

AUDIT REPORT  
GRAND LAKE PUBLIC WORKS AUTHORITY  
JUNE 30, 2014

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JUNE 30, 2014

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GRAND LAKE PUBLIC WORKS AUTHORITY  
JUNE 30, 2014

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
DICK BOYD	CHAIRMAN	APRIL 2018
ROY RICE	VICE-CHAIRMAN	APRIL 2017
STEVE GARRETT	SECRETARY/TREASURER	APRIL 2018
GEORGE SHERMAN	MEMBER	APRIL 2019
DICK SEYBOLT	MEMBER	APRIL 2016
ROSS GRAY	MEMBER	APRIL 2016
DENNIS MCCULLA	MEMBER	APRIL 2015

Unaudited

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Grand Lake Public Works Authority

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the Grand Lake Public Works Authority, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements.

### *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 the 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, and in accordance with Oklahoma Statutes. 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 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 Authority'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 Authority'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.

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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 Grand Lake Public Works Authority, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

The Grand Lake Public Works Authority has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However, the Authority has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

### *Supplementary and Other Information*

The introductory section listed in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Authority. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide an assurance on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements of the Grand Lake Public Works Authority.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The

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information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## *Other Reporting Required by Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated March 23, 2015, on our consideration of the Grand Lake 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 compliance with *Government Auditing Standards* in considering Grand Lake Public Works Authority's internal control over financial reporting and compliance.

*Kershaw CPA & Associates, P.C.*  
Kershaw CPA & Associates, PC

March 23, 2015

## EXHIBIT A

**GRAND LAKE PUBLIC WORKS AUTHORITY  
STATEMENT OF NET POSITION  
JUNE 30, 2014**

	2014	Memo Only 2013
<b><u>ASSETS</u></b>		
<b><u>Current Assets:</u></b>		
Cash and cash equivalents	\$ 157,743	\$ 156,259
Accounts receivable	154,536	151,394
Prepaid expense	39,427	32,637
<b>Restricted current assets:</b>		
Sinking funds	-	-
Other restricted accounts	8,889	5,086
<b>Total restricted current assets</b>	<b>8,889</b>	<b>5,086</b>
<b>Total Current Assets</b>	<b>360,594</b>	<b>345,376</b>
<b><u>Capital Assets:</u></b>		
Land	200,000	200,000
Plant and distribution system	11,376,438	11,162,448
Equipment	543,962	541,620
Construction in progress	8,158,686	5,179,342
Less: Accumulated Depreciation	(4,683,248)	(4,114,914)
<b>Total Capital Assets</b>	<b>15,595,838</b>	<b>12,968,496</b>
<b><u>Other Assets:</u></b>		
Restricted Sinking and Debt fund reserves	398,976	418,765
Loan fees, net of amortization	133,350	141,267
<b>Total Other Assets</b>	<b>532,327</b>	<b>560,032</b>
<b>TOTAL ASSETS</b>	<b>\$ 16,488,759</b>	<b>\$ 13,873,904</b>
<b><u>LIABILITIES &amp; NET POSITION</u></b>		
<b><u>Current Liabilities:</u></b>		
Accounts Payable	\$ 125,579	\$ 1,540,603
Accrued interest	87,435	61,344
Note Payable - Short Term	-	-
Current Portion of Long-Term Debt	414,537	268,775
<b>Total Current Liabilities</b>	<b>627,551</b>	<b>1,870,722</b>
<b><u>Long-Term Liabilities:</u></b>		
Notes Payable, Less Current Portion	6,861,674	3,104,779
Bonds Payable, Less Current Portion	2,645,000	2,755,000
Discount on Bonds, Net of Accumulated Amortization	(3,102)	(3,210)
<b>Total Long-Term Debt</b>	<b>9,503,572</b>	<b>5,856,569</b>
<b>TOTAL LIABILITIES</b>	<b>10,131,123</b>	<b>7,727,291</b>
<b><u>NET POSITION:</u></b>		
Net investment in capital assets	5,671,525	6,836,731
Restricted for debt service	407,866	423,851
Unrestricted	278,246	(1,113,969)
<b>TOTAL NET POSITION</b>	<b>6,357,637</b>	<b>6,146,613</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 16,488,759</b>	<b>\$ 13,873,904</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

