

**TOWN OF WATTS
WATTS, OKLAHOMA
AUDITED FINANCIAL STATEMENTS
For the year ended June 30, 2011**

Audited By:
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TABLE OF CONTENTS

AUDITOR'S REPORT ON FINANCIAL STATEMENTS	1
FINANCIAL SECTION	
Statement of Net Assets -Modified Cash Basis	3
Statement of Activities-Modified Cash Basis	4
Statement of Net Assets - Governmental Funds- Modified Cash Basis	5
Statement of Revenues, Expenditures and Changes in Net Assets - Modified Cash Basis Governmental Funds	6
Statement of Net Assets- Proprietary Funds-Modified Cash Basis	7
Statement of Revenues, Expenditures and Changes in Net Assets- Modified Cash Basis Proprietary Funds	8
Statement of Cash Flows Proprietary Funds	9
Notes to the Financial Statements	10
AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROLS	15

INDEPENDENT

AUDITOR'S

REPORT

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

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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 remaining fund information of the Town of Watts, as of June 30, 2011, 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 & Business Type Activities is not readily determinable.

The Town of Watts has not presented the management discussion and budgetary comparisons 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities, the business-type activities, each major fund and the remaining fund information of the Town of Watts, as of June 30, 2011, 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 January 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.
January 5, 2012

FINANCIAL

SECTION

TOWN OF WATTS, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
June 30, 2011

ASSETS	Governmental Activities	Business-Type Activities	Total
CURRENT ASSETS			
Cash & Cash Equivalents	12,439	11,541	23,980
Receivables	-	37,893	37,893
Restricted Cash Accounts	-	31,889	31,889
TOTAL CURRENT ASSETS	12,439	81,323	93,762
NON-CURRENT ASSETS			
Capital Assets:			
Capital Assets, Net of Accum Depreciation	-	595,285	595,285
Total Capital Assets:	-	595,285	595,285
TOTAL NON-CURRENT ASSETS			
TOTAL ASSETS	12,439	676,608	689,047
LIABILITIES AND NET ASSETS			
LIABILITIES:			
CURRENT LIABILITIES			
Due To Customers	-	51,129	51,129
Payroll Taxes Payable	1,839	3,532	5,371
Current Portion of Long Term Debt	4,993	17,114	22,107
TOTAL CURRENT LIABILITIES	6,832	71,775	78,607
NON-CURRENT LIABILITIES:			
Notes Payable Non-Current	-	228,943	228,943
TOTAL LIABILITIES	6,832	300,718	307,550
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	-	333,460	333,460
Restricted	-	31,889	31,889
Unrestricted	5,605	10,541	16,146
TOTAL NET ASSETS	5,605	375,890	381,495

TOWN OF WATTS, OKLAHOMA
STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2011

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	73,386	-	-	(73,386)	-	(73,386)
Maintenance & Operations	110,501	-	-	(110,501)	-	(110,501)
Capital Outlay	13,553	-	19,000	5,447	-	5,447
Debt Service	6,201	-	-	(6,201)	-	(6,201)
TOTAL GOVERNMENTAL ACTIVITIES	203,641	-	19,000	(184,641)	-	(184,641)
BUSINESS-TYPE ACTIVITIES						
Water & Sewer	409,071	344,556	-	-	(64,515)	(64,515)
TOTAL	612,712	344,556	19,000	(184,641)	(64,515)	(249,156)
General Revenues						
Taxes				44,636		44,636
Franchise Tax				4,669		4,669
Fines & Forfeitures				80,825		80,825
Use Tax				31,839		31,839
Gas Excise Tax				664		664
Commercial Vehicle Tax				352		352
Tobacco Tax				642		642
Interest Income				30	38	68
County Taxes				5,791		5,791
Miscellaneous				10,936		10,936
Reap Grants				-		-
TOTAL GENERAL REVENUES AND TRANSFERS				180,384	38	180,422
CHANGE IN NET ASSETS				(4,257)	(64,477)	(68,734)
NET ASSETS BEGINNING OF PERIOD				9,862	440,367	450,229
NET ASSETS END OF THE PERIOD				5,605	375,890	381,495

