

Northeast Oklahoma Public Facilities Authority

Financial Statements
with Independent Auditors' Report

June 30, 2017



Northeast Oklahoma Public Facilities Authority
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June 30, 2017

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Independent Auditors' Report on Financial Statements

Board of Trustees
Northeast Oklahoma Public Facilities Authority
Tahlequah, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the Northeast Oklahoma Public Facilities Authority (the Authority) 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.

Auditors' Responsibility

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 in 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 auditors' 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.

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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 opinion.

Opinion

In our opinion, the financial statement referred to above present fairly, in all material respects, the respective financial position of the Northeast Oklahoma Public Facilities Authority as of June 30, 2017 and the respective changes in financial position and applicable, its 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 on pages i through v 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 supplemental 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 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 Information

Our audit was performed for the purpose of forming an opinion on the financial statements of the Northeast Oklahoma Public Facilities Authority, taken as a whole. The supplemental schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements.



The supplemental schedules, as listed in the table of contents, 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. Such 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 supplemental schedules, as listed in the table of contents, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2018 on our consideration of the Authority's internal control over financial reporting and 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 result of that testing and not to provide an opinion on the internal control over financial reporting or 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.

Hill & Company

Tulsa, Oklahoma
February 20, 2018



NORTHEAST OKLAHOMA PUBLIC FACILITIES AUTHORITY
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2017

The discussion and analysis of Northeast Oklahoma Gas Authority's ("NOPFA") financial performance provides an overview and analysis of the Authority's financial activities for the fiscal year ended June 30, 2017. It should be read in conjunction with the accompanying transmittal letter and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of the following parts: Management's Discussion and Analysis and Basic Financial Statements. The financial statements include notes which explain in detail some of the information included in the basic financial statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the Authority report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The Statement of Net Position includes information on the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). The Statement of Revenue, Expenses and Changes in Net Position identifies the Authority's revenues and expenses for the calendar year ended June 30, 2017. This statement provides information on the Authority's operations over the past fiscal year and can be used to determine whether the Authority has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statements of Cash Flows. This statement provides information on the Authority's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities. The net result of these activities added to the beginning of the year cash balance total to the cash equivalent balance at the end of the current calendar year.

CONDENSED FINANCIAL INFORMATION

Condensed financial information from the statement of net position as of June 30, 2017 and 2016, as well as the statement of revenues, expenses and changes in net position for the years then ended are as follows:

NORTHEAST OKLAHOMA PUBLIC FACILITIES AUTHORITY
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2017

Statement of Net Position and Statement of Revenues, Expenses, and Change in Net Position

Financial Highlights

Table 1
Net Position
June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>% Inc. (Dec.)</u>
Current assets	\$ 12,961,005	\$ 12,915,801	0%
Noncurrent assets			
Capital assets, net of depreciation	10,778,736	11,192,018	-4%
Other assets	575,133	478,511	20%
Total assets	<u>24,314,874</u>	<u>24,586,330</u>	-1%
Current liabilities	223,594	196,917	14%
Noncurrent liabilities	933,324	868,268	7%
Total liabilities	<u>1,156,918</u>	<u>1,065,185</u>	9%
Net position			
Net investment in capital assets	10,778,736	11,192,018	-4%
Unrestricted	12,379,220	12,329,127	0%
Total net position	<u>\$ 23,157,956</u>	<u>\$ 23,521,145</u>	-2%

Significant balances for the NOPFA for the operations during fiscal year 2017 where cash balances, capital assets, and noncurrent liabilities.

At year ended June 30, 2017 the NOPFA ended the year with unrestricted cash balances of \$10,211,416.

NOPFA also had capital assets recorded net of accumulated depreciation of \$10,778,736.

NOPFA also incurred \$957,924 of amounts due to depositors which represents the significant portion of total liabilities of NOPFA. As a result of the amounts due to depositors NOPFA had restricted cash and cash equivalents and investment of \$957,924.

