

AUDIT REPORT
GRAND LAKE PUBLIC WORKS AUTHORITY
JUNE 30, 2017

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JUNE 30, 2017

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GRAND LAKE PUBLIC WORKS AUTHORITY
JUNE 30, 2017

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
DICK BOYD	CHAIRMAN	APRIL 2018
DENNIS MCCULLA	VICE-CHAIRMAN	APRIL 2020
STEVE GARRETT	SECRETARY/TREASURER	APRIL 2018
HOMER KEMPER	MEMBER	APRIL 2019
DICK SEYBOLT	MEMBER	APRIL 2021
ROSS GRAY	MEMBER	APRIL 2021
PEGGY HOWARD	MEMBER	APRIL 2017

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, 2017, 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, 2017, 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

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

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 any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2018, 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

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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

January 4, 2018

EXHIBIT A

**GRAND LAKE PUBLIC WORKS AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2017**

	<u>2017</u>	<u>Memo Only 2016</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and cash equivalents	\$ 194,297	\$ 186,079
Accounts receivable	265,618	155,976
Prepaid expense	21,678	21,808
Restricted current assets:		
Other restricted accounts	5,008	5,006
Total Current Assets	<u>486,601</u>	<u>368,870</u>
<u>Capital Assets:</u>		
Land	200,000	200,000
Plant and distribution system	18,835,050	10,280,944
Equipment	342,921	342,921
Construction in progress	8,254,533	8,254,533
Less: Accumulated Depreciation	<u>(5,814,351)</u>	<u>(5,107,697)</u>
Total Capital Assets	<u>13,563,620</u>	<u>13,970,700</u>
<u>Other Assets:</u>		
Restricted Sinking and Debt fund reserves	412,346	409,300
Loan fees, net of amortization	-	117,517
Total Other Assets	<u>412,346</u>	<u>526,817</u>
TOTAL ASSETS	<u><u>\$ 14,462,567</u></u>	<u><u>\$ 14,866,387</u></u>
<u>LIABILITIES & NET POSITION</u>		
<u>Current Liabilities:</u>		
Accounts Payable	\$ 117,794	\$ 129,923
Accrued interest	71,103	80,302
Note Payable - Short Term	-	-
Current Portion of Long-Term Debt	325,463	448,679
Total Current Liabilities	<u>514,360</u>	<u>658,903</u>
<u>Long-Term Liabilities:</u>		
Notes Payable, Less Current Portion	6,057,157	6,189,132
Bonds Payable, Less Current Portion	2,330,000	2,440,000
Discount on Bonds, Net of Accumulated Amortization	<u>(2,777)</u>	<u>(2,885)</u>
Total Long-Term Debt	<u>8,384,380</u>	<u>8,626,247</u>
TOTAL LIABILITIES	<u>8,898,740</u>	<u>9,285,150</u>
<u>NET POSITION:</u>		
Net investment in capital assets	4,848,222	4,890,004
Restricted for debt service	417,355	414,306
Unrestricted	298,249	276,927
TOTAL NET POSITION	<u>5,563,826</u>	<u>5,581,237</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 14,462,567</u></u>	<u><u>\$ 14,866,387</u></u>

