

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

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

June 30, 2016

**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, 2016, 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 opinions 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 opinions.

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, 2016, 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

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 on November 8, 2016, 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.



November 8, 2016

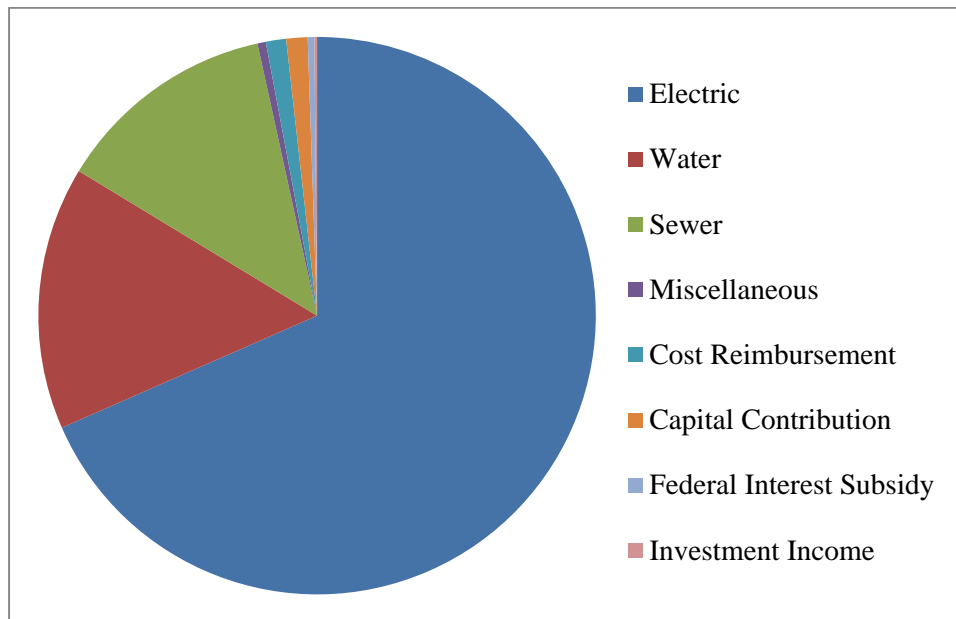
MANAGEMENT’S DISCUSSION AND ANALYSIS

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, 2016. Please read it in conjunction with the Authority’s basic financial statements.

Financial Highlights

At June 30, 2016 the Authority’s net assets total \$38.7 million. Of this, \$9.8 million is considered unrestricted.

The following chart provides a graphical breakdown of revenues by category for the fiscal year ending June 30, 2016.



In the fiscal year ended June 30, 2016, the Authority’s revenues exceeded expenses creating an increase in net assets after net transfers out of \$2,855,763, or 8%.

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.

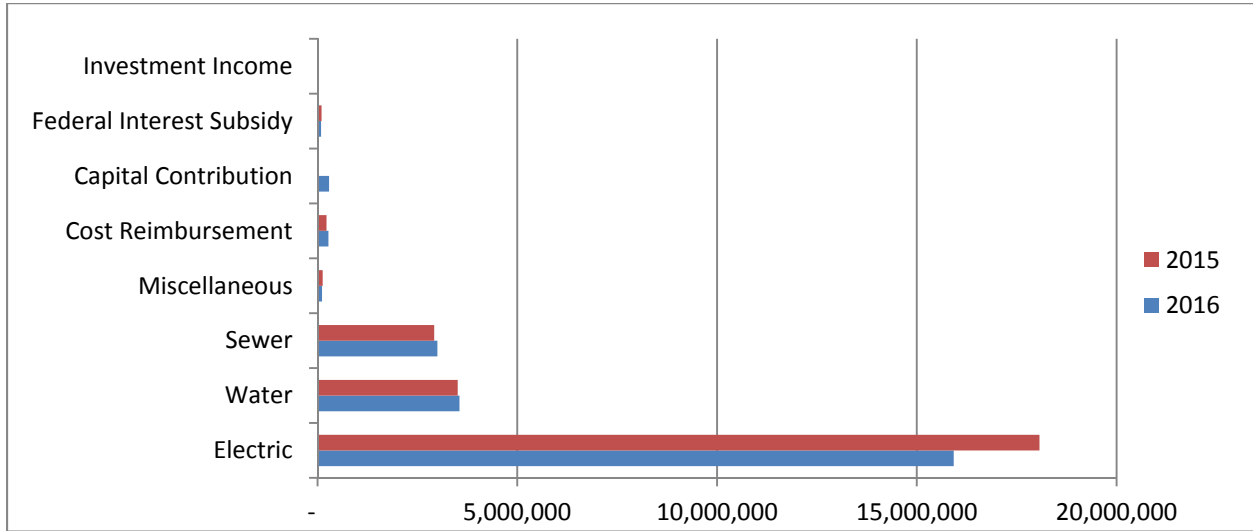
The third statement, the statement of cash flows, presents detailed information about the cash activity during the year. The statement is divided into five parts. The first part presents operating cash flows and shows the net cash provided by the operating activities of the Authority. The second section 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

