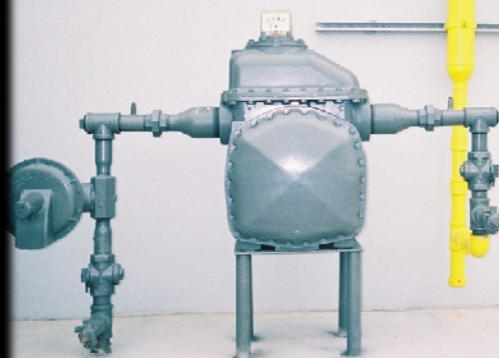




Northeast Oklahoma Public Facilities Authority

Report on Audits of Financial Statements

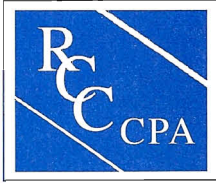
June 30, 2012 and 2011



Northeast Oklahoma Public Facilities Authority
Report on Audits of Financial Statements
June 30, 2012 and 2011

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Ronald C. Cottrell, CPA

Independent Auditor's Report

October 10, 2012

Board of Trustees
Northeast Oklahoma Public Facilities Authority
Tahlequah, Oklahoma

We have audited the accompanying statements of net assets of the Northeast Oklahoma Public Facilities Authority as of June 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended, which collectively comprise its basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Northeast Oklahoma Public Facilities Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Northeast Oklahoma Public Facilities Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northeast Oklahoma Public Facilities Authority, as of June 30, 2012 and 2011, and the changes in financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2012, on our consideration of the Northeast Oklahoma Public Facilities 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Ronald C. Cottrell, CPA

Accounting principles generally accepted in the United State of America require that management's discussion and analysis on pages 3 through 6 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 response 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Northeast Oklahoma Public Facilities Authority's basic financial statements. The accompanying combining financial statements and the schedules of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements and the schedules of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements taken as a whole.

Ronald C. Cottrell, CPA

Northeast Oklahoma Public Facilities Authority

Management's Discussion and Analysis

June 30, 2012 and 2011

The following discussion and analysis of the financial performance of the Northeast Oklahoma Public Facilities Authority (NOPFA) provides an overview of NOPFA's financial activities for the fiscal years ended June 30, 2012 and 2011. Please read it in conjunction with NOPFA's financial statements, which begin on page 7.

Financial Highlights

- ❖ During the year ended June 30, 2012, NOPFA's net assets were \$ 23,483,557, an increase of \$ 2,188,915 over the prior year's net asset balance of \$ 21,294,642.
- ❖ Operating revenues were \$ 9,294,403, a decrease of \$ 1,890,522 while non-operating revenues increased by \$ 303,696.
- ❖ Operating expenses totaled \$ 8,555,792, down from \$ 10,248,826 in the prior year.

Overview of the Financial Statements

NOPFA has elected to present the financial statements in accordance with the business-type activities format. Accordingly, the financial section of this report includes management's discussion and analysis (as required supplementary information); the statement of net assets, the statement of revenues, expenses, and changes in net assets, the statement of cash flows, and explanatory notes to the financial statements, as required by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

The Basic Financial Statements

One of the most important questions asked about NOPFA is whether it is better off or worse off as a result of the year's financial activities. The statement of net assets and the statement of revenues, expenses, and changes in net assets report information about NOPFA as a whole and about its activities in a way that answers this question.

The statement of net assets and the statement of revenues, expenses, and changes in net assets report NOPFA's net assets and changes to them. You can think of NOPFA's net assets—the difference between assets and liabilities—as one way to measure NOPFA's financial health or financial position.

Over time, increases or decreases in NOPFA's net assets are one indicator of whether its financial health is improving or deteriorating.

Financial Analysis of the Northeast Oklahoma Public Facilities Authority as a Whole

NOPFA's net assets increased from a year ago. The amounts are from the statement of net assets, page 7, which is presented on an accrual basis of accounting.

Northeast Oklahoma Public Facilities Authority

Net Assets
June 30, 2012 and 2011

	2012	2011	Increase (Decrease)
Assets:			
Current assets	\$ 12,529,560	\$ 12,190,266	\$ 339,294
Noncurrent assets	11,737,640	9,833,705	1,903,935
Total assets	<u>24,267,200</u>	<u>22,023,971</u>	<u>2,243,229</u>
Liabilities:			
Current liabilities	682,566	645,761	36,805
Noncurrent liabilities	101,077	83,568	17,509
Total liabilities	<u>783,643</u>	<u>729,329</u>	<u>54,314</u>
Net Assets:			
Invested in capital assets, net of related debt	11,737,640	9,833,705	1,903,935
Restricted	-	-	-
Unrestricted	11,745,917	11,460,937	284,980
Total net assets	<u>\$ 23,483,557</u>	<u>\$ 21,294,642</u>	<u>\$ 2,188,915</u>

Net assets increased by \$ 2,188,915 due to the completion of Compressed Natural Gas (CNG) fueling stations, system improvements, natural gas line extensions, and the purchase of vehicles.