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, 2017**

	<u>2017</u>	<u>Memo Only 2016</u>
<u>Operating Revenues:</u>		
Water Revenue	\$ 1,046,861	\$ 999,535
Sewer Revenue	701,807	678,457
Miscellaneous revenue - Water	62,504	47,823
Miscellaneous revenue - Sewer	70,850	10,180
Total Operating Revenues	<u>1,882,021</u>	<u>1,735,995</u>
<u>Operating Expenses:</u>		
Contract personnel expense	327,551	288,258
Utilities	156,584	149,577
Depreciation Expense	706,654	662,764
Management fees	110,462	106,366
Water treatment costs	38,289	40,411
Uncollected Accounts	1,025	10,433
Miscellaneous expense	15,634	20,613
Materials and supplies	5,858	5,115
Property and liability insurance	25,754	31,204
Professional fees	15,670	11,850
Amortization of bond issue costs	-	7,917
Equipment costs and small tools	61,237	54,041
Repairs and maintenance	39,967	27,688
Vehicle expense	12,466	9,656
Total Operating Expenses	<u>1,517,151</u>	<u>1,425,892</u>
Net Operating Income (Loss)	<u>364,871</u>	<u>310,103</u>
<u>Non-operating Income (Expense):</u>		
Interest Income	26	51
Interest Expense	(264,791)	(279,543)
(Loss) on Retirement of Capital Assets	-	(745,306)
Grant Income	-	-
Total Non-operating Income (Expense)	<u>(264,764)</u>	<u>(1,024,798)</u>
Change in Net Position	100,106	(714,695)
Total Net Position, Beginning of Year	5,581,237	6,295,932
Total Net Position, Prior Year Adjustment	<u>(117,517)</u>	<u>-</u>
Total Net Position, End of Year	<u>\$ 5,563,826</u>	<u>\$ 5,581,237</u>

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, 2017**

	<u>2017</u>	<u>Memo Only 2016</u>
<u>Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 1,772,380	\$ 1,727,230
Payments to Suppliers for Goods & Services	(822,496)	(737,585)
Net Cash Provided (Used) by Operating Activities	<u>949,885</u>	<u>989,646</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(299,573)	(228,385)
Proceeds from Sale of Capital Assets	-	-
Loan Proceeds	925,183	-
Loan Fees	-	-
Grant Income (Loan Forgiveness)	-	-
(Increase)Decrease Investment	(3,049)	(3,019)
Principal paid on long-term debt	(1,290,373)	(431,181)
Interest paid on Debt	(273,881)	(283,256)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(941,693)</u>	<u>(945,841)</u>
<u>Cash Flows from Investing Activities:</u>		
Interest and dividends	26	51
Net Cash Provided (Used) by Investing Activities	<u>26</u>	<u>51</u>
Net Increase (Decrease) in Cash and Cash Equivalents	8,218	43,856
Cash & Cash Equivalents, Beginning of Year	186,079	142,223
Cash & Cash Equivalents, Prior Year Adjustment	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 194,297</u>	<u>\$ 186,079</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ 364,871	\$ 310,103
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation & Amortization	706,654	670,681
(Increase)Decrease in Accounts Receivable	(109,641)	(8,765)
(Increase)Decrease in Prepaid Expense	130	(2,713)
Increase(Decrease) in Accounts Payable	(12,129)	20,340
Net Cash Provided (Used) by Operating Activities	<u>\$ 949,885</u>	<u>\$ 989,646</u>

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

GRAND LAKE PUBLIC WORKS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017, 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, 2017

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, 2017 and 2016 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. Water Rights

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

GRAND LAKE PUBLIC WORKS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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nonrefundable. Water rights 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, 2017, the Authority held deposits of approximately \$194,297 at financial institutions, plus \$414,306 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
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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, 2017, was as follows:

	Balance at June 30, 2016	Additions	Deductions	Balance at June 30, 2017
Land	\$ 200,000	\$ -	\$ -	\$ 200,000
Distribution System	10,280,944	8,554,106	-	18,835,050
Equipment	342,921	-	-	342,921
Construction in Progress	8,254,533	-	(8,254,533)	-
Subtotal	19,078,398	8,554,106	(8,254,533)	19,377,971
Less: Accum. Depr. Total Capital Assets (Net of Depreciation)	(5,107,697)	(706,654)	-	(5,814,351)
	<u>\$ 13,970,700</u>	<u>\$ 7,847,452</u>	<u>\$ (8,254,533)</u>	<u>\$ 13,563,620</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.