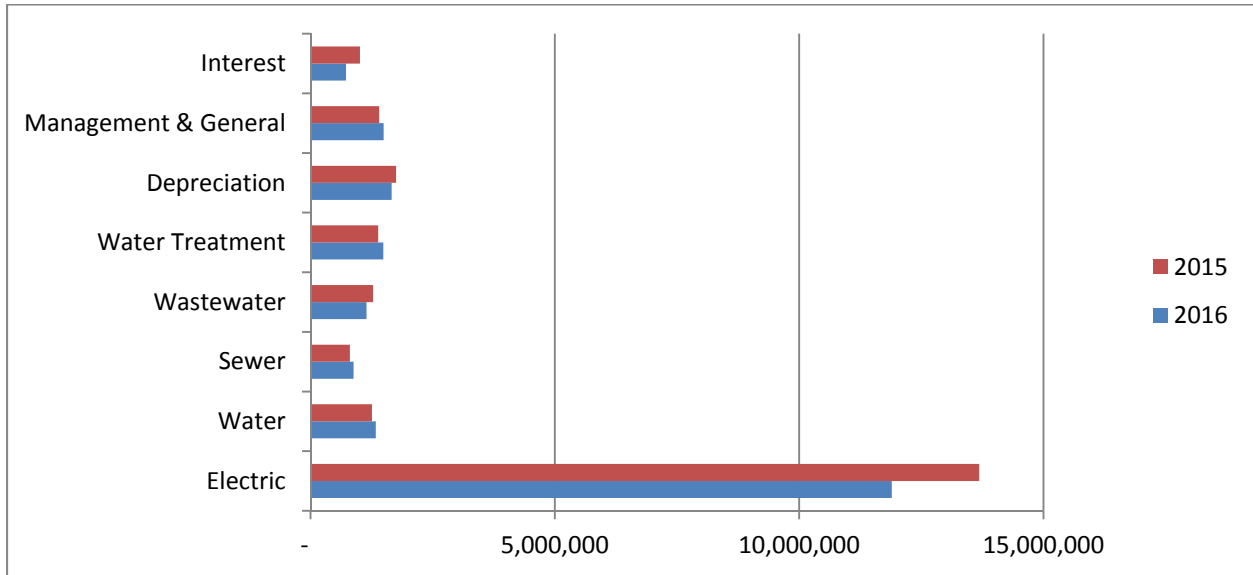
Statement of Position, End of Year

	June 30	
	2016	2015
Current Assets	\$ 22,579,241	\$ 20,984,486
Noncurrent Assets	39,998,185	40,700,930
Total Assets	<u>62,577,426</u>	<u>61,685,416</u>
Current Liabilities	4,749,657	5,293,025
Noncurrent Liabilities	19,092,656	20,513,078
Total Liabilities	<u>23,842,313</u>	<u>25,806,103</u>
Net Position		
Investment in Capital Assets	24,354,832	24,531,606
Restricted for Debt Service	4,605,923	3,954,121
Unrestricted	9,774,358	7,393,586
Total Net Position	<u>\$ 38,735,113</u>	<u>\$ 35,879,313</u>

