TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & WATER

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

June 30, 2017

TAHLEQUAH PUBLIC WORKS AUTHORITY AND
CITY LIGHT & WATER

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Arledge
& Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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, 2017, 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.

309 N. Bryant Ave. • Edmond, OK 73034 • 405.348.0615 • Fax 405.348.0931 • www.jmacpas.com
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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, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 December 4, 2017, 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.

Arledge + Associates, P.C.

December 4, 2017

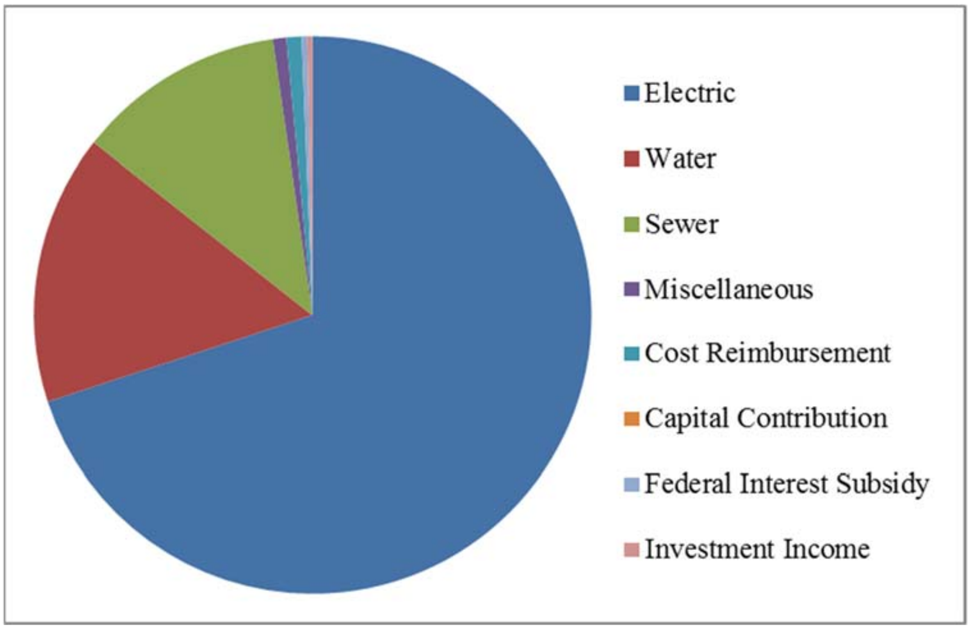
MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2017. Please read it in conjunction with the Authority's basic financial statements.

Financial Highlights

At June 30, 2017 the Authority's net assets total $36.5 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, 2017.



In the fiscal year ended June 30, 2017, the Authority's expenses exceeded revenues creating a decrease in net assets after net transfers out of $391,698, or 1%.

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.

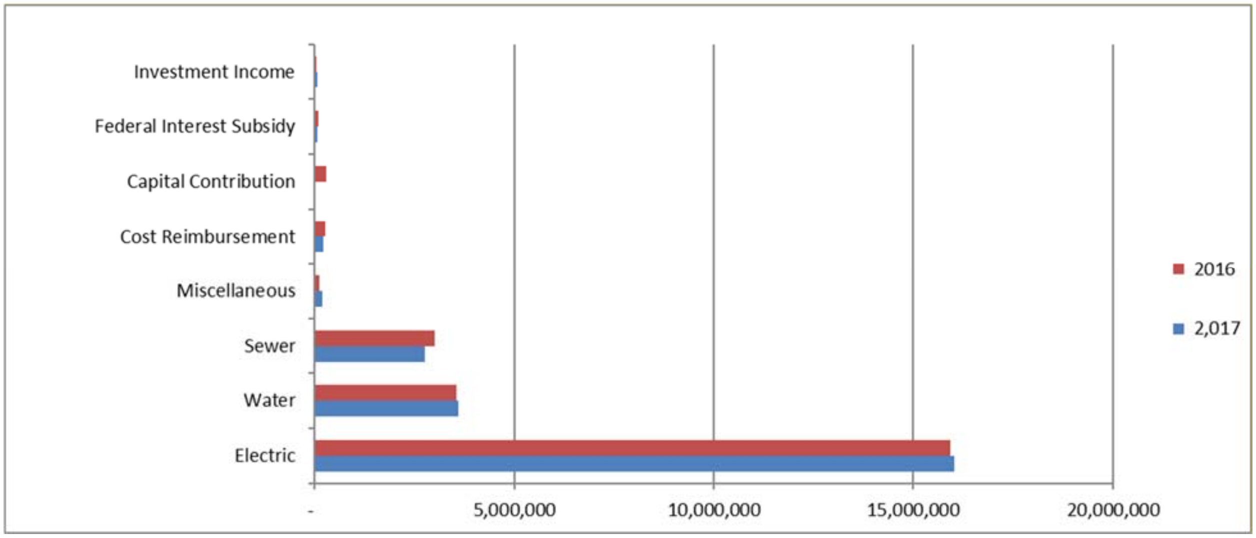
The third statement, the statement of cash flows, presents detailed information about the cash activity during the year. The statement is divided into five parts. The first part presents operating cash flows and shows the net cash provided by the operating activities of the Authority. The second section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

