

TOWN OF WATTS WATTS, OKLAHOMA

**AUDITED FINANCIAL STATEMENTS
For the year ended June 30, 2015**

Audited By:
MICHAEL GREEN
CERTIFIED PUBLIC ACCOUNTANT
827 SOUTH SECOND STREET
STILWELL, OK 74960

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MICHAEL W. GREEN
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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Town Council
Town of Watts, Oklahoma

I 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, Oklahoma (the Town), as of and for the year ended June 30, 2015, 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 the modified cash basis of accounting described in Note B; 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 error or fraud.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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 my 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, 2015, or the changes in financial position thereof for the year then ended.

Unmodified Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the business-type activities, the governmental activities, each major fund, and the aggregate remaining fund information for the Town as of June 30, 2015 and the respective changes in financial position-modified cash basis and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note B.

Basis of Accounting

I 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. My opinion is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated September 23, 2015, on my consideration of the Town's internal control over financial reporting and on 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 my 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* in considering the Town's internal control over financial reporting and compliance.



Michael Green
Certified Public Accountant
Stilwell, Ok
September 23, 2015

TOWN OF WATTS, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
June 30, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash & Cash Equivalents (Note C)	117,340	42,566	159,906
Restricted Cash Accounts (Note C)	-	18,950	18,950
TOTAL CURRENT ASSETS	117,340	61,516	178,856
Capital Assets:			
Capital Assets, Net of Accum Depreciation	-	479,101	479,101
TOTAL NON-CURRENT ASSETS	-	479,101	479,101
TOTAL ASSETS	117,340	540,617	657,957
LIABILITIES:			
CURRENT LIABILITIES			
Due To Customers	-	17,086	17,086
Payroll Taxes Payable	2,067	2,323	4,390
Current Portion of Long Term Debt (Note E)	-	32,649	32,649
TOTAL CURRENT LIABILITIES	2,067	52,058	54,125
NON-CURRENT LIABILITIES:			
Notes Payable Non-Current (Note E)	-	153,930	153,930
TOTAL LIABILITIES	2,067	205,988	208,055
NET POSITION			
Invested in Capital Assets, Net of Related Debt	-	292,522	292,522
Restricted	62,051	18,950	81,001
Unrestricted	53,222	23,157	76,379
TOTAL NET POSITION	115,273	334,629	449,902

The notes are an integral component of the financial statements.

**TOWN OF WATTS, OKLAHOMA
STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2015**

FUNCTIONS PROGRAMS	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION					
	Expenses	PROGRAM REVENUES			Business	
		Charges for Services	Capital Grants and Contributions	Governmental Activities	Type Activities	Total
GOVERNMENTAL ACTIVITIES						
Personal Services	135,364	-	-	(135,364)	-	(135,364)
Maintenance & Operations	95,447	-	-	(95,447)	-	(95,447)
Capital Outlay	100,005	-	36,585	(63,420)	-	(63,420)
Debt Service	-	-	-	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	330,816	-	36,585	(294,231)	-	(294,231)
BUSINESS-TYPE ACTIVITIES						
Water & Sewer	463,059	459,584	-	-	(3,475)	(3,475)
TOTAL	793,875	459,584	36,585	(294,231)	(3,475)	(297,706)
General Revenues						
Sales Tax				58,698		58,698
Franchise Tax				3,547		3,547
Fines & Forfeitures				147,454		147,454
Use Tax				15,205		15,205
Gas Excise Tax				589		589
Commercial Vehicle Tax				690		690
Tobacco Tax				-		-
Interest Income				54	6	60
County Taxes				7,208		7,208
Miscellaneous				7,449		7,449
Gain on Sale of Asset				3,900		3,900
Police Car Lease Proceeds				100,005		100,005
TOTAL GENERAL REVENUES AND TRANSFERS				344,799	6	344,805
CHANGE IN NET ASSETS				50,568	(3,469)	47,099
TRANSFERS				(17,315)	17,315	
NET POSITION BEGINNING OF PERIOD				82,020	320,783	402,803
NET POSITION END OF THE PERIOD				115,273	334,629	449,902

The notes are an integral component of the financial statements.