Northeast Oklahoma Public Facilities Authority

Operating Results
Years Ended June 30, 2012 and 2011

	2012	2011	Increase (Decrease)
Operating revenues	\$ 9,294,403	\$ 11,184,925	\$ (1,890,522)
Operating expenses	8,555,792	10,248,826	(1,693,034)
Operating income (loss)	738,611	936,099	(197,488)
Nonoperating revenues (expenses)	1,850,304	1,546,608	303,696
Net increase (decrease) in net assets	2,588,915	2,482,707	106,208
Net assets, beginning, restated	21,294,642	19,361,430	1,933,212
Distributions	(400,000)	(549,495)	(149,495)
Net assets, ending	<u>\$ 23,483,557</u>	<u>\$ 21,294,642</u>	<u>\$ 2,188,915</u>

During the year ended June 30, 2012, overall revenues decreased by \$ 1,586,826 due to:

- Mild winter.
- Lower cost of natural gas.

Expenses decreased by \$ 1,693,034 over the prior year. This was the result of:

- Lower MCF usage.
- Lower cost of natural gas.

See disclaimer in accompanying Independent Auditor's Report.

Northeast Oklahoma Public Facilities Authority

Analysis of Net Assets

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 11,737,640	\$ 9,833,705	\$ 1,903,935
Restricted	-	-	-
Unrestricted	<u>11,745,917</u>	<u>11,460,937</u>	<u>284,980</u>
Total net assets	<u><u>\$ 23,483,557</u></u>	<u><u>\$ 21,294,642</u></u>	<u><u>\$ 2,188,915</u></u>

NOPFA's overall cash and cash equivalents increased by \$ 939,006, due to receipt of ARRA grant funding, interest earnings on certificates of deposit, and additional funds added to reserve 2nd feed.

Northeast Oklahoma Public Facilities Authority

Cash Flows

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Cash provided (used) by:			
Operating activities	\$ 1,217,789	\$ 1,467,592	\$ (249,803)
Noncapital financing activities	(343,291)	(493,619)	150,328
Capital and related financing activities	9,924	(1,264,221)	1,274,145
Investing activities	<u>54,584</u>	<u>128,942</u>	<u>(74,358)</u>
Net increase (decrease) in cash and cash equivalents	939,006	(161,306)	1,100,312
Cash and cash equivalents, beginning	<u>7,790,335</u>	<u>7,951,640</u>	<u>(161,305)</u>
Cash and cash equivalents, ending	<u><u>\$ 8,729,341</u></u>	<u><u>\$ 7,790,334</u></u>	<u><u>\$ 939,007</u></u>

Capital Assets and Debt Administration

During 2012, the System's investment in capital assets increased by \$ 1,903,935. Additions to capital assets during the year included:

- Tahlequah and Stilwell Compressed Natural Gas fueling stations.
- Tahlequah and Stilwell CNG mobile units.
- Building improvements.
- Purchased vehicles.

Northeast Oklahoma Public Facilities Authority

Capital Assets, Net

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Capital assets	\$ 19,480,972	\$ 17,193,687	\$ 2,287,285
Less: accumulated depreciation	<u>(7,743,332)</u>	<u>(7,359,982)</u>	<u>(383,350)</u>
Capital assets, net	<u><u>\$ 11,737,640</u></u>	<u><u>\$ 9,833,705</u></u>	<u><u>\$ 1,903,935</u></u>

See disclaimer in accompanying Independent Auditor's Report.

Northeast Oklahoma Public Facilities Authority had no debt during the year ended June 30, 2012.

Economic Factors and NOPFA's Future

NOPFA's board considers many factors when setting the budget. Among these factors are the following:

- Cash flow to cover operating expenses.
- Age and operating condition of capital assets.
- Reserves required for future expansion, upgrades, and replacements.

Contacting NOPFA's Financial Management

This financial report is designed to provide users, including customers and creditors with a general overview of NOPFA's finances and to show its accountability for the money it receives. If you have questions about this report or need additional financial information, contact the General Manager of the Northeast Oklahoma Public Facilities Authority, 103 North College Avenue, Tahlequah, Oklahoma, 74434 or telephone us at (918) 456-6268.

Northeast Oklahoma Public Facilities Authority
Statements of Net Assets
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,729,341	\$ 7,790,335
Investments	2,612,774	2,595,233
Receivables:		
Accounts (net of allowance for uncollectibles)	209,150	194,967
Due from other governments	-	702,979
Due from other funds	4,883	50,754
Inventories	253,917	224,117
Prepaid expenses	28,026	22,514
Restricted cash and investments	691,469	609,367
Total current assets	<u>12,529,560</u>	<u>12,190,266</u>
Noncurrent assets:		
Capital assets (net of accumulated depreciation)	11,737,640	9,833,705
Total noncurrent assets	<u>11,737,640</u>	<u>9,833,705</u>
Total assets	<u>24,267,200</u>	<u>22,023,971</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	17,868	13,195
Payable from restricted assets - customer deposits	664,271	581,811
Due to other funds	427	50,755
Total current liabilities	<u>682,566</u>	<u>645,761</u>
Noncurrent liabilities:		
Compensated absences	101,077	83,568
Total noncurrent liabilities	<u>101,077</u>	<u>83,568</u>
Total liabilities	<u>783,643</u>	<u>729,329</u>
Net assets		
Invested in capital assets, net of related debt	11,737,640	9,833,705
Restricted:		
Other	-	-
Unrestricted	11,745,917	11,460,937
Total net assets	<u>\$ 23,483,557</u>	<u>\$ 21,294,642</u>

The accompanying notes are an integral part of these financial statements.