Operating revenues for the fiscal years ended June 30, 2016 and 2015:



Operating expenses for the fiscal years ended June 30, 2016 and 2015:



Operating Results for the Year Ended

	June 30	
	2016	2015
Operating Revenues	\$ 22,864,082	\$ 24,859,499
Less Operating Expenses	19,938,916	21,609,723
Net Operating Revenue	2,925,166	3,249,776
Net Nonoperating Expenses	(601,359)	(1,045,410)
Net Transfers In (Out)	531,993	243,357
Increase (Decrease) in Net Assets	2,855,800	2,447,723
Net Position, Beginning of Year	35,879,313	33,431,590
Net Position, End of Year	\$ 38,735,113	\$ 35,879,313

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 2016 and 2015.

Cash Flows for the Year Ended

	June 30	
	2016	2015
Cash Provided (Used) by:		
Operating Activities	\$ 3,698,387	\$ 4,542,870
Noncapital Financing Activities	249,273	226,942
Capital and Related Financing Activities	(2,671,488)	(3,701,180)
Investing Activities	99,139	158,860
Net Increase (Decrease) in Cash	1,375,311	1,227,492
Cash, Beginning of Year	13,877,347	12,649,855
Cash, End of Year	\$ 15,252,658	\$ 13,877,347

Description of Capital Assets and Long-Term Debt Activity

At June 30, 2016 the Authority had \$40.0 million invested in capital assets, net of accumulated depreciation of \$36.6 million. Net depreciation charges totaled \$1.7 million for the year ended June 30, 2016. Details of these assets are shown below for the years ended June 30, 2016 and 2015.

Capital Assets at Year-End

	June 30	
	2016	2015
Non-depreciable:		
Land	\$ 229,006	\$ 229,006
Total Non-depreciable Assets at Historical Cost	229,006	229,006
Depreciable:		
Buildings and Improvements	1,284,865	1,310,308
Machinery and Equipment	5,588,814	5,301,373
Utility Property	69,453,549	68,976,758
Total Depreciable Assets at Historical Cost	76,327,228	75,588,439
Less Accumulated Depreciation	(36,558,049)	(35,116,515)
Net Depreciable Assets	39,769,179	40,471,924
Capital Assets, Net	\$ 39,998,185	\$ 40,700,930

At June 30, 2016, the Authority had \$20.3 million in debt outstanding. The table below summarizes the outstanding debt by type for the years ended June 30, 2016 and 2015.

Outstanding Debt, at Year-End

	June 30	
	2016	2015
Revenue Bonds - COT, net of discount	\$ 4,682,779	\$ 5,518,654
2010 Drinking Water SRF	14,069,205	14,514,316
2011 Drinking Water SRF	1,131,014	1,167,172
Capital Leases	443,134	487,836
	\$ 20,326,132	\$ 21,687,978

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

For the fiscal year ending June 30, 2016, total operating revenues were down from the previous fiscal year ending June 30, 2015. The decline in operating revenue can be attributed to a decrease in electric sales due to milder temperatures. TPWA electric sales were down 12% compared to FY 2015. Water and Wastewater sales were relatively unchanged with just a small increase of 4% as compared to last year. Total revenue for the Authority was down 8%.

TPWA has also experienced a smaller Power Cost Adjustment, aka PCA, from our electric provider, the Grand River Dam Authority. This reduction is passed on to our customers in the form of reduced overall electric rates.

While our revenues were down 8%, our expenditures were also down. Because we are a cost-of-service provider, the decrease in sales should reflect a decrease in the expenditures. This is driven primarily because of the direct correlation in electricity purchased and electricity sold.

We discussed a major project during the end of 2014 and the construction of Phase One of the Cherokee Springs Plaza project is well underway. Three restaurants and an automotive dealership are currently under construction. As we mentioned last year, TPWA will be serving some of those facilities with electricity, water, and wastewater.

