



Northeast Oklahoma Public Facilities Authority

Report on Audit of Financial Statements

June 30, 2015



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Ronald C. Cottrell, CPA

Independent Auditor's Report

Board of Trustees
Northeast Oklahoma Public Facilities Authority
Tahlequah, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Northeast Oklahoma Public Facilities Authority as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Northeast Oklahoma Public Facilities 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 the accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Oklahoma Public Facilities Authority as of June 30, 2015, and the changes in its net position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of error

As described in Note IV.D. to the financial statements, the Northeast Oklahoma Public Facilities Authority made adjustments to beginning net position to correct errors in the prior year financial statements.

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 4–7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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 combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

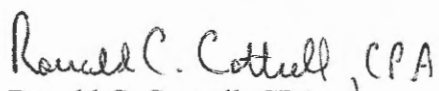
The accompanying combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic 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 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Ronald C. Cottrell, CPA

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2015, on our consideration of 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 internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northeast Oklahoma Public Facilities Authority's internal control over financial reporting and compliance.



Ronald C. Cottrell, CPA
Kansas, Oklahoma
October 22, 2015

Northeast Oklahoma Public Facilities Authority

Management's Discussion and Analysis

June 30, 2015

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, 2015. Please read it in conjunction with NOPFA's financial statements, which begin on page 8.

Financial Highlights

- ❖ During the year ended June 30, 2015, NOPFA's net position totaled \$ 23,600,162, an increase of \$ 237,899 over the prior year's net position balance of \$ 23,362,263.
- ❖ Operating revenues were \$ 12,082,539, a decrease of \$ 1,039,650, while non-operating revenues increased by \$ 130,788.
- ❖ Operating expenses totaled \$ 11,540,881, down from \$ 12,732,864 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 position, the statement of revenues, expenses, and changes in net position, 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 position and the statement of revenues, expenses, and changes in net position report information about NOPFA as a whole and about its activities in a way that answers this question.

The statement of net position and the statement of revenues, expenses, and changes in net position report NOPFA's net position and changes to them. You can think of NOPFA's net position—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 position 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 position increased from a year ago. The amounts are from the statement of net position, page 8, which is presented on an accrual basis of accounting.

Northeast Oklahoma Public Facilities Authority

Net Position

June 30, 2015 and 2014

	2015	2014*	Increase (Decrease)
Assets:			
Current assets	\$ 13,436,215	\$ 13,461,597	\$ (25,382)
Noncurrent assets	11,229,030	11,237,990	(8,960)
Total assets	<u>24,665,245</u>	<u>24,699,587</u>	<u>(34,342)</u>
Liabilities:			
Current liabilities	914,729	1,210,376	(295,647)
Noncurrent liabilities	150,355	126,948	23,407
Total liabilities	<u>1,065,084</u>	<u>1,337,324</u>	<u>(272,240)</u>
Net Position:			
Net investment in capital assets	11,229,030	11,237,990	(8,960)
Restricted	-	-	-
Unrestricted	12,371,132	12,124,273	246,859
Total net position	<u>\$ 23,600,162</u>	<u>\$ 23,362,263</u>	<u>\$ 237,899</u>

*2014 was restated for a prior period adjustment.

Net position increased by \$ 237,899 due to projects – Cherokee Springs 2, Dry Creek, Standing Rock Bridge and Sequoyah Club.

Northeast Oklahoma Public Facilities Authority

Operating Results

Years Ended June 30, 2015 and 2014

	2015	2014*	Increase (Decrease)
Operating revenues	\$ 12,082,539	\$ 13,122,189	\$ (1,039,650)
Operating expenses	11,540,881	12,732,864	(1,191,983)
Operating income (loss)	541,658	389,325	152,333
Nonoperating revenues (expenses)	112,014	(18,774)	130,788
Net income (loss)	653,672	370,551	283,121
Net position, beginning, restated	23,362,263	23,217,712	144,551
Distributions	(415,773)	(226,000)	189,773
Net position, ending	<u>\$ 23,600,162</u>	<u>\$ 23,362,263</u>	<u>\$ 237,899</u>

*2014 was restated for a prior period adjustment.

