

**TAHLEQUAH PUBLIC WORKS AUTHORITY  
and CITY LIGHT & WATER**

**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT**

**June 30, 2014**

**TAHLEQUAH PUBLIC WORKS AUTHORITY AND  
CITY LIGHT & WATER**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the  
Tahlequah Public Works Authority  
and City Light & Water  
Tahlequah, Oklahoma

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Tahlequah Public Works Authority and City Light & Water ("the Authority"), a component unit of the City of Tahlequah, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority'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 accounting principles generally accepted in the United States of America; this includes 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 fraud or error.

#### ***Auditor's Responsibility***

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 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2014, and the changes in its financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the Table of Contents, 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.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2014, on our consideration of the 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 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 Authority's internal control over financial reporting and compliance.

*Arlidge & Associates, P.C.*  
November 19, 2014

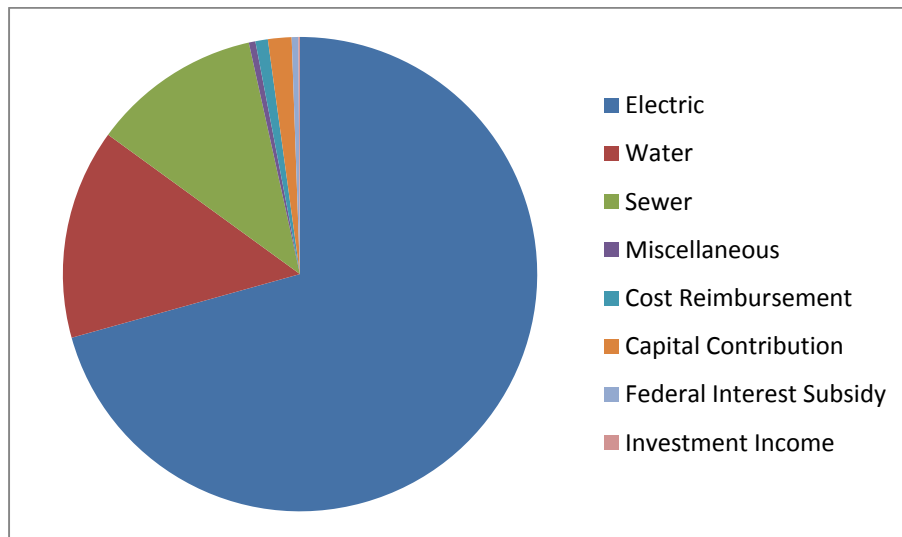
## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial performance of the Tahlequah Public Works Authority and City Light & Water (“the Authority”), a component unit of the City of Tahlequah, Oklahoma, provides an overview of the Authority’s financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the Authority’s basic financial statements.

### Financial Highlights

At June 30, 2014 the Authority’s net assets total \$33.4 million. Of this, \$6.5 million is considered unrestricted.

The following chart provides a graphical breakdown of revenues by category for the fiscal year ending June 30, 2014.



In the fiscal year ended June 30, 2014, the Authority’s revenues exceeded expenses creating an increase in net assets, after net transfers out of \$1,296,414, of \$3,300,376, or 11%.

### Using This Annual Report

The annual report consists of three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows.

The statement of net position and the statement of revenues, expenses, and changes in net position report information on Tahlequah Public Works Authority, City Light & Water, and on the Authority as a whole. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as the Authority’s operating results.

These two statements report net position and changes in net position. Net position - the difference between assets and liabilities - are a measurement of the Authority’s financial health, or financial position. Over time, increases or decreases in the Authority’s net position are an indicator of whether its financial health is improving or deteriorating. Numerous other non-financial factors, such as the quality

of services provided and the condition and safety of the facilities are important in assessing the overall health of the Authority.

These statements include assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

