

Northeast Oklahoma Public Facilities Authority

Report on Audits of Financial Statements

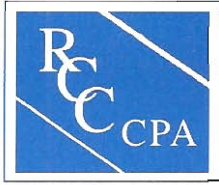
June 30, 2011 and 2010



Northeast Oklahoma Public Facilities Authority
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Ronald C. Cottrell, CPA

Independent Auditor's Report

October 12, 2011

Board of Trustees
Northeast Oklahoma Public Facilities Authority
Tahlequah, Oklahoma

We have audited the accompanying statements of net assets of the Northeast Oklahoma Public Facilities Authority as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended, which collectively comprise its basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Northeast Oklahoma Public Facilities Authority's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Northeast Oklahoma Public Facilities Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note IV. D. to the financial statements, Northeast Oklahoma Public Facilities Authority made adjustments to the 2010 financial statements to correct an error for accrued compensated absences.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northeast Oklahoma Public Facilities Authority, as of June 30, 2011 and 2010, and the changes in their net assets and their cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2011, on our consideration of the Northeast Oklahoma Public Facilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Ronald C. Cottrell, CPA

The management's discussion and analysis listed in the financial section of the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Northeast Oklahoma Public Facilities Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The accompanying combining financial statements listed under supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of OMB Circular A-133 or the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Ronald C. Cottrell, CPA

Northeast Oklahoma Public Facilities Authority

Management's Discussion and Analysis

June 30, 2011 and 2010

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, 2011 and 2010. Please read it in conjunction with NOPFA's financial statements, which begin on page 7.

Financial Highlights

- ❖ During the year ended June 30, 2011, NOPFA's net assets were \$ 21,294,642, an increase of \$ 1,933,212 over the prior year's net asset balance of \$ 19,361,430.
- ❖ Operating revenues were \$ 11,184,925, a decrease of \$ 979,242, while non-operating revenues increased by \$ 1,148,497.
- ❖ Operating expenses totaled \$ 10,248,826, down from \$ 11,134,564 in the prior year.

Overview of the Financial Statements

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

The Basic Financial Statements

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

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

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

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

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

Northeast Oklahoma Public Facilities Authority

Net Assets
June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Assets:			
Current assets	\$ 12,190,266	\$ 11,642,357	\$ 547,909
Noncurrent assets	9,833,705	8,356,543	1,477,162
Total assets	<u>22,023,971</u>	<u>19,998,900</u>	<u>2,025,071</u>
Liabilities:			
Current liabilities	645,761	563,223	82,538
Noncurrent liabilities	83,568	74,247	9,321
Total liabilities	<u>729,329</u>	<u>637,470</u>	<u>91,859</u>
Net Assets:			
Invested in capital assets, net of related debt	9,833,705	8,356,543	1,477,162
Restricted	-	-	-
Unrestricted	<u>11,460,937</u>	<u>11,004,887</u>	<u>456,050</u>
Total net assets	<u>\$ 21,294,642</u>	<u>\$ 19,361,430</u>	<u>\$ 1,933,212</u>

Net assets increased by \$ 1,933,212 due to construction of CNG stations in Tahlequah and Stilwell, purchase of 4 trucks and other equipment, and Highway 59 relocation project.

Northeast Oklahoma Public Facilities Authority

Operating Results
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Operating revenues	\$ 11,184,925	\$ 12,164,167	\$ (979,242)
Operating expenses	<u>10,248,826</u>	<u>11,134,564</u>	<u>(885,738)</u>
Operating income (loss)	936,099	1,029,603	(93,504)
Nonoperating revenues (expenses)	<u>1,546,608</u>	<u>398,111</u>	<u>1,148,497</u>
Net increase (decrease) in net assets	2,482,707	1,427,714	1,054,993
Net assets, beginning, restated	19,361,430	18,243,716	1,117,714
Distributions	<u>(549,495)</u>	<u>(310,000)</u>	<u>239,495</u>
Net assets, ending	<u>\$ 21,294,642</u>	<u>\$ 19,361,430</u>	<u>\$ 1,933,212</u>

During the year ended June 30, 2011, overall revenues increased by \$ 169,255, due to:

- ARRA grant for CNG stations.
- Interest income from Working Fund and CD's.
- New Customers (Green Country Farms).

Expenses decreased by \$ 885,738 over the prior year. This was the result of:

- Lower gas purchase costs.
- Lower cost of gas.
- Prior year had larger expenditures due to projects.