During the year ended June 30, 2015, overall revenues decreased by \$ 908,862 due to:

- Overall gas purchases and billed were comparatively lower than the previous year.

Expenses decreased by \$ 1,191,983 over the prior year. This was the result of:

- Lower gas purchases.

Northeast Oklahoma Public Facilities Authority

Analysis of Net Position

June 30, 2015 and 2014

	<u>2015</u>	<u>2014*</u>	<u>Increase (Decrease)</u>
Net position:			
Net investment in capital assets	\$ 11,229,030	\$ 11,237,990	\$ (8,960)
Restricted	-	-	-
Unrestricted	<u>12,371,132</u>	<u>12,124,273</u>	<u>246,859</u>
Total net position	<u><u>\$ 23,600,162</u></u>	<u><u>\$ 23,362,263</u></u>	<u><u>\$ 237,899</u></u>

*2014 was restated for a prior period adjustment.

Northeast Oklahoma Public Facilities Authority

Cash Flows

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014*</u>	<u>Increase (Decrease)</u>
Cash provided (used) by:			
Operating activities	\$ 639,012	\$ 1,423,487	\$ (784,475)
Noncapital financing activities	(365,881)	(226,000)	(139,881)
Capital and related financing activities	(555,619)	(263,990)	(291,629)
Investing activities	<u>477,404</u>	<u>32,367</u>	<u>445,037</u>
Net increase (decrease) in cash and cash equivalents	194,916	965,864	(770,948)
Cash and cash equivalents, beginning	<u>9,343,625</u>	<u>8,377,761</u>	<u>965,864</u>
Cash and cash equivalents, ending	<u><u>\$ 9,538,541</u></u>	<u><u>\$ 9,343,625</u></u>	<u><u>\$ 194,916</u></u>

*2014 was restated for a prior period adjustment.

NOPFA's overall cash and cash equivalents increased by \$ 194,916, due to lower expenses, increased CNG sales and CNG tax credit received.

Capital Assets and Debt Administration

Northeast Oklahoma Public Facilities Authority

Capital Assets, Net

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>	<u>Increase (Decrease)</u>
Capital assets	\$ 20,347,515	\$ 19,882,795	\$ 464,720
Less: accumulated depreciation	<u>(9,118,485)</u>	<u>(8,644,805)</u>	<u>473,680</u>
Capital assets, net	<u><u>\$ 11,229,030</u></u>	<u><u>\$ 11,237,990</u></u>	<u><u>\$ (8,960)</u></u>

During 2015, the System's investment in capital assets decreased by \$ 8,960. Additions to capital assets during the year included:

- Vehicles, Pictometry software, Sequoyah Club and Tenkiller School extensions.

Depreciation expense for the year totaled \$ 564,579.

Northeast Oklahoma Public Facilities Authority had no debt during the year ended June 30, 2015.

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, 74464 or telephone us at (918) 456-6268.

Northeast Oklahoma Public Facilities Authority
Statement of Net Position
June 30, 2015

Assets	
Cash and cash equivalents	\$ 9,538,541
Investments	2,174,792
Receivables:	
Accounts (net of allowance for uncollectibles)	311,243
Due from other governments	124,526
Due from other funds	4,503
Inventories	302,218
Prepaid expenses	34,290
Restricted cash and investments	946,102
Capital assets (net of accumulated depreciation)	<u>11,229,030</u>
Total assets	<u><u>24,665,245</u></u>
Liabilities	
Accounts payable and accrued liabilities	61,485
Payable from restricted assets - customer deposits	848,740
Due to other funds	4,503
Accrued compensated absences	<u>150,355</u>
Total liabilities	<u><u>1,065,083</u></u>
Net position	
Net investment in capital assets	11,229,030
Restricted	-
Unrestricted	<u>12,371,132</u>
Total net position	<u><u>\$ 23,600,162</u></u>

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

Northeast Oklahoma Public Facilities Authority
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2015

