

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

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

June 30, 2015

**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, 2015, 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.

Opinions

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, 2015, 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 October 13, 2015, 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.



October 13, 2015

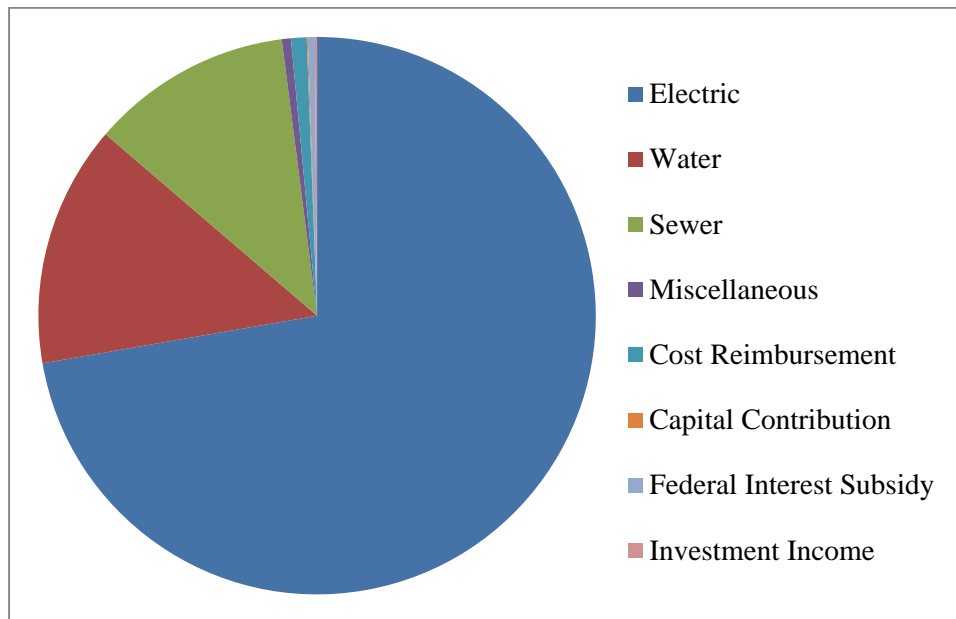
MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2015. Please read it in conjunction with the Authority's basic financial statements.

Financial Highlights

At June 30, 2015 the Authority's net assets total \$35.9 million. Of this, \$7.4 million is considered unrestricted.

The following chart provides a graphical breakdown of revenues by category for the fiscal year ending June 30, 2015.



In the fiscal year ended June 30, 2015, the Authority's revenues exceeded expenses creating an increase in net assets after net transfers out of \$2,447,723, or 7%.

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.

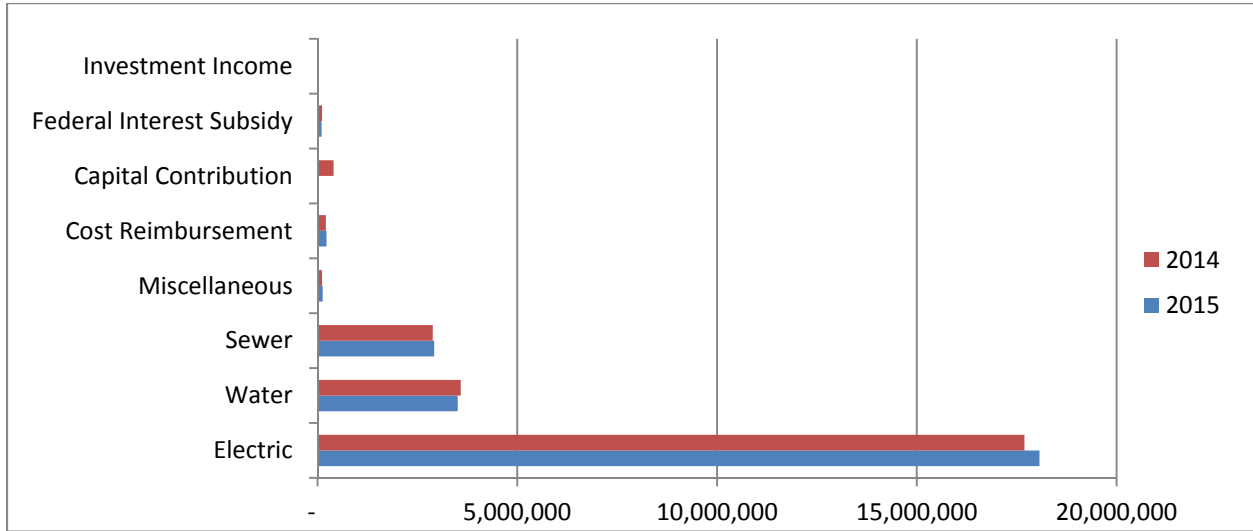
The third statement, the statement of cash flows, presents detailed information about the cash activity during the year. The statement is divided into five parts. The first part presents operating cash flows and shows the net cash provided by the operating activities of the Authority. The second section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

