

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

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

**June 30, 2018**

**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, 2018, 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, 2018, 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 16, 2018, 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 16, 2018

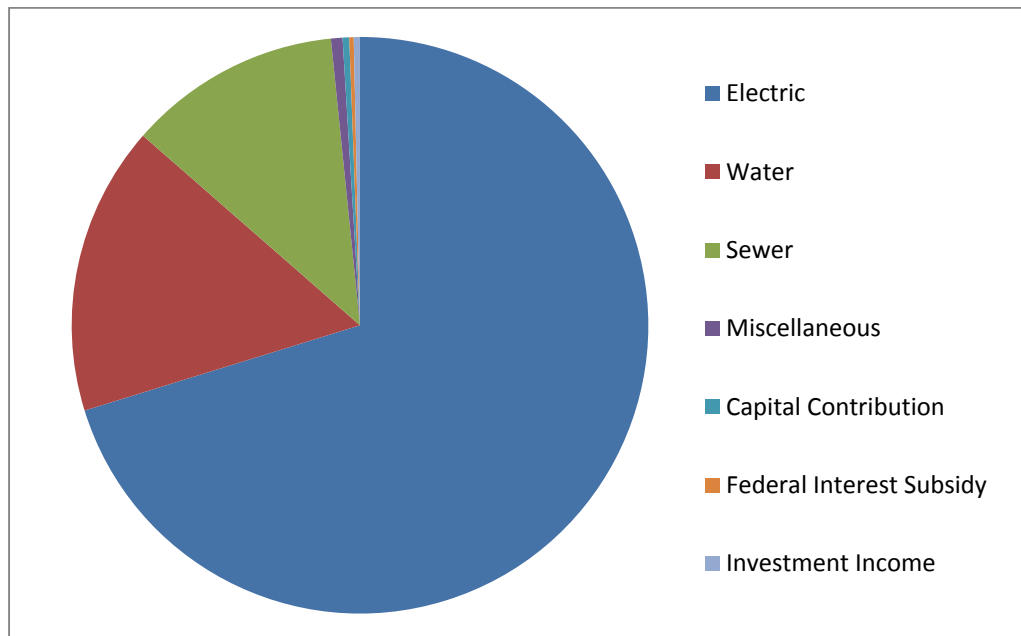
## MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2018. Please read it in conjunction with the Authority’s basic financial statements.

### Financial Highlights

At June 30, 2018 the Authority’s net assets total \$40.4 million. Of this, \$8 million is considered unrestricted.

The following chart provides a graphical breakdown of revenues by category for the fiscal year ending June 30, 2018.



In the fiscal year ended June 30, 2018, the Authority’s revenues exceeded expenses creating an increase in net assets after net transfers out of \$1,676,649, or 4%.

### 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.

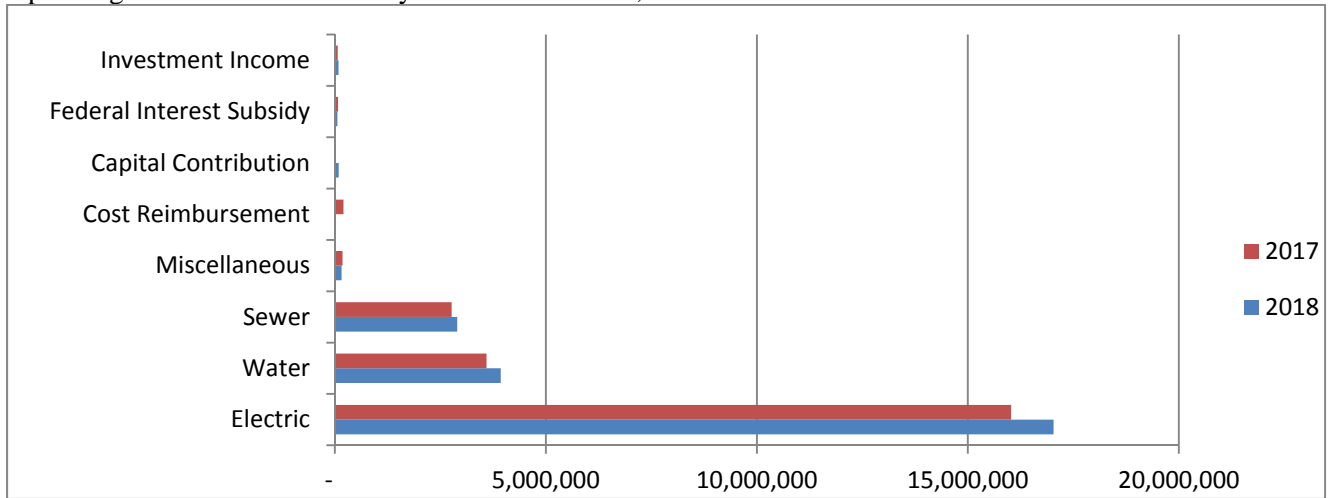
The third statement, the statement of cash flows, presents detailed information about the cash activity during the year. The statement is divided into five parts. The first part presents operating cash flows and shows the net cash provided by the operating activities of the Authority. The second section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