See disclaimer in accompanying Independent Auditor's Report.

Northeast Oklahoma Public Facilities Authority

Analysis of Net Assets

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 9,833,705	\$ 8,356,543	\$ 1,477,162
Restricted	-	-	-
Unrestricted	<u>11,460,937</u>	<u>11,004,887</u>	<u>456,050</u>
Total net assets	<u>\$ 21,294,642</u>	<u>\$ 19,361,430</u>	<u>\$ 1,933,212</u>

NOPFA's overall cash and cash equivalents decreased by \$ 161,306, due to lower cost of gas purchases and sales, remodeling of office building, increased distributions to beneficiaries, and purchase of trucks and equipment.

Northeast Oklahoma Public Facilities Authority

Cash Flows

Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Cash provided (used) by:			
Operating activities	\$ 1,467,592	\$ 925,951	\$ 541,641
Noncapital financing activities	(493,619)	(261,433)	(232,186)
Capital and related financing activities	(1,264,221)	(266,430)	(997,791)
Investing activities	<u>128,942</u>	<u>204,774</u>	<u>(75,832)</u>
Net increase (decrease) in cash and cash equivalents	(161,306)	602,862	(764,168)
Cash and cash equivalents, beginning	<u>7,951,640</u>	<u>7,348,778</u>	<u>602,862</u>
Cash and cash equivalents, ending	<u>\$ 7,790,334</u>	<u>\$ 7,951,640</u>	<u>\$ (161,306)</u>

Capital Assets and Debt Administration

During 2011, the System's investment in capital assets increased by \$ 1,477,162. Additions to capital assets during the year included:

- CNG stations.
- Office equipment.
- Building Improvements, trucks and extensions.
- Highway 59 relocation project.

Northeast Oklahoma Public Facilities Authority

Capital Assets, Net

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>
Capital assets	\$ 17,193,687	\$ 15,368,233	\$ 1,825,454
Less: accumulated depreciation	<u>(7,359,982)</u>	<u>(7,011,690)</u>	<u>(348,292)</u>
Capital assets, net	<u>\$ 9,833,705</u>	<u>\$ 8,356,543</u>	<u>\$ 1,477,162</u>

See disclaimer in accompanying Independent Auditor's Report.

Northeast Oklahoma Public Facilities Authority had no debt during the year ended June 30, 2011.

Economic Factors and NOPFA's Future

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

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

Contacting NOPFA's Financial Management

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

Northeast Oklahoma Public Facilities Authority
Statements of Net Assets
June 30, 2011 and 2010

	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,790,335	\$ 7,951,640
Investments	2,595,233	2,569,271
Receivables:		
Accounts (net of allowance for uncollectibles)	194,967	282,836
Due from other governments	702,979	-
Due from other funds	50,754	4,216
Inventories	224,117	235,404
Prepaid expenses	22,514	22,461
Restricted cash and investments	609,367	576,529
Total current assets	12,190,266	11,642,357
Noncurrent assets:		
Capital assets (net of accumulated depreciation)	9,833,705	8,356,543
Total noncurrent assets	9,833,705	8,356,543
Total assets	22,023,971	19,998,900
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	13,195	10,872
Payable from restricted assets - customer deposits	581,811	548,135
Due to other funds	50,755	4,216
Total current liabilities	645,761	563,223
Noncurrent liabilities:		
Compensated absences	83,568	74,247
Total noncurrent liabilities	83,568	74,247
Total liabilities	729,329	637,470
Net assets		
Invested in capital assets, net of related debt	9,833,705	8,356,543
Restricted:		
Other	-	-
Unrestricted	11,460,937	11,004,887
Total net assets	\$ 21,294,642	\$ 19,361,430

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

Northeast Oklahoma Public Facilities Authority
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2011 and 2010