Northeast Oklahoma Public Facilities Authority
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues		
Charges for services:		
Gas sales	\$ 8,725,337	\$ 10,825,828
Installations	131,085	45,306
Connection and transfer fees	37,375	41,817
Penalties	96,313	83,356
Administrative services	304,293	188,618
Total operating revenues	<u>9,294,403</u>	<u>11,184,925</u>
Operating expenses		
Cost of sales - gas purchases	5,171,032	7,230,254
CNG expense	1,864	-
Salaries and wages	1,231,617	1,123,693
Payroll taxes and benefits	376,459	360,354
Contracted services	385,524	396,359
Maintenance and repairs	38,621	29,549
Insurance	84,205	75,133
Office supplies and expenses	142,660	92,782
Travel	8,836	6,399
Truck expenses	111,318	107,631
Dues and pipeline assessments	42,080	38,916
Telephone and utilities	66,413	36,638
Miscellaneous	25,441	13,476
Administrative expenses	304,293	188,619
Supplies	111,220	137,876
Depreciation	428,486	387,070
Bad debts	25,723	24,077
Total operating expenses	<u>8,555,792</u>	<u>10,248,826</u>
Net operating income (loss)	738,611	936,099
Nonoperating revenues (expenses)		
Capital grants	1,710,411	1,302,990
Miscellaneous	67,768	88,714
Interest income	72,125	154,904
Total nonoperating revenues (expenses)	<u>1,850,304</u>	<u>1,546,608</u>
Operating transfers		
Transfers in	734,077	278,956
Transfers out	(734,077)	(278,956)
Net operating transfers	-	-
Net Income (loss)	2,588,915	2,482,707
Net assets, beginning, restated	21,294,642	19,361,430
Distributions to beneficiaries	(400,000)	(549,495)
Net assets, ending	<u>\$ 23,483,557</u>	<u>\$ 21,294,642</u>

The accompanying notes are an integral part of these financial statements.

Northeast Oklahoma Public Facilities Authority
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Receipts from customers	\$ 9,263,682	\$ 11,272,794
Payments to suppliers	(6,830,881)	(8,694,585)
Payments to employees	(1,215,012)	(1,110,617)
Net cash provided (used) by operating activities	1,217,789	1,467,592
Cash flows from noncapital financing activities		
Distributions to beneficiaries	(400,000)	(549,495)
(Increase) decrease in due from other governments	71,043	-
(Increase) decrease in restricted assets	(82,102)	(32,838)
Miscellaneous nonoperating revenue	67,768	88,714
Net cash provided (used) by noncapital financing activities	(343,291)	(493,619)
Cash flows from capital and related financing activities		
Proceeds from capital grants	2,342,347	600,011
Acquisition/construction of capital assets	(2,332,423)	(1,864,232)
Net cash provided (used) by capital and related financing activities	9,924	(1,264,221)
Cash flows from investing activities		
(Increase) decrease in investments	(17,541)	(25,962)
Interest income	72,125	154,904
Net cash provided (used) by investing activities	54,584	128,942
Net increase (decrease) in cash and cash equivalents	939,006	(161,306)
Cash and cash equivalents, beginning	7,790,335	7,951,640
Cash and cash equivalents, ending	\$ 8,729,341	\$ 7,790,334
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Net operating income (loss)	\$ 738,611	\$ 936,099
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	428,486	387,070
Changes in assets and liabilities:		
(Increase) decrease in receivables	(14,183)	87,869
(Increase) decrease in inventories	(29,800)	11,287
(Increase) decrease in prepaid expenses	(5,512)	(53)
Increase (decrease) in accounts payable	218	2,323
Increase (decrease) in accrued expenses	17,509	9,321
Increase (decrease) in customer deposits	82,460	33,676
Increase (decrease) in deferred revenue	-	-
Total adjustments	479,178	531,493
Net cash provided (used) by operating activities	\$ 1,217,789	\$ 1,467,592

The accompanying notes are an integral part of these financial statements.

Northeast Oklahoma Public Facilities Authority
Notes to Financial Statements
June 30, 2012 and 2011

I. Organization

The Northeast Oklahoma Public Facilities Authority (NOPFA) was created as a public trust in the State of Oklahoma on April 22, 1958, to establish and operate public utility facilities for the public health and welfare in Northeast Oklahoma. On March 25, 1960, NOPFA entered into a franchise agreement with the City of Tahlequah, Oklahoma to establish and operate a natural gas utility system. On November 10, 1972, the NOPFA entered into franchise agreements with the Cities of Stilwell and Westville for the establishment and operation of a natural gas utility system in their areas.

II. Summary of significant accounting policies

A. Reporting entity

The accompanying financial statements present the consolidated operations of the Northeast Oklahoma Public Facilities Authority, to include the Tahlequah Gas system, the Stilwell/Westville Gas System, and the Administrative Account.

Both the Tahlequah Gas System and the Stilwell/Westville Gas System have as their purpose to develop, construct, plan, establish, install, enlarge, improve, maintain, equip, operate, control, and regulate gas utility facilities within and without the corporate boundaries of the Cities of Tahlequah, Stilwell, and Westville. NOPFA is reported as a single purpose government, in accordance with GASB Statement No. 34 using a business-type activities presentation. As such, fund financial statements are not required.

B. Measurement focus, basis of accounting, and financial statement presentation

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of NOPFA are charges to customers for sales and services by the two gas systems. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is NOPFA's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Assets, liabilities, and net assets or equity

1. Deposits and investments

NOPFA's cash and cash equivalents are considered to be cash on hand, demand deposits, savings accounts, money market accounts, and certificates of deposit or short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize NOPFA to invest in obligations of the U.S. Treasury; time deposits with financial institutions, if such deposits are fully insured by federal depository insurance or pledged collateral; and debt securities issued by the State of Oklahoma, an Oklahoma County, school district, or municipality.