Northeastern State University is in the final construction stage of a multi-story student housing dormitory on campus. This building will house approximately 344 students.

Economic Outlook

TPWA budget remained virtually unchanged in regards to projected revenue for FY 2017 as compared to FY 2016. This is due to the decline in electric sales last year. We feel that the new growth from The Cherokee Springs Plaza restaurants and automobile dealership, and the addition of student housing on the NSU campus, will help us meet our targeted goals for 2017.

As we have stated in previous years, the City of Tahlequah is planning some major street widening and street improvement projects. TPWA will incur an expense in relocating water, wastewater, and electric lines. Based on our conversations with Kevin Smith, City Assistant Administrator, we anticipate that Cedar Street will be the first street widening to take place.

The original plan was a widening of West 4th Street, but some easement issues have caused a delay on this project. We will continue to work with the City's administration team to coordinate these projects.

TPWA has hired a financial consultant to perform a cost-of-services study. A thorough review of our electric rates will be performed in FY 2017. The City of Tahlequah is growing and we need to be financially prepared to accommodate the growth.

Additionally, TPWA has hired an engineering firm to perform an electrical system analysis of our distribution system. Both of these items have been budgeted for FY 2017. These two studies will give us additional insight as to our financial health and the operational strength of our electric system. TPWA has not performed an electric rate analysis since 2004.

Water Distribution Systems: TPWA has experienced issues with water loss. For the past few years, we have employed the services of a leak detection firm. In previous years, the firm has performed leak detection services for approximately 1/3 of the distribution system. In FY 2017, the Board has directed us to engage the same firm to perform a leak detection of our entire distribution system. We are hopeful to identify leaks in our system that we can repair to improve our water loss.

Wastewater Treatment: We are able to comply with all current standards. TPWA will invest in a new bar screen system at our wastewater treatment facility. We are budgeting \$200,000 for this project.

Wastewater Collections: We have budgeted for a new jetter/pumper truck for the Wastewater Collections department. This item is a very expensive item and will be one of the largest equipment purchases in the history of TPWA. We anticipate this item to cost around \$325,000. While this piece of equipment is expensive, it should serve the needs of the City of Tahlequah for the next 20-25 years.

Administration: TPWA is also budgeting \$1,500,000 for the purpose of buying a new facility or acquiring land to build a new office complex. The NOPFA, aka the Gas Authority, has expressed a desire to begin performing its own billing and collection services. TPWA has performed this task in the past and we have shared office space in the NOPFA building. The NOPFA has expressed its desire to have us vacate the building as they begin to bill and collect for the gas service they provide.

TPWA is subject to the Oklahoma Tort Claims process and we currently have one claim pending involving a vehicular accident. We are involved in lawsuits from time-to-time and we have an easement dispute pending. However, we do not see these claims as having a significant negative impact on our financial performance.

Tahlequah Public Works Authority and City Light & Water
Statement of Net Position
June 30, 2016

