

TOWN OF WATTS WATTS, OKLAHOMA

**AUDITED FINANCIAL STATEMENTS
For the year ended June 30, 2014**

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

TABLE OF CONTENTS

AUDITOR'S REPORT ON FINANCIAL STATEMENTS	1
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	17
SCHEDULE OF FINDINGS AND RESPONSES	19

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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, 2014, 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, 2014, 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, 2014 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 August 8, 2014, 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.

A handwritten signature in black ink, appearing to read "Michael Green". The signature is stylized and cursive.

Michael Green
Certified Public Accountant
Stilwell, Ok
August 8, 2014

TOWN OF WATTS, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
June 30, 2014

ASSETS	Governmental Activities	Business-Type Activities	Total
CURRENT ASSETS			
Cash & Cash Equivalents (Note C)	84,127	34,675	118,802
Restricted Cash Accounts (Note C)	-	15,900	15,900
TOTAL CURRENT ASSETS	84,127	50,575	134,702
NON-CURRENT ASSETS			
Capital Assets:			
Capital Assets, Net of Accum Depreciation	-	519,652	519,652
TOTAL NON-CURRENT ASSETS	-	519,652	519,652
TOTAL ASSETS	84,127	570,227	654,354
LIABILITIES AND NET ASSETS			
LIABILITIES:			
CURRENT LIABILITIES			
Due To Customers	-	14,103	14,103
Unearned Revenue	-	15,230	15,230
Payroll Taxes Payable	2,107	2,439	4,546
Current Portion of Long Term Debt (Note E)	-	31,031	31,031
TOTAL CURRENT LIABILITIES	2,107	62,803	64,910
NON-CURRENT LIABILITIES:			
Notes Payable Non-Current (Note E)	-	186,641	186,641
TOTAL LIABILITIES	2,107	249,444	251,551
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	-	301,980	301,980
Restricted	49,455	15,900	65,355
Unrestricted	32,565	2,903	35,468
TOTAL NET ASSETS	82,020	320,783	402,803

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, 2014**

FUNCTIONS PROGRAMS	Expenses	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
		Charges for Services	Capital Grants and Contributions	Governmental Activities	Business	
					Type Activities	Total
GOVERNMENTAL ACTIVITIES						
Personal Services	103,653	-	-	(103,653)	-	(103,653)
Maintenance & Operations	86,162	-	-	(86,162)	-	(86,162)
Capital Outlay	1,975	-	6,415	4,440	-	4,440
Debt Service	-	-	-	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	191,790	-	6,415	(185,375)	-	(185,375)
BUSINESS-TYPE ACTIVITIES						
Water & Sewer	471,239	384,776	-	-	(86,463)	(86,463)
TOTAL	663,029	384,776	6,415	(185,375)	(86,463)	(271,838)
General Revenues						
Sales Tax				55,768		55,768
Franchise Tax				3,264		3,264
Fines & Forfeitures				119,257		119,257
Use Tax				17,689		17,689
Gas Excise Tax				814		814
Commercial Vehicle Tax				660		660
Tobacco Tax				-		-
Interest Income				43	5	48
County Taxes				6,774		6,774
Miscellaneous				4,380		4,380
Reap Grants				-		-
TOTAL GENERAL REVENUES AND TRANSFERS				208,649	5	208,654
CHANGE IN NET ASSETS				23,274	(86,458)	(63,184)
TRANSFERS				(6,484)	6,484	
NET ASSETS BEGINNING OF PERIOD				65,230	397,118	462,348
PRIOR PERIOD ADJUSTMENT					3,639	3,639
NET ASSETS END OF THE PERIOD				82,020	320,783	402,803

The notes are an integral component of the financial statements.

**TOWN OF WATTS, OKLAHOMA
STATEMENT OF NET ASSETS-MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2014**

ASSETS	General	Special Revenue	Total Governmental Funds
CURRENT ASSETS			
Cash & Cash Equivalents	34,672	-	34,672
Restricted Cash Accounts	-	49,455	49,455
TOTAL CURRENT ASSETS	34,672	49,455	84,127
NON-CURRENT ASSETS			
Capital Assets:			
Capital Assets, Net of Accum Depreciation	-	-	-
Total Capital Assets:	-	-	-
TOTAL NON-CURRENT ASSETS			
TOTAL ASSETS	34,672	49,455	84,127
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Payroll Taxes	2,107	-	2,107
Notes Payable		-	-
TOTAL CURRENT LIABILITIES	2,107	-	2,107
NON-CURRENT LIABILITIES:			
Notes Payable Non-Current	-	-	-
TOTAL LIABILITIES	2,107	-	2,107
NET ASSETS			
Restricted		49,455	49,455
Unrestricted	32,565		32,565
NET LIABILITIES AND NET ASSETS	34,672	49,455	84,127

The notes are an integral component of the financial statements.