## EXHIBIT B

**GRAND LAKE PUBLIC WORKS AUTHORITY  
STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION  
FOR THE TWELVE MONTHS ENDED JUNE 30, 2014**

	2014	Memo Only 2013
<b><u>Operating Revenues:</u></b>		
Water Revenue	\$ 959,818	\$ 953,505
Sewer Revenue	643,893	651,144
Miscellaneous revenue - Water	97,204	68,570
Miscellaneous revenue - Sewer	87,135	25,850
<b>Total Operating Revenues</b>	<b>1,788,050</b>	<b>1,699,070</b>
<b><u>Operating Expenses:</u></b>		
Contract personnel expense	258,821	261,913
Utilities	142,808	108,573
Depreciation Expense	568,334	419,430
Management fees	104,412	102,390
Water treatment costs	69,681	64,681
Uncollected Accounts	421	6,123
Miscellaneous expense	23,777	21,616
Materials and supplies	3,325	11,104
Property and liability insurance	26,475	22,582
Professional fees	13,163	10,602
Amortization of bond issue costs	7,917	7,306
Amortization of deferred loss	-	-
Equipment costs and small tools	32,704	32,873
Repairs and maintenance	21,355	32,087
Vehicle expense	24,759	16,816
<b>Total Operating Expenses</b>	<b>1,297,953</b>	<b>1,118,094</b>
<b>Net Operating Income (Loss)</b>	<b>490,098</b>	<b>580,976</b>
<b><u>Non-operating Income (Expense):</u></b>		
Interest Income	161	280
Interest Expense	(279,236)	(193,195)
Grant Income	-	500,000
<b>Total Non-operating Income (Expense)</b>	<b>(279,074)</b>	<b>307,085</b>
<b>Change in Net Position</b>	<b>211,023</b>	<b>888,061</b>
<b>Total Net Position, Beginning of Year</b>	<b>6,146,613</b>	<b>5,258,543</b>
<b>Total Net Position, Prior Year Adjustment</b>	<b>-</b>	<b>9</b>
<b>Total Net Position, End of Year</b>	<b>\$ 6,357,637</b>	<b>\$ 6,146,613</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements



## EXHIBIT C

**GRAND LAKE PUBLIC WORKS AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE TWELVE MONTHS ENDED JUNE 30, 2014**

	2014	Memo Only 2013
<b><u>Cash Flows from Operating Activities:</u></b>		
Cash Receipts from Customers	\$ 1,784,908	\$ 1,714,147
Payments to Suppliers for Goods & Services	(2,143,517)	716,263
Net Cash Provided (Used) by Operating Activities	<u>(358,608)</u>	<u>2,430,409</u>
<b><u>Cash Flows from Capital &amp; Related Financing Activities:</u></b>		
Additions to Capital Assets	(3,195,676)	(4,155,121)
Proceeds from Sale of Capital Assets	-	-
Loan Proceeds	4,135,768	2,360,981
Loan Fees	-	(29,311)
Grant Income (Loan Forgiveness )	-	500,000
(Increase)Decrease Investment	15,986	(98,518)
Principal paid on long-term debt	(343,111)	(1,051,678)
Interest paid on Debt	(253,036)	(175,990)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>359,930</u>	<u>(2,649,637)</u>
<b><u>Cash Flows from Investing Activities:</u></b>		
Interest and dividends	161	280
Net Cash Provided (Used) by Investing Activities	<u>161</u>	<u>280</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,483	(218,948)
Cash & Cash Equivalents, Beginning of Year	156,259	375,198
Cash & Cash Equivalents, Prior Year Adjustment	-	9
Cash & Cash Equivalents, End of Year	<u>\$ 157,743</u>	<u>\$ 156,259</u>
<b><u>Reconciliation of operating income (loss) to net cash provided operating activities:</u></b>		
Operating Income (Loss)	\$ 490,098	\$ 580,976
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation & Amortization	576,251	426,736
(Increase)Decrease in Accounts Receivable	(3,142)	15,077
(Increase)Decrease in Prepaid Expense	(6,790)	(1,515)
Increase(Decrease) in Accounts Payable	(1,415,025)	1,409,136
(Gain)Loss on Sale/Disposal of Capital Assets	-	-
Net Cash Provided (Used) by Operating Activities	<u>\$ (358,608)</u>	<u>\$ 2,430,409</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

