

***The Bethany-Warr Acres
Public Works Authority***

Serving the Cities of Bethany and Warr Acres, Oklahoma

***Annual Financial Report
For
The Fiscal Year Ended
June 30, 2012***

Includes Independent Auditor's
Reports Issued By



The Bethany-Warr Acres Public Works Authority
Serving the Cities of Bethany and Warr Acres, Oklahoma

Annual Financial Report
for
The Fiscal Year Ended
June 30, 2012

Prepared by:
Finance Department

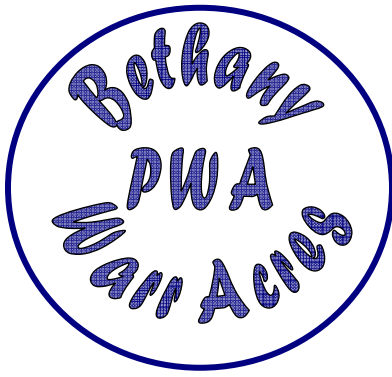
The Bethany-Warr Acres Public Works Authority

***Annual Financial Report
For
The Fiscal Year Ended
June 30, 2012***

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Introductory Section



Bethany-Warr Acres Public Works Authority

A Joint Trust Operating the Bluff Creek Plant

4301 NW 192nd • Edmond, OK 73012-9092 • (405) 341-4260 • Fax: (405) 341-7359

November 1, 2012

**Honorable Chairman,
Trustees, and
Citizens of Bethany and Warr Acres**

It is our pleasure to present to you the audited financial statements for the year ended June 30, 2012 for the Bethany-Warr Acres Public Works Authority (the Authority). Oklahoma State law requires that all public trusts publish within six months after the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP). These statements are to be audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

This report consists of management's representations concerning the finances of the Authority. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the Authority has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the financial statements in conformity with GAAP. Since the cost of internal controls should not outweigh their benefits, the Authority's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Bethany-Warr Acres Public Works Authority's financial statements have been audited by the independent accounting firm of HBC CPAs & Advisors. The goal of the independent audit was to provide reasonable assurance that the financial statements for the fiscal year ended June 30, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the statements for the fiscal year ended June 30, 2012, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis of the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

Profile of the Bethany-Warr Acres Public Works Authority

The Bethany Warr-Acres Public Works Authority is a public trust created under Oklahoma statutes for the use and benefit of the Cities of Bethany and Warr Acres. The trust furnishes public and municipal services within and without the boundaries of the two cities. The trustees consist of two representatives from each city and a fifth trustee who is appointed as a representative of the City of Warr Acres or the City of Bethany on an alternate basis each year. The Trust owns the Bluff Creek Regional Water Pollution Control Facility (the plant).

The plant is operated under the terms of a contract between the Authority, the Bethany Public Works Authority, and the Warr Acres Public Works Authority. The latter two remit to the Authority, on or before the fifteenth day of each month, amounts billed for wastewater treatment during the preceding calendar month. The Authority may remit any surplus receipts to the Bethany Public Works Authority and the City of Warr Acres after payment for operation and maintenance expense, currently due principal and interest payments and capital improvements. The distributions, if made, are made in the proportion that the total revenue collected within the corporate limits of each municipality bears to the total revenue collected.

Factors Affecting Financial Conditions

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Bethany-Warr Acres Public Works Authority operates.

Local economy

Located on the western edge of the Oklahoma City urbanized area, the cities of Bethany and Warr Acres are primarily residential communities. As the economy of the entire area expands, the two cities will benefit with an increase in population, retail sales and jobs. While surrounded on all sides by Oklahoma City, there is still room for new commercial and residential development.

Long-term financial planning

A capital improvement plan is used to guide capital spending. Capital improvements means equipment, land, buildings, or sewer lines and all other items not consumed but diminished in value with prolonged use or time.

Investment and Cash Management

The objective of the investment and cash management process of the Trust is to manage and invest public funds with regard to the following criteria.

Safety of principal is the foremost objective of the Investment/Cash Management Program for the Trust. All investments are undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio.

Liquidity is the second objective and the Trust's investment portfolio is structured in such a manner as to remain sufficiently liquid to enable the Trust to meet all operating requirements which might be reasonably anticipated.

Finally, the Trust's investment portfolio is designed with the objective of attaining a market yield throughout budgetary and economic cycles, taking into account investment risk constraints and the cash flow characteristics of the portfolio.