Current liabilities increase 13% due to a 9.1% increase in the current portion of accrued compensated absences and a 7.4% increase in amounts due to depositors.

Noncurrent liabilities had an increase of 7% primarily due to an increase in the amounts due to depositors.

NORTHEAST OKLAHOMA PUBLIC FACILITIES AUTHORITY
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2017

Statement of Net Position and Statement of Revenues, Expenses, and Change in Net Position (Continued)

Financial Highlights (Continued)

Table 2 is prepared from NOPFA's Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2017.

Table 2
Change in Net Position
For the Year Ended June 30, 2017

	2,017	2016	% Inc. (Dec.)
Operating revenues and expenses			
Operating revenues	\$ 8,852,887	\$ 10,515,643	-16%
Less operating expenses	<u>(8,830,164)</u>	<u>(10,375,325)</u>	-15%
Net operating expenses	<u>22,723</u>	<u>140,318</u>	-84%
Nonoperating revenues (expenses)	<u>62,833</u>	<u>48,900</u>	28%
Net nonoperating revenues	<u>62,833</u>	<u>48,900</u>	28%
Income before other revenues/expenses	85,556	189,218	-55%
Special Item	<u>(448,745)</u>	<u>(300,000)</u>	50%
Increase (decrease) in net position	<u>\$ (363,189)</u>	<u>\$ (110,782)</u>	228%

Revenues

The most significant revenue source of NOPFA is related to the sale of gas to customers of the authority, these revenues comprise 97.4% of operation revenues and 96.7% of total revenues for fiscal year 2017.

For fiscal year 2017 NOPFA saw a decrease in the revenue generated from the sale of gas of 15.8% primarily related to a more moderate weather conditions during fiscal year 2017 decreasing the demand and use of natural gas during fiscal year 2017.

Expenses

The most significant expenses of UCPC, for fiscal year 2017, are purchase of gas and transportation cost, these expenses comprise 56.7% of operation expenses and 53.9% of total expenses for fiscal year 2017.

NORTHEAST OKLAHOMA PUBLIC FACILITIES AUTHORITY
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2017

Financial Highlights (Continued)

As a result of the decrease in demand as described with the decline in gas sales revenue, the downward pressure on demand result in a reduction of need to purchase gas amounts below prior year levels. NOPFA overall decrease in gas and transportation cost was 24.4% during the fiscal year.

Capital Assets and Debt Administration

For 2017, NOPFA recorded a total of \$21,010,617 in capital assets and \$10,231,881 in accumulated depreciation. During the year ended June 30, 2017 NOPFA increase in building improvements of \$22,600 and various equipment of \$27,589, which comprise the significant additions for the fiscal year.

At June 30, 2017, NOPFA had an obligation of \$142,383 for accrued compensated absences accrued by employees.

Table 3
Capital Assets, Net
June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Capital Assets	21,010,617	20,853,772	156,845
Less accumulated depreciation	<u>(10,231,881)</u>	<u>(9,661,755)</u>	<u>(570,126)</u>
Capital assets, net	<u>\$ 10,778,736</u>	<u>\$ 11,192,017</u>	<u>\$ (413,281)</u>

Further detailed information can be obtained in the notes to the financial statements (Note 1 & 3)

Table 4
Long-Term Liabilities
June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Accrued compensated absences	<u>\$ 142,383</u>	<u>\$ 130,516</u>	<u>\$ 11,867</u>
Total long-term liabilities	<u>\$ 142,383</u>	<u>\$ 130,516</u>	<u>\$ 11,867</u>

Further detailed information can be obtained in the notes to the financial statements (Note 1 & 4)

NORTHEAST OKLAHOMA PUBLIC FACILITIES AUTHORITY
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2017

Financial Highlights (Continued)

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
- Forecasted cost of natural gas.
- Age of and operating condition of capital assets.
- Reserves required for future capital 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
Statement of Net Position
June 30, 2017