Investments are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectibles.

3. Inventories and prepaid items

Inventories consist of parts and supplies used in construction and maintenance of the systems. Inventories are recorded at cost and charged to expense when used.

4. Capital assets

Capital assets include the gas systems, buildings, equipment, and vehicles. Capital assets are defined by NOPFA as assets with an initial, individual cost of more than \$ 500 with an estimated useful life in excess of one year.

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by NOPFA during the current fiscal year was \$ 0. Of this amount, \$ 0 was included as part of the cost of capital assets under construction.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	10-30
Gas system improvements	50
Equipment	5-10
Vehicles	5

5. Compensated absences

Permanent employees earn vacation and sick leave based on years of service at varying rates. Sick leave may be carried forward up to 240 hours. Vacation can be carried forward up to 360 hours. Both are payable upon retirement or termination.

6. Long-term obligations

In the accompanying financial statements, long-term debt and other long-term obligations are reported as liabilities. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

7. Net assets

Net assets are displayed in three components:

- a. Invested in capital assets, net of related debt – consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any debt or other borrowings that are attributable to the acquisition, construction, or improvement of these assets.
- b. Restricted net assets – consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – all other net assets that do not meet the definitions of “invested in capital assets, net of related debt” or “restricted”.

8. Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

III. Detailed notes on all funds

A. Deposits and investments

Deposits

NOPFA's carrying amount of deposits was \$ 9,035,910 and \$ 8,014,803 as of June 30, 2012 and 2011, respectively while the bank balances totaled \$ 9,404,467 and \$ 8,295,363. Deposits are carried at cost.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. NOPFA does not have a deposit policy for custodial credit risk. As of June 30, 2012, \$ 2,104,246 of NOPFA's bank balance of \$ 9,404,467 was exposed to custodial credit risk as follows:

Collateral held by pledging bank's trust department not in the System's name	\$ 2,104,246
Total	<u>\$ 2,104,246</u>

Investments

As of June 30, 2012, NOPFA had the following investments.

Investment	Maturities	Fair Value	
		2012	2011
Certificates of deposit	Six (6) months	\$ 2,612,773	\$ 2,652,733
Certificates of deposit	One (1) year	384,500	327,000
Total		<u>\$ 2,997,273</u>	<u>2,979,733</u>

Interest Rate Risk. NOPFA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State statutes limit investments to the following: a) direct obligations of the U.S. Government, its agencies or instrumentalities; b) collateralized or insured certificates of deposit within the state, and insured certificates only if out of state; c) savings accounts or savings certificates; d) fully collateralized prime banker acceptances, prime commercial paper, repurchase agreements, or SEC regulated money market funds; e) obligations to the payment of which the full faith and credit of the state is pledged; f) county, municipal, or school district and valorem tax funded debt; g) bonds, notes, or money judgments of a county, municipality, or school district; h) revenue anticipation notes of a public trust of which the municipality is beneficiary; or; i) any bond, note, or other debt of any public trust of which the municipality is sole beneficiary, or other entities whose governing boards were appointed by the municipality. NOPFA has no investment policy that would further limit its investment choices. As of June 30, 2012, NOPFA's investments in certificates of deposit were all federally insured.

Concentration of Credit Risk. NOPFA places no limit on the amount it may invest in any one issuer. More than 5 percent of NOPFA's investments are in certificates of deposit. These investments are 100% of NOPFA's total investments.

Restricted Cash and Investments. Cash and investments that are restricted as to use include customer meter deposits in the amount of \$ 306,969 for cash and \$ 384,500 for investments.

B. Receivables

Receivables as of June 30, 2012 and 2011, for the Northeast Oklahoma Public Facilities Authority, including the applicable allowance for uncollectible accounts, are as follows:

	<u>2012</u>	<u>2011</u>
Receivables:		
Accounts	\$ 302,399	\$ 278,263
Due from other governments	-	702,979
Gross receivables	<u>302,399</u>	<u>981,242</u>
Less: allowance for uncollectibles	<u>(93,249)</u>	<u>(83,296)</u>
Net total receivables	<u>\$ 209,150</u>	<u>\$ 897,946</u>

C. Capital assets

Capital asset balances and activity for the year ended June 30, 2012 and 2011, were as follows:

<u>2012</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Construction in progress	1,386,214	1,421,762	(1,662,699)	1,145,277
Total capital assets, not being depreciated	<u>1,396,214</u>	<u>1,421,762</u>	<u>(1,662,699)</u>	<u>1,155,277</u>
Capital assets, being depreciated:				
Buildings	1,028,411	42,213	-	1,070,624
CNG station	-	1,461,751	-	1,461,751
Gas distribution system	13,191,335	771,036	-	13,962,371
Machinery and equipment	693,147	101,561	-	794,708
Office equipment	212,155	47,539	-	259,694
Vehicles	672,425	148,982	(44,860)	776,547
Total capital assets, being depreciated	<u>15,797,473</u>	<u>2,573,082</u>	<u>(44,860)</u>	<u>18,325,695</u>
Less accumulated depreciation for:				
Buildings	(503,412)	(34,146)	-	(537,558)
CNG station	-	(83)	-	(83)
Gas distribution system	(5,688,966)	(275,149)	-	(5,964,115)
Machinery and equipment	(537,182)	(38,390)	276	(575,296)
Office equipment	(154,178)	(19,001)	-	(173,179)
Vehicles	(476,244)	(61,717)	44,860	(493,101)
Total accumulated depreciation	<u>(7,359,982)</u>	<u>(428,486)</u>	<u>45,136</u>	<u>(7,743,332)</u>
Total capital assets, being depreciated, net	<u>8,437,491</u>	<u>2,144,596</u>	<u>276</u>	<u>10,582,363</u>
Capital assets, net	<u>\$ 9,833,705</u>	<u>\$ 3,566,358</u>	<u>\$ (1,662,423)</u>	<u>\$ 11,737,640</u>