	<u>Public Works Authority</u>	<u>City Light & Water</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 3,261,660	\$ 2,489	\$ 3,264,149
Restricted Assets:			
Cash and cash equivalents	11,988,509	-	11,988,509
Investments	251,906	-	251,906
Inventory	1,390,485	-	1,390,485
Accounts receivable (net of allowance)	5,684,192	-	5,684,192
Notes receivable	-	-	-
Total current assets	<u>22,576,752</u>	<u>2,489</u>	<u>22,579,241</u>
Noncurrent Assets:			
Capital assets, net	<u>39,998,185</u>	<u>-</u>	<u>39,998,185</u>
Total noncurrent assets	<u>39,998,185</u>	<u>-</u>	<u>39,998,185</u>
Total Assets	<u>62,574,937</u>	<u>2,489</u>	<u>62,577,426</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	1,331,109	-	1,331,109
Accrued expenses	209,397	-	209,397
Capital leases, current portion	127,823	-	127,823
Notes payable, current portion	712,000	-	712,000
Revenue bonds payable, COT, current portion	885,000	-	885,000
Meter deposit liability	1,484,328	-	1,484,328
Total current liabilities	<u>4,749,657</u>	<u>-</u>	<u>4,749,657</u>
Noncurrent Liabilities:			
Compensated absences	383,528	-	383,528
Unfunded OPEB obligation	107,819	-	107,819
Capital leases	315,311	-	315,311
Notes payable	14,488,219	-	14,488,219
Revenue bonds payable (COT)	3,797,779	-	3,797,779
Total noncurrent liabilities	<u>19,092,656</u>	<u>-</u>	<u>19,092,656</u>
Total Liabilities	<u>23,842,313</u>	<u>-</u>	<u>23,842,313</u>
NET POSITION			
Invested in capital assets, net of related debt	24,354,832	-	24,354,832
Restricted for debt service	4,605,923	-	4,605,923
Unrestricted	9,771,869	2,489	9,774,358
Total Net Position	<u>\$ 38,732,624</u>	<u>\$ 2,489</u>	<u>\$ 38,735,113</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, 2016

	Public Works Authority	City Light & Water	Total
OPERATING REVENUES			
Electric revenue	\$ 15,925,223	\$ -	\$ 15,925,223
Water revenue	3,554,029	-	3,554,029
Sewer charges	2,999,224	-	2,999,224
Miscellaneous	112,392	-	112,392
Cost reimbursement	273,214	-	273,214
Total operating revenues	<u>22,864,082</u>	<u>-</u>	<u>22,864,082</u>
OPERATING EXPENSES			
Electric service	11,894,428	-	11,894,428
Water service	1,333,461	-	1,333,461
Sewer service	881,345	-	881,345
Wastewater treatment	1,146,334	-	1,146,334
Water treatment	1,487,748	-	1,487,748
Depreciation of fixed assets	1,657,653	-	1,657,653
Management and general	1,493,872	44,075	1,537,947
Total operating expenses	<u>19,894,841</u>	<u>44,075</u>	<u>19,938,916</u>
Net operating gain(loss)	<u>2,969,241</u>	<u>(44,075)</u>	<u>2,925,166</u>
NONOPERATING REVENUES (EXPENSES)			
Interest subsidy from federal government	89,696	-	89,696
Investment income	36,058	37	36,095
Interest expense and related fees	(727,150)	-	(727,150)
Total nonoperating revenue (expenses)	<u>(601,396)</u>	<u>37</u>	<u>(601,359)</u>
Income before contributions and transfers	2,367,845	(44,038)	2,323,807
Capital contributions	288,395	-	288,395
Transfers in	1,508,300	-	1,508,300
Transfers between TPWA & CL&W	(1,308,777)	1,308,777	-
Transfers out	-	(1,264,702)	(1,264,702)
Increase (decrease) in net position	2,855,763	37	2,855,800
Net position at beginning of year	<u>35,876,861</u>	<u>2,452</u>	<u>35,879,313</u>
Net position at end of year	<u>\$ 38,732,624</u>	<u>\$ 2,489</u>	<u>\$ 38,735,113</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, 2016

