

# Bromide Public Works Authority

Financial Statements

Year End June 30, 2011

RHJ

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***For the Fiscal Year Ended June 30, 2011***

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# ***INTRODUCTORY***

*Bromide Public Works Authority  
List of Officials  
June 30, 2011*

*Trustee*

*Charles Martin*

*Trustee*

*Jim Toney*

*Trustee*

*Judy Chapman*



*Independent Auditor's Report*

Board of Trustees  
Bromide Public Works Authority  
Bromide, Oklahoma

We have audited the accompanying statement of net assets – modified cash basis of Bromide Public Works Authority ( a component unit of Town of Bromide, Oklahoma) as of June 30, 2011, and the related statements of revenues, expenses and changes in net assets – modified cash basis for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on those 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.

As discussed in Note I (B), Bromide Public Works Authority prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position- modified cash basis of the Bromide Public Works Authority, as of June 30, 2011, the changes in financial position-modified cash basis and cash flows- modified cash basis for the year then ended in conformity with the basis of accounting described in Note I (B).

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In accordance with *Government Auditing Standards*, we have issued our report dated June 4, 2012, on our consideration of Bromide 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Bromide Public Works Authority as a whole. The accompanying Introductory Section is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Rahhal Henderson Johnson, PLLC*

Ardmore, Oklahoma  
June 4, 2012

# ***BASIC FINANCIAL STATEMENTS***

Bromide Public Works Authority  
Statement of Net Assets – Modified Cash Basis  
June 30, 2011

ASSETS

Current Assets

Cash and Cash Equivalents	<u>\$ 38,346</u>
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Noncurrent Assets

Capital Assets, not being depreciated	35,000
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Capital Assets, net of depreciation	<u>1,263,990</u>
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Total Noncurrent Assets	<u>1,298,990</u>
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Total Assets	<u>\$1,337,336</u>
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LIABILITIES AND NET ASSETS

Current Liabilities

Payroll Withholdings Payable	\$ 625
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Refundable Meter Deposits	2,400
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Notes Payable - Current	<u>5,268</u>
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Total Current Liabilities	8,293
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Noncurrent Term Liabilities

Notes Payable	<u>45,585</u>
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Total Liabilities	<u>53,878</u>
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Net Assets

Invested in Capital Assets, net of related debt	1,248,137
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Unrestricted	<u>35,321</u>
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Total Net Assets	<u>\$1,283,458</u>
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*The notes to the financial statements are an integral part of this statement.*



Bromide Public Works Authority  
Statement of Revenues, Expenses, and Changes in Net Assets – Modified Cash  
For the Year Ended June 30, 2011

Operating Revenues:

Charges For Services

Water	\$ 47,484
Sewer	19,565
Garbage	15,429
Penalties	1,830
Miscellaneous	5,407
Total Operating Revenue	89,715

Operating Expenses:

Salaries and Benefits	17,489
Contract Garbage Collection	12,052
Water Purchases	2,078
Utilities	3,004
Miscellaneous	193
Office Expense	871
Postage	978
Vehicle Operations	3,721
Supplies and Parts	16,317
License	2,387
Professional Fees	1,192
Lab Fees	1,881
Insurance	4,453
Depreciation and Amortization	27,248
Total Operating Expenses	93,864

Operating Income (Loss) (4,149)

Nonoperating Revenues (Expenses):

Grant Revenue	472,000
Interest Revenue	15
Interest Expense	(1,484)
Transfer In (Out)	8,048
Total Nonoperating Revenues	478,579

Change in Net Assets 474,430

Total Net Assets - Beginning 809,028

Total Net Assets - Ending \$ 1,283,458

*The notes to the financial statements are an integral part of this statement.*

Bromide Public Works Authority  
Statement of Cash Flows – Modified Cash Basis  
For the Year Ended June 30, 2011