<u>2011</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Construction in progress	41,622	1,398,551	(53,959)	1,386,214
Total capital assets, not being depreciated	<u>51,622</u>	<u>1,398,551</u>	<u>(53,959)</u>	<u>1,396,214</u>
Capital assets, being depreciated:				
Buildings	898,070	130,341	-	1,028,411
Gas distribution system	13,034,157	157,178	-	13,191,335
Machinery and equipment	611,708	81,439	-	693,147
Office equipment	201,823	10,332	-	212,155
Vehicles	570,853	140,349	(38,777)	672,425
Total capital assets, being depreciated	<u>15,316,611</u>	<u>519,639</u>	<u>(38,777)</u>	<u>15,797,473</u>
Less accumulated depreciation for:				
Buildings	(476,917)	(26,495)	-	(503,412)
Gas distribution system	(5,414,987)	(273,979)	-	(5,688,966)
Machinery and equipment	(512,492)	(24,690)	-	(537,182)
Office equipment	(136,447)	(17,731)	-	(154,178)
Vehicles	(470,847)	(44,174)	38,777	(476,244)
Total accumulated depreciation	<u>(7,011,690)</u>	<u>(387,069)</u>	<u>38,777</u>	<u>(7,359,982)</u>
Total capital assets, being depreciated, net	<u>8,304,921</u>	<u>132,570</u>	<u>-</u>	<u>8,437,491</u>
Capital assets, net	<u>\$ 8,356,543</u>	<u>\$ 1,531,121</u>	<u>\$ (53,959)</u>	<u>\$ 9,833,705</u>

Depreciation expense was \$ 428,486 for 2012 and 387,069 for 2011.

D. Deposits subject to refund

Utility customers are required to make a meter deposit which is refunded upon the customer's termination of services provided there are no outstanding bills. Monies are deposited in separate restricted accounts, and a liability has been recorded to represent the amount of deposits due to customers. As of June 30, 2012 and 2011, restricted cash and investments included \$ 691,469 and \$ 609,367, respectively, available for refund of customer deposits, and the liability to customers was \$ 664,271 and \$ 581,811.

E. Compensated absences

Full-time employees with at least one year of service earn vacation of five to fifteen days per year depending on years of service completed. In accordance with the guidelines set forth by GASB Statement No. 16, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, a provision has been made for accumulated vacation, compensatory time, and holiday pay. Accrued compensated absences as of June 30, 2012 and 2011 were \$ 101,077 and \$ 83,568, respectively.

Full-time employees are granted sick leave at the rate of five to ten days per year, up to a total of thirty (30) days. Permanent employees are compensated for unused sick leave upon termination of employment.

IV. Other information

A. Risk management

NOPFA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. NOPFA has insurance for the major risks such as property, general liability, workers' compensation, and unemployment. Commercial insurance is used to cover general liability claims and the risk of loss to Authority buildings and mobile equipment.

B. Commitments and contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds.

Gas purchase contract – NOPFA has a gas purchase contract with Clearwater Enterprises, LLC for monthly fixed price volumes through March 2013. The total remaining commitment as of June 30, 2012 was \$ 2,125,383.

C. Employee retirement system and pension plans

On January 1, 1973, the Authority established a Target Benefit Pension Plan (a defined contributions plan) for the accumulation of the employer's contribution of retirement benefits. On January 1, 2011, the plan was amended and converted to a non-standardized Money Purchase Plan. Under this plan, the Authority contributes 5% of eligible employees' gross wages. Employees become eligible to receive contributions made on their behalf upon completion of six months of full-time employment. Vesting occurs upon the employee attaining normal retirement age (the later of the date the participant reaches age 65 or the 5th anniversary of the first day of the Plan Year in which the participant began participation in the Plan), or early retirement age (the later of the date the participant reaches age 55 or the date a participant reaches his or her 10th anniversary of the first day of the Plan Year in which the participant began participation in the Plan). Contributions in the amount of \$ 58,044 and \$ 54,237 were made by NOPFA on behalf of the employees during the years ended June 30, 2012 and 2011, on covered payroll of \$ 1,186,610 and \$ 1,094,975, respectively.

In addition to the Defined Contribution Plan described above, the Authority has also established a Section 457 Retirement Plan for accumulation of all full-time employee contributions to their retirement plan. Under this Plan, the employee's actual retirement benefit will depend on the amount of their account balances at the time of retirement. The account balances will reflect the employee's deferred contributions over the period of time the employee participates in the Plan and their success in investing and re-investing the assets of their accounts.

During fiscal years ended June 30, 2012 and 2011, contributions in the amount of \$ 82,950 and \$ 69,650 were made by the employees, while \$ 55,648 and \$ 51,398 were contributed by NOPFA, respectively, on covered payroll of \$ 1,186,610 and \$ 1,099,551.