Operating revenues

Charges for services:

Gas sales	\$ 11,396,660
Installations and reconnect fees	107,108
Penalties	118,205
Administrative services	460,566
Total operating revenues	12,082,539

Operating expenses

Cost of sales - gas purchases	7,402,051
CNG expense	161,032
Salaries and wages	1,523,285
Payroll taxes and benefits	500,030
Contracted services	286,467
Maintenance and repairs	63,430
Insurance	114,442
Office supplies and expenses	116,010
Truck expenses	75,908
Dues and pipeline assessments	64,376
Telephone and utilities	70,192
Miscellaneous	68,602
Administrative expenses	460,566
Supplies	48,168
Depreciation	564,579
Bad debts	21,743
Total operating expenses	11,540,881
Net operating income (loss)	541,658

Nonoperating revenues (expenses)

Miscellaneous	81,762
Interest income	30,252
Total nonoperating revenues (expenses)	112,014

Operating transfers

Transfers in	177
Transfers out	(177)
Net operating transfers	-

Net Income (loss)

Net Income (loss)	653,672
Net position, beginning, restated	23,362,263
Distributions to beneficiaries	(415,773)
Net position, ending	\$ 23,600,162

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

Northeast Oklahoma Public Facilities Authority
Statement of Cash Flows
Year Ended June 30, 2015

Cash flows from operating activities	
Net operating income (loss)	\$ 541,658
Adjustments to reconcile increase (decrease) in net operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	564,579
(Increase) decrease in operating assets:	
Accounts receivable	4,431
Due from other governments	(124,526)
Inventories	(36,321)
Prepaid expenses	(305)
Increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses	(333,910)
Accrued compensated absences	23,406
Net cash provided (used) by operating activities	<u>639,012</u>
Cash flows from noncapital financing activities	
(Increase) decrease in restricted cash and investments	(70,149)
Increase (decrease) in customer deposits	38,279
Miscellaneous income	81,762
Operating transfers in (out)	-
Distributions to beneficiaries	(415,773)
Net cash provided (used) by noncapital financing activities	<u>(365,881)</u>
Cash flows from capital and related activities	
(Purchase)/sale of property and equipment	(555,619)
Net cash provided (used) by capital and related activities	<u>(555,619)</u>
Cash flows from investing activities	
(Purchase)/sale of investments	447,152
Interest	30,252
Net cash provided (used) by investing activities	<u>477,404</u>
Net increase (decrease) in cash and cash equivalents	194,916
Cash and cash equivalents, beginning	<u>9,343,625</u>
Cash and cash equivalents, ending	<u>\$ 9,538,541</u>

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

Northeast Oklahoma Public Facilities Authority
Notes to Financial Statements
June 30, 2015

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 City of Stilwell and Town of 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 and Stilwell, and the Town of 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. New accounting pronouncements

The Governmental Accounting Standards Board (GASB) has issued several new accounting pronouncements, which will be effective in the current and subsequent years. The following is a description of the new accounting pronouncements and the fiscal year they are effective.

Fiscal Year Ended June 30, 2015:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The purpose of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions. This pronouncement had no effect on the financial statements of NOPFA.

GASB Statement No. 69, *Government Combinations and Disposals of Operations*. The purpose of GASB 69 is to improve accounting and financial reporting for state and local government combinations and disposals of government operations. This pronouncement had no effect on the financial statements of NOPFA.

GASB Statement No. 71, *Pension Transitions for Contributions Made Subsequent to the Measurement Date*. The purpose of GASB 71 is to improve financial accounting and reporting by addressing an issue regarding application of GASB 68 concerning transition provisions related to certain pension contributions made to defined benefit plans prior to implementation of GASB 68 by employers and non-employer contributing entities. This pronouncement had no effect on the financial statements of NOPFA.

Fiscal Year Ending June 30, 2016:

GASB Statement No. 72, *Fair Value Measurement and Application*. The purpose of GASB 72 is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurement.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The purpose of GASB 73 is to improve the usefulness of information about pensions included in external financial reports of state and local governments for making decisions and assessing accountability.

