

**TOWN OF WATTS
WATTS, OKLAHOMA
AUDITED FINANCIAL STATEMENTS
For the year ended June 30, 2012**

Audited By:
ROBERT ST. PIERRE, C.P.A., P.C.
CERTIFIED PUBLIC ACCOUNTANT
1113 N. SECOND STREET
STILWELL, OK 74960

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**INDEPENDENT
AUDITOR'S
REPORT**

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Board of Trustees
Town of Watts, Oklahoma

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 the Town of Watts, as of June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion 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 the *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note B, the town prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principals generally accepted in the United States of America. Modifications to the cash basis of accounting are to report long term debt in the general fund. The public works authority prepares its financial statements on the accrual basis of accounting.

As described in Note B, the town has not maintained accurate capital assets records to support historical cost of past capital assets purchased. Accounting principles generally accepted in the United States require that capital assets be recorded at historical cost net of accumulated depreciation. Documentation supporting historical cost were not readily available for our review. The amount by which this departure affects the assets, net assets, and expenses of the Governmental Activities is not readily determinable.

In our opinion, because of the significance of the matter discussed in the preceding paragraph, the financial statements do not present fairly, in conformity with the basis of accounting described in Note B, the modified cash basis financial position of the governmental activities of the Town of Watts, Oklahoma, as of June 30, 2012, and the changes in modified cash-basis financial position thereof for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the, the business-type activities, each major fund and the remaining fund information of the Town of Watts, as of June 30, 2012, and the respective changes in financial position-modified cash basis, thereof for the year then ended on the basis of accounting described in note B.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 5, 2012, on our consideration of the Town of Watts, Oklahoma's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. 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 our audit.



Robert St. Pierre, C.P.A., P.C.
December 5, 2012

FINANCIAL

SECTION

TOWN OF WATTS, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
June 30, 2012

ASSETS	Governmental Activities	Business-Type Activities	Total
CURRENT ASSETS			
Cash & Cash Equivalents (Note C)	58,094	55,246	113,340
Receivables	-	45,772	45,772
Restricted Cash Accounts (Note C)	-	21,520	21,520
TOTAL CURRENT ASSETS	58,094	122,538	180,632
NON-CURRENT ASSETS			
Capital Assets:			
Capital Assets, Net of Accum Depreciation	-	554,769	554,769
Total Capital Assets:	-	554,769	554,769
TOTAL NON-CURRENT ASSETS			
TOTAL ASSETS	58,094	677,307	735,401
LIABILITIES AND NET ASSETS			
LIABILITIES:			
CURRENT LIABILITIES			
Due To Customers	-	45,842	45,842
Payroll Taxes Payable	1,185	5,632	6,817
Current Portion of Long Term Debt (Note E)	-	23,073	23,073
TOTAL CURRENT LIABILITIES	1,185	74,547	75,732
NON-CURRENT LIABILITIES:			
Notes Payable Non-Current (Note E)	-	204,546	204,546
TOTAL LIABILITIES	1,185	279,093	280,278
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	-	327,150	327,150
Restricted	-	21,520	21,520
Unrestricted	56,909	49,544	106,453
TOTAL NET ASSETS	56,909	398,214	455,123

TOWN OF WATTS, OKLAHOMA
STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2012

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	58,706	-	-	(58,706)	-	(58,706)
Maintenance & Operations	84,499	-	-	(84,499)	-	(84,499)
Capital Outlay	19,064	-	18,000	(1,064)	-	(1,064)
Debt Service	-	-	-	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	162,269	-	18,000	(144,269)	-	(144,269)
BUSINESS-TYPE ACTIVITIES						
Water & Sewer	395,797	417,438	-	-	21,641	21,641
TOTAL	558,066	417,438	18,000	(144,269)	21,641	(122,628)
General Revenues						
Taxes				58,139		58,139
Franchise Tax				2,057		2,057
Fines & Forfeitures				69,836		69,836
Use Tax				38,361		38,361
Gas Excise Tax				547		547
Commercial Vehicle Tax				189		189
Tobacco Tax				823		823
Interest Income				23	6	29
County Taxes				5,956		5,956
Miscellaneous				13,663		13,663
Reap Grants				-		-
TOTAL GENERAL REVENUES AND TRANSFERS				189,594	6	189,600
CHANGE IN NET ASSETS				45,325	21,647	66,972
NET ASSETS BEGINNING OF PERIOD				11,584	376,567	388,151
NET ASSETS END OF THE PERIOD				56,909	398,214	455,123