	2011	2010
Operating revenues		
Charges for services:		
Gas sales	\$ 10,825,828	\$ 11,789,568
Installations	45,306	36,259
Connection and transfer fees	41,817	42,540
Penalties	83,356	73,914
Administrative services	188,618	221,886
Total operating revenues	11,184,925	12,164,167
Operating expenses		
Cost of sales - gas purchases	7,230,254	8,221,234
Salaries and wages	1,123,693	1,058,127
Payroll taxes and benefits	360,354	356,471
Contracted services	396,359	379,804
Maintenance and repairs	29,549	39,221
Insurance	75,133	74,913
Office supplies and expenses	92,782	85,637
Travel	6,399	7,978
Truck expenses	107,631	92,396
Dues and pipeline assessments	38,916	35,747
Telephone and utilities	36,638	32,490
Miscellaneous	13,476	12,761
Administrative expenses	188,619	221,886
Supplies	137,876	125,723
Depreciation	387,070	375,641
Bad debts	24,077	14,535
Total operating expenses	10,248,826	11,134,564
Net operating income (loss)	936,099	1,029,603
Nonoperating revenues (expenses)		
Capital grants	1,302,990	102,466
Miscellaneous	88,714	90,312
Interest income	154,904	205,333
Total nonoperating revenues (expenses)	1,546,608	398,111
Operating transfers		
Transfers in	278,956	-
Transfers out	(278,956)	-
Net operating transfers	-	-
Net Income (loss)	2,482,707	1,427,714
Net assets, beginning, restated	19,361,430	18,243,716
Distributions to beneficiaries	(549,495)	(310,000)
Net assets, ending	\$ 21,294,642	\$ 19,361,430

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

Northeast Oklahoma Public Facilities Authority
Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Receipts from customers	\$ 11,272,794	\$ 13,691,450
Payments to suppliers	(8,694,585)	(11,744,683)
Payments to employees	(1,110,617)	(1,020,816)
Net cash provided (used) by operating activities	1,467,592	925,951
Cash flows from noncapital financing activities		
Distributions to beneficiaries	(549,495)	(310,000)
(Increase) decrease in restricted assets	(32,838)	(19,922)
Miscellaneous nonoperating revenue	88,714	68,489
Net cash provided (used) by noncapital financing activities	(493,619)	(261,433)
Cash flows from capital and related financing activities		
Principal paid on long-term debt	-	(92,753)
Interest expense and fiscal charges	-	(1,843)
Proceeds from capital grants	600,011	537,662
Acquisition/construction of capital assets	(1,864,232)	(709,496)
Net cash provided (used) by capital and related financing activities	(1,264,221)	(266,430)
Cash flows from investing activities		
(Increase) decrease in investments	(25,962)	(83,302)
Interest income	154,904	288,076
Net cash provided (used) by investing activities	128,942	204,774
Net increase (decrease) in cash and cash equivalents	(161,306)	602,862
Cash and cash equivalents, beginning	7,951,640	7,348,778
Cash and cash equivalents, ending	\$ 7,790,334	\$ 7,951,640
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Net operating income (loss)	\$ 936,099	\$ 917,984
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	387,070	338,801
Changes in assets and liabilities:		
(Increase) decrease in receivables	87,869	144,986
(Increase) decrease in inventories	11,287	(4,769)
(Increase) decrease in prepaid expenses	(53)	1,029
Increase (decrease) in accounts payable	2,323	1,488
Increase (decrease) in accrued expenses	9,321	2,534
Increase (decrease) in customer deposits	33,676	20,506
Increase (decrease) in deferred revenue	-	(496,608)
Total adjustments	531,493	7,967
Net cash provided (used) by operating activities	\$ 1,467,592	\$ 925,951

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

Northeast Oklahoma Public Facilities Authority
Notes to Financial Statements
June 30, 2011 and 2010

I. Organization

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

II. Summary of significant accounting policies

A. Reporting entity

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

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

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

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the accompanying financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. NOPFA has elected not to follow subsequent private-sector guidance.

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

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

C. Assets, liabilities, and net assets or equity

1. Deposits and investments

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

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

Investments are reported at fair value.

2. Receivables and payables

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

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

3. Inventories and prepaid items

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

4. Capital assets

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

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

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

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

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

5. *Compensated absences*

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

6. *Long-term obligations*

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

7. *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 \$ 8,014,803 and \$ 8,143,269 as of June 30, 2011 and 2010, respectively while the bank balances totaled \$ 8,295,363 and \$ 8,351,155. 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, 2011, \$ 6,763,246 of NOPFA’s bank balance of \$ 8,295,363 was exposed to custodial credit risk as follows:

Collateral held by pledging bank’s trust department not in the System’s name	\$ 6,763,246
Total	<u>\$ 6,763,246</u>

Investments

As of June 30, 2011, NOPFA had the following investments.