Risk Management

The Trust's risk management activities are designed to help prevent losses. Trust employees participate in accident investigation as well as prevention training. The Trust purchases insurance protection for all known risks.

Pension and other post employment benefits

All Trust employees participate in the Oklahoma Municipal Retirement Fund. This multiple-employer public retirement system acts as a common investment and administrative agent for cities in Oklahoma. This plan is funded on an actuarial basis. All Trust employees who retire are able to retain the health insurance policy at their own expense. This plan is not funded.

Acknowledgments

The preparation of this annual financial report was made possible by the dedicated service of all staff members. Each person is commended for their contributions towards the preparation of this report. The leadership and support of the governing body is gratefully acknowledged as the Trust Management continues to improve financial reporting.

Respectfully submitted,

Glenn Brentnell
General Manager



Bethany-Warr Acres Public Works Authority

List of Principal Officials

June 30, 2012

Chairman and Trustees

**Bryan Taylor, Chairman – Mayor of Bethany
Pat Woolley, Trustee – Mayor of Warr Acres
Pamela Ramirez, Trustee – City Clerk of Warr Acres
John D. Shugart, Trustee – City Manager of Bethany
William McClure, Trustee – City of Warr Acres**

Appointed Trust Officials

**Glenn Brentnell, General Manager
Tom Lay, Trust Attorney
Paul D'Andrea, Trust Engineer**

Financial Section



INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Bethany-Warr Acres Public Works Authority

We have audited the accompanying financial statements of Bethany-Warr Acres Public Works Authority, a joint venture of the City of Bethany, Oklahoma and City of Warr Acres, Oklahoma, as of and for the year ended June 30, 2012, as listed in the accompanying table of contents. These financial statements are the responsibility of the Bethany-Warr Acres Public Works Authority'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 *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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Bethany-Warr Acres Public Works Authority as of June 30, 2012, and the respective results of operations and respective cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 2, 2012 on our consideration of the Bethany-Warr Acres Public Works Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10-13 and the schedule of funding progress for the supplemental retirement annuity plan on page 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

HBC CPAs & Advisors

November 2, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Within this section of the Bethany-Warr Acres Public Works Authority's annual financial report, management provides narrative discussion and analysis of the financial activities for the fiscal year ended June 30, 2012. The Trust's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section. Additional information is available in the transmittal letter that precedes Management's Discussion and Analysis.

Financial Highlights

- The Trust's assets exceeded its liabilities by \$5,156,273 (net assets) at the close of the fiscal year.
- Total net assets are comprised of the following:
 - (1) Capital assets, net of related debt, of \$3,892,523 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) Unrestricted net assets of \$1,192,586 represent the portion available to maintain the Trust's continuing obligations to citizens and creditors.
 - (3) \$71,164 of net assets is restricted for debt service.
- At the end of the current fiscal year, current assets were \$1,117,567.
- Total liabilities of the Trust were \$786,913 at the end of the fiscal year. This includes \$657,542 in principal and interest on the sewer plant debt and \$129,371 in other liabilities.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Trust's basic financial statements. The basic financial statements include: (1) government-wide financial statements and (2) notes to the financial statements. The Trust also provides additional information to supplement the basic financial statements.

Required Financial Statements

The financial statements report uses a governmental proprietary fund accounting method that is similar to that used by private sector companies. These statements offer short and long-term financial information about its activities.

The Statement of Net Assets includes all of the Trust's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for assessing the liquidity and financial flexibility of the Trust.

All of the current year's revenues and expenses are accounted for in the Statement of Revenue, Expenses and Changes in Net Assets. This statement measures the success of the Trust's operations over the past year and can be used to determine whether the Trust has successfully recovered all its costs through sewer revenue and other income, profitability and credit worthiness.

The third required statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Trust's cash receipts and payments during the reporting period. This statement reports the receipt of cash, cash payments made, and changes in cash resulting from operations, investing, and financing activities.

Notes to the financial statements. The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Trust's progress in funding its obligation to provide pension benefits to its employees. This information follows the notes to the financial statements.