GRAND LAKE PUBLIC WORKS AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies employed by Grand Lake Public Works Authority (the Authority) are consistent with accounting principles generally accepted in the United States of America. Significant policies are described below.

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. The statement established a new reporting model for governments that is substantially different from prior reporting standards. The Authority adopted the new reporting model June 30, 2004, which includes the following segments:

*Management's Discussion & Analysis* - provides introductory information on basic financial statements and an analytical overview of the Authority's financial activities. For the year ended June 30, 2014, management has not presented the Management's Discussion and Analysis as required by the Governmental Accounting Standards Board (GASB) and GASB has determined it necessary to supplement, although not required to be part of, the basic financial statements.

*Fund financial statements* - provide information about the Authority's proprietary fund. The proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net assets.

A. Purpose:

The Grand Lake Public Works Authority is a public trust as defined under Oklahoma Statutes. The Authority was established to furnish and supply utility services to the owners and occupants of property within the Authority's designated service area, which is near Grand Lake in Delaware County, Oklahoma.

B. Basis of Accounting:

The financial statements are presented on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenditures are recorded when the liability is incurred.

GRAND LAKE PUBLIC WORKS AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

C. Income Taxes:

The Authority was established under Title 60 of the Oklahoma Statutes as a public trust. The management of the Authority believes that it is exempt from Federal income tax under IRC Revenue Procedure 95-48, Section 4.03. This revenue procedure states that income to a "governmental unit" or "governmental affiliate" is exempt from federal income tax and need not file a return.

D. Estimates:

The preparation of financial statements in conformity with accounting principles generally in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

E. Cash and Cash Equivalents:

Cash and cash equivalents include amounts in demand deposits, money market funds, and certificates of deposit with and original maturity of three months or less.

F. Property, Plant and Equipment:

Property and equipment, consisting of a water distribution and sewer systems, are stated at cost and are depreciated over the estimated useful life of such assets. Contributed property is recorded at fair market value at the time of contribution. Depreciation is computed using the straight-line method.

G. Accounts Receivable:

The direct write-off method is used to account for uncollectible receivables. The balances at June 30, 2014 and 2013 are considered fully collectible.

H. Capitalization Policy:

Purchases of capital items in excess of \$300.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

The useful life will be categorized as follows:

GRAND LAKE PUBLIC WORKS AUTHORITY  
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1. 40 years - Meter sets and related equipment, road crossings, pipe in the ground that is not a repair or ordinary maintenance, and any new extensions.
2. 15 years - Pump stations, buildings, tank painting and other structures with an approximated life of fifteen years.
3. 7 years - Motors, pumps, panel boxes, and other related items with a useful life that approximated seven years.

I. Equity Classification:

Equity is classified as net position and displayed in three components:

1. Net investment in capital assets—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. Restricted—Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted—Net amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

J. Revenues, Expenditures & Expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

K. Benefit Units

Members purchase benefit units for the right to obtain services from the Water Authority. Fees paid for benefit units are considered donations to the Water Authority and are

GRAND LAKE PUBLIC WORKS AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
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nonrefundable. Benefit units sold are reflected as non-operating income in the period the water services are established.