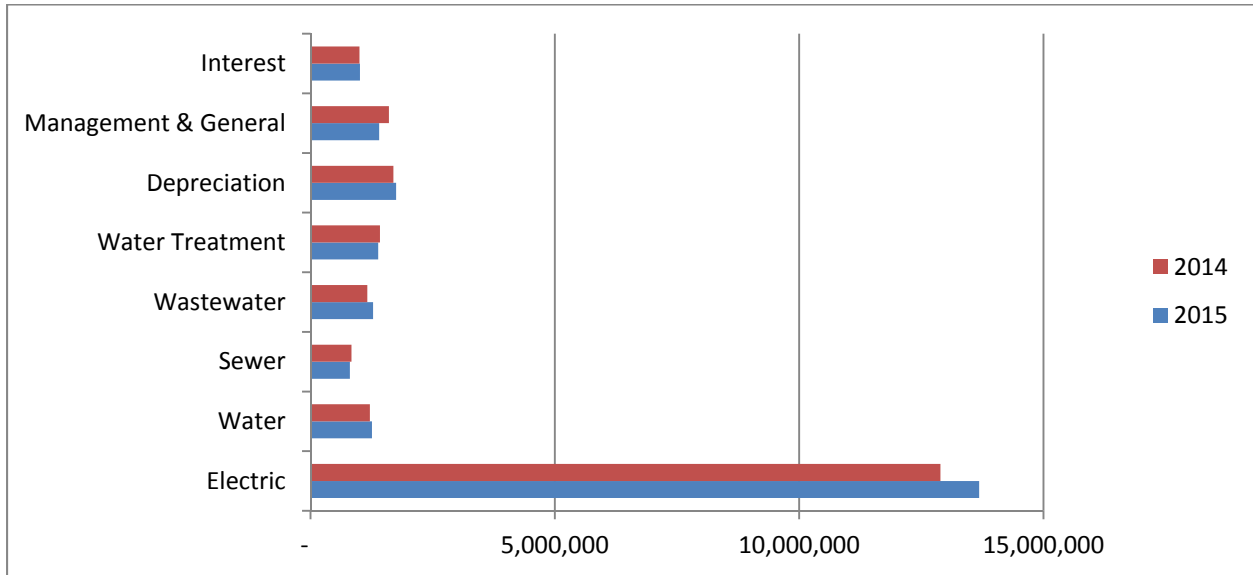
Statement of Position, End of Year

	June 30	
	2015	2014
Current Assets	\$ 20,984,486	\$ 19,069,550
Noncurrent Assets	40,700,930	40,876,939
Total Assets	61,685,416	59,946,489
Current Liabilities	5,293,025	4,889,551
Noncurrent Liabilities	20,513,078	21,625,348
Total Liabilities	25,806,103	26,514,899
Net Position		
Investment in Capital Assets	24,531,606	23,893,145
Restricted for Debt Service	3,954,121	1,822,184
Unrestricted	7,393,586	4,415,885
Total Net Position	\$ 35,879,313	\$ 33,431,590

Operating revenues for the fiscal years ended June 30, 2015 and 2014:



Operating expenses for the fiscal years ended June 30, 2015 and 2014:



Operating Results for the Year Ended

	June 30	
	2015	2014
Operating Revenues	\$ 24,859,499	\$ 24,492,105
Less Operating Expenses	21,609,723	20,865,852
Net Operating Revenue	3,249,776	3,626,253
Net Nonoperating Expenses	(1,045,410)	(857,874)
Net Transfers In (Out)	243,357	531,997
Increase (Decrease) in Net Assets	2,447,723	3,300,376
Net Position, Beginning of Year	33,431,590	30,131,214
Net Position, End of Year	\$ 35,879,313	\$ 33,431,590

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 2015 and 2014.