	Public Works Authority	City Light & Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 22,580,238	\$ -	\$ 22,580,238
Payments to suppliers	(14,345,749)	(14,075)	(14,359,824)
Payments to employees	(4,492,027)	(30,000)	(4,522,027)
Net cash provided by (used in) operating activities	<u>3,742,462</u>	<u>(44,075)</u>	<u>3,698,387</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from City of Tahlequah	1,508,300	-	1,508,300
Transfers between TPWA & CL&W	(1,303,102)	1,308,777	5,675
Transfers to City of Tahlequah	-	(1,264,702)	(1,264,702)
Net cash (used in) noncapital financing activities	<u>205,198</u>	<u>44,075</u>	<u>249,273</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(739,659)	-	(739,659)
Proceeds from sale/transfer of capital assets	67,471	-	67,471
Proceeds from capital debt	314,559	-	314,559
Principal paid on capital debt	(1,685,530)	-	(1,685,530)
Interest and fees on capital debt, net of subsidy	(628,329)	-	(628,329)
Net cash (used in) capital and related financing activities	<u>(2,671,488)</u>	<u>-</u>	<u>(2,671,488)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of investments	60,000	-	60,000
Interest	39,102	37	39,139
Net cash provided by investing activities	<u>99,102</u>	<u>37</u>	<u>99,139</u>
Net increase (decrease) in cash and cash equivalents	1,375,274	37	1,375,311
Balance - beginning of year	13,874,895	2,452	13,877,347
Balance - end of year	<u>\$ 15,250,169</u>	<u>\$ 2,489</u>	<u>\$ 15,252,658</u>
RECONCILIATION TO STATEMENT OF NET ASSETS			
Cash and cash equivalents	3,261,660	2,489	3,264,149
Restricted cash and cash equivalents	11,988,509	-	11,988,509
	<u>\$ 15,250,169</u>	<u>\$ 2,489</u>	<u>\$ 15,252,658</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 2,969,241	\$ (44,075)	\$ 2,925,166
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	1,657,653	-	1,657,653
Change in assets and liabilities			
Accounts receivable	(322,694)	-	(322,694)
Inventory	40,206	-	40,206
Note receivable	-	-	-
Accounts payable	(450,520)	-	(450,520)
Accrued expenses	(190,274)	-	(190,274)
Deposits	38,850	-	38,850
Net cash provided by (used in) operating activities	<u>\$ 3,742,462</u>	<u>\$ (44,075)</u>	<u>\$ 3,698,387</u>

See accompanying notes to the basic financial statements.

**TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER
Notes to Basic Financial Statements
June 30, 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Tahlequah Public Works Authority and City Light & Power (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, 2016**

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, 2016 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.

**TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER**
Notes to Basic Financial Statements
June 30, 2016

2. DEPOSIT AND INVESTMENT RISKS

The Authority held the following deposits and investments at June 30, 2016:

<u>Type</u>	<u>Fair Value</u>
Demand Deposits	\$ 6,772,342
Time Deposits	7,181,235
Money Market Accounts	1,299,081
U.S. Government Obligations	251,906
Total Deposits and Investments	<u>\$ 15,504,564</u>
Reconciliation to Statement of Net Assets:	
Cash and Cash Equivalents	\$ 3,264,149
Restricted Cash and Cash Equivalents	11,988,509
Investments	251,906
	<u>\$ 15,504,564</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, 2016.

3. CAPITAL ASSETS

A summary of property, plant, and equipment activity for fiscal 2016 follows:

	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2016</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	1,310,308	-	(25,443)	1,284,865
Machinery and Equipment	5,301,373	551,263	(263,822)	5,588,814
Utility Property	68,976,758	476,791	-	69,453,549
Total Depreciable Assets at Historical Cost	75,588,439	1,028,054	(289,265)	76,327,228
Less Accumulated Depreciation	(35,116,515)	(1,657,653)	216,119	(36,558,049)
Net Depreciable Assets	<u>40,471,924</u>	<u>(629,599)</u>	<u>(73,146)</u>	<u>39,769,179</u>
Capital Assets, Net	<u>\$ 40,700,930</u>	<u>\$ (629,599)</u>	<u>\$ (73,146)</u>	<u>\$ 39,998,185</u>

**TAHLEQUAH PUBLIC WORKS AUTHORITY
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4. LONG TERM LIABILITIES

As of June 30, 2016, 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	\$ 14,069,205
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>1,131,014</u>
	<u>\$ 15,200,219</u>
Current portion	\$ 712,000
Noncurrent portion	<u>14,488,219</u>
Total notes payable	<u>\$ 15,200,219</u>

Revenue Bonds:

2009A Series Build America Sales Tax Revenue Bonds, dated September 1, 2009, original amount of \$9,135,000 secured by pledged sales tax, interest rates from 2.474% to 5.551%, final maturity of December 1, 2019	\$ 4,715,000
Less unamortized discount	<u>(32,221)</u>
Total revenue bonds payable, net	<u>\$ 4,682,779</u>
Current portion	\$ 885,000
Noncurrent portion	<u>3,797,779</u>
Total revenue bonds payable, net	<u>\$ 4,682,779</u>

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

Capital Leases:

\$81,234 capital lease obligation for the purchase of a loader/backhoe, matures March 2019 with stated interest of 2%	\$ 45,681
\$19,138 capital lease obligation for the purchase of a forklift, matures March 2019 with stated interest of 2%	10,762
\$138,156 capital lease obligation for the purchase of a semi-tractor, matures March 2019 with stated interest of 2%	73,219
\$32,384 capital lease obligation for the purchase of a truck, matures May 2019 with stated interest of 2%	19,283
\$79,010 capital lease obligation for the purchase of a loader/backhoe, matures December 2019 with stated interest of 1.575%	55,966
\$44,670 capital lease obligation for the purchase of a truck, matures December 2019 with stated interest of 1.575%	31,641
\$42,874 capital lease obligation for the purchase of a truck, matures December 2019 with stated interest of 1.575%	30,369
\$37,742 capital lease obligation for the purchase of a truck, matures February 2020 with stated interest of 2.1%	28,039
\$38,773 capital lease obligation for the purchase of a truck, matures February 2020 with stated interest of 2.1%	28,818
\$67,726 capital lease obligation for the purchase of a truck, matures February 2020 with stated interest of 2.1%	50,338
\$83,828 capital lease obligation for the purchase of a truck, matures July 2020 with stated interest of 1.8%	<u>69,018</u>
Total capital leases payable	<u>\$ 443,134</u>
Current portion	\$ 127,823
Noncurrent portion	<u>315,311</u>
Total revenue bonds payable, net	<u>\$ 443,134</u>

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June 30, 2016**

4. LONG TERM LIABILITIES (Cont'd)

Changes in Long-Term Debt:

The following is a summary of changes in long-term debt for the year ended June 30, 2016:

	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2016</u>	<u>Amount Due in One Year</u>
Notes Payable	\$ 15,681,488	\$ 230,731	\$ (712,000)	\$ 15,200,219	\$ 712,000
Revenue Bonds	5,560,000	-	(845,000)	4,715,000	885,000
Capital Leases	487,836	83,828	(128,530)	443,134	127,823
	<u>\$ 21,729,324</u>	<u>\$ 314,559</u>	<u>\$ (1,685,530)</u>	<u>\$ 20,358,353</u>	<u>\$ 1,724,823</u>

Debt Service Requirements to Maturity:

The annual debt service requirements to maturity for long-term debt as of June 30, 2016 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>
2017	\$ 712,000	\$ 489,308	\$ 885,000	\$ 227,940	\$ 127,823	\$ 7,334
2018	712,000	466,492	925,000	180,606	134,835	4,805
2019	712,000	443,676	970,000	129,443	124,291	2,193
2020	712,000	420,860	1,935,000	44,755	54,725	437
2021	712,000	398,044	-	-	1,460	2
2022-2026	3,056,000	1,674,793	-	-	-	-
2027-2031	2,720,000	1,197,280	-	-	-	-
2032-2036	2,720,000	722,640	-	-	-	-
2037-2041	2,720,000	248,000	-	-	-	-
2042	424,219	-	-	-	-	-
	<u>\$ 15,200,219</u>	<u>\$ 6,061,094</u>	<u>\$ 4,715,000</u>	<u>\$ 582,744</u>	<u>\$ 443,134</u>	<u>\$ 14,771</u>

**TAHLEQUAH PUBLIC WORKS AUTHORITY
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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.

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, 2016, 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 2016. 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, 2016 that management believes would result in a material loss in the event of an adverse outcome.

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9. SUBSEQUENT EVENTS

Management reviewed activity through November 8, 2016, for subsequent events which may be material to the fiscal 2016 financial statements.

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, 2015, 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 8, 2016.

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 opinions 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 8, 2016