L. Memorandum Only

The "Memorandum Only" captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the Authority is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the Authority's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

NOTE 3 - CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

Custodial Credit Risk

At June 30, 2014, the Authority held deposits of approximately \$157,743 at financial institutions, plus \$407,866 in restricted deposits. The Authority's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the Authority or by its agent in the Authority's name.

Investment Interest Rate Risk

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The Authority has no policy that limits its investment choices other than the limitation of 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 deposits or savings accounts that are either insured or secured with acceptable collateral with in-state

GRAND LAKE PUBLIC WORKS AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
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- 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 bankers' 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.).

NOTE 4 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended June 30, 2014, was as follows:

	Balance at June 30, 2013	Additions	Deductions	Balance at June 30, 2014
Land	\$ 200,000	\$ -	\$ -	\$ 200,000
Distribution System	11,162,448	213,990	-	11,376,438
Equipment	541,620	2,342	-	543,962
Construction in Progress	5,179,342	2,979,344	-	8,158,686
Subtotal	17,083,410	3,195,676	-	20,279,086
Less: Accum. Depr.	(4,114,914)	(568,334)	-	(4,683,248)
Total Capital Assets				
(Net of Depreciation)	<u>\$ 12,968,496</u>	<u>\$ 2,627,342</u>	<u>\$ -</u>	<u>\$ 15,595,838</u>

NOTE 5 - RESTRICTED CASH ACCOUNTS

Restricted cash is cash and cash equivalents on deposit in various accounts at a bank or with a Trustee as required by the bond indentures and note agreements. The amounts available to be used to settle current liabilities are classified as current assets. The amounts restricted to non-current use are classified as Other Assets.

GRAND LAKE PUBLIC WORKS AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 6 - BOND AND NOTE ISSUE COSTS

Bond and note issue costs are costs that were incurred to issue bonds and notes. These costs are amortized over the remaining term of the bonds or notes and are classified on the Statement of Net Position as loan fees. These costs are reported net of amortization. The following summarizes the unamortized bond and note issue costs:

	2014	2013
OWRB mortgage note	\$ 12,882	\$ 14,535
Series 2009 bond issue costs	92,501	97,787
Series 2012C bond issue costs	27,968	28,945
	<u>\$ 133,350</u>	<u>\$ 141,267</u>

NOTE 7 - LONG-TERM DEBT

Promissory Notes Payable:

On May 9, 2001, the Authority issued promissory note ORF-99-0022-CW to the Oklahoma Water Resources Board in the amount of \$2,700,000 to be advanced to pay construction costs related to the Island Wide Sewer System project. Payments of principal and interest will be calculated on the amount advanced rather than the approved amount of the promissory note. The term of the loan is twenty years at 2.777%, plus ½% of the outstanding balance for administrative fees. The balance payable on the note at June 30, 2014 is \$1,258,716.76.

On June 25, 2003, the Authority issued promissory note ORF-02-0020-CW to the Oklahoma Water Resources Board in the amount of \$800,000 to be advanced to pay construction costs related to the Distribution System project. Payments of principal and interest will be calculated on the amount advanced rather than the approved amount of the promissory note. The term of loan is twenty years at 2.095%, plus ½% of the outstanding balance for administrative fees. The balance payable on the note at June 30, 2014 is \$396,371.06.

On November 1, 2009, the Authority issued promissory note ORF-09-0004-CW to the Oklahoma Water Resources Board in the amount of \$992,500 to be advanced to pay construction costs related to the Distribution System project. Payments of principal and interest will be calculated on the amount advanced rather than the approved amount of the promissory note. The term of loan is twenty years at 2.25%, plus ½% of the outstanding balance for administrative fees. As of June 30, 2011, the full \$992,500 had been advanced on this loan. \$306,483.90 was paid on the loan by a Cap Grant for State Revolving Fund. The balance payable on the note at June 30, 2014 is \$585,593.89.