**TOWN OF WATTS, OKLAHOMA
STATEMENT OF NET ASSETS-MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2012**

ASSETS	General	Special Revenue	Total Governmental Funds
CURRENT ASSETS			
Cash & Cash Equivalents	35,755	-	35,755
Restricted Cash Accounts	-	22,339	22,339
TOTAL CURRENT ASSETS	35,755	22,339	58,094
NON-CURRENT ASSETS			
Capital Assets:			
Capital Assets, Net of Accum Depreciation	-	-	-
Total Capital Assets:	-	-	-
TOTAL NON-CURRENT ASSETS			
TOTAL ASSETS	35,755	22,339	58,094
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Payroll Taxes	1,185	-	1,185
Notes Payable		-	-
TOTAL CURRENT LIABILITIES	1,185	-	1,185
NON-CURRENT LIABILITIES:			
Notes Payable Non-Current	-	-	-
TOTAL LIABILITIES	1,185	-	1,185
NET ASSETS			
Unrestricted	34,570	22,339	56,909
NET LIABILITIES AND NET ASSETS	35,755	22,339	58,094

TOWN OF WATTS, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS-MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	GENERAL	SPECIAL REVENUE	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Sales Tax	43,135	15,004	58,139
Franchise Tax	2,057	-	2,057
Fines & Forfeitures	69,836	-	69,836
Use Tax	38,361	-	38,361
Gas Excise Tax	547	-	547
Tobacco Tax	823	-	823
Commercial Vehicle Tax	189	-	189
Grant Income	18,000	-	18,000
County Taxes	5,956	-	5,956
Miscellaneous	13,661	-	13,661
Interest	2	23	25
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	192,567	15,027	207,594
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
EXPENDITURES			
Personnel Services	58,706	-	58,706
Maintenance & Operations	84,499	-	84,499
Capital Outlays	19,064	-	19,064
Debt Service	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	162,269	-	162,269
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	30,298	15,027	45,325
NET ASSETS AT BEGINNING OF YEAR	4,272	7,312	11,584
	<hr/>	<hr/>	<hr/>
NET ASSETS AT END OF YEAR	34,570	22,339	56,909
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

TOWN OF WATTS, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
June 30, 2012

ASSETS	Business-Type Activities
CURRENT ASSETS	
Cash & Cash Equivalents (Note C)	55,246
Receivables	45,772
Restricted Cash Accounts	21,520
TOTAL CURRENT ASSETS	122,538
NON-CURRENT ASSETS	
Capital Assets:	
Capital Assets, Net of Accum Depreciation	554,769
Total Capital Assets:	554,769
TOTAL NON-CURRENT ASSETS	
TOTAL ASSETS	677,307
LIABILITIES AND NET ASSETS	
LIABILITIES:	
CURRENT LIABILITIES	
Due To Customers	45,842
Payroll Taxes Payable	5,632
Current Portion of Long Term Debt (Note E)	23,073
TOTAL CURRENT LIABILITIES	74,547
NON-CURRENT LIABILITIES:	
Notes Payable Non-Current (Note E)	204,546
TOTAL LIABILITIES	279,093
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	327,150
Restricted	21,520
Unrestricted	49,544
TOTAL NET ASSETS	398,214

TOWN OF WATTS, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended June 30, 2012