ASSETS

Current assets:

Cash and cash equivalents	\$ 10,211,416
Investments	1,733,651
Restricted:	
Cash and cash equivalents	95,791
Investments	287,000
Accounts receivable, net	303,902
Interest receivable	706
Due from other funds	4,503
Inventory	282,477
Prepaid expenses	41,559
Total current assets	<u>12,961,005</u>

Non-current assets:

Restricted:	
Cash and cash equivalents	477,633
Investments	97,500
Capital assets:	
Land and construction in progress	79,060
Other capital assets, net of accumulated depreciation	<u>10,699,676</u>
Total non-current assets	<u>11,353,869</u>
Total assets	<u>\$ 24,314,874</u>

LIABILITIES

Current liabilities:

Accounts payable and accrued liabilities	\$ 28,177
Due to other funds	4,503
Unearned revenue	23,931
Due to depositors	95,791
Compensated absences	71,192
Total current liabilities	<u>223,594</u>

Non-current liabilities:

Due to depositors	862,133
Compensated absences	71,191
Total non-current liabilities	<u>933,324</u>
Total liabilities	<u>1,156,918</u>

NET POSITION

Invested in capital assets	10,778,736
Unrestricted	12,379,220
Total net position	<u>\$ 23,157,956</u>

Northeast Oklahoma Public Facilities Authority
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

REVENUES

Charges for services:	
Charges for Services - Gas	\$ 8,621,243
Penalties	93,665
Installations and reconnects	137,979
Total operating revenues	<u>8,852,887</u>

OPERATING EXPENSES

Cost of sales - gas purchases and transportation	5,007,601
CNG expense	107,336
Salaries and wages	1,600,114
Payroll taxes & benefits	352,338
Contracted services	322,634
Administrative	65,503
Maintenance and repairs	124,276
Insurance	248,705
Truck expenses	40,224
Office supplies and expenses	127,379
Dues and pipeline assessment	62,163
Telephone and utilities	67,623
Supplies	61,134
Miscellaneous	73,006
Depreciation	570,128
Total operating expenses	<u>8,830,164</u>
Operating income	<u>22,723</u>

NON-OPERATING REVENUES

Interest and investment income	51,555
Miscellaneous revenue	11,278
Total non-operating revenue	<u>62,833</u>
Income before special item	<u>85,556</u>
Special item - Distributions	<u>(448,745)</u>
Change in net position	<u>(363,189)</u>
Total net position - beginning	<u>23,521,145</u>
Total net position - ending	<u>\$ 23,157,956</u>

Northeast Oklahoma Public Facilities Authority
Statement of Cash Flows
For Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 8,896,376
Payments to suppliers	(6,297,696)
Payments to beneficiaries	(448,745)
Payments to employees	(1,940,540)
Receipts of customer deposits	558,190
Refunds of customer meter deposits	(492,501)
Net cash provided by operating activities	<u>275,084</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Receipts from governmental programs	2,000
Net cash provided by noncapital financing activities	<u>2,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(156,845)
Net cash used in capital and related financing activities	<u>(156,845)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(6,891)
Interest and dividends	50,849
Net cash provided by investing activities	<u>43,958</u>
Net increase in cash and cash equivalents	164,197
Balances - beginning of year	<u>10,620,643</u>
Balances - end of year	<u>\$ 10,784,840</u>
Reconciliation to Statement of Net Position:	
Cash and cash equivalents	\$ 10,211,416
Restricted cash and cash equivalents - current	95,791
Restricted cash and cash equivalents - noncurrent	477,633
Total cash and cash equivalents, end of year	<u>\$ 10,784,840</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 22,723
Adjustments to reconcile operating income to net cash provided by operating activities:	
Special Item - Distributions	(448,745)
Depreciation expense	570,128
Other non-operating revenues	9,278
Change in assets and liabilities:	
Accounts receivable	(7,314)
Other receivable	41,525
Inventory	(522)
Accounts payable	9,628
Accrued payroll payable	45
Prepaid expense	782
Deposits subject to refund	65,689
Accrued compensated absences	11,867
Net cash provided by operating activities	<u>\$ 275,084</u>

Northeast Oklahoma Public Facilities Authority
Notes to Financial Statements
June 30, 2017

Note 1: Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows.