The Trust's net assets at fiscal year-end are \$5,156,273. The following table provides a summary of net assets:

Bethany-Warr Acres Public Works Authority Condensed Statement of Net Assets As of June 30,				
	<u>2012</u>	<u>2011</u>	Amount <u>Change</u>	% <u>Change</u>
Current and other assets	\$1,117,567	\$1,243,915	(\$126,348)	-10.16%
Restricted assets	\$276,798	\$276,584	214	
Capital assets, net	<u>4,548,821</u>	<u>4,821,307</u>	(272,486)	-5.66%
Total assets	<u>5,943,186</u>	<u>6,339,806</u>	(396,620)	-6.26%
Current liabilities	112,420	123,162	(10,742)	-8.73%
Liabilities payable from restricted assets	<u>674,492</u>	<u>861,677</u>	(187,185)	-21.73%
Total liabilities	<u>786,913</u>	<u>984,839</u>	(197,926)	-20.10%
Net Assets:				
Invested in capital assets, net of related debt	3,892,523	3,977,571	(85,048)	-2.14%
Reserved for debt service	71,164	71,126	38	
Unrestricted	<u>1,192,586</u>	<u>1,306,271</u>	(113,685)	-11.48%
Total net assets	<u>\$5,156,273</u>	<u>\$5,354,967</u>	(198,684)	- 3.71%

Bethany-Warr Acres Public Works Authority
Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Years Ended June 30,

	<u>2012</u>	<u>2011</u>	Amount <u>Change</u>	% <u>Change</u>
Operating revenue	\$1,768,264	\$1,771,078	(\$2,814)	-.16%
Operating expense	<u>(1,976,189)</u>	<u>(1,965,089)</u>	11,100	0.57%
Net operating income	(207,925)	(194,012)	(13,913)	431.69%
Non operating revenue (expense)	<u>9,231</u>	<u>10,752</u>	(1,521)	-27.10%
Net income	(198,684)	(183,260)	(15,424)	742.92%
Net assets beginning of year	<u>5,354,967</u>	<u>5,538,227</u>	(183,260)	-0.39%
Net assets end of year	<u>\$5,156,273</u>	<u>\$5,354,967</u>	(198,694)	-3.31%

Operating revenue decreased by \$2,814 due to less wastewater revenue received from the city of Warr Acres and Oklahoma City residents served.

Operating expense increased by \$11,100 as a result of higher maintenance and utility costs.

Non operating revenue decreased due to reductions in interest earned on investments.

Capital Assets.

The Trust's investment in capital assets as of June 30, 2012, totals \$4,548,821 (net of accumulated depreciation). This investment includes buildings, equipment, and sewer treatment system improvements.

The Trust invested \$463,360 for reconstructing a section of sewer outfall pipe during the year.

Long-term debt. The Authority paid scheduled principal and interest on outstanding State Revolving Fund debt. The fiscal year end principal debt payable was \$656,298. All debt is backed by future sewer revenue.

Economic Factors and Next Year's Budgets and Rates

The cities of Bethany and Warr Acres are located on the western edge of Oklahoma City. The ability of our citizens to pay for municipal services is greatly dependent on the health of the economy of the overall metropolitan area. Many of our citizens work in Oklahoma City and the surrounding municipalities. Economists with the Oklahoma State University College of Business Administration and others predict modest job growth through the next fiscal year.

The Bethany-Warr Acres Public Works Authority is certainly aware that the overall economic condition of the region is important in the budgeting process. The Trust is also aware that quality municipal services are important to our citizens. Accordingly the Trust strives to maintain a balance between the service quality provided and the cost efficiency of operating the plant.

Contacting the Trust's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Trust's finances and to demonstrate the Trust's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, PO Box 219, Bethany, OK 73008-0219

Bethany-Warr Acres Public Works Authority

Statement of Net Assets

As of June 30, 2012

Assets

Current Assets	
Cash and cash equivalents	\$697,051
Investments	250,000
Accounts receivable (net of allowance)	155,579
Interest receivable	645
Prepaid expense	14,292
Total Current Assets	<u>1,117,567</u>
Restricted Assets	
Cash	16,950
Investments	259,847
Interest receivable	1
Total Restricted Assets	<u>276,798</u>
Capital Assets	
Plant and buildings	13,130,147
Improvements	3,140,265
Machinery and equipment	606,276
Less: Accumulated depreciation	<u>(12,327,867)</u>
Capital Assets (net)	<u>4,548,821</u>
Total Assets	<u><u>\$5,943,186</u></u>