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers	\$ 90,035
Payments to Employees for Services	(17,489)
Payments to Vendors for Goods and Services	(49,127)
Net Cash Provided by Operating Activities	<u>23,419</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Interfund Transfers from Other Funds	8,048
Interfund Transfers to Other Funds	(8,048)
Net Cash Provided by Noncapital Financing Activities	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchase of Capital Assets	(471,295)
Cash Received from Capital Grant	472,000
Principal Paid on Capital Debt	(5,100)
Interest Paid on Capital Debt	(1,484)
Net Cash Used by Capital Financing Activities	<u>(5,879)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest Income	15
Net Cash Provided by Investing Activities	<u>15</u>
Net Increase in Cash and Cash Equivalents	17,555
Cash and Cash Equivalents, Beginning of Year	20,791
Cash and Cash Equivalents, End of Year	<u>\$ 38,346</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating Loss	\$ (4,149)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	27,248
Increase in Payroll Liabilities Withheld	(80)
Increase in Refundable Meter Deposits	400
Total Adjustments	<u>27,568</u>
Net Cash Provided by Operating Activities	<u>\$ 23,419</u>
Noncash Capital Financing Activities	
Interest Paid	(1,484)

*The notes to the financial statements are an integral part of this statement.*

Bromide Public Works Authority  
Notes to Financial Statements  
June 30, 2011

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. *The Reporting Entity***

The Bromide Public Works Authority is a public trust created July 15, 1993, under and pursuant to the laws of the State of Oklahoma now in force and effect (generally, but not exclusively, Sections 176 and 180, inclusive, of Title 60, Oklahoma Statutes 1951, as amended, and the Oklahoma Trust Act.) The Authority is a component unit of its Beneficiary, the Town of Bromide. The Authority is governed by a board comprised of elected council.

**B. *Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

Bromide Public Works Authority (BPWA), is a proprietary fund that accounts for activities related to the provision of water and sewer services to businesses and residents. It operates the water and sewer treatment plants, water distribution system, sewer collections systems and pump stations.

BPWA is accounted for using the modified cash basis of accounting. Under this basis, cash receipts are recognized as revenue at the date of receipt and cash payments are recognized as expenditures at date of payment with the following modifications:

- Capital assets are recorded as assets when purchased and related depreciation is recorded.
- Long-term debt is recorded when incurred.
- Employee withholding taxes that have not been deposited with the IRS but relate to compensation paid and retirement contributions not remitted are recorded as liabilities.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Bromide Public Works Authority  
Notes to Financial Statements  
June 30, 2011

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)**

**C. *Assets, Liabilities and Net Assets or Equity***

*Deposits and Investments*

Public trusts created under Oklahoma Statutes Title 60 are not subject to investment limitations and are primarily governed by any restrictions in their trust or note indenture.

*Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water and sewer systems), are defined by the Authority as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<i>Assets</i>	<i>Years</i>
Water System	40
Sewer System	40
Equipment	10

*Long-term Obligations*

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

*Net Assets*

Net assets are divided into three components:

- *Invested in Capital Assets, net of related debt* – consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- *Restricted Net Asset* – consist of net assets that are restricted by creditors through debt covenants.
- *Unrestricted Net Assets* – all other net assets are reported in this category.

*Budgetary Comparison*

The Authority is not legally required to adopt a budget for the general fund. Therefore, budget comparison information is not included in the Authority's financial statements.

Bromide Public Works Authority  
Notes to Financial Statements  
June 30, 2011

**II. DETAILED NOTES ON ALL FUNDS**

**A. Deposits**

*Deposit Custodial Credit Risk*

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority policy regarding custodial credit risk requires collateral for all deposits in excess of Federal Deposit Insurance. At June 30, 2011, the bank balance was \$39,952. This entire amount was insured and collateralized.

**B. Capital Assets**

Capital asset activity for the year ended June 30, 2011 was as follows:

	<i>Beginning Balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending Balance</i>
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 35,000	\$ -	\$ -	\$ 35,000
Construction in Progress	-	471,295	-	471,295
<i>Total Capital Assets, not being depreciated</i>	<u>35,000</u>	<u>471,295</u>	<u>-</u>	<u>506,295</u>
<i>Capital Assets, being depreciated:</i>				
Machinery and Equipment	5,251	-	-	5,251
Water System	1,089,910	-	-	1,089,910
<i>Total Capital Assets, being depreciated</i>	1,095,161	-	-	1,095,161
Less: Accumulated Depreciation	275,218	27,248	-	302,466
<i>Total Capital Assets, being depreciated, net</i>	<u>819,943</u>	<u>(27,248)</u>	<u>-</u>	<u>792,695</u>
<i>Total Capital Assets, net</i>	<u>\$ 854,943</u>	<u>\$ 444,047</u>	<u>\$ -</u>	<u>\$ 1,298,990</u>