GASB Statement No 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of GASB 76 is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles.

Fiscal Year Ending June 30, 2017:

GASB Statement No 74, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*. The purpose of GASB 74 is to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

Fiscal Year Ending June 30, 2018:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The purpose of GASB 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions.

D. 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 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 \$ 2,500 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:

<u>Assets</u>	<u>Years</u>
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. Deferred inflows/outflows of resources

The financial statements may contain separate sections, in addition to assets, liabilities, and net position, for deferred outflows of resources or deferred inflows of resources. These separate elements represent a consumption (deferred outflow) or acquisition (deferred inflow) of net position that applies to a future period and will not be recognized as an outflow or inflow of resources until that time. NOPFA has no deferred inflows/outflows of resources at June 30, 2015.

7. Long-term obligations

In the accompanying financial statements, long-term debt and other long-term obligations are reported as liabilities.

8. 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 outstanding balances of any debt or other borrowings that are attributable to the acquisition, construction, or improvement of these assets.
- b. *Restricted* – 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* – all other net position that does not meet the definitions of “net investment in capital assets” or “restricted”.

9. 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 \$ 10,098,743 as of June 30, 2015, while the bank balances totaled \$ 10,405,670. 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, 2015, none of NOPFA’s bank balances was exposed to custodial credit risk.

Investments

As of June 30, 2015, NOPFA had the following investments.

Investment	Maturities	Fair Value
Certificates of deposit	Six (6) months	\$ 2,469,292
Certificates of deposit	One (1) year	30,000
Certificates of deposit	Two (2) years	60,000
Total		<u>\$ 2,559,292</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, 2015, 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 \$ 561,602 for cash and \$ 384,500 for investments.

B. Receivables

Receivables as of June 30, 2015, for the Northeast Oklahoma Public Facilities Authority, including the applicable allowance for uncollectible accounts, are as follows:

Receivables:	
Accounts	\$ 326,805
Due from other governments	124,526
Gross receivables	<u>451,331</u>
Less: allowance for uncollectibles	(15,562)
Net total receivables	<u>\$ 435,769</u>

C. Capital assets

Capital asset balances and activity for the year ended June 30, 2015, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Construction in progress	22,823	305,007	-	327,830
Total capital assets, not being depreciated	32,823	305,007	-	337,830
Capital assets, being depreciated:				
Buildings and improvements	1,301,792	-	-	1,301,792
CNG stations and slow fills	2,512,880	-	-	2,512,880
Gas distribution system	14,089,287	71,750	-	14,161,037
Equipment	1,100,770	6,586	-	1,107,356
Vehicles	844,608	172,276	(90,264)	926,620
Total capital assets, being depreciated	19,849,337	250,612	(90,264)	20,009,685
Less accumulated depreciation for:				
Buildings and improvements	(624,190)	(47,329)	-	(671,519)
CNG stations and slow fills	(100,526)	(50,258)	-	(150,784)
Gas distribution system	(6,536,612)	(285,955)	-	(6,822,567)
Equipment	(790,093)	(88,114)	-	(878,207)
Vehicles	(593,384)	(92,288)	90,264	(595,408)
Total accumulated depreciation	(8,644,805)	(563,944)	-	(9,118,485)
Total capital assets, being depreciated, net	11,204,532	(313,332)	-	10,891,200
Capital assets, net	\$ 11,237,355	\$ (8,325)	\$ -	\$ 11,229,030

Depreciation expense for 2015 was \$ 564,579.

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, 2015, restricted cash and investments of \$ 946,102 available for refund of customer deposits, and the liability to customers was \$ 848,740.

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, 2015 was \$ 150,355.

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 2017 to purchase 50% of its estimated needs @ \$ 5.25 per MMBTU and the remaining 50% at the daily gas price. The total remaining commitment at June 30, 2015 was 1,960,000 dekatherms.

C. Employee retirement system and pension plans

On January 1, 1973, NOPFA 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, NOPFA 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 \$ 72,917 were made by NOPFA on behalf of the employees during the year ended June 30, 2015, on covered payroll of \$ 1,475,488.