Investment	Maturities	Fair Value	
		2011	2010
Certificates of deposit	Six (6) months	\$ 2,652,733	\$ 2,776,271
Certificates of deposit	One (1) year	327,000	177,500
Total		<u>\$ 2,979,733</u>	<u>2,953,771</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, 2011, 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 \$ 224,867 for cash and \$ 384,500 for investments.

B. Receivables

Receivables as of June 30, 2011 and 2010, for the Northeast Oklahoma Public Facilities Authority, including the applicable allowance for uncollectible accounts, are as follows:

	2011	2010
Receivables:		
Accounts	\$ 278,263	\$ 389,405
Due from other governments	702,979	-
Gross receivables	981,242	389,405
Less: allowance for uncollectibles	(83,296)	(106,569)
Net total receivables	<u>\$ 897,946</u>	<u>\$ 282,836</u>

C. Capital assets

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

<u>2011</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Construction in progress	41,622	1,398,551	(53,959)	1,386,214
Total capital assets, not being depreciated	51,622	1,398,551	(53,959)	1,396,214
Capital assets, being depreciated:				
Buildings	898,070	130,341	-	1,028,411
Gas distribution system	13,034,157	157,178	-	13,191,335
Machinery and equipment	611,708	81,439	-	693,147
Office equipment	201,823	10,332	-	212,155
Vehicles	570,853	140,349	(38,777)	672,425
Total capital assets, being depreciated	15,316,611	519,639	(38,777)	15,797,473
Less accumulated depreciation for:				
Buildings	(476,917)	(26,495)	-	(503,412)
Gas distribution system	(5,414,987)	(273,979)	-	(5,688,966)
Machinery and equipment	(512,492)	(24,690)	-	(537,182)
Office equipment	(136,447)	(17,731)	-	(154,178)
Vehicles	(470,847)	(44,174)	38,777	(476,244)
Total accumulated depreciation	(7,011,690)	(387,069)	38,777	(7,359,982)
Total capital assets, being depreciated, net	8,304,921	132,570	-	8,437,491
Capital assets, net	\$ 8,356,543	1,531,121	(53,959)	9,833,705
<u>2010</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Construction in progress	448,053	37,577	(444,008)	41,622
Total capital assets, not being depreciated	458,053	37,577	(444,008)	51,622
Capital assets, being depreciated:				
Buildings	741,973	156,097	-	898,070
Gas distribution system	12,519,556	514,601	-	13,034,157
Machinery and equipment	592,586	19,122	-	611,708
Office equipment	195,348	6,475	-	201,823
Vehicles	546,096	62,310	(37,553)	570,853
Total capital assets, being depreciated	14,595,559	758,605	(37,553)	15,316,611
Less accumulated depreciation for:				
Buildings	(457,900)	(19,017)	-	(476,917)
Gas distribution system	(5,147,757)	(267,230)	-	(5,414,987)
Machinery and equipment	(489,666)	(22,826)	-	(512,492)
Office equipment	(118,769)	(17,678)	-	(136,447)
Vehicles	(416,936)	(91,464)	37,553	(470,847)
Total accumulated depreciation	(6,631,028)	(418,215)	37,553	(7,011,690)
Total capital assets, being depreciated, net	7,964,531	340,390	-	8,304,921
Capital assets, net	\$ 8,422,584	\$ 377,967	\$ (444,008)	\$ 8,356,543

Depreciation expense was \$ 387,069 for 2011 and 375,641 for 2010.

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, 2011 and 2010, restricted cash and investments included \$ 609,367 and \$ 576,529, respectively, available for refund of customer deposits, and the liability to customers was \$ 581,811 and \$ 548,135.

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, 2011 and 2010 were \$ 83,568 and \$ 74,247, respectively.

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

IV. Other information

A. Risk management

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

B. Commitments and contingent liabilities

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

C. Employee retirement system and pension plans

On January 1, 1973, the Authority established a Target Benefit Pension Plan (a defined contributions plan) for the accumulation of the employer's contribution of retirement benefits. On January 1, 2010, the plan was amended and converted to a non-standardized Money Purchase Plan. Under this plan, the Authority contributes 5% of eligible employees' gross wages. Employees become eligible to receive contributions made on their behalf upon completion of six months of full-time employment. Vesting occurs upon the employee attaining normal retirement age (the later of the date the participant reaches age 65 or the 5th anniversary of the first day of the Plan Year in which the participant began participation in the Plan), or early retirement age (the later of the date the participant reaches age 55 or the date a participant reaches his or her 10th anniversary of the first day of the Plan Year in which the participant began participation in the Plan). Contributions in the amount of \$ 54,237 and \$ 48,576 were made by NOPFA on behalf of the employees during the years ended June 30, 2011 and 2010, on covered payroll of \$ 1,099,551 and \$ 1,024,656, respectively.