Cash Flows for the Year Ended

	June 30	
	2015	2014
Cash Provided (Used) by:		
Operating Activities	\$ 4,542,870	\$ 4,737,830
Noncapital Financing Activities	226,942	130,503
Capital and Related Financing Activities	(3,696,064)	(3,548,712)
Investing Activities	153,744	151,124
Net Increase (Decrease) in Cash	1,227,492	1,470,745
Cash, Beginning of Year	12,649,855	11,179,110
Cash, End of Year	\$ 13,877,347	\$ 12,649,855

Description of Capital Assets and Long-Term Debt Activity

At June 30, 2015 the Authority had \$40.7 million invested in capital assets, net of accumulated depreciation of \$35.1 million. Net depreciation charges totaled \$1.8 million for the year ended June 30, 2015. Details of these assets are shown below for the years ended June 30, 2015 and 2014.

Capital Assets at Year-End

	June 30	
	2015	2014
Non-depreciable:		
Land	\$ 229,006	\$ 229,006
Total Non-depreciable Assets at Historical Cost	229,006	229,006
Depreciable:		
Buildings and Improvements	1,310,308	1,359,659
Machinery and Equipment	5,301,373	4,843,727
Utility Property	68,976,758	67,887,489
Total Depreciable Assets at Historical Cost	75,588,439	74,090,875
Less Accumulated Depreciation	(35,116,515)	(33,442,942)
Net Depreciable Assets	40,471,924	40,647,933
Capital Assets, Net	\$ 40,700,930	\$ 40,876,939

At June 30, 2015 the Authority had \$21.7 million in debt outstanding. The table below summarizes the outstanding debt by type for the years ended June 30, 2015 and 2014.

Outstanding Debt, at Year-End

	June 30	
	2015	2014
Revenue Bonds - COT, net of discount	\$ 5,518,654	\$ 6,320,519
2010 Drinking Water SRF	14,514,316	14,862,595
2011 Drinking Water SRF	1,167,172	1,266,136
Capital Leases	487,836	254,714
	\$ 21,687,978	\$ 22,703,964

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, 2015 Total Operating Revenues were up slightly compared to Fiscal Year ending June 30, 2014; by approximately \$367,000. This can be attributed to a small increase in electric sales for Fiscal Year 2015 by approximately \$375,000. Water Revenue was off slightly by approximately \$80,000. The slight difference in the water revenue can be attributed to record rainfall experienced during 2015. Operating Revenues for waste water were up only slightly for the year; approximately \$36,000. Miscellaneous Income was up by approximately \$17,000 and cost reimbursements are up by approximately \$15,000.

During FY 2015 we continued with the plan to use low interest lease purchase financing for some of our equipment expenditures. Internally we have targeted a monthly amount of \$10,000 for the financing of our equipment. We have met that target amount and we will look at using cash on hand for future purchases.

We discussed a major project during the end of 2014 and the announcement has become official. The Cherokee Nation has announced a major retail / gaming expansion in Tahlequah. This expansion will be very beneficial for the City of Tahlequah and TPWA. We will have an opportunity to expand our services to the Cherokee Springs Plaza.

TPWA is involved in a project to improve our water distribution lines to the Sequoyah High School located in southwest part of Tahlequah. This project is a full reimbursement expense with the Cherokee Nation and The Eastern Oklahoma Tribal Schools. The water lines around the school are aged and need to be replaced. Our team will replace the lines and we will be fully reimbursed for the cost. Once completed, TPWA will own the distribution system around the school.

TPWA has completed the projects for the DWSRF Loan on the AMR and the Tenkiller Water Plant. We have begun making our monthly obligation payments which are just under \$100,000 per month. This is an expected expenditure and one which is a budgeted and planned expense.

Economic Outlook

TPWA is budgeting a slight increase for 2016. We are expecting the NSU housing project to be completed in 2016. Additional housing projects such as the Senior Housing on Fox street will provide additional revenue. Housing continues to grow in our service territory.

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. We anticipate that these projects will not all occur at once, nonetheless we have budgeted for these improvements. TPWA will work closely with the City of Tahlequah to plan and prepare for the costs associated with these projects.