Financial Reporting Entity

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 Public Works Authority of Tahlequah, Oklahoma to establish and operate a natural gas utility system. On November 10, 1972, the NOPFA entered into franchise agreements with the Utility Authority of Stilwell and the Town of Westville for the establishment and operation of a natural gas utility system in their areas.

NOPFA operations 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 and Stilwell, and the Town of Westville.

Basis and Presentation of Accounting

The NOPFA utilizes the proprietary fund method of accounting and accounts for the activities of the public trust in providing natural gas and compressed natural gas to the public.

For purposes of the statement of revenues, expenses and changes in net position, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

The Authority utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as net position.

Northeast Oklahoma Public Facilities Authority
Notes to Financial Statements
June 30, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The Authority utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Cash and Investments

For the purposes of the statements of net position, balance sheets, and statement of cash flows, "cash and cash equivalents" includes all demand and savings accounts, and certificates of deposits or short-term investments with an original maturity of three months or less.

Investments are carried at fair value except interest earning investment contracts with an initial maturity of more than three months. Those investments are reported at a cost-based measure.

Receivables

Material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable comprise the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Capital Assets

All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$2,500 is used to report capital assets. The range of estimated useful lives by type of asset is as follows:

Buildings	10-30 years
Machinery and Equipment	5-10 years
Utility System & Improvements	50 years
Vehicles	5 years

Inventories

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

Northeast Oklahoma Public Facilities Authority
Notes to Financial Statements
June 30, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

Restricted Assets

Restricted assets include cash and investments of the Authority that are legally restricted as to their use. The primary restricted assets are related to utility meter deposits.

Long-Term Debt

All long-term debts are reported as liabilities in the financial statements. The long-term debt consists of accrued compensated absences.

Compensated Absences

The NOPFA's policies regarding vacation and sick time permit employees to accumulate earned but unused vacation leave. Upon termination an employee is paid for the accumulated balance of both vacation and sick time. The liability for these compensated absences is recorded as long-term debt in the financial statements. The current portion of this debt is estimated based on historical trends. The NOPFA reports the liability as it is incurred.

Equity Classifications

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets.
- b. Restricted net position - Consists of net position 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 position - All other net position that does not meet the definition of restricted.

It is the NOPFA'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.

Operating Revenues and Expenses

Operating revenues and expenses for the Authority are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Northeast Oklahoma Public Facilities Authority
Notes to Financial Statements
June 30, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

Expenditures/Expenses

Expenses are classified by Operating and Non-Operating. The Authority reports expenses relating to use of economic resources.

Use of Estimates

The 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.

Subsequent Events

Subsequent events have been evaluated through February 20, 2018, which is the date the financial statements were issued.

Note 2: Cash, Cash Equivalents and Investments

At June 30, 2017, NOPFA held the following deposits and investments:

<u>Type of Deposit and Investment</u>	<u>Carrying Value</u>
Deposits:	
Demand	\$ 10,784,840
Non-negotiable Certificates of Deposit	2,118,151
Total Deposits and Investments	<u><u>\$ 12,902,991</u></u>

Reconciliation to Statement of Net Position:

Current assets:	
Cash and cash equivalents	\$ 10,211,416
Investments	1,733,651
Restricted:	
Cash and cash equivalents	95,791
Investments	287,000
Non-current assets:	
Restricted:	
Cash and cash equivalents	477,633
Investments	97,500
	<u><u>\$ 12,902,991</u></u>

Northeast Oklahoma Public Facilities Authority
Notes to Financial Statements
June 30, 2017

Note 2: Cash, Cash Equivalents and Investments (Continued)

Custodial Credit Risk – Exposure to custodial credit risk related to deposits exists when the NOPFA holds deposits that are uninsured and uncollateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the NOPFA’s name: or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the NOPFA holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the NOPFA’s name.