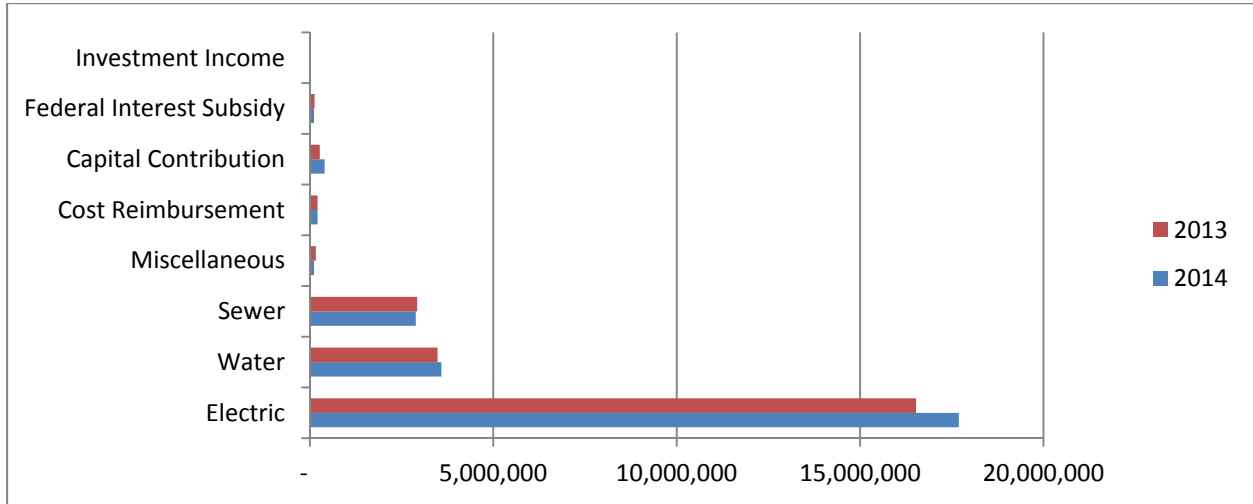
The third statement, the statement of cash flows, presents detailed information about the cash activity during the year. The statement is divided into five parts. The first part presents operating cash flows and shows the net cash provided by the operating activities of the Authority. The second section reflects cash flows from non-capital items. The third section reflects cash flows from capital and related financing activities. The fourth section reflects cash provided by investing activities. And, finally, the fifth section reconciles the net cash provided or used to the operating income or loss reflected on the statement of revenues, expenses, and changes in net position. The statement provides information regarding the Authority's ability to generate future net cash flows, its ability to meet its obligations as they come due and its needs for external funding.