Liabilities

Current Liabilities	
Accounts payable	\$77,015
Compensated absences	28,613
Other accrued expenses	6,793
Total Current Liabilities	<u>112,420</u>
Liabilities Payable From Restricted Assets	
OKC customer security deposits	16,950
Accrued interest payable	1,244
Note payable - current portion	187,497
Note payable	468,801
Total Liabilities Payable From Restricted Assets	<u>674,492</u>
Total Liabilities	<u>786,913</u>

Net Assets

Investment in capital assets, net of related debt	3,892,523
Restricted for:	
Debt service	71,164
Unrestricted	<u>1,192,586</u>
Total Net Assets	<u>5,156,273</u>
Total Liabilities and Net Assets	<u><u>\$5,943,186</u></u>

See accompanying notes.

Bethany-Warr Acres Public Works Authority
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended
June 30, 2012

Operating Revenues - wastewater treatment	\$1,768,264
Operating Expenses	
Salaries, wages and benefits	479,643
Materials and supplies	319,995
Professional services	116,620
Utilities	310,637
Insurance	13,449
Depreciation	735,846
Total Operating Expenses	<u>1,976,189</u>
Operating Income (Loss)	<u>(207,925)</u>
Non-Operating Revenues (Expenses)	
Investment Income	10,085
Miscellaneous receipts	2,836
Interest expense	<u>(3,690)</u>
Total Non-Operating Revenue (Expense)	<u>9,231</u>
Changes in Net Assets	<u>(198,694)</u>
Total net assets, beginning of year	5,354,967
Total net assets, end of year	<u><u>\$5,156,273</u></u>

See accompanying notes.

Bethany-Warr Acres Public Works Authority
Statement of Cash Flows
For the Year Ended
June 30, 2012

Cash Flows From Operating Activities

Cash received from customers	\$1,743,689
Cash payments to suppliers	(767,955)
Cash payments to employees	(479,643)
Other operating revenue	<u>2,836</u>

Net Cash Provided by Operating Activities	<u>498,927</u>
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Cash Flows From Capital and Related Activities

Acquisition and construction of assets	(463,360)
Interest payment to OWRB	(4,036)
Principal payment to OWRB	<u>(187,438)</u>

Net Cash Used for Capital and Related Financing Activities	<u>(654,835)</u>
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Cash Flows From Investing Activities

Purchase of investment securities	
Proceeds from investment maturities/sales	(633)
Interest and dividends on investments	<u>10,482</u>

Net Cash Provided In Investing Activities	<u>9,849</u>
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Net Increase (Decrease) in Cash	(146,058)
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Cash & cash equivalents, beginning of year	860,060
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Cash & cash equivalents, end of year	<u><u>\$714,001</u></u>
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See accompanying notes.

Bethany-Warr Acres Public Works Authority
Statement of Cash Flows
For the Year Ended
June 30, 2012

**Reconciliation of operating income to net
cash provided (used) by operating activities:**

Operating Income (Loss)	(\$207,925)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Miscellaneous income	2,836
Depreciation	735,846
(Increase) Decrease in:	
Accounts receivable	(21,107)
Prepaid expense	(1,359)
Increase (Decrease) in:	
Customer security deposits	600
Compensated absences	(4,821)
Other accrued liabilities	2,033
Accounts payable	(7,175)
Net Cash Provided by Operating Activities	<u>\$498,927</u>

See accompanying notes.

BETHANY-WARR ACRES PUBLIC WORKS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

I. Summary of Significant Accounting Policies

Reporting Entity

The Bethany-Warr Acres Public Works Authority (the Authority) is a public trust created under Oklahoma statutes for the use and benefit of the City of Bethany and the City of Warr Acres, Oklahoma. Its purpose is to furnish public and municipal services inside and outside the boundaries of the two cities. Five representatives of the cities of Bethany and Warr Acres jointly govern the Authority. The board of trustees consists of two representatives from each city and a fifth trustee who is appointed as a representative of the City of Warr Acres or the City of Bethany in alternating years.

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the Authority are described below.

Financial Statement Presentation

The Authority's financial statements are presented in accordance with the requirements of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*. Under GASB Statements No. 34, the Authority is required to present a statement of net assets classified between current and noncurrent assets and liabilities, a statement of revenues, expenses and changes in fund net assets, with separate presentation for operating and nonoperating revenues and expenses, and a statement of cash flows using the direct method.