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

During fiscal years ended June 30, 2011 and 2010, contributions in the amount of \$ 72,351 and \$ 63,037 were made by the employees, while \$ 51,398 and \$ 47,072 were contributed by NOPFA, respectively, on covered payroll of \$ 1,099,551 and \$ 1,036,506.

D. Prior period adjustment

An adjustment was made to beginning net assets and accrued compensated absences liability for the year ended June 30, 2010 to include accrued sick leave which had not been included in the prior year financial statements. The adjustment increased accrued compensated absences and decreased beginning net assets by \$ 45,944 in the 2010 financial statements.

Northeast Oklahoma Public Facilities Authority
Combining Statement of Net Assets
June 30, 2011

	Tahlequah Gas System	Stilwell-Westville Gas System
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,850,219	\$ 2,899,293
Investments	1,340,166	1,255,067
Receivables:		
Accounts (net of allowance for uncollectibles)	83,513	111,454
Due from other governments	631,936	71,043
Due from other funds	50,754	-
Inventories	132,285	91,832
Prepaid expenses	14,531	7,983
Restricted cash and investments	442,644	166,723
Total current assets	<u>7,546,048</u>	<u>4,603,395</u>
Noncurrent assets:		
Capital assets (net of accumulated depreciation)	6,891,922	2,918,406
Total noncurrent assets	<u>6,891,922</u>	<u>2,918,406</u>
Total assets	<u>14,437,970</u>	<u>7,521,801</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	11,105	2,090
Payable from restricted assets - customer deposits	438,726	143,085
Due to other funds	-	29,463
Total current liabilities	<u>449,831</u>	<u>174,638</u>
Noncurrent liabilities:		
Compensated absences	44,627	21,762
Total noncurrent liabilities	<u>44,627</u>	<u>21,762</u>
Total liabilities	<u>494,458</u>	<u>196,400</u>
Net assets		
Invested in capital assets, net of related debt	6,891,922	2,918,406
Restricted:		
Other	-	-
Unrestricted	7,051,590	4,406,995
Total net assets	<u>\$ 13,943,512</u>	<u>\$ 7,325,401</u>

<u>Administrative</u>	<u>Total</u>
\$ 40,823	\$ 7,790,335
-	2,595,233
-	194,967
-	702,979
-	50,754
-	224,117
-	22,514
-	609,367
<u>40,823</u>	<u>12,190,266</u>
<u>23,377</u>	<u>9,833,705</u>
<u>23,377</u>	<u>9,833,705</u>
<u>64,200</u>	<u>22,023,971</u>
-	13,195
-	581,811
21,292	50,755
<u>21,292</u>	<u>645,761</u>
<u>17,179</u>	<u>83,568</u>
<u>17,179</u>	<u>83,568</u>
<u>38,471</u>	<u>729,329</u>
23,377	9,833,705
-	-
2,352	11,460,937
<u>\$ 25,729</u>	<u>\$ 21,294,642</u>

Northeast Oklahoma Public Facilities Authority
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2011

	Tahlequah Gas System	Stilwell-Westville Gas System
Operating revenues		
Charges for services:		
Gas sales	\$ 6,972,669	\$ 3,853,159
Installations	36,553	8,753
Connection and transfer fees	41,817	-
Penalties	83,356	-
Administrative services	-	-
Total operating revenues	<u>7,134,395</u>	<u>3,861,912</u>
Operating expenses		
Cost of sales - gas purchases	4,671,513	2,558,741
Salaries and wages	713,360	255,065
Payroll taxes and benefits	236,124	75,453
Contracted services	238,774	152,747
Maintenance and repairs	20,414	9,135
Insurance	51,027	23,905
Office supplies and expenses	79,974	5,383
Travel	3,530	1,804
Truck expenses	76,850	29,680
Dues and pipeline assessments	28,620	10,296
Telephone and utilities	25,295	9,094
Miscellaneous	7,457	3,025
Administrative expenses	127,009	61,610
Supplies	122,317	15,509
Depreciation	264,567	115,529
Bad debts	21,067	3,010
Total operating expenses	<u>6,687,898</u>	<u>3,329,986</u>
Net operating income (loss)	446,497	531,926
Nonoperating revenues (expenses)		
Capital grants	1,197,435	105,555
Miscellaneous	87,950	764
Interest income	75,478	79,426
Total nonoperating revenues (expenses)	<u>1,360,863</u>	<u>185,745</u>
Operating transfers		
Transfers in	-	273,854
Transfers out	(278,956)	-
Net extraordinary items	<u>(278,956)</u>	<u>273,854</u>
Net Income (loss)	1,528,404	991,525
Net assets, beginning, restated	12,724,603	6,573,876
Distributions to beneficiaries	<u>(309,495)</u>	<u>(240,000)</u>
Net assets, ending	<u>\$ 13,943,512</u>	<u>\$ 7,325,401</u>