## Financial Overview

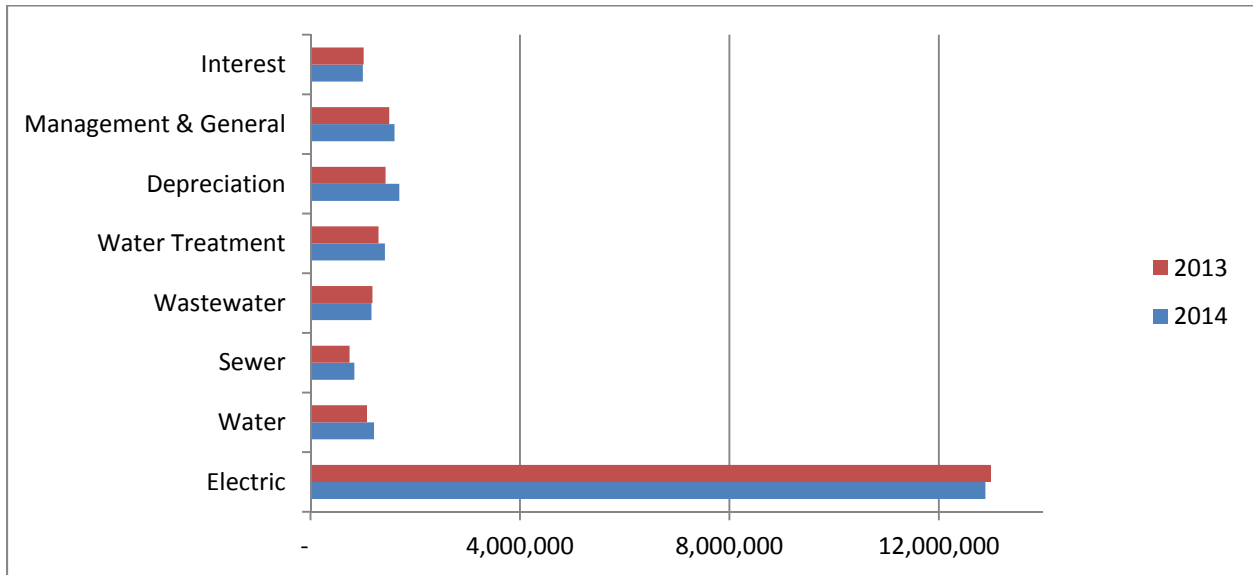
### Statement of Position, End of Year

	June 30	
	2014	2013
Current Assets	\$ 19,069,550	\$ 17,290,580
Noncurrent Assets	40,876,939	39,837,563
<b>Total Assets</b>	<b>59,946,489</b>	<b>57,128,143</b>
Current Liabilities	4,889,551	4,961,779
Noncurrent Liabilities	21,625,348	22,035,150
<b>Total Liabilities</b>	<b>26,514,899</b>	<b>26,996,929</b>
Net Position		
Investment in Capital Assets	24,748,208	23,893,145
Restricted for Debt Service	2,143,368	1,822,184
Unrestricted	6,540,014	4,415,885
<b>Total Net Position</b>	<b>\$ 33,431,590</b>	<b>\$ 30,131,214</b>

Operating revenues for the fiscal years ended June 30, 2014 and 2013:



Operating expenses for the fiscal years ended June 30, 2014 and 2013:



### Operating Results for the Year Ended

	June 30	
	2014	2013
Operating Revenues	\$ 24,492,105	\$ 23,574,630
Less Operating Expenses	20,865,852	20,236,294
Net Operating Revenue	3,626,253	3,338,336
Net Nonoperating Expenses	(857,874)	(864,558)
Net Transfers In (Out)	531,997	(2,540,967)
Increase (Decrease) in Net Assets	3,300,376	(67,189)
Net Position, Beginning of Year	30,131,214	30,198,403
Net Position, End of Year	\$ 33,431,590	\$ 30,131,214

Another way to assess the financial health of an entity is to look at the statement of cash flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows also helps users assess an entity's ability to generate future net cash flows, its ability to meet its obligations as they come due and its needs for external financing.

Below is a condensed look at the statement of cash flows for fiscal 2014 and 2013.

### Cash Flows for the Year Ended

	June 30	
	2014	2013
Cash Provided (Used) by:		
Operating Activities	\$ 4,737,830	\$ 5,406,854
Noncapital Financing Activities	130,503	(2,540,967)
Capital and Related Financing Activities	(3,548,712)	(3,553,668)
Investing Activities	151,124	418,309
Net Increase (Decrease) in Cash	1,470,745	(269,472)
Cash, Beginning of Year	11,179,110	11,448,582
Cash, End of Year	\$ 12,649,855	\$ 11,179,110



## Description of Capital Assets and Long-Term Debt Activity

At June 30, 2014 the Authority had \$40.9 million invested in capital assets, net of accumulated depreciation of \$33.4 million. Net depreciation charges totaled \$1.7 million for the year ended June 30, 2014. Details of these assets are shown below for the years ended June 30, 2014 and 2013.

### Capital Assets at Year-End

	June 30	
	2014	2013
Non-depreciable:		
Land	\$ 229,006	\$ 229,006
Total Non-depreciable Assets at Historical Cost	229,006	229,006
Depreciable:		
Buildings and Improvements	1,359,659	1,302,529
Machinery and Equipment	4,843,727	4,502,060
Utility Property	67,887,489	65,646,490
Total Depreciable Assets at Historical Cost	74,090,875	71,451,079
Less Accumulated Depreciation	(33,442,942)	(31,842,522)
Net Depreciable Assets	40,647,933	39,608,557
Capital Assets, Net	\$ 40,876,939	\$ 39,837,563

At June 30, 2014 the Authority had \$22.7 million in debt outstanding. The table below summarizes the outstanding debt by type for the years ended June 30, 2014 and 2013.

### Outstanding Debt, at Year-End

	June 30	
	2014	2013
Revenue Bonds - COT, net of discount	\$ 6,320,519	\$ 7,091,385
2010 Drinking Water SRF	14,862,595	14,516,418
2011 Drinking Water SRF	1,266,136	1,428,000
Capital Leases	254,714	-
	\$ 22,703,964	\$ 23,035,803

More detailed information about the Authority's outstanding debt is presented in Note 4 to the basic financial statements.

### Economic Factors and Next Year's Outlook

Tahlequah Public Works Authority, aka: TPWA is a self-supporting Authority funded primarily by the sales of electricity, water distribution, waste water management services, and reading billing and collection services for the Northeast Oklahoma Public Facilities Authority, aka the Gas Authority.

In FY 2014, TPWA continued with the installation of AMR water meters. During this year, we realized we were having some reading issues with the new meters. The communication devices within the new meters were causing problems due to the communication cables failing. We began discussions with the meter supplier, Elster, who acknowledged a problem existed in the communication cables. Since that time Elster has been providing TPWA with replacement meters with an improved design of the communication cables. TPWA will replace the meters in house as the Elster meters are covered under our replacement warranties.