NOPFA does not have a deposit policy for custodial credit risk. As of June 30, 2017, \$609,200 of NOPFA's bank balance of \$12,505,269 was exposed to custodial credit risk as the amounts were uninsured and uncollateralized.

The NOPFA investment choices are limited by state law as follows:

- a. Direct obligations of the U. S. Government, its agencies and instrumentalities to which the full faith and credit of the U. S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime banker’s acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs a, b, c, and d.

Investments at June 30, 2017 consisted of non-negotiable certificates of deposit (interest-earning investment contracts) and where not subject to interest rate, credit, concentration of credit, or foreign currency risk.

Restricted Cash and Investments – The amounts reported as restricted assets of the statement of net position are comprised of amounts restricted for refundable deposits. The restricted assets as of June 30, 2017 are as follows:

	Current		Noncurrent	
	Cash and cash equivalents	Investments	Cash and cash equivalents	Investments
Meter deposits	\$ 95,791	\$ 287,000	\$ 477,633	\$ 97,500
Total	\$ 95,791	\$ 287,000	\$ 477,633	\$ 97,500

Northeast Oklahoma Public Facilities Authority
Notes to Financial Statements
June 30, 2017

Note 3: Accounts Receivable

Accounts receivable of the business-type activities consist of customers' utilities services provided, both billed and unbilled, due at year end, reported net of allowance for uncollectible amounts.

	Accounts Receivable	Less: Allowance For Uncollectible Accounts	Net Accounts Receivable
Accounts Receivable	<u>\$ 314,697</u>	<u>\$ (10,795)</u>	<u>\$ 303,902</u>

Note 4: Capital Asset Activity

Capital assets consist of land, land improvement, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. Capital assets are reported at actual or estimated historical cost. Donated capital assets are recorded at their fair value at the date of donation. For the year ended June 30, 2017, capital assets balances changed as follows:

	Balance at <u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	Balance at <u>June 30, 2016</u>
Capital assets not being depreciated:					
Land	\$ 10,000	\$ -	\$ -	\$ -	10,000
Construction in Progress	<u>573,415</u>	<u>9,911</u>	<u>-</u>	<u>(514,266)</u>	<u>69,060</u>
Total capital assets not being depreciated	<u>583,415</u>	<u>9,911</u>	<u>-</u>	<u>(514,266)</u>	<u>79,060</u>
Other capital assets:					
Buildings and improvements	1,301,792	22,600	-	-	1,324,392
CNG Stations and slow fills	2,512,880	-	-	-	2,512,880
Gas Distribution System	14,292,369	96,745	-	514,266	14,903,380
Equipment	1,114,114	27,589	-	-	1,141,703
Vehicles	<u>1,049,203</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,049,203</u>
Total other capital assets	<u>20,270,358</u>	<u>146,934</u>	<u>-</u>	<u>514,266</u>	<u>20,931,558</u>
Less accumulated depreciation for:					
Accumulated Depreciation					
Buildings and improvements	(718,850)	(51,085)	-	-	(769,935)
CNG Stations and slow fills	(201,040)	(47,130)	-	-	(248,170)
Gas Distribution System	(7,109,440)	(293,569)	-	-	(7,403,009)
Equipment	(960,773)	(63,739)	-	-	(1,024,512)
Vehicles	<u>(671,651)</u>	<u>(114,605)</u>	<u>-</u>	<u>-</u>	<u>(786,256)</u>
Total accumulated depreciation	<u>(9,661,754)</u>	<u>(570,128)</u>	<u>-</u>	<u>-</u>	<u>(10,231,882)</u>
Other capital assets, net	<u>10,608,604</u>	<u>(423,194)</u>	<u>-</u>	<u>514,266</u>	<u>10,699,676</u>
Total capital assets, net	<u>\$ 11,192,019</u>	<u>\$ (413,283)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,778,736</u>