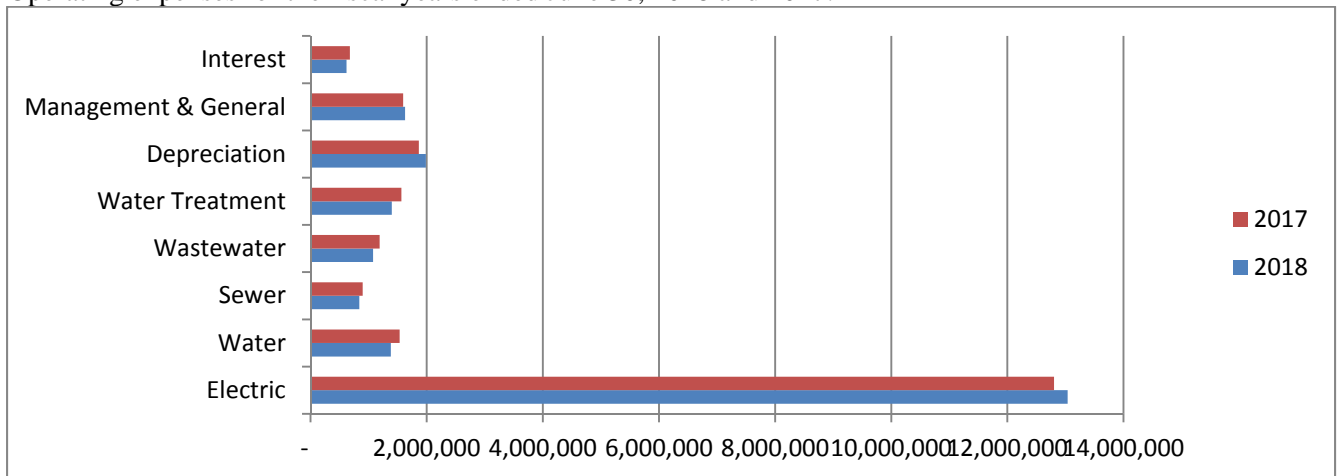
### Statement of Position, End of Year

	June 30	
	2018	2017
Current Assets	\$ 18,625,859	\$ 19,441,750
Noncurrent Assets	43,088,685	39,789,232
<b>Total Assets</b>	<b>61,714,544</b>	<b>59,230,982</b>
Current Liabilities	5,247,821	4,821,191
Noncurrent Liabilities	16,018,606	17,673,626
<b>Total Liabilities</b>	<b>21,266,427</b>	<b>22,494,817</b>
<b>Net Position</b>		
Investment in Capital Assets	28,483,051	24,474,746
Restricted for Debt Service	3,917,884	4,138,667
Unrestricted	8,047,182	8,120,072
<b>Total Net Position</b>	<b>\$ 40,448,117</b>	<b>\$ 36,733,485</b>

Operating revenues for the fiscal years ended June 30, 2018 and 2017:



Operating expenses for the fiscal years ended June 30, 2018 and 2017:



### Operating Results for the Year Ended

	June 30	
	2018	2017
Operating Revenues	\$ 24,020,048	\$ 22,767,522
Less Operating Expenses	21,346,333	21,448,713
Net Operating Revenue	2,673,715	1,318,809
Net Nonoperating Expenses	(473,515)	(532,901)
Net Transfers In (Out)	(523,293)	(1,177,606)
Increase (Decrease) in Net Assets	1,676,907	(391,698)
Net Position, Beginning of Year, restated	38,771,210	37,127,863
Net Position, End of Year	\$ 40,448,117	\$ 36,736,165

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 2018 and 2017.