As was discussed in 2013, TPWA began work on a 3 million gallon water storage tank to replace a 1 million gallon water storage tank. This project also included the rehabilitation of our clarifiers at the TPWA Teehee Water Treatment Plant. Both of these projects are part of a DWSRF loan combined with \$480,000.00 in cash to finish these projects. TPWA The use of cash will not have large negative impact on our cash position.

In 2014 TPWA continued to take advantage of historically low interest rates by utilizing a lease purchase program to fund large equipment purchases. TPWA expects to continue to utilize this resource in FY 2015 as long as interest rates remain at historically low levels.

In 2014, The Grand River Dam Authority, GRDA, announced the financing of a combined cycle Gas / Steam Generating unit built by Mitsubishi. The GRDA is our wholesale electric provider and is a national leader in the production of dependable low cost electricity. This generating unit will insure TPWA and its rate payers that GRDA will continue to be a dependable low cost provider of wholesale electricity for years to come. This is good news for TPWA and our rate payers as we strive to be a dependable low cost provider of all services for our rate payers. TPWA has a long term wholesale power purchase contract with The GRDA which extends through June 1, 2042 The combined cycle unit is a highly efficient state of the art unit and is the first combined cycle unit in the western hemisphere.

## **Economic Outlook**

TPWA has budgeted approximately 4% increase for 2015. We are budgeting an increase in the sale of electricity in FY 2015, with no increase in the budget for sales of water or waste water collections. The reason for the increase in the budget in the sales of electricity is due to a full year of operations at the NSU Event Center along with additional apartment projects and housing developments. Two more projects may come on-line in FY 2015, but we are not able to disclose the names of those projects at this time. As previously mentioned, GRDA is a national leader in the production of dependable low cost electricity and this enables TPWA to be a competitive driving force in economic development in Tahlequah, Ok.

Water: TPWA continues to see a huge water loss month over month. This is a top priority for TPWA as water is a viable resource for our community. One of our main goals in 2015 is to perform intense studies to determine what is driving our water loss. We intend to do this by hiring water loss experts to survey and perform water loss tests in our distribution system. Additionally we will employ the services of a qualified engineer to test the accuracy of our raw water and our finished water pumps. These efforts will help TPWA to locate and pinpoint where our water loss is coming from.

Waste-Water: One unknown in this industry is the final outcome of years of study on waste water discharge into the Illinois River. What we do not know and cannot anticipate is the final outcome from these studies by the EPA and the Oklahoma DEQ and what type of economic impact it may have on our operational costs at our waste water treatment facility. Questions remain about the ability to reach a .03 phosphorous limit and if that number is attainable, at what costs to the rate payer. If it is determined that a .03 phosphorous discharge level can be attained and maintained, the possibility exists that the mandate

could, in time, become a state wide mandate for all waste water discharging entities. This is an expense TPWA can't budget for at this time, but one that we are aware of.

### **Contacting the Authority's Financial Management**

This financial report is designed to provide our customers, investors, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Authority's office at 101 North College Avenue, P. O. Box 29, Tahlequah, Oklahoma 74465.

**Tahlequah Public Works Authority and City Light & Water**  
**Statement of Net Position**  
**June 30, 2014**

	<u>Public Works Authority</u>	<u>City Light &amp; Water</u>	<u>Total</u>
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 3,823,586	\$ 2,416	\$ 3,826,002
Restricted Assets:			
Cash and cash equivalents	8,823,853	-	8,823,853
Investments	437,860	-	437,860
Inventory	1,513,057	-	1,513,057
Accounts receivable (net of allowance)	4,450,778	-	4,450,778
Notes receivable	18,000	-	18,000
Total current assets	<u>19,067,134</u>	<u>2,416</u>	<u>19,069,550</u>
Noncurrent Assets:			
Capital assets, net	40,876,939	-	40,876,939
Total noncurrent assets	<u>40,876,939</u>	<u>-</u>	<u>40,876,939</u>
Total Assets	<u>59,944,073</u>	<u>2,416</u>	<u>59,946,489</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	1,546,946	-	1,546,946
Accrued expenses	416,059	-	416,059
Capital leases, current portion	47,963	-	47,963
Notes payable, current portion	712,000	-	712,000
Revenue bonds payable, COT, current portion	810,000	-	810,000
Meter deposit liability	1,356,583	-	1,356,583
Total current liabilities	<u>4,889,551</u>	<u>-</u>	<u>4,889,551</u>
Noncurrent Liabilities:			
Compensated absences	383,528	-	383,528
Unfunded OPEB obligation	107,819	-	107,819
Capital leases	206,751	-	206,751
Notes payable	15,416,731	-	15,416,731
Revenue bonds payable (COT)	5,510,519	-	5,510,519
Total noncurrent liabilities	<u>21,625,348</u>	<u>-</u>	<u>21,625,348</u>
Total Liabilities	<u>26,514,899</u>	<u>-</u>	<u>26,514,899</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	24,748,208	-	24,748,208
Restricted for debt service	2,143,368	-	2,143,368
Unrestricted	6,537,598	2,416	6,540,014
Total Net Position	<u>\$ 33,429,174</u>	<u>\$ 2,416</u>	<u>\$ 33,431,590</u>