Basis of Accounting

For financial reporting purposes, the Authority is considered a special-purpose government engaged only in business-type activities. Accordingly, the Authority's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The Authority has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Authority has elected to apply FASB pronouncements issued after that date, if applicable.

I. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Deposits and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition.

As authorized by state statutes, the Authority has adopted an investment policy that allows investment in obligations of the U.S. Government including its agencies and instrumentalities, insured or collateralized certificates of deposit, repurchase agreements, money market funds, commercial paper, and banker's acceptances.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2012 were recorded as prepaid items.

Restricted Assets

Certain proceeds of promissory notes, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable debt covenants. These assets are held in trust by the trustee banks and consist of cash and investments. Interest earnings are used to pay principal and interest on these promissory notes when due. The excess of restricted assets over liabilities payable from restricted assets is included as net assets reserved for debt service.

Compensated Absences

Employees are granted annual and sick leave based upon length of employment. In the event of termination, the employee is paid for accumulated vacation leave (maximum 30 days). Payment of sick leave is restricted to those who retire with more than 90 days of accumulated benefits and is limited to a maximum compensation equivalent to 17.5 days. Vested or accumulated vacation and sick leave that is expected to be liquidated with economic resources is reported as an expense and liability.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, except for borrowing related to unspent proceeds to be used for capital asset acquisition activities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the city or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expense is incurred that can be paid using either restricted or unrestricted resources, the Authority's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

II. Deposits and Investments

For purpose of the statement of cash flows, only demand deposits are considered as cash. State statutes authorize investments in: (a) direct obligations of the United States Government, the payment of which the full faith and credit of the Government of the United States is pledged; (b) certificates of deposit which are secured by acceptable collateral, as in the deposit of other monies; or (c) savings accounts or savings certificates in savings and loan associations, banks and trust companies, to the extent that the accounts or certificates are fully insured by the Federal Savings and Loan Insurance Corporation or the Federal Deposit Insurance Corporation.

Custodial Credit Risk

At June 30, 2012, the City held deposits of \$714,390 at financial institutions. These institutions are required by law to pledge securities in addition to Federal Deposit Insurance Corporation (FDIC) insurance at least equal to the amount on deposit at all times. As of June 30, 2012, the balances in cash and certificates of deposit were under-collateralized by approximately \$263,000.

Investment Interest Rate Risk

While the Authority does have a formal investment policy, it does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The Authority's investment policy limits its investment choices to the limitations set forth in state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime banker's acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.

- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

The investments held at June 30, 2012 are as follows:

Type	Weighted Average Maturity (Years)	Credit Rating	Market Value	Cost
Investments				
Government Agency Notes	3.38	AAA	\$ 250,000	\$ 250,000
Money market	N/A	AAAm	259,856	259,856
Total investments			<u>\$ 509,856</u>	<u>\$ 509,856</u>

Concentration of Investment Credit Risk

The Authority places no limit on the amount it may invest in any one issuer. The City has the following credit risk: 50.97% invested in money market funds (\$259,856) and 49.03% (\$250,000) invested in U.S. government agency securities.

III. Receivables

Receivables are reported at their net value due and consist of amounts due from the City of Bethany, the City of Warr Acres and a small group of service recipients located outside of these two cities:

	<u>2012</u>
City of Bethany	\$ 94,814
City of Warr Acres	50,040
Recipients outside of cities	<u>12,725</u>
	157,579
Allowance for doubtful accounts	<u>(2,000)</u>
	<u>\$ 155,579</u>

IV. Capital Assets

Capital assets are stated at cost and depreciated on a straight-line basis over the estimated useful lives of the respective assets. The following estimated useful lives are used to compute depreciation:

Buildings and Improvements	5-25 years
Machinery and Equipment	3-10 years
Infrastructure	40-50 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital asset, as applicable.