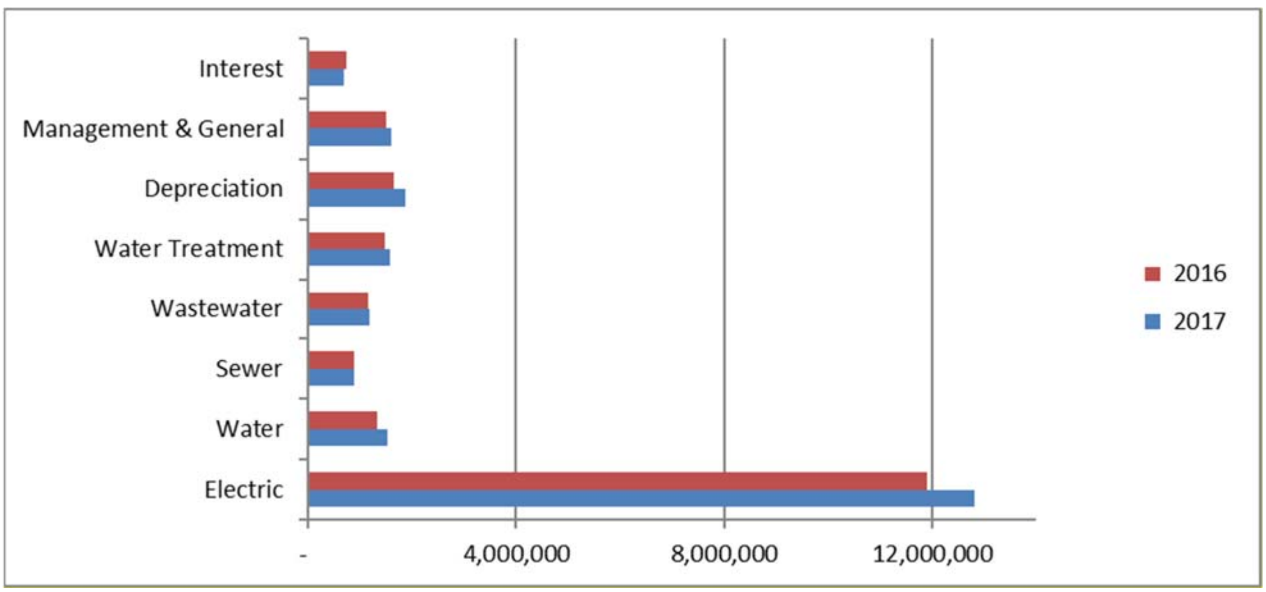
Statement of Position, End of Year

	June 30	
	2017	2016
Current Assets	$ 19,441,750	$ 22,579,241
Noncurrent Assets	39,588,100	39,998,185
Total Assets	59,029,850	62,577,426
Current Liabilities	4,821,191	4,749,657
Noncurrent Liabilities	17,673,626	19,092,656
Total Liabilities	22,494,817	23,842,313
Net Position		
Investment in Capital Assets	24,273,614	24,354,832
Restricted for Debt Service	4,138,667	4,605,923
Unrestricted	8,122,752	9,774,358
Total Net Position	$ 36,535,033	$ 38,735,113

Operating revenues for the fiscal years ended June 30, 2017 and 2016:



Operating expenses for the fiscal years ended June 30, 2017 and 2016:



Operating Results for the Year Ended

	June 30	
	2017	2016
Operating Revenues	$ 22,767,522	$ 22,864,082
Less Operating Expenses	21,448,713	19,938,916
Net Operating Revenue	1,318,809	2,925,166
Net Nonoperating Expenses	(532,901)	(601,359)
Net Transfers In (Out)	(1,177,606)	531,993
Increase (Decrease) in Net Assets	(391,698)	2,855,800
Net Position, Beginning of Year, restated	36,926,731	35,879,313
Net Position, End of Year	$ 36,535,033	$ 38,735,113

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 2017 and 2016.