See accompanying notes to the basic financial statements.

**Tahlequah Public Works Authority and City Light & Water**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Year Ended June 30, 2014**

	<b>Public Works Authority</b>	<b>City Light &amp; Water</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Electric revenue	\$ 17,693,241	\$ -	\$ 17,693,241
Water revenue	3,586,464	-	3,586,464
Sewer charges	2,887,056	-	2,887,056
Miscellaneous	113,965	-	113,965
Cost reimbursement	211,379	-	211,379
Total operating revenues	<u>24,492,105</u>	<u>-</u>	<u>24,492,105</u>
<b>OPERATING EXPENSES</b>			
Electric service	12,889,274	-	12,889,274
Water service	1,212,512	-	1,212,512
Sewer service	837,885	-	837,885
Wastewater treatment	1,162,826	-	1,162,826
Water treatment	1,421,661	-	1,421,661
Depreciation of fixed assets	1,695,208	-	1,695,208
Management and general	1,603,131	43,355	1,646,486
Total operating expenses	<u>20,822,497</u>	<u>43,355</u>	<u>20,865,852</u>
Net operating gain(loss)	<u>3,669,608</u>	<u>(43,355)</u>	<u>3,626,253</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest subsidy from federal government	112,945	-	112,945
Investment income	28,578	59	28,637
Interest expense and related fees	(999,456)	-	(999,456)
Total nonoperating revenue (expenses)	<u>(857,933)</u>	<u>59</u>	<u>(857,874)</u>
Income before contributions and transfers	2,811,675	(43,296)	2,768,379
Capital contributions	401,494	-	401,494
Transfers in	1,426,917	-	1,426,917
Transfers between TPWA & CL&W	(1,339,769)	1,339,769	-
Transfers out	-	(1,296,414)	(1,296,414)
Increase (decrease) in net position	3,300,317	59	3,300,376
Net position at beginning of year	<u>30,128,857</u>	<u>2,357</u>	<u>30,131,214</u>
Net position at end of year	<u>\$ 33,429,174</u>	<u>\$ 2,416</u>	<u>\$ 33,431,590</u>

See accompanying notes to the basic financial statements.