	July 1, 2011	Additions	Deletions	June 30, 2012
Treatment facility	\$ 13,130,147	\$ -	\$ -	\$ 13,130,147
Facility improvements	1,527,015	-	-	1,527,015
Infrastructure improvements	1,149,891	463,360	-	1,613,251
Machinery and equipment	606,276		-	606,276
Construction-in-progress	-	-	-	-
Accumulated depreciation	(11,592,021)	(735,846)	-	(12,327,867)
Capital assets, net	\$ 4,821,308	\$ (272,486)	\$ -	\$ 4,548,822

V. Long-term debt

A new wastewater treatment plant was constructed in 1995 to meet regulatory requirements. This plant was financed with notes from the Oklahoma Water Resources Board (OWRB). The original amount of the notes was \$10,084,940. A portion of these funds was provided to the Authority from the State Revolving Fund of the OWRB. Payments of principal, interest and administrative fees are made on a semi-annual basis with a final maturity date of August 15, 2015. The portion of the notes funded from the bond issue of the OWRB bears an interest rate varying from 1.7% to 4.8%. This portion was fully paid on May 15, 2009 using a debt service reserve fund that was held in trust by the fiscal agent. The portion of the notes funded from the State Revolving Fund bears an administrative fee of 0.5% per annum on the outstanding principal balance. The notes are secured by a lien on the revenues of the sewer system.

Changes in long-term debt

The following is a summary of changes in long-term debt for the year ended June 30, 2012:

	Balance at July 1, 2011	Issued	Retired	Balance at June 30, 2012	Amounts due within one year
Notes payable	\$ 843,737	\$ -	\$ 187,497	\$ 656,240	\$ 187,497

V. Long-term debt (continued)

Future annual principal and interest obligations under these agreements are as follows:

	Principal	Interest	Total
Year Ending June 30:			
	-	-	-
2013	187,497	3,096	190,593
2014	187,497	2,137	189,634
2015	187,497	1,186	188,683
2016	93,749	236	93,984
	\$ 656,240	\$ 6,655	\$ 662,894

VI. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to or destruction of assets; errors and omissions; injuries to employees and natural disasters. The Authority has commercial insurance coverage for all risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

VII. Employee Retirement Systems

Defined Benefit Plan Description

The Authority's defined benefit pension plan, Employee Retirement System of Bethany-Warr Acres Public Works Authority (the Plan), provides retirement and disability benefits and death benefits to plan members and beneficiaries. The plan is affiliated with the Oklahoma Municipal Retirement Fund (OMRF), an agent multiple-employer public retirement system that acts as a common investment and administrative agent for cities in the State of Oklahoma. Oklahoma Statutes 48 O.S. Sections 101, et seq. provides the authority to establish and amend the benefit provisions of the plan. That authority rests with the Authority's Board of Trustees that acts as the Plan's Board of Trustees.

The OMRF issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report may be obtained by writing OMRF, 525 Central Park, Suite 320, Oklahoma City, OK 73105.

Funding Policy

The Authority and Authority employees make contributions at an actuarially determined rate. The contribution rates for the fiscal year ending June 30, 2011, were 23.57% of covered payroll for the Authority and 6.0% of covered payroll for Authority employees. The employee contribution rate is a plan provision and may be amended by the Authority's Board of Trustees that acts as the Plan's Board of Trustees.

VII. Employee Retirement Systems (continued)

Annual Pension Cost

For the fiscal year ending June 30, 2012, the Authority contributed 107.05% (\$96,256) of its annual pension cost of \$89,916. This leaves a net pension obligation of \$51,066 for the fiscal year ending June 30, 2012.

The required contribution was determined as part of the January 1, 2011, actuarial valuation using the aggregate cost method. The Plan was amended to provide a Rule of 80 formula effective April 1, 2008. The actuarial assumptions included (a) a 7.5% rate of return and (b) projected pay increases with relation to age averaging 5% per annum. The actuarial value of the Plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments.

Trend Information for ERS of Bethany-Warr Acres PWA

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/08	\$ 52,093	68.7%	\$ 20,635
6/30/09	\$ 81,240	76.7%	\$ 39,550
6/30/10	\$ 89,053	82.2%	\$ 55,403
6/30/11	\$ 99,981	98.0%	\$ 57,406
6/30/12	\$ 89,916	107.05%	\$ 51,066

GASB 25 requires that the actuarial liability used to fund the Plan be used to measure funding progress.

Defined Contribution Plan Description

On July 1, 2000, the Authority adopted a defined contribution plan, the Employee Retirement System of Bethany-Warr Acres Public Works Authority (the Plan). The Plan provides retirement, disability and death benefits to plan members and their beneficiaries. The plan is affiliated with the Oklahoma Municipal Retirement Fund (OMRF), an agent multiple-employer public retirement system that acts as a common investment and administrative agent for cities in the State of Oklahoma. Oklahoma Statutes 48 O.S. Sections 101, et seq. provide authority to establish and amend the benefit provisions of the plan, which rests with the Authority's Board of Trustees acting as the Plan's Board of Trustees.