Cash Flows for the Year Ended

	June 30	
	2017	2016
Cash Provided (Used) by:		
Operating Activities	$ 3,440,023	$ 3,698,387
Noncapital Financing Activities	(1,177,606)	249,273
Capital and Related Financing Activities	(3,258,787)	(2,671,488)
Investing Activities	134,322	99,139
Net Increase (Decrease) in Cash	(862,048)	1,375,311
Cash, Beginning of Year, restated	15,507,571	13,877,437
Cash, End of Year	$ 14,645,523	$ 15,252,658

Description of Capital Assets and Long-Term Debt Activity

At June 30, 2017 the Authority had $39.6 million invested in capital assets, net of accumulated depreciation of $38.4 million. Net depreciation charges totaled $1.9 million for the year ended June 30, 2017. Details of these assets are shown below for the years ended June 30, 2017 and 2016.

Capital Assets at Year-End

	June 30	
	2017	2016
Non-depreciable:		
Land	$ 334,786	$ 229,006
Total Non-depreciable Assets at Historical Cost	334,786	229,006
Depreciable:		
Buildings and Improvements	1,440,920	1,284,865
Machinery and Equipment	6,211,177	5,588,814
Utility Property	70,023,203	69,453,549
Total Depreciable Assets at Historical Cost	77,675,300	76,327,228
Less Accumulated Depreciation	(38,421,986)	(36,558,049)
Net Depreciable Assets	39,253,314	39,769,179
Capital Assets, Net	$ 39,588,100	$ 39,998,185

At June 30, 2017, the Authority had $19 million in debt outstanding. The table below summarizes the outstanding debt by type for the years ended June 30, 2017 and 2016.

Outstanding Debt, at Year-End

	June 30	
	2017	2016
Revenue Bonds - COT, net of discount	$ 3,806,924	$ 4,682,779
2010 Drinking Water SRF	13,806,956	14,069,205
2011 Drinking Water SRF	895,870	1,131,014
Capital Leases	611,660	443,134
	$ 19,121,410	$ 20,326,132

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, 2017, total operating revenues were down from the previous fiscal year ending June 30, 2016. Similar to last year, the decline in operating revenue can be attributed to a decrease in electric sales due to milder temperatures. TPWA electric sales were actually up compared to FY 2016. However, our electric sales were down 13% compared to our FY 2017 budget. Wastewater sales were down by approximately 6.2% relative to the budget. Water sales were up 3.75% compared to FY 2016. Total revenue for the Authority was down 3.79% compared to last year. As it relates to our budget, sales were off by 13.65%

While our operating revenues were down 3.79%, our operating expenditures were up by approximately 6.5%. TPWA invested heavily in engineering services in 2017 due to expected growth in Tahlequah in the next 3-5 years. Several projects are on the drawing board for expansions in our city. Additionally, TPWA experienced some additional costs for utility relocating due to street widening projects in 2017. Because we are a cost-of-service provider of electricity, the decrease in sales reflected a decrease in the purchase of electricity expenditures. This is driven primarily because of the direct correlation in electricity purchased and electricity sold. Because we didn't meet our budget expectations and due to utility relocation projects, our year end margins are off accordingly.

I think it's important to note that other electric providers in our region also experienced a decrease in electric sales due to the milder temperatures.

Economic Outlook

TPWA reduced our budget in relation to our projected sales of electricity. Water sales remained virtually unchanged in regards to projected revenue for FY 2018. We reduced our projected sales for wastewater in comparison to our forecast in 2017. We believe that milder temperatures will continue in the current pattern for FY 2018.

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. These ongoing expenses will have an impact on our operating margins in the upcoming years.

We mentioned that we had hired an outside consulting firm to review our electric rates last year. Those results indicate that we will need to raise our base cost for electricity. We anticipate that this increase will be small and should occur in the late spring of 2018 or early summer 2018. Additionally, we hired a firm to review our water and wastewater rates. This study showed an immediate need to raise our water and sewer rates. These increases will go into effect in October of 2017.