Northeast Oklahoma Public Facilities Authority
Notes to Financial Statements
June 30, 2017

Note 5: Long-Term Debt and Debt Service Requirements

For the year ended June 30, 2017, the reporting entity's long-term debt changed as follows:

<u>Type of Debt</u>	<u>Balance June 30, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2017</u>	<u>Due Within One Year</u>
Accrued compensated absences	\$ 130,516	\$ 158,026	\$ 146,159	\$ 142,383	\$ 71,192
Total Long-Term Debt	<u>\$ 130,516</u>	<u>\$ 158,026</u>	<u>\$ 146,159</u>	<u>\$ 142,383</u>	<u>\$ 71,192</u>

Accrued compensated absences:

Current portion	\$ 71,192
Noncurrent portion	71,191
Total Accrued Compensated Absences	<u>\$ 142,383</u>

Note 6: Net Position

Net position is displayed in three components:

- a. *Net investment in capital assets* - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. *Restricted net position* - Consists of net position 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 position* - All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

It is the NOPFA'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.

For fiscal year 2017 NOPFA did not report any restricted net position.

Note 7: 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.

Northeast Oklahoma Public Facilities Authority
Notes to Financial Statements
June 30, 2017

Note 8: Commitments and Contingencies

Litigation:

The NOPFA is a party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the Authority and the State statute relating to judgments, the Authority feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the Authority.

Contracts:

Gas purchase contract - NOPFA has a gas purchase contract with Clearwater Enterprises, LLC for monthly fixed price volumes through December 2020 to purchase 50% of its estimated needs at \$ 5.57 per MMBTU and the remaining 50% at the daily gas price. The total remaining commitment at June 30, 2017 was 2,380,000 dekatherms.

Note 9: Pension Plan Participation

On January 1, 1973, NOPFA established a Target Benefit Pension Plan (a defined contribution 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. 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).

Benefit terms including contribution requirements, for NOPFA are established and may be amended by the Board. For each employee in the plan, the Authority is required to contribute 5 percent of eligible employee's gross wages. Contributions in the amount of \$ 72,152 were made by NOPFA and recognized as pension expense.

In addition to the Defined Contribution Plan described above, NOPFA 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 year ended June 30, 2017, contributions in the amount of \$87,242 were made by the employees, while \$71,809 were made by NOPFA and recognized as pension expense.

Northeast Oklahoma Public Facilities Authority
Notes to Financial Statements
June 30, 2017

Note 10: New Accounting Pronouncements

The GASB has issued several new accounting pronouncements, which will be effective in subsequent years. A description of the new accounting pronouncements, the fiscal year in which they are effective, and the Authority's consideration of the impact of these pronouncements are described below:

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

GASB No. 75 was issued in June 2015, and addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For a defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. This Statement is effective for fiscal years beginning after June 15, 2017. The Authority has not yet determined the impact that implementation of GASB 75 will have on its net position.

GASB Statement No. 81, Irrevocable Split-Interest Agreements

GASB No. 81 was issued in March 2016, to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Authority does not believe that GASB No. 81 will have significant impact on its financial statements.

GASB Statement No. 83, Certain Asset Retirement Obligations

GASB No. 83 was issued December 2016, under this statement a government that has legal obligations to perform future asset retirement activities related to its tangible capital assets is required to recognize a liability and a corresponding deferred outflow of resources. The Statement identifies the circumstances that trigger the recognition of these transactions. The Statement also requires the measurement of an asset retirement obligation to be based on the best estimate of the current value of outlays expected to be incurred while the deferred outflow of resources associated with the asset retirement obligation will be measured at the amount of the corresponding liability upon initial measurement and generally recognized as an expense during the reporting periods that the asset provides service. The Statement requires disclosures including a general description of the asset retirement obligation and associated tangible capital assets; the source of the obligation to retire the assets; the methods and assumptions used to measure the liability; and other relevant information. The Authority has not yet determined the impact implementation will have on its net position.