### Cash Flows for the Year Ended

	June 30	
	2018	2017
Cash Provided (Used) by:		
Operating Activities	\$ 4,222,735	\$ 3,440,023
Noncapital Financing Activities	(613,458)	(1,177,606)
Capital and Related Financing Activities	(5,342,530)	(3,258,787)
Investing Activities	84,556	134,322
Net Increase (Decrease) in Cash	(1,648,697)	(862,048)
Cash, Beginning of Year	14,645,523	15,507,571
Cash, End of Year	\$ 12,996,826	\$ 14,645,523



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

At June 30, 2018 the Authority had \$43.1 million invested in capital assets, net of accumulated depreciation of \$38.3 million. Net depreciation charges totaled \$2 million for the year ended June 30, 2018. Details of these assets are shown below for the years ended June 30, 2018 and 2017.

### Capital Assets at Year-End

	June 30	
	2018	2017
Non-depreciable:		
Land	\$ 365,882	\$ 334,786
Construction-in-progress	2,624,353	290,530
Total Non-depreciable Assets at Historical Cost	<u>2,990,235</u>	<u>625,316</u>
Depreciable:		
Buildings and Improvements	1,344,871	1,314,959
Machinery and Equipment	6,271,751	6,211,177
Utility Property	70,748,531	70,040,611
Total Depreciable Assets at Historical Cost	<u>78,365,153</u>	<u>77,566,747</u>
Less Accumulated Depreciation	<u>(38,266,703)</u>	<u>(36,367,788)</u>
Net Depreciable Assets	<u>40,098,450</u>	<u>41,198,959</u>
Capital Assets, Net	<u>\$ 43,088,685</u>	<u>\$ 41,824,275</u>

At June 30, 2018, the Authority had \$17.5 million in debt outstanding. The table below summarizes the outstanding debt by type for the years ended June 30, 2018 and 2017.

### Outstanding Debt, at Year-End

	June 30	
	2018	2017
Revenue Bonds - COT, net of discount	\$ 2,891,059	\$ 3,806,924
2010 Drinking Water SRF	13,433,520	13,806,956
2011 Drinking Water SRF	754,999	895,870
Capital Leases	417,115	611,660
	<u>\$ 17,496,693</u>	<u>\$ 19,121,410</u>

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**

FY 2018 was a year in which our electric sales were off by approximately 4% but our water and wastewater treatment sales were slightly above the budgeted projections. The increase in water and waste water sales is due to the increased rates implemented by the board last year. We did not raise our electric rates as we are awaiting a rate decision from the Grand River Dam Authority. As the weather patterns were similar to last years we were fairly close to our budgeted electric sales.

Cash flow in FY 2018 was impacted by the costs associated with our new administration building. Our decision to pay cash for the building as opposed to long term financing was a 1.5 million cost that came directly from our cash reserves. Additionally we incurred costs for engineering fees and utility relocations in relation to the city's street widening projects.

We will continue to experience these types of activities as our city continues to expand.

## **Economic Outlook**

FY 2019 will be a challenging year for TPWA as we will continue to expand our services. While this is good news, it may be a year or two before we will see the results in our sales numbers. As some of these projects come on line our electric sales should begin to reflect a slight increase.

We are nearing the completion of our new administration building and we expect a fall completion. TPWA has identified a need for major improvements to our water treatment facilities and our waste water flow equalization basins. These projects will cost approximately 15 million dollars. Some of these projects may begin in FY 2019. We have budgeted 1 million dollars in FY19 for the Water Treatment Plant improvements. The rest of the projects won't begin until FY 2020.