Bromide Public Works Authority  
Notes to Financial Statements  
June 30, 2011

**II. DETAILED NOTES ON ALL FUNDS – (continued)**

**C. Long-Term Liabilities**

Long-term liability activity for the year ended June 30, 2011, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reduction</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes Payable	\$ 55,953	\$ -	\$ 5,100	\$ 50,853	\$ 5,268
	<u>\$ 55,953</u>	<u>\$ -</u>	<u>\$ 5,100</u>	<u>\$ 50,853</u>	<u>\$ 5,268</u>

Long-term debt at June 30, 2011 consisted of the following:

<u>Type of Indebtedness (purpose)</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding June 30, 2011</u>
Oklahoma Water Resource Board Note Payable (sanitary sewer improvements)	September, 2019	3.32%	variable	\$ 98,695	\$ 50,853

Annual debt service requirements to maturity are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Admin Fee</u>
2012	\$ 5,268	\$ 1,425	\$ 252
2013	5,451	1,268	225
2014	5,637	1,111	196
2015	5,828	948	168
2016	6,023	782	139
2017-2021	22,646	1,324	235
	<u>\$ 50,853</u>	<u>\$ 6,858</u>	<u>\$ 1,215</u>

Provisions of the OWRB Notes which are pertinent to the financial statements are as follows:

*Pledged Revenues* - Revenues generated from the Public Works Authority will be used first to meet debt service; second to pay operation and maintenance expenses of the system; and third to replenish the minimum required balance of the reserve fund requirement.

Bromide Public Works Authority  
Notes to Financial Statements  
June 30, 2011

**II. DETAILED NOTES ON ALL FUNDS – (continued)**

**C. Long-Term Liabilities (continued)**

The Bromide Public Works Authority at all times will maintain schedules of rates and charges for services sufficient to provide funds which together with other revenues pledged will provide Net Revenues Available for Debt Service equal to at least 125% of the maximum annual amount required for debt service. The revenues are pledged as collateral for the note.

*Debt Service Coverage Requirement*

Oklahoma Water Resource Board loans are secured by utility system revenues. The Authority must maintain net revenues available for debt service equal to at least 125% of the maximum annual amount required for debt service

*Net Revenues Available for Debt Service:*

Operating Revenues	\$ 89,715
Less: Garbage Revenue	<u>(15,429)</u>
Total Operating Revenues	<u>74,286</u>

Operating Expenses	93,864
Less: Garbage Expenses	(12,052)
Less: Depreciation Expense	<u>(27,248)</u>
Total Operating Expenses	<u>54,564</u>

Interest Income	<u>15</u>
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Net Revenues Available for Debt Service	<u><u>\$ 19,737</u></u>
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*Maximum Debt Service Requirements:*

OWRB ORF 94-0001-L	<u>6,945</u>
Total Debt Service Requirement	<u><u>\$ 6,945</u></u>

125% Total Debt Service Requirement	<u><u>\$ 8,681</u></u>
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Actual Coverage	<u>227%</u>
Coverage Requirement	<u>125%</u>

Bromide Public Works Authority  
Notes to Financial Statements  
June 30, 2011

**II. DETAILED NOTES ON ALL FUNDS – (continued)**

***D. Risk Management***

The Authority is exposed to various risks of loss (torts, theft of, damage to, or destruction of assets, business interruptions, errors and omissions, job-related illnesses or injuries to employees, and acts of God) and has established a risk management strategy that attempts to minimize losses and the carrying cost of insurance. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage in the past three years.

*General Liability, Physical Property and Automobile Liability/Physical Damage*

General liability, physical property and automobile liability/physical damage are insured through the Oklahoma Municipal Assurance Group risk entity pool. In the event of any loss, the Authority's deductible is \$1,000. Risk of loss retained is limited to the excess of insurance liability coverage limits set by OMAG.

*Worker's Compensation*

Workers' compensation is insured through CompSource Oklahoma. Risk of loss retained is limited to the excess of insurance liability coverage limits set by CompSource Oklahoma.

***E. Contingency Note***

The Bromide Public Works Authority has been issued a consent order by the Oklahoma Department of Environmental Quality. The order requires specific tasks to be performed within a specified time or fines will be assessed.