TOWN OF WATTS, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS-MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2014

	GENERAL	SPECIAL REVENUE	TOTAL GOVERNMENTAL FUNDS
REVENUES			
Sales Tax	41,826	13,942	55,768
Franchise Tax	3,264	-	3,264
Fines & Forfeitures	119,257	-	119,257
Use Tax	17,689	-	17,689
Gas Excise Tax	814	-	814
Tobacco Tax	660	-	660
Commercial Vehicle Tax	-	-	-
Grant Income	6,415	-	6,415
County Taxes	6,774	-	6,774
Miscellaneous	4,380	-	4,380
Interest	-	43	43
TOTAL REVENUES	201,079	13,985	215,064
EXPENDITURES			
Personnel Services	103,653	-	103,653
Maintenance & Operations	86,162	-	86,162
Capital Outlays	1,975	-	1,975
Debt Service	-	-	-
TOTAL EXPENDITURES	191,790	-	191,790
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	9,289	13,985	23,274
TRANSFERS OUT	(6,484)		(6,484)
NET ASSETS AT BEGINNING OF YEAR	29,760	35,470	65,230
NET ASSETS AT END OF YEAR	32,565	49,455	82,020

The notes are an integral component of the financial statements.

TOWN OF WATTS, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
WATTS PUBLIC WORKS AUTHORITY
PROPRIETARY FUNDS
June 30, 2014

ASSETS	Business-Type Activities
CURRENT ASSETS	
Cash & Cash Equivalents (Note C)	34,675
Restricted Cash Accounts	15,900
	50,575
TOTAL CURRENT ASSETS	
	50,575
NON-CURRENT ASSETS	
Capital Assets:	
Capital Assets, Net of Accum Depreciation	519,652
	519,652
TOTAL NON-CURRENT ASSETS	
	519,652
TOTAL ASSETS	
	570,227
LIABILITIES AND NET ASSETS	
LIABILITIES:	
CURRENT LIABILITIES	
Due To Customers	14,103
Unearned Revenue	15,230
Payroll Taxes Payable	2,439
Current Portion of Long Term Debt (Note E)	31,031
	62,803
TOTAL CURRENT LIABILITIES	
	62,803
NON-CURRENT LIABILITIES:	
Notes Payable Non-Current (Note E)	186,641
	186,641
TOTAL LIABILITIES	
	249,444
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	301,980
Restricted	15,900
Unrestricted	2,903
	320,783
TOTAL NET ASSETS	
	320,783

The notes are an integral component of the financial statements.

TOWN OF WATTS, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES-MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended June 30, 2014

	2014
OPERATING REVENUES	
Water Revenue	296,315
Late Fees	12,598
Sewer Revenue	35,330
Trash Revenue	10,595
Tap Fees	500
Miscellaneous Income	13,897
Fire Revenue	2,541
TOTAL OPERATING REVENUES	371,776
OPERATING EXPENSES	
Water Purchased	198,983
Miscellaneous	3,168
Dues and Memberships	4,850
Fire Contributions	1,668
Salaries	75,168
Payroll Taxes	5,474
Telephone	6,167
Testing	2,849
Utilities	12,457
Repairs and Maintenance	12,183
Supplies	19,709
Office Supplies	6,783
Insurance	11,035
Professional Fees	8,925
Director Fees	1,650
Trash	9,950
Depreciation	79,296
TOTAL EXPENDITURES	460,315
OPERATING INCOME	(88,539)
NON-OPERATING REVENUE (EXPENSES)	
Interest Income	5
Grant Income	13,000
Interest Expense	(10,924)
TOTAL NON-OPERATING REVENUE(EXPENSES)	2,081
CHANGE IN NET ASSETS	(86,458)
TRANSFERS IN(OUT)	6,484
BEGINNING OF YEAR NET ASSETS	397,118
PRIOR PERIOD ADJUSTMENT	3,639
END OF YEAR NET ASSETS	320,783