TPWA asked the voters to approve the 15 million dollars improvements and we are pleased that the voters approved the projects by 75% . We will finance these projects with low interest loans from the OWRB and Federal Low Interest loans. Investing in our infrastructure will insure that we are ready for the growth that we see coming in the very near future.

We are preparing for growth in our retail sector, apartments and housing additions. Our electrical infrastructure is in good shape. The improvements in the water and wastewater plants will accommodate the projected growth.

TPWA is committed to having a cash reserve cushion in the event of an emergency. We are in a good position with regards to cash on hand for emergencies or unforeseen events.

One area we are focused on next year and the upcoming years is future retirements. We have identified individuals who we are preparing to fill key positions in our company. We will continue to provide training and education to help these people be fully prepared when the opportunity is afforded to them.

TPWA is a Public Trust and is subject to the Governmental Tort Claims Act. We currently do not have any Tort Claims Pending. We currently have an ongoing easement dispute. We do not anticipate the dispute to have a significant negative impact to our financial performance.

**Tahlequah Public Works Authority and City Light & Water**  
**Statement of Net Position**  
**June 30, 2018**

	<u>Public Works Authority</u>	<u>City Light &amp; Water</u>	<u>Total</u>
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 3,442,541	\$ 2,938	\$ 3,445,479
Restricted Assets:			
Cash and cash equivalents	9,551,347	-	9,551,347
Investments	184,896	-	184,896
Inventory	1,278,936	-	1,278,936
Accounts receivable (net of allowance)	4,165,201	-	4,165,201
Total current assets	<u>18,622,921</u>	<u>2,938</u>	<u>18,625,859</u>
Noncurrent Assets:			
Capital assets, net	43,088,685	-	43,088,685
Total noncurrent assets	<u>43,088,685</u>	<u>-</u>	<u>43,088,685</u>
Total Assets	<u>61,711,606</u>	<u>2,938</u>	<u>61,714,544</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable	1,635,528	-	1,635,528
Accrued expenses	206,743	-	206,743
Capital leases, current portion	179,615	-	179,615
Notes payable, current portion	712,000	-	712,000
Revenue bonds payable, COT, current portion	970,000	-	970,000
Meter deposit liability	1,543,935	-	1,543,935
Total current liabilities	<u>5,247,821</u>	<u>-</u>	<u>5,247,821</u>
Noncurrent Liabilities:			
Compensated absences	383,528	-	383,528
Capital leases	237,500	-	237,500
Notes payable	13,476,519	-	13,476,519
Revenue bonds payable - COT	1,921,059	-	1,921,059
Total noncurrent liabilities	<u>16,018,606</u>	<u>-</u>	<u>16,018,606</u>
Total Liabilities	<u>21,266,427</u>	<u>-</u>	<u>21,266,427</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	28,483,051	-	28,483,051
Restricted for debt service	3,917,884	-	3,917,884
Unrestricted	8,044,244	2,938	8,047,182
Total Net Position	<u>\$ 40,445,179</u>	<u>\$ 2,938</u>	<u>\$ 40,448,117</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, 2018**