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JUNE 30, 2014

On November 24, 2009, the Authority issued bonds as promissory note FAP-09-0001-L to the Oklahoma Water Resources Board in the amount of \$1,990,000.00. Proceeds of the note were used to (i) refinance the Series 1998 Note, the Series 2001 Note, the Series 2002 Note and the \$500,000.00 promissory note to the Bank of Oklahoma, NA, (ii) acquire land for future well sites, (iii) make the required deposit to the Sinking Fund Reserve Fund required under the Bond Indenture for the issuance of additional parity indebtedness and (iv) pay costs of issuance of the Series 2009 Note. The note is secured by a mortgage of real property and a pledge of revenues. Principal is payable semi-annually to the Water Resources Board through September 15, 2031 with interest at a variable rate. Principal maturities vary over the term of the loan. The balance payable on the note at June 30, 2014 is \$1,755,000.00. An arrangement has been made with a trust company to collect and hold monthly installments for semi-annual payments. A reserve account (see Note 5) is required to be maintained for future debt service. The loan agreement contains restrictions on future borrowings.

On July 17, 2012, the Authority issued series 2012C Bonds as note FAP-12-0016-L to the Oklahoma Water Resources Board in the amount of \$1,000,000.00. The Bonds were sold in 3-ways: 10-year-Serial, Term #1, and Term #2. Some were sold at a discount (\$14,605.65) and some were sold at a premium (\$11,354.55), with a net effect of a discount of \$3,251.10. Proceeds of the note were to construct water plant, drill wells and install lines. Payments are payable semi-annually to the Water Resources Board through September 15, 2042 with interest at a variable rate. Principal maturities vary over the term of the loan. The balance payable on the note at June 30, 2014 is \$980,000.00. An arrangement has been made with a trust company to collect and hold monthly installments for semi-annual payments. A reserve account (see Note 5) is required to be maintained for future debt service.

On July 17, 2012, the Authority issued promissory note ORF-11-0003-DW to the Oklahoma Water Resources Board in the amount of \$5,500,000 to be advanced to pay construction costs related to water system improvements. Payments of principal and interest will be calculated on the amount advanced rather than the approved amount of the promissory note. The term of the loan is thirty years at 2.50%, plus  $\frac{1}{2}\%$  of the outstanding balance for administrative fees with a maturity date of September 15, 2043. \$500,000.00 was paid on the loan by a Capitalization Grant for Drinking Water State Revolving Funds. The balance payable on the note at June 30, 2014 is \$4,943,329.51.

Changes in Long-Term Debt

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



GRAND LAKE PUBLIC WORKS AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

Acct	Description	Balance at June 30, 2013	Additions	Deductions	Balance at June 30, 2014
2604	OWRB ORF-99-0022-CW	\$ 1,393,985	\$ -	\$ (135,268)	\$ 1,258,717
2605	OWRB ORF-09-0004-CW	613,215	-	(27,621)	585,594
2606	OWRB FAP-09-0001-L	1,820,000	-	(65,000)	1,755,000
2607	Contingent Liability	2,200	-	-	2,200
2608	OWRB ORF-02-0020-CW	434,923	-	(38,552)	396,371
2609	OWRB FAP-12-0016-L	1,000,000	-	(20,000)	980,000
2610	OWRB ORF-11-003-DW	864,232	4,135,768	(56,670)	4,943,330
	Total Long-Term Debt	6,128,554	\$ 4,135,768	\$ (343,111)	\$ 9,921,211
	Less: Unamortized Discount on Bonds Payable	(3,210)	-	108	(3,102)
	Less: Current Maturities of Long-Term Debt	(268,775)			(414,537)
	Net Long-Term Debt	\$ 5,856,569			\$ 9,503,572