Water Distribution Systems: TPWA hired the services of a leak detection firm in FY 2017. We identified several leaks in our distribution system and have repaired those leaks. We are hopeful these repairs will decrease our water loss in FY 2018. We will continue to employ the services of the leak detection company on a continual basis going forward.

Wastewater Treatment: We are able to comply with all current standards. TPWA invested in a new bar screen system at our wastewater treatment facility. We budgeted $200,000 for this project and we were able to complete this project on budget.

Wastewater Collections: We have purchased a new jetter/pumper truck for the Wastewater Collections department. We spent $311,000 for this equipment and financed this on a 5-year lease purchase program.

While this piece of equipment is expensive, it should serve the needs of the City of Tahlequah for the next 20-25 years.

Additionally, we spent another $300,000 on equipment purchases for other departments.

Administration: We did not begin construction of our new office building, but we did purchase a piece of property for this specific reason. The property we obtained last year cost us approximately 105,000. TPWA is also budgeting $2,500,000 for the purpose of building a new office complex. The plans and specs have been approved and a contract has been awarded to Voy Construction. We are scheduled to be in our new office by July 1, 2018. The facility will house our customer service, billing, accounting, human resources, and general administration functions. The facility is a partial two-story building with approximately 10,000 sq. ft. of office space. The new building will serve TPWA for the next 30-40 years. In the past, we shared office expense and personnel with NOPFA. TPWA will not have that shared expense and as a result we are now renting space from the NOPFA. Additionally, NOPFA is not paying a percentage of cost of office staff for any TPWA employees, and we do not see the need to reduce our staff as a result of the split.

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, 2017

	Public Works Authority	City Light & Water	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 2,183,405	$ 2,680	$ 2,186,085
Restricted Assets:			
Cash and cash equivalents	12,459,438	-	12,459,438
Investments	184,896	-	184,896
Inventory	1,210,195	-	1,210,195
Accounts receivable (net of allowance)	3,401,136	-	3,401,136
Total current assets	19,439,070	2,680	19,441,750
Noncurrent Assets:			
Capital assets, net	39,588,100	-	39,588,100
Total noncurrent assets	39,588,100	-	39,588,100
Total Assets	59,027,170	2,680	59,029,850
LIABILITIES			
Current Liabilities:			
Accounts payable	1,249,795	-	1,249,795
Accrued expenses	205,396	-	205,396
Capital leases, current portion	194,312	-	194,312
Notes payable, current portion	712,000	-	712,000
Revenue bonds payable, COT, current portion	925,000	-	925,000
Meter deposit liability	1,534,688	-	1,534,688
Total current liabilities	4,821,191	-	4,821,191
Noncurrent Liabilities:			
Compensated absences	383,528	-	383,528
Capital leases	417,348	-	417,348
Notes payable	13,990,826	-	13,990,826
Revenue bonds payable - COT	2,881,924	-	2,881,924
Total noncurrent liabilities	17,673,626	-	17,673,626
Total Liabilities	22,494,817	-	22,494,817
NET POSITION			
Invested in capital assets, net of related debt	24,273,614	-	24,273,614
Restricted for debt service	4,138,667	-	4,138,667
Unrestricted	8,120,072	2,680	8,122,752
Total Net Position	$ 36,532,353	$ 2,680	$ 36,535,033

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, 2017

	Public Works Authority	City Light & Water	Total
OPERATING REVENUES			
Electric revenue	$ 16,027,037	$ -	$ 16,027,037
Water revenue	3,592,056	-	3,592,056
Sewer charges	2,767,461	-	2,767,461
Miscellaneous	179,340	-	179,340
Cost reimbursement	201,628	-	201,628
Total operating revenues	22,767,522	-	22,767,522
OPERATING EXPENSES			
Electric service	12,804,517	-	12,804,517
Water service	1,534,735	-	1,534,735
Sewer service	897,198	-	897,198
Wastewater treatment	1,188,884	-	1,188,884
Water treatment	1,565,265	-	1,565,265
Depreciation of fixed assets	1,863,937	-	1,863,937
Management and general	1,547,554	46,623	1,594,177
Total operating expenses	21,402,090	46,623	21,448,713
Net operating gain(loss)	1,365,432	(46,623)	1,318,809
NONOPERATING REVENUES (EXPENSES)			
Interest subsidy from federal government	75,505	-	75,505
Investment income	67,121	191	67,312
Interest expense and related fees	(676,504)	-	(676,504)
Total nonoperating revenue (expenses)	(533,878)	191	(533,687)
Income before contributions and transfers	831,554	(46,432)	785,122
Capital contributions	786	-	786
Transfers in	1,518,220	-	1,518,220
Transfers between TPWA & CL&W	(1,366,121)	1,366,121	-
Transfers out	(1,376,328)	(1,319,498)	(2,695,826)
Increase (decrease) in net position	(391,889)	191	(391,698)
Net position at beginning of year, as restated	36,924,242	2,489	36,926,731
Net position at end of year	$ 36,532,353	$ 2,680	$ 36,535,033