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, 2015, contributions in the amount of \$ 90,375 were made by the employees, while \$ 68,993 were made by NOPFA, respectively, on covered payroll of \$ 1,462,727.

D. Prior period adjustment

An adjustment was made to beginning net position to correct errors in the prior year financial statements. The adjustments were to record the write off of uncollectible accounts receivable and the payable due as a result of errors in the meter deposit liability account. The cumulative effect of these adjustments is as follows:

Correction of errors	
Accounts receivable	\$ (12,234)
Accounts payable	<u>(17,381)</u>
Net adjustment to beginning net position	<u>\$ (29,615)</u>

E. Subsequent events

Management of NOPFA has evaluated subsequent events through October 22, 2015, the date which the financial statements were available to be issued.

Northeast Oklahoma Public Facilities Authority
Combining Statement of Net Position
June 30, 2015

	Tahlequah Gas System	Stilwell-Westville Gas System
Assets		
Cash and cash equivalents	\$ 6,212,429	\$ 3,218,622
Investments	1,357,153	817,639
Receivables:		
Accounts (net of allowance for uncollectibles)	157,424	153,819
Due from other governments	100,916	23,610
Due from other funds	4,503	-
Inventories	222,371	79,847
Prepaid expenses	18,334	12,580
Restricted cash and investments	665,331	280,771
Capital assets (net of accumulated depreciation)	7,369,707	3,826,477
Total assets	16,108,168	8,413,365
Liabilities		
Accounts payable and accrued liabilities	56,359	5,126
Payable from restricted assets - customer deposits	624,975	223,765
Due to other funds	-	48
Accrued compensated absences	67,152	52,790
Total liabilities	748,486	281,729
Net position		
Net investment in capital assets	7,369,707	3,826,477
Restricted	-	-
Unrestricted	7,989,975	4,305,159
Total net position	\$ 15,359,682	\$ 8,131,636

Administrative Account	Total
\$ 107,490	\$ 9,538,541
-	2,174,792
-	311,243
-	124,526
-	4,503
-	302,218
3,376	34,290
-	946,102
32,846	11,229,030
<u>143,712</u>	<u>24,665,245</u>
-	61,485
-	848,740
4,455	4,503
30,413	150,355
<u>34,868</u>	<u>1,065,083</u>
32,846	11,229,030
-	-
75,998	12,371,132
<u>\$ 108,844</u>	<u>\$ 23,600,162</u>

Northeast Oklahoma Public Facilities Authority
Combining Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2015

	<u>Tahlequah Gas System</u>	<u>Stilwell-Westville Gas System</u>
Operating revenues		
Charges for services:		
Gas sales	\$ 7,549,475	\$ 3,847,185
Installations and reconnect fees	66,237	40,871
Penalties	101,205	17,000
Administrative services	-	-
Total operating revenues	<u>7,716,917</u>	<u>3,905,056</u>
Operating expenses		
Cost of sales - gas purchases and transportation	4,899,820	2,502,231
CNG expense	119,055	41,977
Salaries and wages	793,542	447,214
Payroll taxes and benefits	276,212	143,990
Contracted services	261,256	13,500
Maintenance and repairs	39,424	23,901
Insurance	65,800	42,535
Office supplies and expenses	74,591	32,931
Truck expenses	51,653	21,719
Dues and pipeline assessments	39,434	18,138
Telephone and utilities	40,161	25,621
Miscellaneous	62,106	2,796
Administrative expenses	299,367	161,199
Supplies	48,168	-
Depreciation	371,393	192,453
Bad debts	13,787	7,956
Total operating expenses	<u>7,455,769</u>	<u>3,678,161</u>
Net operating income (loss)	261,148	226,895
Nonoperating revenues (expenses)		
Miscellaneous	78,670	3,092
Interest income	25,037	5,215
Total nonoperating revenues (expenses)	<u>103,707</u>	<u>8,307</u>
Operating transfers		
Transfers in	-	-
Transfers out	(177)	-
Net extraordinary items	<u>(177)</u>	<u>-</u>
Net Income (loss)	364,678	235,202
Net position, beginning, restated	15,155,004	8,152,207
Distributions to beneficiaries	<u>(160,000)</u>	<u>(255,773)</u>
Net position, ending	<u>\$ 15,359,682</u>	<u>\$ 8,131,636</u>