Northeast Oklahoma Public Facilities Authority
Combining Statement of Net Assets
June 30, 2012

	Tahlequah Gas System	Stilwell-Westville Gas System
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,756,400	\$ 2,911,244
Investments	1,347,168	1,265,606
Receivables:		
Accounts (net of allowance for uncollectibles)	80,711	128,439
Due from other governments	-	-
Due from other funds	4,883	-
Inventories	164,219	89,698
Prepaid expenses	18,892	9,134
Restricted cash and investments	525,084	166,385
Total current assets	7,897,357	4,570,506
Noncurrent assets:		
Capital assets (net of accumulated depreciation)	7,656,322	4,061,070
Total noncurrent assets	7,656,322	4,061,070
Total assets	15,553,679	8,631,576
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	7,243	6,170
Payable from restricted assets - customer deposits	523,041	141,230
Due to other funds	-	427
Total current liabilities	530,284	147,827
Noncurrent liabilities:		
Compensated absences	49,244	29,879
Total noncurrent liabilities	49,244	29,879
Total liabilities	579,528	177,706
Net assets		
Invested in capital assets, net of related debt	7,656,322	4,061,070
Restricted:		
Other	-	-
Unrestricted	7,317,829	4,392,800
Total net assets	\$ 14,974,151	\$ 8,453,870

<u>Administrative</u>	<u>Total</u>
\$ 61,697	\$ 8,729,341
-	2,612,774
-	209,150
-	-
-	4,883
-	253,917
-	28,026
-	691,469
61,697	12,529,560
20,248	11,737,640
20,248	11,737,640
81,945	24,267,200
4,455	17,868
-	664,271
-	427
4,455	682,566
21,954	101,077
21,954	101,077
26,409	783,643
20,248	11,737,640
-	-
35,288	11,745,917
\$ 55,536	\$ 23,483,557

Northeast Oklahoma Public Facilities Authority
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2012

	Tahlequah Gas System	Stilwell-Westville Gas System
Operating revenues		
Charges for services:		
Gas sales	\$ 5,598,633	\$ 3,126,704
Installations	64,699	66,386
Connection and transfer fees	37,375	-
Penalties	96,313	-
Administrative services	-	-
Total operating revenues	<u>5,797,020</u>	<u>3,193,090</u>
Operating expenses		
Cost of sales - gas purchases	3,290,675	1,880,357
CNG expense	1,864	-
Salaries and wages	783,368	279,086
Payroll taxes and benefits	250,913	79,394
Contracted services	233,026	143,297
Maintenance and repairs	21,673	16,948
Insurance	56,786	26,005
Office supplies and expenses	118,781	8,965
Travel	3,035	3,773
Truck expenses	80,458	30,426
Dues and pipeline assessments	30,787	11,293
Telephone and utilities	53,298	10,631
Miscellaneous	11,343	2,277
Administrative expenses	203,236	101,057
Supplies	80,600	25,982
Depreciation	295,703	124,212
Bad debts	11,094	14,629
Total operating expenses	<u>5,526,640</u>	<u>2,758,332</u>
Net operating income (loss)	270,380	434,758
Nonoperating revenues (expenses)		
Capital grants	1,534,864	175,547
Miscellaneous	67,185	583
Interest income	44,955	27,170
Total nonoperating revenues (expenses)	<u>1,647,004</u>	<u>203,300</u>
Operating transfers		
Transfers in	3,666	730,411
Transfers out	(730,411)	-
Net extraordinary items	<u>(726,745)</u>	<u>730,411</u>
Net Income (loss)	1,190,639	1,368,469
Net assets, beginning	13,943,512	7,325,401
Distributions to beneficiaries	<u>(160,000)</u>	<u>(240,000)</u>
Net assets, ending	<u>\$ 14,974,151</u>	<u>\$ 8,453,870</u>

<u>Administrative</u>	<u>Total</u>
\$ -	\$ 8,725,337
-	131,085
-	37,375
-	96,313
304,293	304,293
304,293	9,294,403
-	5,171,032
-	1,864
169,163	1,231,617
46,152	376,459
9,201	385,524
-	38,621
1,414	84,205
14,914	142,660
2,028	8,836
434	111,318
-	42,080
2,484	66,413
11,821	25,441
-	304,293
4,638	111,220
8,571	428,486
-	25,723
270,820	8,555,792
33,473	738,611
-	1,710,411
-	67,768
-	72,125
-	1,850,304
-	734,077
(3,666)	(734,077)
(3,666)	-
29,807	2,588,915
25,729	21,294,642
-	(400,000)
\$ 55,536	\$ 23,483,557

Northeast Oklahoma Public Facilities Authority
Combining Statement of Cash Flows
Year Ended June 30, 2012