	Public Works Authority	City Light & Water	Total
<b>OPERATING REVENUES</b>			
Electric revenue	\$ 17,032,077	\$ -	\$ 17,032,077
Water revenue	3,931,311	-	3,931,311
Sewer charges	2,899,208	-	2,899,208
Miscellaneous	157,452	-	157,452
Cost reimbursement	-	-	-
Total operating revenues	<u>24,020,048</u>	<u>-</u>	<u>24,020,048</u>
<b>OPERATING EXPENSES</b>			
Electric service	13,037,372	-	13,037,372
Water service	1,381,077	-	1,381,077
Sewer service	840,868	-	840,868
Wastewater treatment	1,075,809	-	1,075,809
Water treatment	1,398,839	-	1,398,839
Depreciation of fixed assets	1,985,499	-	1,985,499
Management and general	1,585,558	41,311	1,626,869
Total operating expenses	<u>21,305,022</u>	<u>41,311</u>	<u>21,346,333</u>
Net operating gain(loss)	<u>2,715,026</u>	<u>(41,311)</u>	<u>2,673,715</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest subsidy from federal government	60,368	-	60,368
Investment income	84,298	258	84,556
Interest expense and related fees	(618,439)	-	(618,439)
Total nonoperating revenue (expenses)	<u>(473,773)</u>	<u>258</u>	<u>(473,515)</u>
Income before contributions and transfers	2,241,253	(41,053)	2,200,200
Capital contributions	90,165	-	90,165
Transfers in	1,710,650	-	1,710,650
Transfers between TPWA & CL&W	(1,475,664)	1,475,664	-
Transfers out	(889,755)	(1,434,353)	(2,324,108)
Increase (decrease) in net position	1,676,649	258	1,676,907
Net position at beginning of year (as restated)	<u>38,768,530</u>	<u>2,680</u>	<u>38,771,210</u>
Net position at end of year	<u>\$ 40,445,179</u>	<u>\$ 2,938</u>	<u>\$ 40,448,117</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, 2018**

	Public Works Authority	City Light & Water	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 23,265,230	\$ -	\$ 23,265,230
Payments to suppliers	(14,388,495)	(18,311)	(14,406,806)
Payments to employees	(4,612,689)	(23,000)	(4,635,689)
Net cash provided by (used in) operating activities	<u>4,264,046</u>	<u>(41,311)</u>	<u>4,222,735</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers from City of Tahlequah	1,710,650	-	1,710,650
Transfers between TPWA & CL&W	(1,475,664)	1,475,664	-
Transfers to City of Tahlequah	(889,755)	(1,434,353)	(2,324,108)
Net cash provided by (used in) noncapital financing activities	<u>(654,769)</u>	<u>41,311</u>	<u>(613,458)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchases of capital assets	(3,159,744)	-	(3,159,744)
Proceeds from sale/transfer of capital assets	-	-	-
Proceeds from capital debt	-	-	-
Principal paid on capital debt	(1,633,852)	-	(1,633,852)
Interest and fees on capital debt, net of subsidy	(548,934)	-	(548,934)
Net cash (used in) capital and related financing activities	<u>(5,342,530)</u>	<u>-</u>	<u>(5,342,530)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Sale of investments	-	-	-
Interest	84,298	258	84,556
Net cash provided by investing activities	<u>84,298</u>	<u>258</u>	<u>84,556</u>
Net increase (decrease) in cash and cash equivalents	(1,648,955)	258	(1,648,697)
Balance - beginning of year	14,642,843	2,680	14,645,523
Balance - end of year	<u>\$ 12,993,888</u>	<u>\$ 2,938</u>	<u>\$ 12,996,826</u>
<b>RECONCILIATION TO STATEMENT OF NET ASSETS</b>			
Cash and cash equivalents	3,442,541	2,938	3,445,479
Restricted cash and cash equivalents	9,551,347	-	9,551,347
	<u>\$ 12,993,888</u>	<u>\$ 2,938</u>	<u>\$ 12,996,826</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 2,715,026	\$ (41,311)	\$ 2,673,715
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	1,985,499	-	1,985,499
Change in assets and liabilities:			
Accounts receivable	(764,065)	-	(764,065)
Inventory	(68,741)	-	(68,741)
Accounts payable	385,733	-	385,733
Accrued expenses	1,347	-	1,347
Deposits	9,247	-	9,247
Net cash provided by (used in) operating activities	<u>\$ 4,264,046</u>	<u>\$ (41,311)</u>	<u>\$ 4,222,735</u>

See accompanying notes to the basic financial statements.

**TAHLEQUAH PUBLIC WORKS AUTHORITY  
and CITY LIGHT & POWER  
Notes to Basic Financial Statements  
June 30, 2018**

**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, 2018**

**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 that extend the life of the asset 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, 2018 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, 2018

**2. DEPOSIT AND INVESTMENT RISKS**

The Authority held the following deposits and investments at June 30, 2018:

<u>Type</u>		
Demand Deposits	\$	6,198,513
Time Deposits		5,120,363
Money Market Accounts		1,677,950
U.S. Treasury Notes		184,896
Total Deposits and Investments	\$	<u>13,181,722</u>
Reconciliation to Statement of Net Assets:		
Cash and Cash Equivalents	\$	3,445,479
Restricted Cash and Cash Equivalents		9,551,347
Investments		<u>184,896</u>
	\$	<u>13,181,722</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, 2018.