**Tahlequah Public Works Authority and City Light & Water**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2014**

	<b>Public Works Authority</b>	<b>City Light &amp; Water</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 24,193,383	\$ -	\$ 24,193,383
Payments to suppliers	(15,585,295)	(13,355)	(15,598,650)
Payments to employees	(3,826,903)	(30,000)	(3,856,903)
Net cash provided by (used in) operating activities	<u>4,781,185</u>	<u>(43,355)</u>	<u>4,737,830</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers from City of Tahlequah	1,426,917	-	1,426,917
Transfers between TPWA & CL&W	(1,339,769)	1,339,769	-
Transfers to City of Tahlequah	-	(1,296,414)	(1,296,414)
Net cash (used in) noncapital financing activities	<u>87,148</u>	<u>43,355</u>	<u>130,503</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchases of capital assets	(2,754,856)	-	(2,754,856)
Proceeds from sale/transfer of capital assets	23,000	-	23,000
Capital contributions	401,494	-	401,494
Proceeds from capital debt	1,161,089	-	1,161,089
Principal paid on capital debt	(1,501,320)	-	(1,501,320)
Interest and fees on capital debt	(878,119)	-	(878,119)
Net cash (used in) capital and related financing activities	<u>(3,548,712)</u>	<u>-</u>	<u>(3,548,712)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Sale of investments	118,000	-	118,000
Interest	33,065	59	33,124
Net cash provided by investing activities	<u>151,065</u>	<u>59</u>	<u>151,124</u>
Net increase (decrease) in cash and cash equivalents	1,470,686	59	1,470,745
Balance - beginning of year	11,176,753	2,357	11,179,110
Balance - end of year	<u>\$ 12,647,439</u>	<u>\$ 2,416</u>	<u>\$ 12,649,855</u>
<b>RECONCILIATION TO STATEMENT OF NET ASSETS</b>			
Cash and cash equivalents	3,823,586	2,416	3,826,002
Restricted cash and cash equivalents	8,823,853	-	8,823,853
	<u>\$ 12,647,439</u>	<u>\$ 2,416</u>	<u>\$ 12,649,855</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 3,669,608	\$ (43,355)	\$ 3,626,253
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	1,695,209	-	1,695,209
Change in assets and liabilities			
Accounts receivable	(362,312)	-	(362,312)
Inventory	(71,129)	-	(71,129)
Accounts payable	(262,021)	-	(262,021)
Accrued expenses	48,240	-	48,240
Deposits	63,590	-	63,590
Net cash provided by (used in) operating activities	<u>\$ 4,781,185</u>	<u>\$ (43,355)</u>	<u>\$ 4,737,830</u>

See accompanying notes to the basic financial statements.

**TAHLEQUAH PUBLIC WORKS AUTHORITY  
and CITY LIGHT & POWER  
Notes to Basic Financial Statements  
June 30, 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of Tahlequah Public Works Authority (the "Authority") have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of significant accounting policies follows:

**A. REPORTING ENTITY**

The Tahlequah Public Works Authority "the Authority" is a public trust created under the authority of and pursuant to the provisions of Title 60, Oklahoma Statute 1961, Sections 176 to 180, on December 4, 1970 for the use and benefit of the City of Tahlequah, Oklahoma. The Authority was established to manage utility facilities whether water, sewage, electric, or other forms or types of public and municipal services within or without the corporate boundaries of the City of Tahlequah, Oklahoma and the conservation of public welfare in these areas.

City Light & Water is a department of the City of Tahlequah charged with oversight of Tahlequah Public Works Authority.

**B. BASIS OF PRESENTATION**

***Fund Accounting*** – The Authority utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

***Basis of Accounting*** - The accounts in this report are presented on the accrual basis of accounting. Under this method revenues are recognized in the accounting period in which they are earned and expenses are recognized in the accounting period in which the related liability is incurred.

Operating revenues for the Authority are those generated from its primary operations. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the operation of the Authority. All other expenses are reported as non-operating expenses.

***Use of Estimates*** – 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.

***Cash and Cash Equivalents*** – For the purpose of the statement of cash flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

**TAHLEQUAH PUBLIC WORKS AUTHORITY  
and CITY LIGHT & POWER  
Notes to Basic Financial Statements  
June 30, 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**B. BASIS OF PRESENTATION (Cont'd)**

*Inventories* – Inventory is generally stated at cost on the first-in, first-out method.

*Capital Assets* – Property, Plant and Equipment are recorded at cost. Depreciation is provided on the straight-line basis, beginning the year of acquisition, over the estimated useful lives of the related assets. Expenditures for repairs and maintenance are charged to expense as incurred, whereas major improvements are capitalized.

*Compensated Absences* – Vested or accumulated vacation and sick leave is recorded as an expense and liability as the benefits accrue to employees.

*Accounts Receivable* – Management considers all receivables as of June 30, 2014 to be revenues earned at year-end and not yet received. They are reported net of allowances for uncollectible accounts.

***Deferred Outflow/Inflows of Resources***

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflow of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has no items that qualify for reporting in this category.

*Net Position* – Equity is classified as net position and displayed in three components:

1. *Invested in capital assets, net of related debt* – consists of capital assets, net of accumulated depreciation and reduced by the outstanding balance of any notes or other borrowings attributable to those assets.
2. *Restricted net position* – consists of net position with constraints placed on the use either by external groups, laws or enabling legislation.
3. *Unrestricted net position* – all other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

It is the Authority's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

*Income Taxes* – As a Title 60 Public Trust, the Authority is exempt from income taxes.