Debt Services Requirements to Maturity

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

<u>OWRB ORF-99-0022-CW</u>				
Year Ending June 30,	Principal	Interest	Admin Fee	Total
2015	\$ 139,814	\$ 34,473	\$ 6,207	\$ 174,287
2016	144,402	30,584	5,507	174,987
2017	149,335	30,584	5,507	179,920
2018	154,338	22,165	3,991	176,503
2019	159,509	17,783	3,202	177,292
2019-2022	511,319	25,602	4,610	536,922
Total	\$ 1,258,717	\$ 161,192	\$ 35,168	\$ 1,419,909

<u>OWRB ORF-09-0004-CW</u>				
Year Ending June 30,	Principal	Interest	Admin Fee	Total
2015	\$ 28,397	\$ 13,200	\$ 2,933	\$ 41,597
2016	29,152	12,582	2,796	41,734
2017	30,012	11,878	2,640	41,890
2018	30,855	11,189	2,486	42,044
2019	31,721	10,480	2,329	42,201
2020-2024	172,419	41,098	9,133	213,517
2025-2029	198,068	20,112	4,469	218,180
2030-2031	64,970	1,493	332	66,795
Total	\$ 585,594	\$ 122,032	\$ 27,118	\$ 707,958

GRAND LAKE PUBLIC WORKS AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

<u>OWRB FAP-09-0001-L</u>			
Year Ending June 30,	Principal	Interest	Total
2015	\$ 70,000	\$ 67,574	\$ 137,574
2016	75,000	65,579	140,579
2017	80,000	63,217	143,217
2018	85,000	60,516	145,516
2019	95,000	57,401	152,401
2020-2024	580,000	225,774	805,774
2025-2029	440,000	123,569	563,569
2030-2032	330,000	20,876	350,876
Total	<u>\$ 1,755,000</u>	<u>\$ 684,505</u>	<u>\$ 2,439,505</u>

<u>OWRB ORF-02-0020-CW</u>				
Year Ending June 30,	Principal	Interest	Admin Fee	Total
2015	\$ 39,683	\$ 8,107	\$ 1,935	\$ 47,790
2016	40,719	7,270	1,735	47,989
2017	41,783	6,412	1,530	48,194
2018	42,874	5,531	1,320	48,404
2019	43,994	4,627	1,104	48,620
2020-2023	187,319	8,984	2,144	196,303
Total	<u>\$ 396,371</u>	<u>\$ 40,930</u>	<u>\$ 9,768</u>	<u>\$ 437,300</u>

<u>OWRB FAP12-0016-L</u>			
Year Ending June 30,	Principal	Interest	Total
2015	\$ 20,000	\$ 35,542	\$ 55,542
2016	25,000	35,002	60,002
2017	25,000	34,527	59,527
2018	25,000	33,802	58,802
2019	25,000	32,952	57,952
2020-2024	125,000	152,841	277,841
2025-2029	150,000	128,794	278,794
2030-2034	180,000	98,971	278,971
2035-2039	210,000	60,979	270,979
2040-2043	195,000	15,999	210,999
Total	<u>\$ 980,000</u>	<u>\$ 629,411</u>	<u>\$ 1,609,411</u>

GRAND LAKE PUBLIC WORKS AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

<u>OWRB ORF-11-0003-DW</u>				
Year Ending June 30,	Principal	Interest	Admin Fee	Total
2015	\$ 114,444	\$ 99,673	\$ 24,918	\$ 239,035
2016	117,032	97,603	24,401	239,035
2017	120,349	94,950	23,737	239,035
2018	123,418	92,494	23,123	239,035
2019	126,567	89,975	22,494	239,035
2020-2024	682,350	410,262	102,565	1,195,177
2025-2029	774,296	336,705	84,176	1,195,177
2030-2034	878,260	253,534	63,383	1,195,177
2035-2039	996,185	159,193	39,798	1,195,177
2040-2044	1,010,428	52,184	13,046	1,075,659
Total	<u>\$ 4,943,330</u>	<u>\$ 1,686,572</u>	<u>\$ 421,643</u>	<u>\$ 7,051,544</u>

NOTE 8 - FUND EQUITY

As described in Note 1 above, equity is classified as net position and displayed in three components:

1. Net investment in capital assets
2. Restricted
3. Unrestricted

Restricted amounts are described in Note 5 above.