Northeast Oklahoma Public Facilities Authority
Notes to Financial Statements
June 30, 2017

Note 10: New Accounting Pronouncements (Continued)

GASB Statement 84, Fiduciary Activities

GASB No. 84 was issued January 2017, this Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The Authority has not yet determined the impact that implementation of GASB 80 will have on its net position.

GASB Statement 85, Omnibus 2017

GASB No. 85 issued March 2017, this Statement address a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The Authority has not yet determined the impact that implementation of GASB 85 will have on its net position.

GASB Statement 86, Certain Debt Extinguishment Issues

GASB No. 86 issued May 2017 the primary objective of this Statement is to improve the consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt substance. The Authority has not yet determined the impact that implementation of GASB 86 will have on its net position.

GASB Statement 87, Leases

GASB No. 87 was issued June 2017, the primary objective of this Statement is to increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about activities. The Authority has not yet determined the impact that implementation of GASB 87 will have on its net position.

OTHER SUPPLEMENTARY INFORMATION

Northeast Oklahoma Public Facilities Authority
Combining Schedule of Net Position – Enterprise Fund Accounts
June 30, 2017

	NOPFA			Total NOPFA
	Tahlequah Gas System	Administrative Account	Stilwell- Westville Gas System	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 6,512,712	\$ 60,938	\$ 3,637,766	\$ 10,211,416
Investments	910,497	-	823,154	1,733,651
Restricted:				
Cash and cash equivalents	70,469	-	25,322	95,791
Investments	287,000	-	-	287,000
Due from other funds	4,503	-	-	4,503
Accounts receivable, net	180,657	-	123,245	303,902
Interest receivable	462	-	244	706
Inventories	198,975	-	83,502	282,477
Prepaid expenses	27,039	1,409	13,111	41,559
Total current assets	<u>8,192,314</u>	<u>62,347</u>	<u>4,706,344</u>	<u>12,961,005</u>
Non-current assets:				
Restricted:				
Cash and cash equivalents	347,222	-	130,411	477,633
Investments	-	-	97,500	97,500
Capital Assets:				
Land and construction in progress	79,060	-	-	79,060
Other capital assets, net of accumulated depreciation	7,167,964	19,377	3,512,335	10,699,676
Total non-current assets	<u>7,594,246</u>	<u>19,377</u>	<u>3,740,246</u>	<u>11,353,869</u>
Total assets	<u>15,786,560</u>	<u>81,724</u>	<u>8,446,590</u>	<u>24,314,874</u>
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	1,960	-	26,217	28,177
Due to other funds	-	4,455	48	4,503
Unearned revenue	23,931	-	-	23,931
Due to depositors	70,469	-	25,322	95,791
Compensated absences	31,332	19,195	20,665	71,192
Total current liabilities	<u>127,692</u>	<u>23,650</u>	<u>72,252</u>	<u>223,594</u>
Non-current liabilities:				
Due to depositors	634,222	-	227,911	862,133
Compensated absences	31,331	19,195	20,665	71,191
Total non-current liabilities	<u>665,553</u>	<u>19,195</u>	<u>248,576</u>	<u>933,324</u>
Total liabilities	<u>793,245</u>	<u>42,845</u>	<u>320,828</u>	<u>1,156,918</u>
NET POSITION				
Invested in capital assets, net of related debt	7,247,024	19,378	3,512,334	10,778,736
Unrestricted	7,746,291	19,501	4,613,428	12,379,220
Total net position	<u>\$ 14,993,315</u>	<u>\$ 38,879</u>	<u>\$ 8,125,762</u>	<u>\$ 23,157,956</u>