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Authority has the following recurring fair value measurements as of June 30, 2018:

- Money Market Funds of \$1,677,950 are valued using quoted market prices (Level 1 inputs).
- U.S. Treasury Notes of \$184,896 are valued using quoted market prices (Level 1 inputs).

The money market funds had a Moody's credit rating of Aaa at June 30, 2018.



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**3. CAPITAL ASSETS**

A summary of property, plant, and equipment activity for fiscal 2018 follows:

	<b>Balance at June 30, 2017 As restated</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at June 30, 2018</b>
Non-depreciable:				
Land	\$ 334,786	\$ 31,096	\$ -	\$ 365,882
Construction-in-progress	290,530	2,333,823	-	2,624,353
Total Non-depreciable Assets at Historical Cost	<u>625,316</u>	<u>2,364,919</u>	<u>-</u>	<u>2,990,235</u>
Depreciable:				
Buildings and Improvements	1,314,959	29,912	-	1,344,871
Machinery and Equipment	6,211,177	147,157	(86,583)	6,271,751
Utility Property	70,040,611	707,920	-	70,748,531
Total Depreciable Assets at Historical Cost	77,566,747	884,989	-	78,365,153
Less Accumulated Depreciation	(36,367,788)	(1,985,498)	86,583	(38,266,703)
Net Depreciable Assets	<u>41,198,959</u>	<u>(1,100,509)</u>	<u>-</u>	<u>40,098,450</u>
Capital Assets, Net, as restated	<u>\$ 41,824,275</u>	<u>\$ 1,264,410</u>	<u>\$ -</u>	<u>\$ 43,088,685</u>

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**4. LONG TERM LIABILITIES**

As of June 30, 2018, 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	\$ 13,433,521
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>754,999</u>
	<u>\$ 14,188,519</u>
Current portion	\$ 712,000
Noncurrent portion	<u>13,476,519</u>
Total notes payable	<u>\$ 14,188,519</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	\$ 2,905,000
Less unamortized discount	<u>(13,941)</u>
Total revenue bonds payable, net	<u>\$ 2,891,059</u>
Current portion	\$ 970,000
Noncurrent portion	<u>1,921,059</u>
Total revenue bonds payable, net	<u>\$ 2,891,059</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%	\$ 11,311
\$19,138 capital lease obligation for the purchase of a forklift, matures March 2019 with stated interest of 2%	2,666
\$138,156 capital lease obligation for the purchase of a semi-tractor, matures March 2019 with stated interest of 2%	19,236
\$32,384 capital lease obligation for the purchase of a truck, matures May 2019 with stated interest of 2%	5,628
\$79,010 capital lease obligation for the purchase of a loader/backhoe, matures December 2019 with stated interest of 1.575%	24,369
\$44,670 capital lease obligation for the purchase of a truck, matures December 2019 with stated interest of 1.575%	13,777
\$42,874 capital lease obligation for the purchase of a truck, matures December 2019 with stated interest of 1.575	13,223
\$37,742 capital lease obligation for the purchase of a truck, matures February 2020 with stated interest of 2.1%	13,016
\$38,773 capital lease obligation for the purchase of a truck, matures February 2020 with stated interest of 2.1%	13,378
\$67,726 capital lease obligation for the purchase of a truck, matures February 2020 with stated interest of 2.1%	23,380
\$83,828 capital lease obligation for the purchase of a truck, matures July 2020 with stated interest of 1.8%	35,849
\$311,841 capital lease obligation for the purchase of a vacuum truck, matures July 2020 with stated interest of 2.39%	<u>241,282</u>
Total capital leases payable	<u>\$ 417,115</u>
Current portion	\$ 179,615
Noncurrent portion	<u>237,500</u>
Total capital leases payable	<u>\$ 417,115</u>