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June 30, 2014

**2. DEPOSIT AND INVESTMENT RISKS**

The Authority held the following deposits and investments at June 30, 2014:

<u>Type</u>	<u>Fair Value</u>
Demand Deposits	\$ 6,876,797
Time Deposits	4,709,579
Money Market Accounts	1,063,479
U.S. Government Obligations	437,860
Total Deposits and Investments	<u>\$ 13,087,715</u>
 Reconciliation to Statement of Net Assets:	
Cash and Cash Equivalents	\$ 3,826,002
Restricted Cash and Cash Equivalents	8,823,853
Investments	437,860
	<u>\$ 13,087,715</u>

*Custodial Credit Risk – Deposits* – Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned or the Authority will not be able to recover collateral securities that are in the possession of an outside party. The Authority was not exposed to custodial credit risk at June 30, 2014.

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**3. CAPITAL ASSETS**

A summary of property, plant, and equipment activity for fiscal 2014 follows:

	<u>Balance at June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2013</u>
Non-depreciable:				
Land	\$ 229,006			\$ 229,006
Total Non-depreciable Assets at Historical Cost	<u>229,006</u>	<u>-</u>	<u>-</u>	<u>229,006</u>
Depreciable:				
Buildings and Improvements	1,302,529	57,130		1,359,659
Machinery and Equipment	4,502,060	456,727	(115,060)	4,843,727
Utility Property	65,646,490	2,240,999		67,887,489
Total Depreciable Assets at Historical Cost	<u>71,451,079</u>	<u>2,754,856</u>	<u>(115,060)</u>	<u>74,090,875</u>
Less Accumulated Depreciation	<u>(31,842,522)</u>	<u>(1,695,209)</u>	<u>94,789</u>	<u>(33,442,942)</u>
Net Depreciable Assets	<u>39,608,557</u>	<u>1,059,647</u>	<u>(20,271)</u>	<u>40,647,933</u>
Capital Assets, Net	<u>\$ 39,837,563</u>	<u>\$ 1,059,647</u>	<u>\$ (20,271)</u>	<u>\$ 40,876,939</u>

**4. LONG TERM LIABILITIES**

As of June 30, 2014, long-term debt payable consisted of the following:

**Notes Payable:**

2010 Series Drinking Water SRF Promissory Note to the Oklahoma Water Resources Board, original issue amount \$16,320,000, secured by utility revenues, interest rate of 2.99% and administrative fee of 0.5%, final maturity of March 15, 2041, \$15,332,418 drawn to date	\$ 14,862,595
2011 Series Drinking Water SRF Promissory Note to the Oklahoma Water Resources Board, original issue amount \$1,680,000, secured by utility revenues, interest rate of 1.78% and administrative fee of 0.5%, final maturity of March 15, 2023	<u>1,266,136</u>
	<u>\$ 16,128,731</u>
Current portion	\$ 712,000
Noncurrent portion	<u>15,416,731</u>
Total notes payable	<u>\$ 16,128,731</u>

**TAHLEQUAH PUBLIC WORKS AUTHORITY  
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**4. LONG TERM LIABILITIES (Cont'd)**

**Revenue Bonds:**

2009A Series Build America Sales Tax Revenue Bonds, dated September 1, 2009, original amount of \$9,135,000 secured by utility assets and revenues and pledged sales tax, interest rates from 2.474% to 5.551%, final maturity of December 1, 2019	\$ 6,370,000
Less unamortized discount	<u>(49,481)</u>
Total revenue bonds payable, net	<u>\$ 6,320,519</u>
Current portion	\$ 810,000
Noncurrent portion	<u>5,510,519</u>
Total revenue bonds payable, net	<u>\$ 6,320,519</u>

**Capital Leases:**

\$81,234 capital lease obligation for the purchase of a loader/backhoe, matures March 2019 with stated interest of 2%	\$ 76,068
\$19,138 capital lease obligation for the purchase of a forklift, matures March 2019 with stated interest of 2%	17,921
\$138,156 capital lease obligation for the purchase of a semi-tractor, matures March 2019 with stated interest of 2%	129,369
\$32,384 capital lease obligation for the purchase of a truck, matures May 2019 with stated interest of 2%	<u>31,356</u>
Total capital leases payable	<u>\$ 254,714</u>
Current portion	\$ 47,963
Noncurrent portion	<u>206,751</u>
Total revenue bonds payable, net	<u>\$ 254,714</u>

**Changes in Long-Term Debt:**

The following is a summary of changes in long-term debt for the year ended June 30, 2014:

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Amount Due</u> <u>in One Year</u>
Notes Payable	\$ 15,944,418	\$ 890,177	\$ (705,122)	\$ 16,129,473	\$ 712,000
Revenue Bonds	7,150,000	-	(780,000)	6,370,000	810,000
Capital Leases	-	270,912	(16,198)	254,714	47,963
	<u>\$ 23,094,418</u>	<u>\$ 1,161,089</u>	<u>\$ (1,501,320)</u>	<u>\$ 22,754,187</u>	<u>\$ 1,569,963</u>

**TAHLEQUAH PUBLIC WORKS AUTHORITY  
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June 30, 2014**

**4. LONG TERM LIABILITIES (Cont'd)**

**Debt Service Requirements to Maturity:**

The annual debt service requirements to maturity for long-term debt as of June 30, 2014 are as follows:

<u>Year Ending June 30,</u>	<u>Notes Payable*</u>		<u>Revenue Bonds Payable</u>		<u>Capital Leases Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 712,000	\$ 528,058	\$ 810,000	\$ 310,824	\$ 47,963	\$ 4,271
2016	712,000	505,242	845,000	271,539	53,334	3,557
2017	712,000	482,426	885,000	227,940	54,410	2,571
2018	712,000	459,610	925,000	180,606	55,509	1,476
2019	712,000	436,794	970,000	129,443	43,498	373
2020-2024	3,852,000	1,847,474	1,935,000	44,755	-	-
2025-2029	2,720,000	1,352,724	-	-	-	-
2030-2034	2,720,000	878,084	-	-	-	-
2035-2039	2,720,000	403,444	-	-	-	-
2040-2041	648,000	28,478	-	-	-	-
	<u>\$ 16,220,000</u>	<u>\$ 6,922,332</u>	<u>\$ 6,370,000</u>	<u>\$ 1,165,107</u>	<u>\$ 254,714</u>	<u>\$ 12,248</u>

\*Principal amounts not fully drawn at June 30, 2014.

**5. RETIREMENT PROGRAMS**

Effective February 28, 2005 the Authority changed its Defined Contribution Plan to a 401(A) Non-standardized Profit Sharing Plan. Under the new plan employees become eligible immediately upon employment. Employer contributions are at the sole discretion of the Authority and are allocated using a Nonintegrated (pro rata) formula. Any employee forfeitures are used to reduce any employer contributions. Employees become 100% vested after three years of service. No employee contributions are allowed under this plan.

In addition to the Profit Sharing Plan described in Note 5, the Authority has also established a Section 457 Retirement Plan for all full time employees. Under this Plan, there is no fixed dollar amount of retirement benefits. The employee's actual retirement benefit will depend on the amount of their account balances at the time of retirement. The account balance will reflect the employee deferral contributions, if any, in the period of time the employee participates in the Plan and their success in investing and re-investing the assets of their accounts.

**TAHLEQUAH PUBLIC WORKS AUTHORITY  
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**6. OTHER POSTEMPLOYMENT BENEFITS**

The Authority provides post-retirement benefit options for health care for retired employees and their dependents that elect to make required contributions. Effective July 1, 2012 the board voted to modify the plan to require 25 years of service and raised the qualifying age to 62. Benefits cease at age 65. At June 30, 2014, two retired employees were receiving benefits under this plan.

As of June 30, 2011, the most recent valuation date, the plan was unfunded. No increase in net OPEB obligation was recognized in fiscal 2014. Given changes to the plan, outlined above, the Authority has opted not to revalue the liability as the amount is considered insignificant.

**7. RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; employee health, life and accident benefits; unemployment; and natural disasters. The Authority maintains commercial insurance coverage for claims arising from such matters other than certain natural disasters. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

**8. COMMITMENTS AND CONTINGENCIES**

During the ordinary course of business, the Authority may be subjected to various lawsuits and civil action claims. There were no pending lawsuits or claims against the Authority at June 30, 2014 that management believes would result in a material loss in the event of an adverse outcome.

**9. SUBSEQUENT EVENTS**

Management reviewed activity through November 19, 2014, for subsequent events which may be material to the fiscal 2014 financial statements.

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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*



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*

To the Board of Trustees of the  
Tahlequah Public Works Authority  
and City Light & Water  
Tahlequah, Oklahoma

We 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 of the Tahlequah Public Works Authority and City Light & Water ("the Authority"), a component unit of the City of Tahlequah, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 19, 2014.

**Internal Control Over Financial Reporting**

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

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Arledge & Associates, P.C.*

November 19, 2014