TPWA will hire a financial consultant to perform a cost of services study. A thorough review of our electric rates must be performed in 2016. The City of Tahlequah is growing and we need to be financially prepared to accommodate the growth. Additionally, TPWA needs to hire an engineering firm to perform an electrical system analysis of our distribution system. Both of these items have been budgeted for FY 2016. These two studies will give us additional insight as to our financial health and our operational strength of our electric system.

Waste Water: We are able to comply with all current standards. It appears that after a 10 year study the current standards are having a positive impact on our water quality in Northeast Oklahoma. While pleased that the push for increased restrictions seems to be put on hold for now, we remain cautiously optimistic about increased regulations in our water shed. Water is our most valuable resource and we must remain

diligent in protecting this resource. While we are not budgeting additional costs for now, we will stay on top of the water quality issue.

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

Tahlequah Public Works Authority and City Light & Water
Statement of Net Position
June 30, 2015

	Public Works Authority	City Light & Water	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 3,208,559	\$ 2,452	\$ 3,211,011
Restricted Assets:			
Cash and cash equivalents	10,666,336	-	10,666,336
Investments	314,950	-	314,950
Inventory	1,430,691	-	1,430,691
Accounts receivable (net of allowance)	5,361,498	-	5,361,498
Notes receivable	-	-	-
Total current assets	<u>20,982,034</u>	<u>2,452</u>	<u>20,984,486</u>
Noncurrent Assets:			
Capital assets, net	40,700,930	-	40,700,930
Total noncurrent assets	<u>40,700,930</u>	<u>-</u>	<u>40,700,930</u>
Total Assets	<u>61,682,964</u>	<u>2,452</u>	<u>61,685,416</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	1,781,629	-	1,781,629
Accrued expenses	399,671	-	399,671
Capital leases, current portion	109,247	-	109,247
Notes payable, current portion	712,000	-	712,000
Revenue bonds payable, COT, current portion	845,000	-	845,000
Meter deposit liability	1,445,478	-	1,445,478
Total current liabilities	<u>5,293,025</u>	<u>-</u>	<u>5,293,025</u>
Noncurrent Liabilities:			
Compensated absences	383,528	-	383,528
Unfunded OPEB obligation	107,819	-	107,819
Capital leases	378,589	-	378,589
Notes payable	14,969,488	-	14,969,488
Revenue bonds payable (COT)	4,673,654	-	4,673,654
Total noncurrent liabilities	<u>20,513,078</u>	<u>-</u>	<u>20,513,078</u>
Total Liabilities	<u>25,806,103</u>	<u>-</u>	<u>25,806,103</u>
NET POSITION			
Invested in capital assets, net of related debt	24,531,606	-	24,531,606
Restricted for debt service	3,954,121	-	3,954,121
Unrestricted	7,391,134	2,452	7,393,586
Total Net Position	<u>\$ 35,876,861</u>	<u>\$ 2,452</u>	<u>\$ 35,879,313</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, 2015

	Public Works Authority	City Light & Water	Total
OPERATING REVENUES			
Electric revenue	\$ 18,071,012	\$ -	\$ 18,071,012
Water revenue	3,507,790	-	3,507,790
Sewer charges	2,923,094	-	2,923,094
Miscellaneous	130,760	-	130,760
Cost reimbursement	226,843	-	226,843
Total operating revenues	<u>24,859,499</u>	<u>-</u>	<u>24,859,499</u>
OPERATING EXPENSES			
Electric service	13,638,671	-	13,638,671
Water service	1,256,971	-	1,256,971
Sewer service	804,630	-	804,630
Wastewater treatment	1,279,152	-	1,279,152
Water treatment	1,384,299	-	1,384,299
Depreciation of fixed assets	1,796,258	-	1,796,258
Management and general	1,404,077	45,665	1,449,742
Total operating expenses	<u>21,564,058</u>	<u>45,665</u>	<u>21,609,723</u>
Net operating gain(loss)	<u>3,295,441</u>	<u>(45,665)</u>	<u>3,249,776</u>
NONOPERATING REVENUES (EXPENSES)			
Interest subsidy from federal government	101,837	-	101,837
Investment income	30,798	36	30,834
Interest expense and related fees	(1,178,081)	-	(1,178,081)
Total nonoperating revenue (expenses)	<u>(1,045,446)</u>	<u>36</u>	<u>(1,045,410)</u>
Income before contributions and transfers	2,249,995	(45,629)	2,204,366
Capital contributions	16,415	-	16,415
Transfers in	1,479,099	-	1,479,099
Transfers between TPWA & CL&W	(1,297,822)	1,297,822	-
Transfers out	-	(1,252,157)	(1,252,157)
Increase (decrease) in net position	2,447,687	36	2,447,723
Net position at beginning of year	<u>33,429,174</u>	<u>2,416</u>	<u>33,431,590</u>
Net position at end of year	<u>\$ 35,876,861</u>	<u>\$ 2,452</u>	<u>\$ 35,879,313</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, 2015