NOTE 9 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at June 30, 2014, which would have a material effect on the financial statements.

Federally Assisted Programs

In the normal course of operations, the Authority participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

GRAND LAKE PUBLIC WORKS AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

NOTE 10 - NET WORKING CAPITAL

The net working capital of the Authority is defined as current assets (assets used to settle current liabilities) less current liabilities (liabilities that will be settled within one year).

	2014	2013
Current assets	\$ 360,594	\$ 345,376
Current liabilities	627,551	1,870,722
Net working capital	<u>\$ (266,957)</u>	<u>\$ (1,525,346)</u>

NOTE 11 - SUBSEQUENT EVENTS

The Authority did not have any subsequent events through the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2014.

**GRAND LAKE PUBLIC WORKS AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Federal Grantor/ Pass Thru Agency/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Award Amount	Federal Expenditures
<b>FEDERAL AWARDS:</b>				
<u><b>Environmental Protection Agency:</b></u>				
Passed Through Oklahoma Water Resources Board/ Safe Drinking Water State Revolving Funds	66.468	ORF-11-0003-DW	\$ 592,725	\$ 592,725
Total Federal Awards			<u>\$ 592,725</u>	<u>\$ 592,725</u>

**GRAND LAKE PUBLIC WORKS AUTHORITY  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2014**

**NOTE 1 - GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of the Grand Lake Public Works Authority (the "Authority").

The Authority's reporting entity is defined in Note 1 to the Authority's basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

**NOTE 2 - BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is present using the accrual of accounting, which is described in Note 1 to the Authority's basic financial statements.

**NOTE 3 - RELATIONSHIP TO BASIC FINANCIAL STATEMENTS**

Federal awards revenues are reported in the Authority's basic financial statements as follows:

**Federal Sources**

General	<u>\$ 592,725</u>
Total	<u>\$ 592,725</u>

**NOTE 4 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports except for changes made to reflect amounts in accordance with generally accepted accounting principles.

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## 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 Directors  
Grand Lake Public Works Authority

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, and in accordance with Oklahoma Statutes, the financial statements of the Grand Lake Public Works Authority, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Grand Lake Public Works Authority's basic financial statements, and have issued our report thereon dated March 23, 2015. The Grand Lake Public Works Authority has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the Authority did not present the required MD&A.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Grand Lake Public Works 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 Grand Lake Public Works Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Grand Lake Public Works 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 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

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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 Grand Lake Public Works Authority's financial statements are free of material misstatement, we performed tests of 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

This report is intended 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.

*Kershaw CPA & Associates, P.C.*  
Kershaw, CPA & Associates, PC

March 23, 2015

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## REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors  
Grand Lake Public Works Authority

### Report on Compliance for Each Major Federal Program

We have audited the Grand Lake Public Works Authority's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Grand Lake Public Works Authority's major federal programs for the year ended June 30, 2014. The Grand Lake Public Works Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Grand Lake Public Works Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and in accordance with Oklahoma Statutes. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Grand Lake Public Works Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.



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We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Grand Lake Public Works Authority's compliance.

## Opinion on Each Major Federal Program

In our opinion, the Grand Lake Public Works Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

## Report on Internal Control Over Compliance

Management of the Grand Lake Public Works Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Grand Lake Public Works Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Grand Lake Public Works Authority's internal control over compliance.

A deficiency in internal control over compliance 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 to detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over

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compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Kershaw CPA & Associates, P.C.*

Kershaw, CPA & Associates, PC

March 23, 2015



GRAND LAKE PUBLIC WORKS AUTHORITY  
SUMMARY STATUS OF PRIOR AUDIT FINDINGS  
JUNE 30, 2014

The prior report on the audit of the financial statements as of and for the twelve months ended June 30, 2013, contained no findings.