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, 2014

	2014
Cash Flows From Operating Activities	
Cash Received From Customers	417,548
Cash Payments to Suppliers for Goods & Services	(289,010)
Cash Payments to Employees and Professional Contractors for Services	(80,642)
Net Cash Provided (Used) by Operating Activities	47,896
Cash Flows From Noncapital Financing Activities	
Grants	13,000
Customer Deposits	(36,544)
Net Cash Provided (used) by Noncapital Financing Activities	(23,544)
Cash Flows From Capital and Related Financing	
Purchase of Equipment	(8,390)
Principal Paid on Notes	(66,061)
Transfers	6,484
Interest Paid on Notes	(10,924)
Net Cash Provided (Used) by Capital and Related Financing Activities	(78,891)
Cash Flows From Investing Activities	
Interest Income	12,499
Net Cash Provided (Used) by Investing Activities	12,499
Net Increase (Decrease) in Cash & Cash Equivalents	(42,040)
Prior Period Adjustment	3,639
Cash and Cash Equivalents Beginning of Year	73,076
Cash and Cash Equivalents End of Year	34,675

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income	\$ (88,539)
Depreciation	79,296
Change in:	
Receivables	45,772
Grant Income	-
Accounts payable & accruals	11,367
Net cash provided by operating activities	\$ 47,896

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 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 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 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

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 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, 2014 cash in bank consisted of the following:

Petty Cash	\$ 100
Town of Watts PWA	29,667
Town of Watts Depr. Acct	4,909
Town of Watts-Gen Fund	14,759
Town of Watts-Street & Alley	1,894
Restricted Streets	49,455
Town of Watts- Debt Reserve	265
Cherokee Nation Cops Grant	2,746
Town of Watts-Court	14,515
Christmas Donation Fund	492
RESTRICTED CASH	
Watts PWA Meter Deposits	15,900
Town of Watts FMHA Debt Reserve	<u>-</u>
TOTAL CASH	<u>\$ 134,702</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. 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 (yr 2015)
Peoples Bank	05/19/18	Backhoe	5.25%	13,461	47,521	10,906
USDA Rural Development	04/29/19	Water System	5.00%	229	7,479	2,429
USDA Rural Development	04/23/23	Water System	5.00%	1,202	101,856	9,548
USDA Rural Development	04/23/19	Water System	5.00%	592	29,493	5,760
USDA Rural Development	04/23/25	Water System	3.75%	325	31,323	2,388
TOTALS				15,809	217,672	31,031

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

Years ending June 30:	Principal	Interest
2016	32,647	10,975
2017	34,160	9,721
2018	33,568	5,574
2019	19,196	3,835
Thereafter	67,070	7,341
TOTALS	186,641	37,446

NOTE F SUBSEQUENT EVENTS

The Auditor has evaluated subsequent events through August 8, 2014, the date which the financial statements were available to be issued.

NOTE G: CHANGES IN CAPITAL ASSETS

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

Capital asset activity for business-type activities for the year ended June 30, 2014 was as follows:

	Balance			Balance
	<u>June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2014</u>
Capital Assets, being Depreciated				
Water System and Sewer Systems	2,280,640	-	-	2,280,640
Equipment	112,824	8,390	-	121,214
Automobiles	5,300	-	-	5,300
Total Capital Assets being Depreciated	<u>2,398,764</u>	<u>8,390</u>	<u>-</u>	<u>2,407,154</u>
Less Accumulated Depreciation				
Water Plant and Sewer Systems	1,799,387	57,016	-	1,856,403
Equipment	7,848	21,220	-	29,068
Automobiles	972	1,060	-	2,032
Total Accumulated Depreciation	<u>1,808,207</u>	<u>79,296</u>	<u>-</u>	<u>1,887,503</u>
Business-Type Activities, Capital Assets, Net	<u>590,557</u>	<u>(70,906)</u>	<u>-</u>	<u>519,651</u>

NOTE H: PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were made:

Meter deposits correction	\$ 33,644
Long term debt correction	\$ 15,767
Correction to properly reflect accounts receivable for modified cash basis	<u>\$ (45,772)</u>
Increase in Net Assets	<u>\$ 3,639</u>

NOTE I: 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	\$ 349,451	\$ 35,330
Expenditures	<u>\$ 443,714</u>	<u>\$ 27,525</u>
Change in Net Assets	<u>\$ (94,263)</u>	<u>\$ 7,805</u>

MICHAEL W. GREEN
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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, 2014, which collectively comprise the Town's primary government basic financial statements and have issued my report thereon dated August 8, 2014. 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. My report also includes a paragraph stating that the management discussion and analysis and the budgetary comparison information was not presented.

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. (2014-1)

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. I consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies. (2014-1).

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. (2014-2)

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.

A handwritten signature in black ink, appearing to read "Michael Green". The signature is stylized and cursive.

Michael Green, CPA
Stilwell, Ok
August 8, 2014

TOWN OF WATTS
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014

Finding 2014-1:

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 2014-2:

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, 2014 was \$4,909. 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.