	2012
OPERATING REVENUES	
Water Revenue	310,793
Late Fees	14,878
Sewer Revenue	49,246
Trash Revenue	12,512
Tap Fees	1,300
Miscellaneous Income	4,522
Fire Revenue	2,036
	<u>395,287</u>
TOTAL OPERATING REVENUES	<u><u>395,287</u></u>
OPERATING EXPENSES	
Water Purchased	160,278
Miscellaneous	4,905
Dues and Memberships	765
Fire Contributions	697
Salaries	78,561
Payroll Taxes	5,592
Telephone	5,877
Testing	656
Utilities	9,582
Mileage	7,426
Repairs and Maintenance	6,694
Supplies	6,733
Office Supplies	4,398
Insurance	14,427
Professional Fees	7,491
Director Fees	1,700
Trash	11,596
Depreciation	57,016
	<u>384,394</u>
TOTAL EXPENDITURES	<u><u>384,394</u></u>
OPERATING INCOME	10,893
NON-OPERATING REVENUE (EXPENSES)	
Interest Income	-
Interest Expense	(11,397)
Operating Transfer In	22,151
	<u>22,151</u>
TOTAL NON-OPERATING REVENUE(EXPENSES)	<u>10,754</u>
CHANGE IN NET ASSETS	21,647
BEGINNING OF YEAR NET ASSETS	<u>376,567</u>
END OF YEAR NET ASSETS	<u><u>398,214</u></u>

TOWN OF WATTS, OKLAHOMA
STATEMENT OF CASH FLOWS
INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS
PROPRIETARY FUNDS
For the Year Ended June 30, 2012

	2012
<u>Cash Flows From Operating Activities</u>	
Cash Received From Customers	409,565
Cash Payments to Suppliers for Goods & Services	(260,430)
Cash Payments to Employees and Professional Contractors for Services	(91,644)
	57,491
<u>Net Cash Provided (Used) by Operating Activities</u>	
<u>Cash Flows From Capital and Related Financing</u>	
Principal Paid on Notes	(17,774)
Interest on Notes	(11,397)
	(29,171)
<u>Net Cash Provided (Used) by Capital and Related Financing Activities</u>	
<u>Cash Flows From Investing Activities</u>	
Interest Income	-
Cash Paid (Used) Security Meter Deposits	5,015
Decrease (Increase) in Restricted Cash	10,370
	15,385
<u>Net Cash Provided (Used) by Investing Activities</u>	
Net Increase (Decrease) in Cash & Cash Equivalents	
	43,705
Cash and Cash Equivalents Beginning of Year	
	11,541
Cash and Cash Equivalents End of Year	
	55,246

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 interfund loans are classified as "due to/from other funds." All short-term interfund receivables at year end are planned to be eliminated in the subsequent year. Long-term interfund 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, 2012 cash in bank consisted of the following:

CASH IN BANK

Petty Cash	100
Town of Watts PWA	51,420
Town of Watts Depr. Acct	3,726
Town of Watts-Gen Fund	24,985
Town of Watts-Street & Alley	6,506
Town of Watts- Debt Reserve	264
Cherokee Nation Cops Grant	4,000

RESTRICTED CASH

Watts PWA Meter Deposits	21,520
Town of Watts FMHA Debt Reserve	-

TOTAL CASH

112,521

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:

<u>Payable To:</u>	<u>Date Note Matures</u>	<u>Collateral Pledged</u>	<u>Rate Of Interest</u>	<u>Payment Amount</u>	<u>Balance</u>	<u>Current Portion</u>
USDA Rural Development	04/29/19	Water System	5.00%	229	13,386	2,182
USDA Rural Development	04/23/23	Water System	5.00%	1,202	119,579	8,937
USDA Rural Development	04/23/19	Water System	5.00%	592	40,185	5,369
USDA Rural Development	04/23/25	Water System	3.75%	325	35,755	2,176
USDA Rural Development	04/23/25	Water System	5.00%	179	18,713	1,206
TOTALS				<u>2,527</u>	<u>227,618</u>	<u>19,870</u>

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

<u>Years ending June 30:</u>	<u>Principal</u>	<u>Interest</u>
2014	20,885	9,434
2015	21,951	8,368
2016	23,073	7,246
2017	23,570	6,068
Thereafter	<u>118,269</u>	<u>35,553</u>
TOTALS	<u>207,748</u>	<u>66,669</u>

NOTE F SUBSEQUENT EVENTS

The Auditor has evaluated subsequent events through December 5, 2012 the date which the financial statements were available to be issued.