***AUDITOR'S REPORT  
ON INTERNAL CONTROL  
AND COMPLIANCE***



***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***

Board of Trustees  
Bromide Public Works Authority  
Bromide, Oklahoma 74530

We have audited the financial statements of Bromide Public Works Authority as of and for the year ended June 30, 2011, and have issued our report thereon dated June 4, 2012. Our report on the financial statements disclosed that, as described in Note I (B) to the financial statements, the Authority prepares its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

Management of Bromide Public Works Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Bromide 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 Bromide Public Works Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bromide Public Works Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant

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deficiencies or material weaknesses have been identified. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be material weaknesses.

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. We consider the deficiencies 2011-1 through 2011-4 described in the accompanying schedule of findings and responses to be material weaknesses.

#### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether Bromide 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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Bromide Public Works Authority's response to findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Trustees, management, others within the entity and the Oklahoma State Auditor and Inspector and is not intended to be and should not be used by anyone other than these specified parties.

*Rahhal Henderson Johnson, PLLC*

Ardmore, Oklahoma  
June 4, 2012

Bromide Public Works Authority  
Schedule of Findings and Responses  
June 30, 2011

**2011-1 Segregation of Duties**

**Condition** – The same individual prepares utility bills, collects payments, posts receipts to customer account, and records receipts on the general ledger. In addition, this person prepares cash disbursements, mails the checks, signs the checks and reconciles bank statements.

**Criteria** – A reliable internal control structure provides for adequate segregation of duties among those who have custody, access, record keeping and oversight of cash.

**Cause** – The Authority has a small staff which limits the ability to adequately segregate duties.

**Effect** – Risk that errors or omission could occur and not be detected in a timely manner.

**Recommendation** – We recommend that the Authority evaluate segregating duties for record keeping and oversight to another person or outside party that does not have access to the collection or depositing of money. All cash disbursements should be approved by the Trustees before being mailed unless two check signatures are required on each check. Bank statements should be received by someone other than the clerk. Bank reconciliations should be performed or reviewed by someone other than the clerk.

**Management Response** – Budgetary constraints do not make it possible to hire additional employee.

**2011-2 Capital Assets**

**Condition** – A policy over capital assets regarding capitalization threshold has not been developed. The Authority does not have a process to compute and record depreciation expense.

**Criteria** – The entity should have a capitalization and useful lives policy for accounting for acquisition and recording of capital assets. Capital asset depreciation charges should be calculated and the listing reconciled to the financial records.

**Cause** – The Authority has not followed any type of policy for capturing capital asset additions.

**Effect** – Detail listing of assets was not maintained or depreciation calculated.

Bromide Public Works Authority  
Schedule of Findings and Responses  
June 30, 2011

**Recommendation** – A capitalization threshold should be set along with a definition for expenditures that should be capitalized versus those that should be expensed based on the estimated useful life of the item acquired. A system should be developed for maintaining a capital asset listing to use for computing capital asset depreciation charges. The listing should be reviewed on a regular basis to determine completeness and that assets listed are still in use.

**Management Response** – A resolution will be passed establishing the capital asset threshold.

**2011-3 Financial Statements**

**Condition** – Material adjustments to the financial information were necessary.

**Criteria** – A reliable internal control structure provides for reliable financial reporting including the ability to select and apply appropriate accounting principles to prepare the financial statements in accordance with the selected basis of accounting.

**Cause** – The internal control structure has focused primarily on operations.

**Effect** – Risk that material misstatement of the financial statements or disclosures could occur and not be detected.

**Recommendation** – We recommend that the Authority evaluate the cost of instituting a review process over the year-end financial statements by someone with sufficient awareness of or experience in accounting principles and disclosure requirements to reduce the risk of material misstatements or disclosure error or omissions.

**Management Response** – Limited ability to pay for clerk assistance.

**2011-4 Utility Account Adjustments**

**Condition** – Utility account adjustments for bad debt write-offs, penalty removal, clerk errors etc. are not being approved. The clerk is responsible for all aspects of utility billing process.

**Criteria:** A reliable internal control structure should provide for governing board approval of all utility account adjustments.

**Effect** – Risk of error or omission occurring that are not detected on a timely basis.

Bromide Public Works Authority  
Schedule of Findings and Responses  
June 30, 2011

***Recommendation*** – We recommend that all utility account adjustments be presented to the board in detail for approval.

***Management Response*** - All adjustments will be documented and approved by the board.