	Tahlequah Gas System	Stilwell-Westville Gas System
Cash flows from operating activities		
Receipts from customers	\$ 5,797,913	\$ 3,161,476
Payments to suppliers	(4,401,174)	(2,336,621)
Payments to employees	(779,079)	(271,545)
Net cash provided (used) by operating activities	<u>617,660</u>	<u>553,310</u>
Cash flows from noncapital financing activities		
Distributions to beneficiaries	(160,000)	(240,000)
(Increase) decrease in due from other governments	-	71,043
(Increase) decrease in restricted assets	(82,440)	338
Increase (decrease) in interfund payable	45,872	(29,036)
Miscellaneous nonoperating revenue	67,185	583
Net operating transfers	<u>(726,745)</u>	<u>730,411</u>
Net cash provided (used) by noncapital financing activities	<u>(856,128)</u>	<u>533,339</u>
Cash flows from capital and related financing activities		
Proceeds from capital grants	2,166,800	175,547
Acquisition/construction of capital assets	<u>(1,060,104)</u>	<u>(1,266,876)</u>
Net cash provided (used) by capital and related financing activities	<u>1,106,696</u>	<u>(1,091,329)</u>
Cash flows from investing activities		
(Increase) decrease in investments	(7,002)	(10,539)
Interest income	<u>44,955</u>	<u>27,170</u>
Net cash provided (used) by investing activities	<u>37,953</u>	<u>16,631</u>
Net increase (decrease) in cash and cash equivalents	906,181	11,951
Cash and cash equivalents, beginning	<u>4,850,219</u>	<u>2,899,293</u>
Cash and cash equivalents, ending	<u>\$ 5,756,400</u>	<u>\$ 2,911,244</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Net operating income (loss)	\$ 270,380	\$ 434,758
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	295,703	124,212
Changes in assets and liabilities:		
(Increase) decrease in receivables	2,802	(16,985)
(Increase) decrease in inventories	(31,934)	2,134
(Increase) decrease in prepaid expenses	(4,361)	(1,151)
Increase (decrease) in accounts payable	(3,862)	4,080
Increase (decrease) in accrued expenses	4,617	8,117
Increase (decrease) in customer deposits	<u>84,315</u>	<u>(1,855)</u>
Total adjustments	<u>347,280</u>	<u>118,552</u>
Net cash provided (used) by operating activities	<u>\$ 617,660</u>	<u>\$ 553,310</u>

Administrative	Total
\$ 304,293	\$ 9,263,682
(93,086)	(6,830,881)
(164,388)	(1,215,012)
<u>46,819</u>	<u>1,217,789</u>

-	(400,000)
-	71,043
-	(82,102)
(16,836)	-
-	67,768
(3,666)	-
<u>(20,502)</u>	<u>(343,291)</u>

-	2,342,347
(5,443)	(2,332,423)
<u>(5,443)</u>	<u>9,924</u>

-	(17,541)
-	72,125
<u>-</u>	<u>54,584</u>

20,874	939,006
<u>40,823</u>	<u>7,790,335</u>
<u>\$ 61,697</u>	<u>\$ 8,729,341</u>

\$ 33,473 \$ 738,611

8,571	428,486
-	(14,183)
-	(29,800)
-	(5,512)
-	218
4,775	17,509
-	82,460
<u>13,346</u>	<u>479,178</u>
<u>\$ 46,819</u>	<u>\$ 1,217,789</u>



Ronald C. Cottrell, CPA

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*

October 10, 2012

Board of Trustees
Northeast Oklahoma Public Facilities Authority
Tahlequah, Oklahoma

We have audited the basic financial statements of the Northeast Oklahoma Public Facilities Authority, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 10, 2012. We did not audit management's discussion and analysis which is required supplementary information, and therefore express no opinion on it. 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.

Internal Control Over Financial Reporting

Management of Northeast Oklahoma Public Facilities Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Northeast Oklahoma Public Facilities Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northeast Oklahoma Public Facilities Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Northeast Oklahoma Public Facilities Authority's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses, and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2012-1 to be a material weakness.

Ronald C. Cottrell, CPA

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2012-2 and 2012-3 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeast Oklahoma Public Facilities Authority's financial statements are free of 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*.

We noted certain matters that we reported to management of Northeast Oklahoma Public Facilities Authority in a separate letter dated October 10, 2012.

The Northeast Oklahoma Public Facilities Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Northeast Oklahoma Public Facilities Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of trustees and management of Northeast Public Facilities Authority and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ronald C. Cottrell, CPA



Ronald C. Cottrell, CPA

Independent Auditor's Report on Compliance with Requirements That Could Have A Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

October 10, 2012

Board of Trustees
Northeast Oklahoma Public Facilities Authority
Tahlequah, Oklahoma

Compliance

We have audited the compliance of Northeast Oklahoma Public Facilities Authority with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The Northeast Oklahoma Public Facilities Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Northeast Oklahoma Public Facilities Authority's management. Our responsibility is to express an opinion on the Northeast Oklahoma Public Facilities Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Northeast Oklahoma Public Facilities Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Northeast Oklahoma Public Facilities Authority's compliance with those requirements.

In our opinion, the Northeast Oklahoma Public Facilities Authority complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Northeast Oklahoma Public Facilities Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Northeast Oklahoma Public Facilities Authority's internal control over compliance with requirements that could have a direct and material effect

Ronald C. Cottrell, CPA

on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Northeast Oklahoma Public Facilities Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of trustees and management of the Northeast Oklahoma Public Facilities Authority, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ronald C. Cottrell, CPA

Northeast Oklahoma Public Facilities Authority
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
<u>Federal Programs</u>			
<u>U. S. Department of Energy</u>			
Pass-Through Program From:			
Oklahoma Dept of Commerce -			
Stimulus State Energy Program (SSEP)	81.041	13990 SSEP 09	\$ 1,171,722
Total U.S. Department of Energy			<u>1,171,722</u>
U.S. Department of Transportation			
Pass-Through Program From:			
Oklahoma Dept of Transportation -			
Highway Planning and Construction	20.205		142,780
Total U.S. Department of Transportation			<u>142,780</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,314,502</u></u>

The accompanying notes are an integral part of this schedule.

