

**TOWN OF WATTS
WATTS, OKLAHOMA
AUDITED FINANCIAL STATEMENTS
For the year ended June 30, 2013**

Audited By:
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**INDEPENDENT
AUDITOR'S
REPORT**

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Board of Trustees
Town of Watts, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Watts, Oklahoma as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on Governmental Activities

Management has not recorded certain general infrastructure assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general infrastructure assets be capitalized and depreciated, which would increase the assets, net position, and expenses of the governmental activities. The amount by which this departure would affect the assets, net position, and expenses of the governmental activities has not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Governmental Activities" paragraph, the financial statements referred to previously do not present fairly the financial position of the governmental activities of the Town of Watts, Oklahoma, as of June 30, 2013, or the changes in financial position thereof for the year then ended.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Watts, Oklahoma, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Accounting

We draw attention to Note B 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 opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

The Town of Watts has not presented the management discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of the basic financial statements.

The Town has also not presented the budgetary comparison information that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of the basic financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued a report dated December 26, 2013 on my consideration of the Town of Watts, State of Oklahoma's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.



Robert St. Pierre, C.P.A., P.C.
December 26, 2013

FINANCIAL

SECTION

TOWN OF WATTS, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
June 30, 2013

ASSETS	Governmental Activities	Business-Type Activities	Total
CURRENT ASSETS			
Cash & Cash Equivalents (Note C)	67,196	73,076	140,272
Receivables	-	45,772	45,772
Restricted Cash Accounts (Note C)	-	28,394	28,394
TOTAL CURRENT ASSETS	67,196	147,242	214,438
NON-CURRENT ASSETS			
Capital Assets:			
Capital Assets, Net of Accum Depreciation	-	590,557	590,557
Total Capital Assets:	-	590,557	590,557
TOTAL NON-CURRENT ASSETS			
TOTAL ASSETS	67,196	737,799	804,995
LIABILITIES AND NET ASSETS			
LIABILITIES:			
CURRENT LIABILITIES			
Due To Customers	-	50,644	50,644
Payroll Taxes Payable	1,966	6,301	8,267
Current Portion of Long Term Debt (Note E)	-	20,885	20,885
TOTAL CURRENT LIABILITIES	1,966	77,830	79,796
NON-CURRENT LIABILITIES:			
Notes Payable Non-Current (Note E)	-	262,851	262,851
TOTAL LIABILITIES	1,966	340,681	342,647
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	-	306,821	306,821
Restricted	-	28,394	28,394
Unrestricted	65,230	61,903	127,133
TOTAL NET ASSETS	65,230	397,118	462,348

TOWN OF WATTS, OKLAHOMA
STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2013

FUNCTIONS PROGRAMS	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	Expenses	Charges for Services	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
GOVERNMENTAL ACTIVITIES						
Personal Services	108,864	-	-	(108,864)	-	(108,864)
Maintenance & Operations	77,830	-	-	(77,830)	-	(77,830)
Capital Outlay	4,000	-	19,500	15,500	-	15,500
Debt Service	-	-	-	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	190,694	-	19,500	(171,194)	-	(171,194)
BUSINESS-TYPE ACTIVITIES						
Water & Sewer	477,520	492,190	-	-	14,670	14,670
TOTAL	668,214	492,190	19,500	(171,194)	14,670	(156,524)
General Revenues						
Sales Tax				57,885		57,885
Franchise Tax				2,876		2,876
Fines & Forfeitures				87,825		87,825
Use Tax				19,565		19,565
Gas Excise Tax				356		356
Commercial Vehicle Tax				467		467
Tobacco Tax				751		751
Interest Income				30	4	34
County Taxes				6,309		6,309
Miscellaneous				3,451		3,451
Reap Grants				-		-
TOTAL GENERAL REVENUES AND TRANSFERS				179,515	4	179,519
CHANGE IN NET ASSETS				8,321	14,674	22,995
NET ASSETS BEGINNING OF PERIOD				56,909	382,444	439,353
NET ASSETS END OF THE PERIOD				65,230	397,118	462,348