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

GRAND LAKE PUBLIC WORKS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

loan fees. These costs are reported net of amortization. The following summarizes the unamortized bond and note issue costs:

	2017	2016
OWRB mortgage note	\$ -	\$ 9,575
Series 2009 bond issue costs	-	81,929
Series 2012C bond issue costs	-	26,014
	<u>\$ -</u>	<u>\$ 117,517</u>

In 2017, a prior year adjustment was made to remove the Debt Issuance Costs of \$178,664.31 less accumulated amortization of \$61,147.20. GASB Statement No. 65 states that Debt Issuance Costs should no longer be included as an asset on the financial statements. Therefore, this item has been removed.

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, 2017 is \$0. This loan was paid off with proceeds from the new OWRB loan.

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, 2017 is \$274,493.46.

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, 2017 is \$498,032.76.

GRAND LAKE PUBLIC WORKS AUTHORITY
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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, 2017 is \$1,530,000.00. 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, 2017 is \$910,000.00. 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, 2017 is \$4,591,504.93.

On July 1, 2016, the Authority issued promissory note 0550106787 to Bancfirst in the amount of \$100,000.00 to fund leak detection and repair of water line. The term of the loan is five years at Prime plus 1.00% with a maturity date of July 1, 2021. The balance payable on the note at June 30, 2017 is \$83,406.51.

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On June 20, 2017, the Authority issued promissory note ORF-17-0018-CW to the Oklahoma Water Resources Board in the amount of \$1,825,182.60 to be advanced to pay construction costs related to water system improvements and to payoff loan ORF-99-0022-CW. 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 1.66%, plus ½% of the outstanding balance for administrative fees with a maturity date of March 15, 2037. The balance payable on the note at June 30, 2017 is \$825,182.60.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2017:

Acct	Description	Balance at June 30, 2016	Additions	Deductions	Balance at June 30, 2017
2601	BANCFIRST LOAN	\$ -	\$ 100,000	\$ (16,593)	\$ 83,407
2604	OWRB ORF-99-0022-CW	974,516	-	(974,516)	-
2604	OWRB ORF-17-0018-CW	-	825,183	-	825,183
2605	OWRB ORF-09-0004-CW	528,045	-	(30,012)	498,033
2606	OWRB FAP-09-0001-L	1,610,000	-	(80,000)	1,530,000
2607	Contingent Liability	2,200	-	(2,200)	-
2608	OWRB ORF-02-0020-CW	316,196	-	(41,702)	274,493
2609	OWRB FAP-12-0016-L	935,000	-	(25,000)	910,000
2610	OWRB ORF-11-003-DW	4,711,853	-	(120,349)	4,591,505
	Total Long-Term Debt	9,077,811	\$ 925,183	\$ (1,290,373)	\$ 8,712,620
	Less: Unamortized Discount on Bonds Payable	(2,885)	-	108	(2,777)
	Less: Current Maturities of Long-Term Debt	(448,679)			(325,463)
	Net Long-Term Debt	\$ 8,626,247			\$ 8,384,380

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of June 30, 2017, are as follows:

<u>Bancfirst Loan</u>			
Year Ending			
June 30,	Principal	Interest	Total
2018	\$ 18,381	\$ 4,028	\$ 22,408
2019	19,314	3,094	22,408
2020	20,404	2,005	22,408
2021	21,554	854	22,408
2022	3,754	14	3,768
Total	\$ 83,407	\$ 9,995	\$ 93,402

GRAND LAKE PUBLIC WORKS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

<u>OWRB ORF-09-0004-CW</u>				
Year Ending June 30,	Principal	Interest	Admin Fee	Total
2018	\$ 30,855	\$ 11,189	\$ 2,486	\$ 42,044
2019	31,721	10,480	2,329	42,201
2020	32,580	9,777	2,173	42,357
2021	33,527	9,003	2,001	42,529
2022	34,468	8,233	1,829	42,701
2023-2027	187,387	28,852	6,411	216,238
2028-2031	147,496	6,839	1,520	154,335
Total	<u>\$ 498,033</u>	<u>\$ 84,372</u>	<u>\$ 18,749</u>	<u>\$ 582,405</u>