<u>Administrative Account</u>	<u>Total</u>
\$ -	\$ 11,396,660
-	107,108
-	118,205
460,566	460,566
<u>460,566</u>	<u>12,082,539</u>
-	7,402,051
-	161,032
282,529	1,523,285
79,828	500,030
11,711	286,467
105	63,430
6,107	114,442
8,488	116,010
2,536	75,908
6,804	64,376
4,410	70,192
3,700	68,602
-	460,566
-	48,168
733	564,579
-	21,743
<u>406,951</u>	<u>11,540,881</u>
53,615	541,658
-	81,762
-	30,252
<u>-</u>	<u>112,014</u>
177	177
-	(177)
<u>177</u>	<u>-</u>
53,792	653,672
55,052	23,362,263
-	(415,773)
<u>\$ 108,844</u>	<u>\$ 23,600,162</u>

Northeast Oklahoma Public Facilities Authority
Combining Statement of Cash Flows
Year Ended June 30, 2015

	<u>Tahlequah Gas System</u>	<u>Stilwell-Westville Gas System</u>
Cash flows from operating activities		
Net operating income (loss)	\$ 261,148	\$ 226,895
Adjustments to reconcile increase (decrease) in net operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	371,393	192,453
(Increase) decrease in operating assets:		
Accounts receivable	24,274	(19,843)
Due from other governments	(100,916)	(23,610)
Inventories	(10,964)	(25,357)
Prepaid expenses	354	134
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(159,313)	(141,967)
Accrued compensated absences	13,554	8,134
Net cash provided (used) by operating activities	<u>399,530</u>	<u>216,839</u>
Cash flows from noncapital financing activities		
(Increase) decrease in restricted cash and investments	(35,445)	(34,704)
Increase (decrease) in customer deposits	14,514	23,765
Miscellaneous income	78,670	3,092
Operating transfers in (out)	(177)	-
Distributions to beneficiaries	(160,000)	(255,773)
Net cash provided (used) by noncapital financing activities	<u>(102,438)</u>	<u>(263,620)</u>
Cash flows from capital and related activities		
(Purchase)/sale of property and equipment	(446,556)	(76,768)
Net cash provided (used) by capital and related activities	<u>(446,556)</u>	<u>(76,768)</u>
Cash flows from investing activities		
(Purchase)/sale of investments	(2,824)	449,976
Interest	25,037	5,215
Net cash provided (used) by investing activities	<u>22,213</u>	<u>455,191</u>
Net increase (decrease) in cash and cash equivalents	(127,251)	331,642
Cash and cash equivalents, beginning	<u>6,339,680</u>	<u>2,886,980</u>
Cash and cash equivalents, ending	<u>\$ 6,212,429</u>	<u>\$ 3,218,622</u>

Administrative Account	Total
\$ 53,615	\$ 541,658
733	564,579
-	4,431
-	(124,526)
-	(36,321)
(793)	(305)
(32,630)	(333,910)
1,718	23,406
<u>22,643</u>	<u>639,012</u>
-	(70,149)
-	38,279
-	81,762
177	-
-	(415,773)
<u>177</u>	<u>(365,881)</u>
<u>(32,295)</u>	<u>(555,619)</u>
<u>(32,295)</u>	<u>(555,619)</u>
-	447,152
-	30,252
-	<u>477,404</u>
(9,475)	194,916
<u>116,965</u>	<u>9,343,625</u>
<u>\$ 107,490</u>	<u>\$ 9,538,541</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

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 of the United States, the basic financial statements of the Northeast Oklahoma Public Facilities Authority, as listed in the table of contents, as of and for the year ended June 30, 2015, and have issued our report thereon dated October 22, 2015, which included an explanatory paragraph relating to prior period adjustments to beginning net position for correction of errors in the prior year financial statements. We did not audit management's discussion and analysis which is supplementary information required by the Governmental Accounting Standards Board, and therefore expressed no opinion on it.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2015-001 and 2015-004 to be material weaknesses.