**TOWN OF WATTS, OKLAHOMA
STATEMENT OF NET ASSETS-MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2013**

ASSETS	General	Special Revenue	Total Governmental Funds
CURRENT ASSETS			
Cash & Cash Equivalents	31,726	-	31,726
Restricted Cash Accounts	-	35,470	35,470
TOTAL CURRENT ASSETS	31,726	35,470	67,196
NON-CURRENT ASSETS			
Capital Assets:			
Capital Assets, Net of Accum Depreciation	-	-	-
Total Capital Assets:	-	-	-
TOTAL NON-CURRENT ASSETS	-	-	-
TOTAL ASSETS	31,726	35,470	67,196
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Payroll Taxes	1,966	-	1,966
Notes Payable	-	-	-
TOTAL CURRENT LIABILITIES	1,966	-	1,966
NON-CURRENT LIABILITIES:			
Notes Payable Non-Current	-	-	-
TOTAL LIABILITIES	1,966	-	1,966
NET ASSETS			
Unrestricted	29,760	35,470	65,230
NET LIABILITIES AND NET ASSETS	31,726	35,470	67,196

TOWN OF WATTS, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS-MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

	GENERAL	SPECIAL REVENUE	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Sales Tax	43,474	14,411	57,885
Franchise Tax	2,876	-	2,876
Fines & Forfeitures	87,825	-	87,825
Use Tax	19,565	-	19,565
Gas Excise Tax	356	-	356
Tobacco Tax	467	-	467
Commercial Vehicle Tax	751	-	751
Grant Income	19,500	-	19,500
County Taxes	6,309	-	6,309
Miscellaneous	3,451	-	3,451
Interest	-	30	30
TOTAL REVENUES	<u>184,574</u>	<u>14,441</u>	<u>199,015</u>
EXPENDITURES			
Personnel Services	108,864	-	108,864
Maintenance & Operations	76,523	-	76,523
Capital Outlays	4,000	1,310	5,310
Debt Service	-	-	-
TOTAL EXPENDITURES	<u>189,387</u>	<u>1,310</u>	<u>190,697</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(4,813)	13,131	8,318
NET ASSETS AT BEGINNING OF YEAR	<u>34,573</u>	<u>22,339</u>	<u>56,912</u>
NET ASSETS AT END OF YEAR	<u>29,760</u>	<u>35,470</u>	<u>65,230</u>

**TOWN OF WATTS, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
WATTS PUBLIC WORKS AUTHORITY
PROPRIETARY FUNDS
June 30, 2013**

ASSETS	Business-Type Activities
CURRENT ASSETS	
Cash & Cash Equivalents (Note C)	73,076
Receivables	45,772
Restricted Cash Accounts	28,394
TOTAL CURRENT ASSETS	147,242
NON-CURRENT ASSETS	
Capital Assets:	
Capital Assets, Net of Accum Depreciation	590,557
Total Capital Assets:	590,557
TOTAL NON-CURRENT ASSETS	
TOTAL ASSETS	737,799
LIABILITIES AND NET ASSETS	
LIABILITIES:	
CURRENT LIABILITIES	
Due To Customers	50,644
Payroll Taxes Payable	6,301
Current Portion of Long Term Debt (Note E)	31,243
TOTAL CURRENT LIABILITIES	88,188
NON-CURRENT LIABILITIES:	
Notes Payable Non-Current (Note E)	252,493
TOTAL LIABILITIES	340,681
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	306,821
Restricted	28,394
Unrestricted	61,903
TOTAL NET ASSETS	397,118

TOWN OF WATTS, OKLAHOMA
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-MODIFIED CASH BASIS
 PROPRIETARY FUNDS
 For the Year Ended June 30, 2013