	Public Works Authority	City Light & Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 24,055,674	\$ -	\$ 24,055,674
Payments to suppliers	(15,358,971)	(15,665)	(15,374,636)
Payments to employees	(4,108,168)	(30,000)	(4,138,168)
Net cash provided by (used in) operating activities	<u>4,588,535</u>	<u>(45,665)</u>	<u>4,542,870</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from City of Tahlequah	1,479,099	-	1,479,099
Transfers between TPWA & CL&W	(1,297,822)	1,297,822	-
Transfers to City of Tahlequah	-	(1,252,157)	(1,252,157)
Net cash (used in) noncapital financing activities	<u>181,277</u>	<u>45,665</u>	<u>226,942</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(1,643,957)	-	(1,643,957)
Proceeds from sale/transfer of capital assets	40,123	-	40,123
Proceeds from capital debt	575,634	-	575,634
Principal paid on capital debt	(1,599,655)	-	(1,599,655)
Interest and fees on capital debt, net of subsidy	(1,068,209)	-	(1,068,209)
Net cash (used in) capital and related financing activities	<u>(3,696,064)</u>	<u>-</u>	<u>(3,696,064)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of investments	117,794	-	117,794
Interest	35,914	36	35,950
Net cash provided by investing activities	<u>153,708</u>	<u>36</u>	<u>153,744</u>
Net increase (decrease) in cash and cash equivalents	1,227,456	36	1,227,492
Balance - beginning of year	12,647,439	2,416	12,649,855
Balance - end of year	<u>\$ 13,874,895</u>	<u>\$ 2,452</u>	<u>\$ 13,877,347</u>
RECONCILIATION TO STATEMENT OF NET ASSETS			
Cash and cash equivalents	3,208,559	2,452	3,211,011
Restricted cash and cash equivalents	10,666,336	-	10,666,336
	<u>\$ 13,874,895</u>	<u>\$ 2,452</u>	<u>\$ 13,877,347</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 3,295,441	\$ (45,665)	\$ 3,249,776
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	1,796,258	-	1,796,258
Change in assets and liabilities			
Accounts receivable	(910,720)	-	(910,720)
Inventory	82,366	-	82,366
Note receivable	18,000	-	18,000
Accounts payable	234,683	-	234,683
Accrued expenses	(16,388)	-	(16,388)
Deposits	88,895	-	88,895
Net cash provided by (used in) operating activities	<u>\$ 4,588,535</u>	<u>\$ (45,665)</u>	<u>\$ 4,542,870</u>

See accompanying notes to the basic financial statements.

**TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER
Notes to Basic Financial Statements
June 30, 2015**

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, 2015**

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, 2015 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, 2015

2. DEPOSIT AND INVESTMENT RISKS

The Authority held the following deposits and investments at June 30, 2015:

<u>Type</u>	<u>Fair Value</u>
Demand Deposits	\$ 6,070,143
Time Deposits	6,597,880
Money Market Accounts	1,209,324
U.S. Government Obligations	314,950
Total Deposits and Investments	<u>\$ 14,192,297</u>
 Reconciliation to Statement of Net Assets:	
Cash and Cash Equivalents	\$ 3,211,011
Restricted Cash and Cash Equivalents	10,666,336
Investments	314,950
	<u>\$ 14,192,297</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, 2015.