TOWN OF WATTS, OKLAHOMA
STATEMENT OF NET ASSETS-MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2011

ASSETS	General	Special Revenue	Total Governmental Funds
CURRENT ASSETS			
Cash & Cash Equivalents	5,127	-	5,127
Restricted Cash Accounts	-	7,312	7,312
	-	7,312	7,312
TOTAL CURRENT ASSETS	5,127	7,312	12,439
NON-CURRENT ASSETS			
Capital Assets:			
Capital Assets, Net of Accum Depreciation	-	-	-
	-	-	-
TOTAL NON-CURRENT ASSETS	-	-	-
	-	-	-
TOTAL ASSETS	5,127	7,312	12,439
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Payroll Taxes	1,839	-	1,839
Notes Payable	-	-	-
Current Portion of Long Term Debt	4,993	-	4,993
	4,993	-	4,993
TOTAL CURRENT LIABILITIES	6,832	-	6,832
NON-CURRENT LIABILITIES:			
Notes Payable Non-Current	-	-	-
	-	-	-
TOTAL LIABILITIES	6,832	-	6,832
NET ASSETS			
Unrestricted	(1,705)	7,312	5,607
	(1,705)	7,312	5,607
NET LIABILITIES AND NET ASSETS	5,127	7,312	12,439

TOWN OF WATTS, OKLAHOMA
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS-MODIFIED CASH BASIS
 GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2011

	GENERAL	SPECIAL REVENUE	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Sales Tax	34,956	9,680	44,636
Franchise Tax	4,669	-	4,669
Fines & Forfeitures	80,825	-	80,825
Use Tax	31,839	-	31,839
Gas Excise Tax	664	-	664
Tobacco Tax	642	-	642
Commercial Vehicle Tax	352	-	352
Grant Income	19,000	-	19,000
County Taxes	5,791	-	5,791
Miscellaneous	10,936	-	10,936
Interest	7	23	30
TOTAL REVENUES	189,681	9,703	199,384
EXPENDITURES			
Personnel Services	73,386	-	73,386
Maintenance & Operations	110,501	-	110,501
Capital Outlays	-	13,553	13,553
Debt Service	6,201	-	6,201
TOTAL EXPENDITURES	190,088	13,553	203,641
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(407)	(3,850)	(4,257)
NET ASSETS AT BEGINNING OF YEAR	(1,298)	11,162	9,864
NET ASSETS AT END OF YEAR	(1,705)	7,312	5,607

TOWN OF WATTS, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
June 30, 2011

ASSETS	Business-Type Activities
CURRENT ASSETS	
Cash & Cash Equivalents	11,541
Receivables	37,893
Restricted Cash Accounts	31,889
TOTAL CURRENT ASSETS	81,323
NON-CURRENT ASSETS	
Capital Assets:	
Capital Assets, Net of Accum Depreciation	595,285
Total Capital Assets:	595,285
TOTAL NON-CURRENT ASSETS	
TOTAL ASSETS	676,608
LIABILITIES AND NET ASSETS	
LIABILITIES:	
CURRENT LIABILITIES	
Due To Customers	51,129
Payroll Taxes Payable	3,532
Current Portion of Long Term Debt	17,114
TOTAL CURRENT LIABILITIES	71,775
NON-CURRENT LIABILITIES:	
Notes Payable Non-Current	228,943
TOTAL LIABILITIES	300,718
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	333,460
Restricted	31,889
Unrestricted	10,541
TOTAL NET ASSETS	375,890

TOWN OF WATTS, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended June 30, 2011

	2011
OPERATING REVENUES	
Water Revenue	278,350
Late Fees	7,796
Sewer Revenue	39,442
Trash Revenue	11,800
Tap Fees	1,300
Miscellaneous Income	3,931
Fire Revenue	1,937
	344,556
TOTAL OPERATING REVENUES	344,556
OPERATING EXPENSES	
Water Purchased	161,801
Miscellaneous	568
Dues and Memberships	1,522
Fire Contributions	505
Salaries	78,459
Payroll Taxes	9,290
Telephone	7,658
Testing	1,310
Utilities	8,921
Mileage	1,900
Repairs and Maintenance	10,241
Supplies	20,777
Office Supplies	3,340
Insurance	10,465
Professional Fees	8,800
Director Fees	1,650
Trash	12,100
Depreciation	57,016
	396,323
TOTAL EXPENDITURES	396,323
OPERATING INCOME	(51,767)
NON-OPERATING REVENUE (EXPENSES)	
Interest Income	38
Interest Expense	(12,748)
	(12,710)
TOTAL NON-OPERATING REVENUE(EXPENSES)	(12,710)
CHANGE IN NET ASSETS	(64,477)
BEGINNING OF YEAR NET ASSETS	440,367
END OF YEAR NET ASSETS	375,890