**TOWN OF WATTS, OKLAHOMA
BALANCE SHEET-MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2015**

	General	Special Revenue	Total Governmental Funds
ASSETS			
Cash & Cash Equivalents	55,289	-	55,289
Restricted Cash Accounts	-	62,051	62,051
	<hr/>		
TOTAL ASSETS	55,289	62,051	117,340
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LIABILITIES AND FUND BALANCES			
Payroll Taxes	2,067	-	2,067
	<hr/>		
TOTAL LIABILITIES	2,067	-	2,067
<hr/>			
FUND BALANCES			
Restricted		62,051	62,051
Unrestricted	53,222		53,222
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TOTAL FUND BALANCES	53,222	62,051	115,273
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TOTAL LIABILITIES AND FUND BALANCES	55,289	62,051	117,340
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The notes are an integral component of the financial statements.

TOWN OF WATTS, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

	GENERAL	SPECIAL REVENUE	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Sales Tax	44,017	14,681	58,698
Franchise Tax	3,547	-	3,547
Fines & Forfeitures	147,454	-	147,454
Use Tax	15,205	-	15,205
Gas Excise Tax	589	-	589
Tobacco Tax	690	-	690
Commercial Vehicle Tax	-	-	-
Grant Income	36,585	-	36,585
County Taxes	7,208	-	7,208
Miscellaneous	5,749	1,700	7,449
Police Car Lease Proceeds	100,005		100,005
Gain on Sale of Asset	3,900		3,900
Interest	2	52	54
TOTAL REVENUES	364,951	16,433	381,384
EXPENDITURES			
Personnel Services	135,364	-	135,364
Maintenance & Operations	95,447	-	95,447
Capital Outlays	100,005	-	100,005
Debt Service	-	-	-
TOTAL EXPENDITURES	330,816	-	330,816
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	34,135	16,433	50,568
TRANSFERS (OUT) IN	(13,478)	(3,837)	(17,315)
NET CHANGE IN FUND BALANCES	20,657	12,596	33,253
FUND BALANCES-BEGINNING	32,565	49,455	82,020
FUND BALANCES-ENDING	53,222	62,051	115,273

The notes are an integral component of the financial statements.

TOWN OF WATTS, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
WATTS PUBLIC WORKS AUTHORITY
PROPRIETARY FUNDS
June 30, 2015

ASSETS	Business-Type Activities
CURRENT ASSETS	
Cash & Cash Equivalents (Note C)	42,566
Restricted Cash Accounts	18,950
TOTAL CURRENT ASSETS	61,516
NON-CURRENT ASSETS	
Capital Assets:	
Capital Assets, Net of Accum Depreciation	479,101
TOTAL NON-CURRENT ASSETS	479,101
TOTAL ASSETS	540,617
LIABILITIES AND NET ASSETS	
LIABILITIES:	
CURRENT LIABILITIES	
Due To Customers	17,086
Payroll Taxes Payable	2,323
Current Portion of Long Term Debt (Note E)	32,649
TOTAL CURRENT LIABILITIES	52,058
NON-CURRENT LIABILITIES:	
Notes Payable Non-Current (Note E)	153,930
TOTAL LIABILITIES	205,988
NET POSITION	
Invested in Capital Assets, Net of Related Debt	292,522
Restricted	18,950
Unrestricted	23,157
TOTAL NET POSITION	334,629

The notes are an integral component of the financial statements.

TOWN OF WATTS, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
NET POSITION-MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended June 30, 2015

	2015
OPERATING REVENUES	
Water Revenue	301,711
Late Fees	11,261
Sewer Revenue	39,510
Trash Revenue	9,857
Tap Fees	1,850
Miscellaneous Income	11,276
Fire Revenue	1,604
TOTAL OPERATING REVENUES	377,069
OPERATING EXPENSES	
Water Purchased	193,592
Miscellaneous	1,375
Dues and Memberships	1,892
Fire Contributions	1,656
Salaries	63,212
Payroll Taxes	5,208
Retirement Expense	8,284
Telephone	5,867
Testing	765
Utilities	15,827
Repairs and Maintenance	9,458
Supplies	20,126
Office Supplies	6,368
Insurance	11,116
Professional Fees	8,200
Director Fees	1,800
Trash	10,104
Depreciation	87,665
TOTAL EXPENDITURES	452,515
OPERATING INCOME	(75,446)
NON-OPERATING REVENUE (EXPENSES)	
Interest Income	6
Insurance Reimbursement	46,115
Grant Income	36,400
Interest Expense	(10,544)
TOTAL NON-OPERATING REVENUE(EXPENSES)	71,977
CHANGE IN NET POSITION	(3,469)
TRANSFERS IN(OUT)	17,315
BEGINNING OF YEAR NET POSITION	320,783
END OF YEAR NET POSITION	334,629

The notes are an integral component of the financial statements.