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, 2017

	Public Works Authority	City Light & Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	$ 23,037,643	$ -	$ 23,037,643
Payments to suppliers	(14,911,811)	(21,623)	(14,933,434)
Payments to employees	(4,639,186)	(25,000)	(4,664,186)
Net cash provided by (used in) operating activities	3,486,646	(46,623)	3,440,023
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from City of Tahlequah	1,518,220	-	1,518,220
Transfers between TPWA & CL&W	(1,366,121)	1,366,121	-
Transfers to City of Tahlequah	(1,376,328)	(1,319,498)	(2,695,826)
Net cash (used in) noncapital financing activities	(1,224,229)	46,623	(1,177,606)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(1,453,066)	-	(1,453,066)
Proceeds from sale/transfer of capital assets	-	-	-
Proceeds from capital debt	311,841	-	311,841
Principal paid on capital debt	(1,525,698)	-	(1,525,698)
Interest and fees on capital debt, net of subsidy	(591,864)	-	(591,864)
Net cash (used in) capital and related financing activities	(3,258,787)	-	(3,258,787)
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of investments	60,000	-	60,000
Interest	74,131	191	74,322
Net cash provided by investing activities	134,131	191	134,322
Net increase (decrease) in cash and cash equivalents	(862,239)	191	(862,048)
Balance - beginning of year, as restated	15,505,082	2,489	15,507,571
Balance - end of year	$ 14,642,843	$ 2,680	$ 14,645,523
RECONCILIATION TO STATEMENT OF NET ASSETS			
Cash and cash equivalents	2,183,405	2,680	2,186,085
Restricted cash and cash equivalents	12,459,438	-	12,459,438
	$ 14,642,843	$ 2,680	$ 14,645,523
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	$ 1,365,432	$ (46,623)	$ 1,318,809
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	1,863,937	-	1,863,937
Change in assets and liabilities			
Accounts receivable	219,761	-	219,761
Inventory	180,290	-	180,290
Accounts payable	(81,314)	-	(81,314)
Accrued expenses	(111,820)	-	(111,820)
Deposits	50,360	-	50,360
Net cash provided by (used in) operating activities	$ 3,486,646	$ (46,623)	$ 3,440,023

See accompanying notes to the basic financial statements.

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.

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, 2017 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.

2. DEPOSIT AND INVESTMENT RISKS

The Authority held the following deposits and investments at June 30, 2017:

Type		
Demand Deposits	$	5,006,697
Time Deposits		7,996,590
Money Market Funds		1,642,236
U.S. Treasury Notes		184,896
Total Deposits and Investments	$	14,830,419
Reconciliation to Statement of Net Assets		
Cash and Cash Equivalents	$	2,186,085
Restricted Cash and Cash Equivalents		12,459,438
Investments		184,896
	$	14,830,419

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, 2017.

The Authority implemented GASB Statement No. 72, *Fair Value Measurements and Application*, during fiscal 2016. 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, 2017:

- Money Market Funds of $1,642,236 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, 2017.

TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER
Notes to Basic Financial Statements
June 30, 2017

3. CAPITAL ASSETS

A summary of property, plant, and equipment activity for fiscal 2017 follows:

	Balance at June 30, 2016	Additions	Deletions	Balance at June 30, 2017
Non-depreciable:				
Land	$ 229,006	$ 105,780	$ -	$ 334,786
Total Non-depreciable Assets at Historical Cost	229,006	105,780	-	334,786
Depreciable:				
Buildings and Improvements	1,284,865	156,055	-	1,440,920
Machinery and Equipment	5,588,814	622,363	-	6,211,177
Utility Property	69,453,549	569,654	-	70,023,203
Total Depreciable Assets at Historical Cost	76,327,228	1,348,072	-	77,675,300
Less Accumulated Depreciation	(36,558,049)	(1,863,937)	-	(38,421,986)
Net Depreciable Assets	39,769,179	(515,865)	-	39,253,314
Capital Assets, Net	$ 39,998,185	$ (410,085)	$ -	$ 39,588,100

TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER
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4. LONG TERM LIABILITIES

As of June 30, 2017, 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	$ 13,806,956
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	895,870
	$ 14,702,826
Current portion	$ 712,000
Noncurrent portion	13,990,826
Total notes payable	$ 14,702,826

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	$ 3,830,000
Less unamortized discount	(23,076)
Total revenue bonds payable, net	$ 3,806,924
Current portion	$ 925,000
Noncurrent portion	2,881,924
Total revenue bonds payable, net	$ 3,806,924

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%	$ 27,985
$19,138 capital lease obligation for the purchase of a forklift, matures March 2019 with stated interest of 2%	6,593
$138,156 capital lease obligation for the purchase of a semi-tractor, matures March 2019 with stated interest of 2%	47,598
$32,384 capital lease obligation for the purchase of a truck, matures May 2019 with stated interest of 2%	12,251
$79,010 capital lease obligation for the purchase of a loader/backhoe, matures December 2019 with stated interest of 1.575%	40,293
$44,670 capital lease obligation for the purchase of a truck, matures December 2019 with stated interest of 1.575%	22,781
$42,874 capital lease obligation for the purchase of a truck, matures December 2019 with stated interest of 1.575	21,865
$37,742 capital lease obligation for the purchase of a truck, matures February 2020 with stated interest of 2.1%	20,607
$38,773 capital lease obligation for the purchase of a truck, matures February 2020 with stated interest of 2.1%	21,180
$67,726 capital lease obligation for the purchase of a truck, matures February 2020 with stated interest of 2.1%	36,996
$83,828 capital lease obligation for the purchase of a truck, matures July 2020 with stated interest of 1.8%	52,582
$311,841 capital lease obligation for the purchase of a vacuum truck, matures July 2020 with stated interest of 2.39%	300,929
Total capital leases payable	$ 611,660
Current portion	$ 194,312
Noncurrent portion	417,348
Total capital leases payable,	$ 611,660

TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER
Notes to Basic Financial Statements
June 30, 2017

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, 2017:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Amount Due in One Year
Notes Payable	$ 15,200,219	$ -	$ (497,393)	$ 14,702,826	$ 712,000
Revenue Bonds	4,715,000	-	(885,000)	3,830,000	925,000
Capital Leases	443,134	311,841	(143,315)	611,660	194,312
	$ 20,358,353	$ 311,841	$ (1,525,708)	$ 19,144,486	$ 1,831,312

Debt Service Requirements to Maturity:

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

	Notes Payable		Revenue Bonds Payable		Capital Leases Payable	
Year Ending June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 712,000	$ 466,492	$ 925,000	$ 180,606	$ 194,312	$ 11,373
2019	712,000	443,676	970,000	129,443	186,872	7,319
2020	712,000	420,860	1,935,000	44,755	174,423	4,187
2021	712,000	398,044	-	-	56,053	2,040
2022	712,000	375,228	-	-	-	-
2023-2027	2,888,000	1,576,992	-	-	-	-
2028-2032	2,720,000	1,102,352	-	-	-	-
2033-2037	2,720,000	627,712	-	-	-	-
2038-2042	2,814,826	160,429	-	-	-	-
	$ 14,702,826	$ 5,571,785	$ 3,830,000	$ 354,804	$ 611,660	$ 24,919

5. PRIOR PERIOD ADJUSTMENT

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

Balance as previously stated at June 30, 2016	$ 38,735,113
Amounts recorded for restricted cash	254,913
Adjustment to unbilled receivables	(2,063,295)
Fund balance at June 30, 2016, as restated	$ 36,926,731

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 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.

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, 2017, 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.

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, 2017 that management believes would result in a material loss in the event of an adverse outcome.

10. SUBSEQUENT EVENTS

Management reviewed activity through December 4, 2017, for subsequent events which may be material to the fiscal 2017 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*

Arledge & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 4, 2017.

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*.

309 N. Bryant Ave. • Edmond, OK 73034 • 405.348.0615 • Fax 405.348.0931 • www.jmacpas.com
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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.

December 4, 2017