<u>Administrative</u>	<u>Total</u>
\$ -	\$ 10,825,828
-	45,306
-	41,817
-	83,356
188,618	188,618
188,618	11,184,925
-	7,230,254
155,268	1,123,693
48,777	360,354
4,838	396,359
-	29,549
201	75,133
7,425	92,782
1,065	6,399
1,101	107,631
-	38,916
2,249	36,638
2,994	13,476
-	188,619
50	137,876
6,974	387,070
-	24,077
230,942	10,248,826
(42,324)	936,099
-	1,302,990
-	88,714
-	154,904
-	1,546,608
5,102	278,956
-	(278,956)
5,102	-
(37,222)	2,482,707
62,951	19,361,430
-	(549,495)
\$ 25,729	\$ 21,294,642

Northeast Oklahoma Public Facilities Authority
Combining Statement of Cash Flows
Year Ended June 30, 2011

	Tahlequah Gas System	Stilwell-Westville Gas System
Cash flows from operating activities		
Receipts from customers	\$ 7,205,678	\$ 3,878,498
Payments to suppliers	(5,663,113)	(2,959,017)
Payments to employees	(712,266)	(253,101)
Net cash provided (used) by operating activities	830,299	666,380
Cash flows from noncapital financing activities		
Distributions to beneficiaries	(309,495)	(240,000)
Increase (decrease) in due to/from other funds	(46,538)	29,036
(Increase) decrease in restricted assets	(33,016)	178
Miscellaneous nonoperating revenue	87,950	764
Net operating transfers	(278,956)	273,854
Net cash provided (used) by noncapital financing activities	(580,055)	63,832
Cash flows from capital and related financing activities		
Proceeds from capital grants	565,499	34,512
Acquisition/construction of capital assets	(1,329,721)	(528,760)
Net cash provided (used) by capital and related financing activities	(764,222)	(494,248)
Cash flows from investing activities		
(Increase) decrease in investments	(13,239)	(12,723)
Interest income	75,478	79,426
Net cash provided (used) by investing activities	62,239	66,703
Net increase (decrease) in cash and cash equivalents	(451,739)	302,667
Cash and cash equivalents, beginning	5,301,958	2,596,626
Cash and cash equivalents, ending	\$ 4,850,219	\$ 2,899,293
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Net operating income (loss)	\$ 446,497	\$ 531,926
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	264,567	115,529
Changes in assets and liabilities:		
(Increase) decrease in receivables	71,283	16,586
(Increase) decrease in inventories	11,079	208
(Increase) decrease in prepaid expenses	199	(252)
Increase (decrease) in accounts payable	2,794	(471)
Increase (decrease) in accrued expenses	1,094	1,964
Increase (decrease) in customer deposits	32,786	890
Total adjustments	383,802	134,454
Net cash provided (used) by operating activities	\$ 830,299	\$ 666,380

Administrative	Total
\$ 188,618	\$ 11,272,794
(72,455)	(8,694,585)
(145,250)	(1,110,617)
<u>(29,087)</u>	<u>1,467,592</u>

-	(549,495)
17,502	-
-	(32,838)
-	88,714
5,102	-
<u>22,604</u>	<u>(493,619)</u>

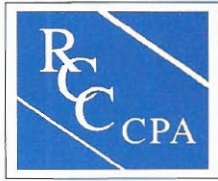
-	600,011
(5,751)	(1,864,232)
<u>(5,751)</u>	<u>(1,264,221)</u>