TOWN OF WATTS, OKLAHOMA
STATEMENT OF CASH FLOWS
INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS
PROPRIETARY FUNDS
For the Year Ended June 30, 2015

	2014
Cash Flows From Operating Activities	
Cash Received From Customers	361,839
Cash Payments to Suppliers for Goods & Services	(279,946)
Cash Payments to Employees and Professional Contractors for Services	(85,020)
Net Cash Provided (Used) by Operating Activities	(3,127)
Cash Flows From Noncapital Financing Activities	
Grants	36,400
Insurance Reimbursement	46,115
Change in Customer Security Deposits	2,983
Net Cash Provided (used) by Noncapital Financing Activities	85,498
Cash Flows From Capital and Related Financing	
Purchase of Equipment	(47,114)
Principal Paid on Notes	(31,093)
Transfers	17,315
Interest Paid on Notes	(10,544)
Net Cash Provided (Used) by Capital and Related Financing Activities	(71,436)
Cash Flows From Investing Activities	
Interest Income	6
Change in Restricted Security Deposits	(3,050)
Net Cash Provided (Used) by Investing Activities	(3,044)
Net Increase (Decrease) in Cash & Cash Equivalents	7,891
Prior Period Adjustment	-
Cash and Cash Equivalents Beginning of Year	34,675
Cash and Cash Equivalents End of Year	42,566

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating income	\$ (75,446)
Depreciation	87,665
Change in:	
Receivables	-
Grant Income	-
Accounts payable & accruals	(15,346)
Net cash provided by operating activities	\$ (3,127)

The notes are an integral component of the financial statements.

**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 Restricted Street 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.

The Town's financial reporting entity includes the primary government (Town of Watts), and one governmental-type blended component unit (Watts Public Works Authority).

1. BASIS OF ACCOUNTING

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Town of Watts, Oklahoma and The Watts Public Works Authority prepare their financial statements on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

- capital assets and the depreciation of those assets, where applicable
- long-term debt
- cash-based interfund receivables and payables
- other cash-based receivables/payables
- investments

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

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

Cash and cash equivalents includes all demand and savings accounts, certificates of deposit or short-term investments with an original maturity of three-months or less, and money market accounts.

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 costs 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

There are no accounts receivable due to the financial statements being on the Modified Cash basis.

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 asserts 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, 2015 cash in bank consisted of the following:

Petty Cash	\$ 100
Town of Watts PWA	34,966
Town of Watts Depr. Acct	7,500
Town of Watts-Gen Fund	15,528
Restricted Streets	62,051
Town of Watts- Debt Reserve	11,466
Cherokee Nation Cops Grant	5,003
Town of Watts-Court	21,755
Christmas Donation Fund	1,537
RESTRICTED CASH	
Watts PWA Meter Deposits	18,950
Town of Watts FMHA Debt Reserve	-
	<hr/>
TOTAL CASH	<u>\$178,856</u>

All deposits were FDIC insured.

NOTE D: MANAGEMENTS USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles 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 four loans with USDA Rural Development and one loan with People’s Bank. 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	Balance Beginning of Year	Balance End of Year	Principal Paid During Year
Peoples Bank	05/19/18	Backhoe	5.25%	47,511	36,553	10,958
USDA Rural Development	04/29/19	Water System	5.00%	7,479	5,050	2,429
USDA Rural Development	04/23/23	Water System	5.00%	101,856	92,308	9,548
USDA Rural Development	04/23/19	Water System	5.00%	29,493	23,733	5,760
USDA Rural Development	04/23/25	Water System	3.75%	31,333	28,935	2,398
TOTALS				217,672	186,579	31,093

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

Years ending June 30:	Principal	Interest
2016	32,647	8,990
2017	34,160	7,290
2018	33,568	5,574
2019	19,196	3,835
2020	15,320	3,006
2021-2025	51,688	4,335
TOTALS	186,579	33,030

The Town of Watts also entered into a new Lease Purchase Agreement with People's Bank for the purchase of three new police vehicles. This was shown on the financial statements as other lease income and capital outlay in the current year. It will be shown as lease expense in future years as the payments are made. For information purposes only the following is the schedule of the lease payments that will be due over the next five years:

Payable To:	Date Note Matures	Collateral Pledged	Rate Of Interest	Balance Beginning of Year	Balance End of Year	Principal Paid During Year
Peoples Bank	10/3/2015	(3) Ford Explorers	4.25%	-	100,005	-

The total future scheduled maturities of lease payments are as follows:

Years ending June 30:	Principal	Interest
2016	18,622	4,250
2017	19,413	3,459
2018	20,238	2,634
2019	21,098	1,774
2020	20,634	877
2021-2025	-	-
TOTALS	100,005	12,994

NOTE F: 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, 2015 was as follows:

	Balance <u>June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2015</u>
Capital Assets, being Depreciated				
Water System and Sewer Systems	2,280,640	-	-	2,280,640
Equipment	121,214	47,115	-	168,329
Automobiles	5,300	-	-	5,300
Total Capital Assets being Depreciated	<u>2,407,154</u>	<u>47,115</u>	<u>-</u>	<u>2,454,269</u>
Less Accumulated Depreciation				
Water Plant and Sewer Systems	1,856,403	57,016	-	1,913,419
Equipment	29,068	29,589	-	58,657
Automobiles	2,032	1,060	-	3,092
Total Accumulated Depreciation	<u>1,887,503</u>	<u>87,665</u>	<u>-</u>	<u>1,975,168</u>
Business-Type Activities, Capital Assets, Net	<u>519,651</u>	<u>(40,550)</u>	<u>-</u>	<u>479,101</u>

NOTE G: CHANGE IN NET ASSETS FOR WATER AND SEWER DEPARTMENTS.

Below is a breakdown of the revenue and expenditures for the water and sewer funds.

	<u>Water</u>	<u>Sewer</u>
Revenue	\$ 434,904	\$ 39,510
Expenditures	<u>\$ 416,351</u>	<u>\$ 21,654</u>
Change in Net Position	<u>\$ 18,553</u>	<u>\$ 17,856</u>

NOTE H: 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; employee health and life; and natural disasters. The Town manages these various risks of loss as follows by securing commercial insurance for all risks, except for participation in the Oklahoma Municipal Assurance Group risk entity pool for certain coverage. Management believes such insurance 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.

NOTE I: COMMITMENTS AND CONTINGENCIES

Amounts received from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.

NOTE J: PENSION PLAN PARTICIPATION

Watts Public Works Authority participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Public Employees Retirement System (OPERS). The OPERS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. OPERS plan members are required to contribute 7% of their annual salary. The Watts PWA is required by state law to contribute 14% of the members' annual salary. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

Fiscal Year	Required Contribution	Amount Contributed
2015	12,272	12,272

NOTE K: SUBSEQUENT EVENTS

The Auditor has evaluated subsequent events through October 5, 2015, which is the date which the financial statements were available to be issued.

MICHAEL W. GREEN
Certified Public Accountant
827 West Locust Street
Stilwell, Ok. 74960
(918) 696-6298

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*

The Honorable Mayor and Town Council
Town of Watts, Oklahoma

I 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-modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the primary government for the Town of Watts, Oklahoma (the Town), as of and for the year ended June 30, 2015, which collectively comprise the Town's primary government basic financial statements and have issued my report thereon dated September 23, 2015. The auditor's report was modified to indicate the financial statements had been prepared using the modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, and included an adverse opinion because the general infrastructure assets were not capitalized.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, I do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

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. I consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. (2015-1)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 responses as items. (2015-2)

Town of Watts, Oklahoma Response to Findings

Town of Watts, Oklahoma response to the findings identified in my audit is described in the accompanying schedule of findings and responses. 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 my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town'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 Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Michael Green, CPA
Stilwell, Ok
September 23, 2015

TOWN OF WATTS
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2015

Finding 2015-1:

Due to the lack of a sufficient number of personnel there is not adequate segregation of duties. A much larger staff would be necessary to assure adequate internal control.

Management Response

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

Finding 2015-2:

The Authority is not in compliance with the covenants of the USDA agreements. In accordance with the covenants of these loans, the Authority, at this time, is required to have a debt reserve fund balance equal to the annual payment amount of \$28,176. The total reserve account at June 30, 2015 was \$7,500. Also, the Authority is required to maintain sufficient revenues for operation, maintenance and installment payments and maintenance of the various funds required. This was not accomplished during the year.

Management Response

Management is funding the reserve for debt and is striving to fund it to the required level in the near future. Management plans to review the costs and revenues to determine what changes can be made to ensure adequate revenue.