major fund of the Town of Watts, State of Oklahoma, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Town of Watts, State of Oklahoma’s basic financial statements, and have issued our report thereon dated November 23, 2022.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning, and performing, our audit of the financial statements, we considered the Town of Watts, State of Oklahoma’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 Town of Watts, State of Oklahoma’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Watts, State of Oklahoma’s internal control over financial reporting.

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. Given these limitations, during our audit we did identify deficiencies in internal control, described in the accompanying schedule of findings and responses, that we consider to be significant deficiencies. We did identify certain deficiencies in internal control described in the accompany schedule of findings. We consider the following to be a significant deficient: 2022-1.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Town of Watts, State of Oklahoma'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*.

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.



OBER & LITTLEFIELD, CPAS, PLLC
MIAMI, OKLAHOMA

NOVEMBER 23, 2022

Prior Year Findings

2019-1: Cash Receipts

Criteria: The reconciliation of the e-Court fines revenue system to the cash deposited is an important control activity needed to adequately safeguard the entity's assets and ensure accurate financial reporting.

Condition: Presently, the fines revenue is being recorded in the general ledger using the cash deposit. However, the eCourt system is not being reconciled to the cash deposit.

Recommendation: Management and the Board should consider a formal policy and procedure detailing the proper reconciliation of the eCourt system to the cash deposits on either a monthly or quarterly basis.

Update: Repeat finding in current year audit. (Refer to finding 2022-1)

Current Year Findings

2022-1: Cash Receipts

Criteria: The reconciliation of the e-Court fines revenue system to the cash deposited is an important control activity needed to adequately safeguard the entity's assets and ensure accurate financial reporting.

Condition: Presently, the fines revenue is being recorded in the general ledger using the cash deposit. However, the eCourt system is not being reconciled to the cash deposit. This condition was also reported in 2019, 2020, and 2021.

Cause: The entity's limited size and staffing resources have made it difficult for management to adequately reconcile these systems.

Effect or Potential Effect: Without reconciliation of these items, the risk significantly increases that errors and fraud related to the collection and posting of monies, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: Management and the Board should consider a formal policy and procedure detailing the proper reconciliation of the eCourt system to the cash deposits on either a monthly or quarterly basis.

Responsible Official's Response: The entity concurs with the recommendation and will strive to implement procedures to help mitigate the risks associated with the lack of segregation of duties.

Update: Repeat finding in current year audit.