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 the modified cash basis financial statements of the government 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, Oklahoma, as of and for the year ended June 30, 2012, which comprise the Town of Watts, Oklahoma's basic financial statements and have issued our report thereon dated December 5, 2012. Our opinion on the Government Activities was Adverse due to the non-reporting of infrastructure. 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.

Internal Control Over Financial Reporting

Management of the Town of Watts, Oklahoma, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Watts, Oklahoma's internal control over financial reporting as a basis for designing our auditing procedures 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 of Watts, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Watts, Oklahoma's internal control over financial reporting.

A control deficiency 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 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.

In planning and performing our audit, we considered Town of Watt's, Oklahoma internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion of the effectiveness on the Town of Watts's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to detect all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. Items 1, 2, 3, & 4 are considered to be significant deficiencies. 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.

Compliance

As part of obtaining reasonable assurance about whether Town of Watt's, Oklahoma financial statements are free of material misstatement, we performed tests with certain provisions of laws, regulations, contracts and grants 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 as items 5, 6, & 7.

We noted certain matters that we reported to the management of the Town of Watts, Oklahoma and the Watts Public Works Authority in a separate letter dated December 5, 2012.

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 5, 2012

TOWN OF WATTS SCHEDULE OF FINDINGS JUNE 30, 2012

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.

Finding 2:

In conducting the audit fieldwork it was noted that the Town closed some bank accounts during the year, however the entries to record the transfers on the books were not correctly posted and therefore the balances reported on the financial statements were not correct.

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.

Finding 4:

During the year the town paid an employee under a non-accountable travel reimbursement plan and did not include the proceeds on the W-2 of the employee. There were also contract labor employees that were paid in excess of 600.00 and not issued a 1099 for their earnings in violation of IRS regulations

Finding 5:

As required by Title 62 OS Chapter 2 310.9 an affidavit of non-collusion should be signed by all vendors who provide goods or services of \$2,000 or more per year to the Town of Watts and Watts Public Works Authority. During the current fiscal year the Town did not obtain the required non-collusion affidavits.

Finding 6:

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, 2012 was 0.

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

ROBERT ST. PIERRE C.P.A., P.C.

CERTIFIED PUBLIC ACCOUNTANT

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MANAGEMENT RECOMMENDATION LETTER

Honorable Mayor and Board of Trustees
Town of Watts, Oklahoma

We would like to take this opportunity to extend our sincere appreciation to the staff of Town of Watts, Oklahoma for allowing our interruption of their busy work schedules while conducting the audit fieldwork.

In planning and performing our audit of the financial statements of Town of Watts, Oklahoma for the year ended June 30, 2011 and 2012, we considered the organization's internal control structure to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we noted certain matters that are presented for your consideration. We will review the status of these comments during the next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control structure or other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

MISCELLANEOUS ITEMS

Board should continue to use the services of current CPA, to ensure that books are prepared correctly. In the event the current CPA is no longer able to provide these services the Town should look for a competent replacement.

IRS form 1099's should be issued for all contract labor services that exceed 600.00 during any given calendar year.

Travel reimbursement plans should be administered under an accountable plan or they should be reported on the W-2 of the employee. An accountable plan only pays for travel that is actually incurred by the employee during the normal course of carrying out the business of the Town of Watts.

ORGANIZATIONAL STRUCTURE

The size of the organization's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Board of Trustees remains involved in the financial affairs of the organization to provide oversight and independent review functions.

This report is intended solely for the information and use of the Board of Trustees, management, and others within the organization.



Robert St. Pierre CPA, PC
Stilwell, Oklahoma
December 5, 2012