**TAHLEQUAH PUBLIC WORKS AUTHORITY  
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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, 2018:

	<b>Balance 06/30/2017</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance 06/30/2018</b>	<b>Amount Due in One Year</b>
Notes Payable	\$ 14,702,826	\$ -	\$ (514,307)	\$ 14,188,519	\$ 712,000
Revenue Bonds	3,830,000	-	(925,000)	2,905,000	970,000
Capital Leases	611,660	-	(194,545)	417,115	179,615
	<u>\$ 19,144,486</u>	<u>\$ -</u>	<u>\$ (1,633,852)</u>	<u>\$ 17,510,634</u>	<u>\$ 1,861,615</u>

**Debt Service Requirements to Maturity:**

The annual debt service requirements to maturity for long-term debt as of June 30, 2018 are as follows:

<b>Year Ending June 30,</b>	<b>Notes Payable</b>		<b>Revenue Bonds Payable</b>		<b>Capital Leases Payable</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2019	\$ 712,000	\$ 457,524	\$ 970,000	\$ 129,443	\$ 180,589	\$ 7,441
2020	712,000	434,708	1,935,000	44,755	117,212	4,211
2021	712,000	411,892	-	-	65,428	2,267
2022	712,000	389,076	-	-	53,886	719
2023	626,999	369,155	-	-	-	-
2024-2028	2,720,000	1,560,993	-	-	-	-
2029-2033	2,720,000	1,086,353	-	-	-	-
2034-2038	2,720,000	611,713	-	-	-	-
2039-2041	2,553,520	147,630	-	-	-	-
	<u>\$ 14,188,519</u>	<u>\$ 5,469,044</u>	<u>\$ 2,905,000</u>	<u>\$ 174,198</u>	<u>\$ 417,115</u>	<u>\$ 14,638</u>

**TAHLEQUAH PUBLIC WORKS AUTHORITY  
and CITY LIGHT & POWER  
Notes to Basic Financial Statements  
June 30, 2018**

**5. PRIOR PERIOD ADJUSTMENT**

The following adjustments were made to correct the prior year ending fund balance:

	Public Works Authority
Balance as previously stated at June 30, 2017	\$ 36,532,353
Amounts recorded for capital assets	<u>2,236,177</u>
Fund balance at June 30, 2017, as restated	<u><u>\$ 38,768,530</u></u>

**6. 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 above, 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.

**7. 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, 2018, no retired employees were receiving benefits under this plan. Management expects few, if any, employees to qualify for and take advantage of this benefit. No liability has been accrued for this benefit as management does not believe the amount would be material to the financial statements.

**8. 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.

**TAHLEQUAH PUBLIC WORKS AUTHORITY  
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**9. 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, 2018 that management believes would result in a material loss in the event of an adverse outcome.

**10. SUBSEQUENT EVENTS**

Management reviewed activity through November 16, 2018, for subsequent events which may be material to the fiscal 2018 financial statements.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Tahlequah Public Works Authority and City Light & Water ("the Authority"), a component unit of the City of Tahlequah, Oklahoma, as of and for the year ended June 30, 2018, 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 16, 2018.

**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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings as 2018-001, that we consider to be material weaknesses.

**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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2018-001.



### **Authority's Response to Findings**

Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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.

*Arlidge & Associates, P.C.*

November 16, 2018

TAHLEQUAH PUBLIC WORKS AUTHORITY

SCHEDULE OF FINDINGS

Year Ended June 30, 2018

**Finding 2018-001: Capital Assets**

*Criteria:* Subledgers for capital assets should be reviewed and reconciled to the general ledger.

*Condition:* Subledgers did not reconcile to the general ledger.

*Cause and Effect:* The Authority was not accurately recording and reviewing capital assets resulting in a restatement in prior period net assets.

*Recommendation:* We recommend the Authority revise their processes and procedures relating to recording capital assets along with reviewing and reconciling the capital asset listing to the general ledger on a monthly basis.

*Management's response:* We are working to address software issues and implement procedures to correct this matter.