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 2015-002 and 2015-003 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*.

Northeast Oklahoma Public Facilities Authority's Response to Findings

The Northeast Oklahoma Public Facilities Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. Northeast Oklahoma Public Facilities Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Ronald C. Cottrell, CPA
Kansas, Oklahoma
October 22, 2015

Northeast Oklahoma Public Facilities Authority
Schedule of Findings and Responses
Year Ended June 30, 2015

2015-001 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. Additionally, not all assets were recorded in the detailed capital asset records. The general ledger balances were not reconciled with the detailed 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 detailed 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.

Responsible Official’s Comments and Plan of Action – Capital assets acquired and constructed will be recorded and the balances reconciled with the detailed capital assets records in Caselle accounting software.

2015-002 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. Bad debt write offs made by TPWA and reflected in the detailed subsidiary records were not posted to the general ledger by NOPFA. Additionally, penalties were not properly recorded.

Cause and Effect – Billings and collections for the Tahlequah Gas System are handled by the billing agent, TPWA, for NOPFA. Monthly activity from TPWA is posted to the general ledger accounting system. A reconciliation is performed by NOPFA, 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.

Responsible Official's Comments and Plan of Action – Reconciliation of accounts receivable balances monthly with our secondary records will be made to confirm that balances are correct.

2015-003 Reconciliation of Meter Deposit Liability Account

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 reconciliations were not performed for the meter deposit liability account during the year.

Cause and Effect – Meter deposit accounts for the Tahlequah Gas System are handled by the billing agent, TPWA. Monthly activity from TPWA is posted to the general ledger accounting system. No reconciliation was made comparing the detailed subsidiary records for the meter deposit liability maintained by TPWA with the general ledger account balance for NOPFA. Numerous posting and set up errors were made by TPWA over the last several years, resulting in a net overpayment by TPWA to NOPFA of approximately \$ 38,000, which is due back to TPWA.

Recommendation – The detailed customer deposit listing should be reconciled with the liability balance per the general ledger each month and activity for new connections and refunds should be monitored to help ensure that all transactions have been properly recorded.

Responsible Official's Comments and Plan of Action – Meter deposit accounts will be checked to see that TPWA deposits and withdrawals match detailed files and that all transactions are recorded correctly.

2015-004 Year-end Adjustments and Reclassifications

Criteria – Entities should have available personnel that collectively possess the skills, knowledge, and experience to ensure the preparation of financial statements that are not materially misstated.

Condition – During the course of the audit of NOPFA for the year ended June 30, 2015, we proposed eighteen (18) audit adjusting entries, many of which were considered material.

Cause and Effect – NOPFA did not have on staff anyone with the requisite skills, knowledge, and experience to make all the necessary accruals, adjustments, and reclassifications at year-end to ensure the overall accuracy of the financial statements being audited. As a result, financial statements prepared from the general ledger trial balances of NOPFA would have been materially misstated in several areas.

Recommendation – It is our understanding that NOPFA has used a local CPA firm in the past as a consultant to review the trial balances and assist in the preparation of year-end adjustments and reclassifications for financial reporting purposes. We recommend NOPFA again contract with the CPA firm for any assistance needed.

Responsible Official's Comments and Plan of Action – We will continue out-sourcing components for an internal audit in preparation for annual audit.

Northeast Oklahoma Public Facilities Authority
Summary Schedule of Prior Audit Findings

Financial Statement Findings

2014-1 Capital Asset Reporting and Reconciliation

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.

Status – This condition still exists.

2014-2 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.

2014-3 Reconciliation of Customer Meter Deposits

Condition – Customer meter deposit account balances per the general ledger were not properly reconciled with the detailed subsidiary records from the utility billing system.

Status – This condition still exists.

Federal Award Findings and Questioned Costs

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