-	(25,962)
-	154,904
<u>-</u>	<u>128,942</u>

(12,234)	(161,306)
<u>53,056</u>	<u>7,951,640</u>
<u>\$ 40,822</u>	<u>\$ 7,790,334</u>

\$ (42,324) \$ 936,099

6,974	387,070
-	87,869
-	11,287
-	(53)
-	2,323
6,263	9,321
-	33,676
<u>13,237</u>	<u>531,493</u>
<u>\$ (29,087)</u>	<u>\$ 1,467,592</u>



Ronald C. Cottrell, CPA

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With Government Auditing Standards

October 12, 2011

Board of Trustees
Northeast Oklahoma Public Facilities Authority
Tahlequah, Oklahoma

We have audited the basic financial statements of the Northeast Oklahoma Public Facilities Authority, as of and for the year ended June 30, 2011, and have issued our report thereon dated October 12, 2011, which included an explanatory paragraph relating to a prior period adjustment for correction of an error. We did not audit management's discussion and analysis which is required supplementary information, and therefore express no opinion on it. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2011-1 and 2011-2 to be material weaknesses.

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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*.

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

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

Ronald C. Cottrell, CPA

Northeast Oklahoma Public Facilities Authority
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
Federal Programs			
<u>U. S. Department of Energy</u>			
Pass-Through Program From:			
Oklahoma Dept of Commerce -			
Stimulus State Energy Program (SSEP)	81.041	13990 SSEP 09	\$ 994,002
Total U.S. Department of Energy			<u>994,002</u>
U.S. Department of Transportation			
Pass-Through Program From:			
Oklahoma Dept of Transportation -			
Highway Planning and Construction	20.205		99,398
Total U.S. Department of Transportation			<u>99,398</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,093,400</u></u>

The accompanying notes are an integral part of this schedule.

Northeast Oklahoma Public Facilities Authority
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

I. Basis of Accounting

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

II. Expenditures

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

III. Noncash Awards

Northeast Oklahoma Public Facilities Authority expended no form of noncash assistance during the year and had no loan or loan guarantees outstanding at June 30, 2011, which are required by OMB Circular A-133 to be included in the schedule of expenditures of federal awards.

IV. Subrecipients

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

Northeast Oklahoma Public Facilities Authority
Summary Schedule of Prior Audit Findings

Financial Statement Findings

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

Federal Award Findings and Questioned Costs

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



Ronald C. Cottrell, CPA

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

October 12, 2011

Board of Trustees
Northeast Oklahoma Public Facilities Authority
Tahlequah, Oklahoma

Compliance

We have audited the compliance of Northeast Oklahoma Public Facilities Authority with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Northeast Oklahoma Public Facilities Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Northeast Oklahoma Public Facilities Authority's management. Our responsibility is to express an opinion on the Northeast Oklahoma Public Facilities Authority's compliance based on our audit.

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

In our opinion, the Northeast Oklahoma Public Facilities Authority complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

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Northeast Oklahoma Public Facilities Authority
Schedule of Findings and Questioned Costs
Years Ended June 30, 2011

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiencies identified that are not considered to be material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

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

Identification of major programs:

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

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

Section II – Financial Statement Findings

2011-1 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 reconciled with the detailed subsidiary records from the utility billing system.

Cause and Effect – Billings and collections are handled by the billing agents for NOPFA. Not all transactions were posted to the general ledger, such as write-offs made by the billing agents. No reconciliation was made to ensure that accounts receivable, sales revenues, and bad debt expense account balances reflected in the general ledger were accurate. Adjustments were necessary to correct these balances during the audit.

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Recommendation – Accounts receivable balances at the end of each month in the general ledger should be reconciled with the detailed accounts receivable and billing subsidiary records such as the billing register, aging report, collections, and write-offs to ensure that balances reflect the correct receivable balances.

Management's Response – We have requested from TPWA, Stilwell, and Westville billing departments their billing registers, aging reports, collections and write-offs, to balance the accounts receivable for each month.

2011-2 Reconciliation of Meter Deposit Bank Accounts

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

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

Cause and Effect – Meter deposit accounts are handled by the billing agents. NOPFA posts the deposits and checks issued per the billing agent records, however, no reconciliation is made of the cash balances per the general ledger with the bank statements. If proper cash balances are not reflected in the general ledger, then the possibility exists that other general ledger accounts are also misstated.

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

Management's Response – Bank balances will be reconciled with the cash balances per the general ledger.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.