	2013
OPERATING REVENUES	
Water Revenue	388,388
Late Fees	13,636
Sewer Revenue	47,031
Trash Revenue	11,887
Tap Fees	1,500
Miscellaneous Income	2,759
Fire Revenue	<u>1,974</u>
TOTAL OPERATING REVENUES	<u><u>467,175</u></u>
OPERATING EXPENSES	
Water Purchased	191,390
Miscellaneous	1,493
Dues and Memberships	468
Fire Contributions	2,007
Salaries	69,564
Payroll Taxes	5,526
Telephone	7,917
Testing	3,460
Utilities	11,549
Mileage	452
Repairs and Maintenance	27,424
Supplies	28,220
Office Supplies	5,100
Insurance	19,020
Professional Fees	11,858
Director Fees	1,375
Trash	13,078
Depreciation	<u>64,336</u>
TOTAL EXPENDITURES	<u><u>464,237</u></u>
OPERATING INCOME	2,938
NON-OPERATING REVENUE (EXPENSES)	
Interest Income	4
Grant Income	25,015
Interest Expense	<u>(13,284)</u>
TOTAL NON-OPERATING REVENUE(EXPENSES)	<u>11,735</u>
CHANGE IN NET ASSETS	14,673
BEGINNING OF YEAR NET ASSETS	<u>382,445</u>
END OF YEAR NET ASSETS	<u><u>397,118</u></u>

TOWN OF WATTS, OKLAHOMA
STATEMENT OF CASH FLOWS
INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS
PROPRIETARY FUNDS
For the Year Ended June 30, 2013

	2013
<u>Cash Flows From Operating Activities</u>	
Cash Received From Customers	492,190
Cash Payments to Suppliers for Goods & Services	(327,213)
Cash Payments to Employees and Professional Contractors for Services	(75,703)
	<u>89,274</u>
<u>Net Cash Provided (Used) by Operating Activities</u>	
<u>Cash Flows From Capital and Related Financing</u>	
Purchase of Equipment	(100,124)
Principal Paid on Notes	(18,754)
Borrowing of Long Term Debt	59,105
	<u>(59,773)</u>
<u>Net Cash Provided (Used) by Capital and Related Financing Activities</u>	
<u>Cash Flows From Investing Activities</u>	
Interest Income	4
Cash Paid (Used) Security Meter Deposits	(4,801)
Decrease (Increase) in Restricted Cash	(6,874)
	<u>(11,671)</u>
<u>Net Cash Provided (Used) by Investing Activities</u>	
Net Increase (Decrease) in Cash & Cash Equivalents	
	17,830
Cash and Cash Equivalents Beginning of Year	
	<u>55,246</u>
Cash and Cash Equivalents End of Year	
	<u>73,076</u>

FINANCIAL

STATEMENT

NOTES

**TOWN OF WATTS, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS**

NOTE A: NATURE OF THE ORGANIZATION

The Town of Watts, Oklahoma operates with an elected mayor-council form of government. Its major operations include public safety, fire protection, and general administrative services. The Town of Watts, Oklahoma, created the Watts Public Works Authority. The Watts Public Works Authority is controlled by the Town of Watts. It provides for water, sewer, and trash services for the residences.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounts of the Town of Watts, Oklahoma are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue and expenditures of expenses, as appropriate. Government resources are allocated to and accounted for in means by which spending activities are controlled. The various funds are grouped in the financial statements in the report as follows:

Governmental Funds Types

General Fund- The General Fund is the general operating fund of the Town. It is used to account for all financial resources and transactions except those required to be accounted for in another fund. The encumbrance method of accounting is used. Appropriated funds lapse at the end of each fiscal year.

Special Revenue Funds- Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust or major capital projects) that are legally restricted to expenditures for specific purposes. The Street & Alley Fund is a special revenue fund for the Town.

Proprietary Fund Type

Enterprise Fund- The Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user fees or charges; or where the governing body has decided that periodic determination of revenue earned, expenses incurred, and or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The monies of the Watts Public Works Authority are accounted for in this fund.

1. BASIS OF ACCOUNTING

The Town of Watts, Oklahoma and The Watts Public Works Authority prepare its financial statements under the modified cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The Governmental Funds and the Proprietary Funds recognizes revenues, expenditures, and liabilities when received or paid, with the exception of long-term debt and payroll taxes.