3. CAPITAL ASSETS

A summary of property, plant, and equipment activity for fiscal 2015 follows:

	<u>Balance at June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2015</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	1,359,659	27,165	(76,516)	1,310,308
Machinery and Equipment	4,843,727	620,453	(162,807)	5,301,373
Utility Property	67,887,489	1,089,269		68,976,758
Total Depreciable Assets at Historical Cost	74,090,875	1,736,887	(239,323)	75,588,439
Less Accumulated Depreciation	(33,442,942)	(1,796,258)	122,685	(35,116,515)
Net Depreciable Assets	<u>40,647,933</u>	<u>(59,371)</u>	<u>(116,638)</u>	<u>40,471,924</u>
Capital Assets, Net	<u>\$ 40,876,939</u>	<u>\$ (59,371)</u>	<u>\$ (116,638)</u>	<u>\$ 40,700,930</u>

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4. LONG TERM LIABILITIES

As of June 30, 2015, 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	\$ 14,514,316
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>1,167,172</u>
	<u>\$ 15,681,488</u>
Current portion	\$ 712,000
Noncurrent portion	<u>14,969,488</u>
Total notes payable	<u>\$ 15,681,488</u>

Revenue Bonds:

2009A Series Build America Sales Tax Revenue Bonds, dated September 1, 2009, original amount of \$9,135,000 secured by utility assets and revenues and pledged sales tax, interest rates from 2.474% to 5.551%, final maturity of December 1, 2019	\$ 5,560,000
Less unamortized discount	<u>(41,346)</u>
Total revenue bonds payable, net	<u>\$ 5,518,654</u>
Current portion	\$ 845,000
Noncurrent portion	<u>4,673,654</u>
Total revenue bonds payable, net	<u>\$ 5,518,654</u>

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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%	\$ 60,359
\$19,138 capital lease obligation for the purchase of a forklift, matures March 2019 with stated interest of 2%	14,220
\$138,156 capital lease obligation for the purchase of a semi-tractor, matures March 2019 with stated interest of 2%	102,653
\$32,384 capital lease obligation for the purchase of a truck, matures May 2019 with stated interest of 2%	25,115
\$79,010 capital lease obligation for the purchase of a loader/backhoe, matures December 2019 with stated interest of 1.575%	71,388
\$44,670 capital lease obligation for the purchase of a truck, matures December 2019 with stated interest of 1.575%	40,361
\$42,874 capital lease obligation for the purchase of a truck, matures December 2019 with stated interest of 1.575%	38,738
\$37,742 capital lease obligation for the purchase of a truck, matures February 2020 with stated interest of 2.1%	35,312
\$38,773 capital lease obligation for the purchase of a truck, matures February 2020 with stated interest of 2.1%	36,295
\$67,726 capital lease obligation for the purchase of a truck, matures February 2020 with stated interest of 2.1%	<u>63,395</u>
Total capital leases payable	<u>\$ 487,836</u>
Current portion	\$ 109,247
Noncurrent portion	<u>378,589</u>
Total revenue bonds payable, net	<u>\$ 487,836</u>

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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, 2015:

	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2015</u>	<u>Amount Due</u> <u>in One Year</u>
Notes Payable	\$ 16,128,631	\$ 264,857	\$ (712,000)	\$ 15,681,488	\$ 712,000
Revenue Bonds	6,370,000	-	(810,000)	5,560,000	845,000
Capital Leases	254,714	310,777	(77,655)	487,836	109,247
	<u>\$ 22,753,345</u>	<u>\$ 575,634</u>	<u>\$ (1,599,655)</u>	<u>\$ 21,729,324</u>	<u>\$ 1,666,247</u>

Debt Service Requirements to Maturity:

The annual debt service requirements to maturity for long-term debt as of June 30, 2015 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>
2016	\$ 712,000	\$ 505,242	\$ 845,000	\$ 271,539	\$ 109,248	\$ 8,344
2017	712,000	482,426	885,000	227,940	115,859	6,229
2018	712,000	459,610	925,000	180,606	118,100	3,996
2019	712,000	436,794	970,000	129,443	107,252	1,687
2020	712,000	413,978	1,935,000	44,755	37,377	241
2021-2025	3,224,000	1,742,012	-	-	-	-
2026-2030	2,720,000	1,257,796	-	-	-	-
2031-2035	2,720,000	783,156	-	-	-	-
2036-2040	2,720,000	308,516	-	-	-	-
2041-2042	737,488	4,746	-	-	-	-
	<u>\$ 15,681,488</u>	<u>\$ 6,394,274</u>	<u>\$ 5,560,000</u>	<u>\$ 854,283</u>	<u>\$ 487,836</u>	<u>\$ 20,497</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, 2015, 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 2015. 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, 2015 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 October 13, 2015, for subsequent events which may be material to the fiscal 2015 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 October 13, 2015.

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.

Audge Associates, P.C.

October 13, 2015