Northeast Oklahoma Public Facilities Authority
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

I. Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Northeast Oklahoma Public Facilities Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

II. Expenditures

Expenditures represent the current year federal grant/contract portion only.

III. Noncash Awards

Northeast Oklahoma Public Facilities Authority expended no form of noncash assistance during the year and had no loan or loan guarantees outstanding at June 30, 2012, which are required by OMB Circular A-133 to be included in the schedule of expenditures of federal awards.

IV. Subrecipients

Northeast Oklahoma Public Facilities Authority provided no federal awards to subrecipients.

Northeast Oklahoma Public Facilities Authority
Summary Schedule of Prior Audit Findings

Financial Statement Findings

2011-1 Reconciliation of Accounts Receivable

Condition – Accounts receivable balances per the general ledger were not reconciled with the detailed subsidiary records from the utility billing system.

Status – This condition still exists.

2011-2 Reconciliation of Meter Deposit Bank Accounts

Condition – Proper bank reconciliations were not performed for the meter deposit bank accounts during the year.

Status – This condition still exists.

Federal Award Findings and Questioned Costs

There were no matters reported in the prior year's audit report.

Northeast Oklahoma Public Facilities Authority
Schedule of Findings and Questioned Costs
Years Ended June 30, 2012

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiencies identified that are not considered to be material weakness(es)?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiencies identified that are not considered to be material weakness(es)?	None reported
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
81.041	Stimulus State Energy Program

Dollar threshold used to distinguish between type A and type B programs:	\$ <u>300,000</u>
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Auditee qualified as low-risk auditee?	No
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Section II – Financial Statement Findings

2012-1 Capital Asset Reporting and Reconciliation

Criteria – Proper classification in the general ledger accounting records of capital assets allows for proper reporting of assets in the entity’s financial statements. Reconciliation of capital asset balances in the general ledger accounting records with detailed subsidiary records helps ensure that balances reported are accurate and depreciation on the capital assets is properly calculated.

Condition – Capital assets acquired and constructed were not all properly recorded as assets and the balances per the general ledger were not reconciled with the detailed capital asset records.

Cause and Effect – Expenditures for capital assets are originally recorded as expenses in the general ledger accounting records then reclassified as assets at year end. Not all the assets purchased and/or constructed were capitalized, while some assets were reclassified at the wrong amount. Additionally, not all assets were recorded in the detail capital asset records.

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The general ledger balances were not reconciled with the detail subsidiary records. Material adjustments were necessary to properly record the assets added during the year and to the depreciation expense recorded. Several assets were also added to the detail asset records as a result of the audit.

Recommendation – All assets acquired during the year should be properly added to the capital asset detail at year end and also reclassified or capitalized in the general ledger accounts to properly reflect the capital asset detail and balances. The general ledger balances should be reconciled with the asset detail after all entries and adjustments have been made.

Management's Response – All assets acquired during the year will be properly added to the capital asset detail at year end and reclassified or capitalized in the general ledger accounts to properly reflect the capital asset detail and balances. The general ledger balances will be reconciled with the asset detail after all entries and adjustments are completed.

2012-2 Reconciliation of Accounts Receivable

Criteria – Reconciliation of balance sheet accounts in the general ledger with subsidiary records helps ensure that balances are accurately reflected in the general ledger for financial reporting purposes.

Condition – Accounts receivable balances per the general ledger were not properly reconciled with the detailed subsidiary records from the utility billing systems.

Cause and Effect – Billings and collections are handled by the billing agents for NOPFA. Monthly activity from the agents is posted to the general ledger accounting system. A reconciliation is performed for each gas system, however, the book balance used is the previous month ending balance carried forward. It is not compared with the general ledger balance. If activity is posted incorrectly or omitted, then the error will not be picked up in the reconciliation process being performed. Adjustments were necessary to correct these balances during the audit.

Recommendation – Accounts receivable balances at the end of each month in the general ledger should be reconciled with the detailed subsidiary records to ensure that balances reflect the correct receivable balances.

Management's Response – Accounts receivable balances at the end of each month in the general ledger will be reconciled with the detailed subsidiary records to ensure that balances reflect the correct receivable balances.

2012-3 Reconciliation of Meter Deposit Bank Accounts

Criteria - Reconciliation of balance sheet accounts in the general ledger with subsidiary records helps ensure that balances are accurately reflected in the general ledger for financial reporting purposes.

Condition – Proper bank reconciliations were not performed for the meter deposit bank accounts during the year.

Cause and Effect – Meter deposit accounts are handled by the billing agents. Monthly activity from the agents is posted to the general ledger accounting system. A reconciliation is performed for each deposit account, however, the book balance used is the previous month ending balance carried forward. It is not compared with the general ledger balance. If activity is posted

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incorrectly or omitted, then the error will not be picked up in the reconciliation process being performed. Adjustments were necessary to correct these balances during the audit.

Recommendation – Bank balances should be reconciled with the cash balances per the general ledger for all NOPFA accounts each month to help ensure that all transactions have been recorded and that all transactions recorded actually occurred.

Management's Response – Bank balances will be reconciled with the cash balances per the general ledger for all NOPFA accounts each month to help ensure that all transactions have been recorded and that all transactions recorded actually occurred.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.