2. BUDGETARY DATA

The Town of Watts, Oklahoma used the same basis of accounting for its budgetary process as it uses for its financial reporting, the modified cash basis of accounting.

3. INVENTORY

The Town of Watts, Oklahoma does not maintain an inventory of supplies and materials. All items of this nature are reported as expenditures at the time of purchase. The Watts Public Works Authority maintains an inventory of utility materials and supplies that are expensed when purchased.

4. CASH AND CASH EQUIVALENTS

The association considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

5. CAPITAL ASSETS

Assets in the governmental fund type operations have not been capitalized. These assets include public domain infrastructure such as roads, bridges, curbs, gutters, streets, sidewalks, drainage systems, and lighting systems. Other fixed assets include furniture, fixtures, and equipment. As a result, no depreciation expense has been provided on such assets. Property, plant, and equipment for the Watts Public Works Authority is stated at cost. Where cost could not be determined from available records estimated historical costs was used to record the estimated value of the asset. Assets acquired by gift or bequest are recorded at the fair market value at the date of transfer. The Watts Public Works Authority depreciates the water and sewer systems using the straight-line method over its estimated useful life.

6. ACCOUNTS RECEIVABLE

The Allowance for Doubtful Accounts balance included on the Watts Public Works Authority financial statements is equal to the balance of the accounts that are over 90 days past due.

7. INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Short-term inter-fund loans are classified as "due to/from other funds." All short-term inter-fund receivables at year end are planned to be eliminated in the subsequent year. Long-term inter-fund loans are classified as "advances to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

8. FUND EQUITY

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt-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 borrowing that are attributable to the acquisition, construction, or improvements of those assets.

Restricted net assets- consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

Unrestricted Net Assets- consists of all other net assets that do not meet the definition of "restricted" or invested in "capital assets, net or related debt."

9. COMPENSATED ABSENCES

Employee's vacation and holiday leave does not vest or accumulate and sick leave is not normally paid without an illness related absence; therefore, no accruals for compensated absences have been reflected in the accompanying financial statements.

10. BUDGETARY ACCOUNTING

The Town of Watts, Oklahoma uses the following procedures in establishing the budgetary data reflected in the financial statements:

- a) The mayor submits to the Town Council a proposed operating budget. The operating budget includes proposed expenditures and the means of financing them.
- b) Public hearings are conducted by the Town to obtain taxpayer comments.
- c) The Town Council adopts the budget.
- d) The Town Clerk, with approval is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Town Council.
- e) The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

NOTE C: CASH IN BANK

As of June 30, 2013 cash in bank consisted of the following:

CASH IN BANK

Petty Cash	100
Town of Watts PWA	69,246
Town of Watts Depr. Acct	3,730
Town of Watts-Gen Fund	25,930
Town of Watts-Street & Alley	1,900
Restricted Streets	35,470
Town of Watts- Debt Reserve	264
Cherokee Nation Cops Grant	3,632
RESTRICTED CASH	
Watts PWA Meter Deposits	28,394
Town of Watts FMHA Debt Reserve	-
	<hr/>
TOTAL CASH	<u><u>168,666</u></u>

All deposits were FDIC insured.

NOTE D: MANAGEMENTS USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principals requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE E: LONG-TERM DEBT

The Watts Public Works Authority currently has five loans with USDA Rural Development. The interest rate, monthly payment amount and due date for each of these loans is shown below:

Payable To:	Date Note Matures	Collateral Pledged	Rate Of Interest	Payment Amount	Balance	Current Portion
Peoples Bank	05/19/18	Backhoe	5.25%	13,461	59,105	10,358
USDA Rural Development	04/29/19	Water System	5.00%	229	11,292	2,294
USDA Rural Development	04/23/23	Water System	5.00%	1,202	111,273	9,393
USDA Rural Development	04/23/19	Water System	5.00%	592	35,078	5,643
USDA Rural Development	04/23/25	Water System	3.75%	325	33,695	2,288
USDA Rural Development	04/23/25	Water System	5.00%	179	17,525	1,267
TOTALS				15,988	267,968	31,243

The total future scheduled maturities of long-term debt are as follows:

Years ending June 30:	Principal	Interest
2015	32,853	10,927
2016	34,547	9,232
2017	35,645	7,452
2018	37,701	5,632
Thereafter	95,979	3,861
TOTALS	236,725	37,104

NOTE F SUBSEQUENT EVENTS

The Auditor has evaluated subsequent events through December 26, 2013 the date which the financial statements were available to be issued.