Northeast Oklahoma Public Facilities Authority
Combining Schedule of Revenues, Expenses and Change in Net Position –
Enterprise Fund Accounts
Year Ended June 30, 2017

	NOPFA			Total NOPFA
	Tahlequah Gas System	Administrative Account	Stilwell-Westville Gas System	
REVENUES				
Charges for services:				
Charges for Services - Gas	\$ 5,611,546	\$ -	\$ 3,009,697	\$ 8,621,243
Penalties	73,486	-	20,179	93,665
Installations and reconnects	98,798	-	39,181	137,979
Total operating revenues	<u>5,783,830</u>	<u>-</u>	<u>3,069,057</u>	<u>8,852,887</u>
OPERATING EXPENSES				
Cost of sales - gas purchases and transportation	3,230,873	-	1,776,728	5,007,601
CNG expense	107,336	-	-	107,336
Salaries and wages	848,432	303,985	447,697	1,600,114
Payroll Taxes & benefits	197,035	57,587	97,716	352,338
Contracted services	276,347	29,425	16,862	322,634
Administrative	16,692	3,207	45,604	65,503
Maintenance and repairs	105,343	1,520	17,413	124,276
Insurance	135,894	37,720	75,091	248,705
Truck expenses	34,930	1,929	3,365	40,224
Office supplies and expenses	80,194	7,930	39,255	127,379
Dues and pipeline assessment	36,780	9,740	15,643	62,163
Telephone and utilities	39,457	7,717	20,449	67,623
Supplies	41,225	184	19,725	61,134
Miscellaneous	67,329	1,222	4,455	73,006
Depreciation	377,818	6,459	185,851	570,128
Total Operating Expenses	<u>5,595,685</u>	<u>468,625</u>	<u>2,765,854</u>	<u>8,830,164</u>
Operating income (loss)	<u>188,145</u>	<u>(468,625)</u>	<u>303,203</u>	<u>22,723</u>
NON-OPERATING REVENUES				
Interest and investment revenue	29,194	-	22,361	51,555
Miscellaneous revenue	9,278	2,000	-	11,278
Total non-operating revenue	<u>38,472</u>	<u>2,000</u>	<u>22,361</u>	<u>62,833</u>
Income (loss) before interaccount transfers and special item	<u>226,617</u>	<u>(466,625)</u>	<u>325,564</u>	<u>85,556</u>
Special Item - Distributions	(253,745)	-	(195,000)	(448,745)
Interaccount transfers in	-	386,901	477	387,378
Interaccount transfers out	(243,696)	-	(143,682)	(387,378)
Change in net position	<u>(270,824)</u>	<u>(79,724)</u>	<u>(12,641)</u>	<u>(363,189)</u>
Total net position - beginning	15,264,139	118,603	8,138,403	23,521,145
Total net position - ending	<u>\$ 14,993,315</u>	<u>\$ 38,879</u>	<u>\$ 8,125,762</u>	<u>\$ 23,157,956</u>



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**Independent Auditors' Report on Compliance and on Internal Control
over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

Board of Trustees
Northeast Oklahoma Public Facilities Authority
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 Northeast Oklahoma Public Facilities Authority, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Northeast Oklahoma Public Facilities Authority's basic financial statements, and have issued our report thereon dated February 20, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northeast Oklahoma Public Facilities 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 Northeast Oklahoma Public Facilities Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Northeast Oklahoma Public Facilities 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.

Board of Trustees
Northeast Oklahoma Public Facilities Authority

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeast Oklahoma Public Facilities Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hill & Company

Tulsa, Oklahoma
February 20, 2018



Northeast Oklahoma Public Facilities Authority
Summary Schedule of Findings and Responses
June 30, 2017

Findings Required to be Reported by Government Auditing Standards

No matters reportable.

Northeast Oklahoma Public Facilities Authority
Summary Schedule of Prior Audit Findings
June 30, 2017

Findings Required to be Reported by Government Auditing Standards

No matters were reported.