TOWN OF WATTS, OKLAHOMA
STATEMENT OF CASH FLOWS
INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS
PROPRIETARY FUNDS
For the Year Ended June 30, 2011

	2011
<u>Cash Flows From Operating Activities</u>	
Cash Received From Customers	344,556
Cash Payments to Suppliers for Goods & Services	(266,955)
Cash Payments to Employees and Professional Contractors for Services	(87,749)
	(10,148)
Net Cash Provided (Used) by Operating Activities	(10,148)
<u>Cash Flows From Capital and Related Financing</u>	
Principal Paid on Notes	(10,584)
Interest on Notes	(12,748)
	(23,332)
Net Cash Provided (Used) by Capital and Related Financing Activities	(23,332)
<u>Cash Flows From Investing Activities</u>	
Interest Income	38
Cash Paid (Used) Security Meter Deposits	(3,212)
Decrease (Increase) in Restricted Cash	20,189
	17,015
Net Cash Provided (Used) by Investing Activities	17,015
Net Increase (Decrease) in Cash & Cash Equivalents	(16,465)
Cash and Cash Equivalents Beginning of Year	28,006
Cash and Cash Equivalents End of Year	11,541

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 Fund and the Proprietary Funds recognizes revenues, expenditures, and liabilities when received or paid, with the exception of long-term debt.

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, 2011 cash in bank consisted of the following:

CASH IN BANK	
Petty Cash	100
Town of Watts PWA	6,494
Town of Watts Depr. Acct	3,721
Watts Grant Acct.	1,226
Town of Watts-Rest. Streets	7,312
Town of Watts-Gen Fund	1,840
Town of Watts	1,927
Town of Watts-Street & Alley	653
Town of Watts- Debt Reserve	264
Town of Watts-Fire Dept.	443
RESTRICTED CASH	
Watts PWA Meter Deposits	26,534
Town of Watts FMHA Debt Reserve	5,355
	<hr/>
TOTAL CASH	55,869
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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
USDA Rural Development	04/29/19	Water System	5.00%	229	15,410	1,880
USDA Rural Development	04/23/23	Water System	5.00%	1,202	127,799	7,699
USDA Rural Development	04/23/19	Water System	5.00%	592	45,144	4,624
USDA Rural Development	04/23/25	Water System	3.75%	325	37,811	1,872
USDA Rural Development	04/23/25	Water System	5.00%	179	19,893	1,039
TOTALS				<u>2,527</u>	<u>246,057</u>	<u>17,114</u>

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

Years ending June 30:	Principal	Interest
2012	17,765	11,413
2013	18,906	10,449
2014	19,870	9,434
2015	20,885	8,368
Thereafter	<u>168,631</u>	<u>35,553</u>
TOTALS	<u>246,057</u>	<u>75,217</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 the financial statements of Town of Watts, Oklahoma, as of and for the year ended June 30, 2011, and have issued our report thereon dated January 5, 2012. Our opinion was qualified due to the Town reporting on the modified cash basis of accounting. 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

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 preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control. We consider the deficiencies described in the accompanying schedule of findings, items 1, 2, 3, & 4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination or significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be 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.

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, 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 January 5, 2012.

This report is intended solely for the information of the management, others within the organization 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.
January 5, 2012

TOWN OF WATTS SCHEDULE OF FINDINGS JUNE 30, 2011

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 maintains several bank accounts with very little activity. The accounting responsibility associated with the extra bank accounts can cause additional work for the limited number of staff, thereby increasing the opportunity for errors.

Finding 3:

Meter deposits for water customers are not entered into the billing system, therefore there is not a comprehensive meter deposit listing. All meter deposits should be entered into the software and balanced monthly to the bank 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:

During fiscal year 2011 the town renewed a note that was used to purchase a dump truck. The note appears to be in violation of Article X, Section 26(a) of the Oklahoma Constitution which states that no town shall be allowed to become indebted for a period of more than one year without the consent of three fifths of the voters thereof.

Finding 7:

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, 2011 was 5,355.

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