<u>OWRB FAP-09-0001-L</u>			
Year Ending June 30,	Principal	Interest	Total
2018	\$ 85,000	\$ 60,516	\$ 145,516
2019	95,000	57,401	152,401
2020	100,000	53,956	153,956
2021	115,000	50,088	165,088
2022	125,000	45,636	170,636
2023-2027	485,000	161,976	646,976
2028-2032	525,000	58,563	583,563
Total	<u>\$ 1,530,000</u>	<u>\$ 488,136</u>	<u>\$ 2,018,136</u>

<u>OWRB ORF-02-0020-CW</u>				
Year Ending June 30,	Principal	Interest	Admin Fee	Total
2018	\$ 42,809	\$ 5,620	\$ 1,338	\$ 48,429
2019	43,945	4,703	1,120	48,647
2020	45,099	3,771	898	48,869
2021	46,307	2,794	665	49,102
2022	47,536	1,802	429	49,338
2023	48,797	783	186	49,581
Total	<u>\$ 274,493</u>	<u>\$ 19,473</u>	<u>\$ 4,636</u>	<u>\$ 293,966</u>

GRAND LAKE PUBLIC WORKS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

<u>OWRB FAP12-0016-L</u>			
Year Ending June 30,	Principal	Interest	Total
2018	\$ 25,000	\$ 33,802	\$ 58,802
2019	25,000	32,952	57,952
2020	25,000	32,227	57,227
2021	25,000	31,377	56,377
2022	25,000	30,527	55,527
2023-2027	140,000	139,269	279,269
2028-2032	165,000	111,547	276,547
2033-2037	195,000	77,315	272,315
2038-2042	235,000	34,313	269,313
2043	50,000	1,006	51,006
Total	<u>\$ 910,000</u>	<u>\$ 524,338</u>	<u>\$ 1,434,338</u>

<u>OWRB ORF-11-0003-DW</u>				
Year Ending June 30,	Principal	Interest	Admin Fee	Total
2018	\$ 123,418	\$ 92,494	\$ 23,123	\$ 239,035
2019	126,567	89,975	22,494	239,035
2020	129,498	87,630	21,908	239,035
2021	133,098	84,750	21,187	239,035
2022	136,493	82,034	20,508	239,035
2023-2027	736,222	367,164	91,791	1,195,177
2028-2032	834,901	288,221	72,055	1,195,177
2033-2037	947,245	198,346	49,586	1,195,177
2038-2042	1,074,435	96,594	24,149	1,195,177
2043-2044	349,629	7,139	1,785	358,553
Total	<u>\$ 4,591,505</u>	<u>\$ 1,394,347</u>	<u>\$ 348,587</u>	<u>\$ 6,334,438</u>

The amortization schedule for loan number ORF-17-0018-CW will be provided once all loan proceeds have been received.

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.

GRAND LAKE PUBLIC WORKS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at June 30, 2017, 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.

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).

	2017	2016
Current assets	\$ 486,601	\$ 368,870
Current liabilities	514,360	658,903
Net working capital	<u>\$ (27,759)</u>	<u>\$ (290,033)</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, 2017.

NOTE 12 - PRIOR YEAR ADJUSTMENT

In 2017, a prior year adjustment was made to remove the Debt Issuance Costs of \$178,664.31 less accumulated amortization of \$61,147.20. GASB Statement No. 65 states that Debt Issuance Costs should no longer be included as an asset on the financial statements. Therefore, this item has been removed.

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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*

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, 2017, 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 January 4, 2018. Management has omitted the MD&A required by accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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 deficiency, or a combination of deficiencies, in internal control

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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

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.

Kershaw CPA & Associates, P.C.

Kershaw, CPA & Associates, PC

January 4, 2018