The Authority as employer-sponsor has elected a variable funding option and intends to make a contribution to the plan each year funds are available. Any person that is a regular full-time employee is eligible to participate in the plan. Forfeitures are allocated to remaining plan participants in the proportion of each participant's compensation to total participant compensation. Vesting in plan contributions and forfeitures is based on the following years of service: 0-7 years- 0%; 7 years or more-100%. Voluntary nondeductible contributions can be

made by plan participants but are limited to 15% of participant compensation. Participant loans are not allowed under the Plan. The Authority made no contributions to the plan for the year ended June 30, 2012.

Other Post Employment Benefits

11 O.S. Section 23-108 requires municipal employers who offer health insurance plans to employees to allow retirees to continue in force the health insurance plan and coverage. The retiree shall pay up to 100% of the premium cost, but no more than 125% of the cost to current employees of the plan.

The Bethany Warr Acres Public Works Authority offers a health insurance plan for its employees that pays 100% of the cost of employee coverage and allows employees to purchase dependent coverage through payroll deduction. There is currently one retiree retaining the health insurance plan offered who pays 100% of the premium cost. The premiums are not derived as a blended rate due to the small employee number. Rather each employee/retiree is rated based on the individual's age and an actuarial measurement performed by the health insurance provider. Therefore, there is no subsidy accruing, actual or implied, for retiree premiums and no funds are paid out of the Authority for these retiree benefits.

VIII. Contractual Agreement for Maintaining and Operating the Plant

The Bluff Creek Wastewater Treatment Plant and gathering system is operated under the terms of a contract between the Authority, the Bethany Public Works Authority (BPWA), and the Warr Acres Public Works Authority (WAPWA). BPWA and WAPWA remit to the Authority, on or before the fifteenth day of each month, amounts billed for wastewater treatment during the preceding calendar month.

The Authority may remit any surplus receipts to the Bethany Public Works Authority and the City of Warr Acres after payment of operation and maintenance expenses, principal and interest payments and capital asset acquisitions. The distributions, if made, are made in the proportion that total revenue collected within the city limits of each municipality bears to the total revenue collected by the Authority.

IX. Economic Dependence

A material part of the Authority's operating revenues is dependent on two primary customers, the loss of which could have a material effect on the Authority. A summary of revenues from these customers is as follows:

	<u>Year Ended 6/30/12</u>	
	<u>Revenues</u>	<u>% of Revenues</u>
City of Bethany	\$ 1,051,276	59.46%
City of Warr Acres	\$ 612,771	34.66%

BETHANY-WARR ACRES PUBLIC WORKS AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF FUNDING PROGRESS
FOR
DEFINED BENEFIT PENSION PLAN
June 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
1/1/2005	1,246,334	1,245,486	-848	100.10%	322,024	-0.30%
1/1/2006	1,360,395	1,342,867	-17,528	101.30%	320,035	-5.50%
1/1/2007	1,485,896	1,479,144	-6,752	100.50%	309,458	-2.20%
1/1/2008	1,605,950	1,789,212	183,262	89.80%	309,658	59.20%
1/1/2009	1,565,278	2,029,819	464,541	77.10%	345,913	134.30%
1/1/2010	1,636,115	2,250,626	614,511	72.70%	301,203	204.00%
1/1/2011	1,736,946	2,454,761	717,814	70.80%	321,153	223.50%
1/1/2012	1,844,032	2,544,871	700,839	72.50%	283,697	247.00%

GASB 25 requires that the actuarial liability used to fund the Plan be used to measure funding progress.



**REPORT ON COMPLIANCE AND
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees
Bethany-Warr Acres Public Works Authority

We have audited the financial statements of the Bethany-Warr Acres Public Works Authority as of and for the year ended June 30, 2012, and have issued our report thereon dated November 2, 2012. We have 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 Bethany-Warr Acres Public Works Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bethany-Warr Acres Public Works Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bethany-Warr Acres Public Works Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of trustees, management, others within the entity and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "HBC CPAs & Advisors". The signature is written in a cursive, stylized font.

November 2, 2012