NOTE (G) CHANGES IN CAPITAL ASSETS

The Town of Watts currently does not report Capital asset activity for governmental activities on the financial Statements.

Capital asset activity for business-type activities for the year ended June 30, 2013 was as follows:

	Balance			Balance
	June 30, 2012	Additions	Reductions	June 30, 2013
Capital Assets, being Depreciated				
Water System and Sewer Systems	2,280,640	-	-	2,280,640
Equipment	18,000	94,824	-	112,824
Automobiles	-	5,300	-	5,300
Total Capital Assets being Depreciated	<u>2,298,640</u>	<u>100,124</u>	<u>-</u>	<u>2,398,764</u>
Less Accumulated Depreciation				
Water Plant and Sewer Systems	1,742,371	57,016	-	1,799,387
Equipment	1,500	6,348	-	7,848
Automobiles	-	972	-	972
Total Accumulated Depreciation	<u>1,743,871</u>	<u>64,336</u>	<u>-</u>	<u>1,808,207</u>
Business-Type Activities, Capital Assets, Net	<u>554,769</u>	<u>35,788</u>	<u>-</u>	<u>590,557</u>

SUPPLEMENTARY

INFORMATION

**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**

Honorable Mayor and Board of Trustees
Town of Watts, 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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Watts, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Town of Watts, Oklahoma basic financial statements and have issued our report thereon dated December 26, 2013. Our opinion on the Government Activities was Adverse due to the non-reporting of infrastructure.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Watts, Oklahoma internal control over financial reporting (internal control) to determine 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, Oklahoma internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Watts, Oklahoma 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. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies.(2013-1, 2013-2, 2013-3).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Watts, Oklahoma 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items. (2013-4)

Town of Watts, Oklahoma Response to Findings

Town of Watts, Oklahoma response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Town of Watts, Oklahoma 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.

This report is intended solely for the information of the management of the Town of Watts, others within the entity and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Robert St. Pierre, C.P.A., P.C.
December 26, 2013

TOWN OF WATTS SCHEDULE OF FINDINGS JUNE 30, 2013

Finding 1:

The inherent limitation resulting from one employee performing functions that would normally be divided among several employees were a larger number available presents a proper segregation of accounting functions deficiency. A much larger staff would be necessary in order to assure adequate internal accounting controls.

Management Response

Management will continue to closely monitor the financial transactions of the Town and also keep their CPA consultant actively involved.

Finding 2:

The billing software and the accounting records currently are not reconciled on a monthly basis. The accounting records simply record cash receipts at the time of deposit and are not reconciled against the records in the billing software.

Management Response

Management will work with CPA consultant to attempt to correct this in future year and to reconcile all accounts receivable on a monthly basis.

Finding 3:

Employees have started the process of entering meter deposits into the billing software. This process was not complete at year end and therefore the meter deposit account did not reconcile to the meter deposit checking account.

Management Response

Management will continue to monitor the efforts staff to ensure that all deposits are eventually entered into the software.

Finding 4:

The Authority is not in compliance with the covenants of the USDA agreements. In accordance with the covenants of these loans, the Authority is required to have a debt reserve fund balance equal to the annual payment amount of 30,324. The total reserve account at June 30, 2013 was 0.

Failure to comply with the loan covenants puts the Authority at risk of having their loans called.

Management Response

Management is planning to start funding the reserve for debt during the 2014 fiscal year, provided there is adequate cash flow from operations available.