TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & WATER

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

June 30, 2013

TAHLEQUAH PUBLIC WORKS AUTHORITY AND
CITY LIGHT & WATER

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
Tahlequah Public Works Authority
and City Light & Water
Tahlequah, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the Tahlequah Public Works Authority and City Light & Water ("the Authority"), a component unit of the City of Tahlequah, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 respective financial position of the Authority, as of June 30, 2013, and the respective changes in financial position, and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Arledge & Associates, P.C.

November 11, 2013

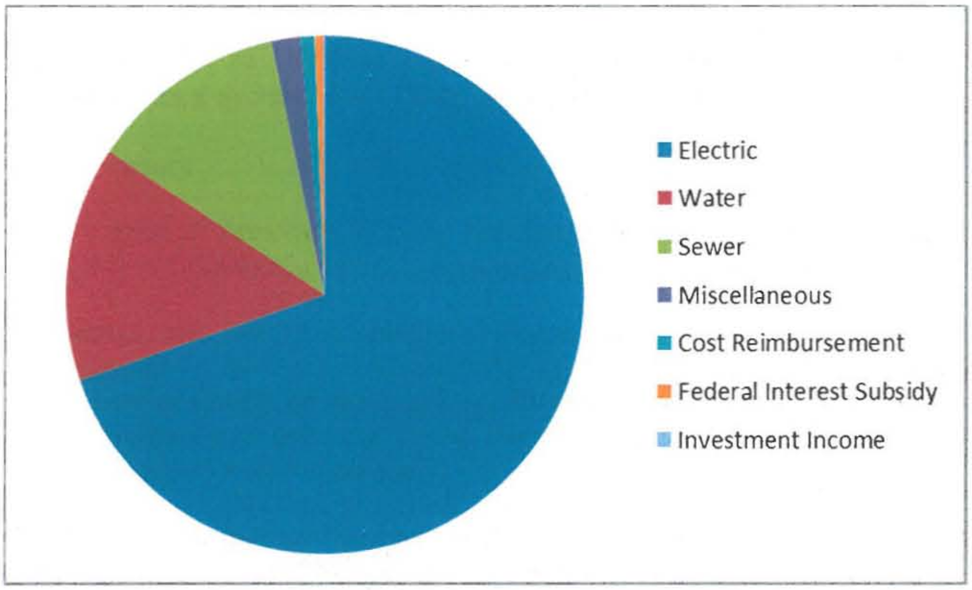
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial performance of the Tahlequah Public Works Authority and City Light & Water ("the Authority"), a component unit of the City of Tahlequah, Oklahoma, provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the Authority's basic financial statements.

Financial Highlights

At June 30, 2013 the Authority's net assets total $30.1 million. Of this, $4.4 million is considered unrestricted.

The following chart provides a graphical breakdown of revenues by category for the fiscal year ending June 30, 2013.



In the fiscal year ended June 30, 2013, the Authority's expenses, after net transfers out of $2,540,967, exceeded revenues creating a decrease in net assets of $67,189, or 0.2%.

Using This Annual Report

The annual report consists of three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows.

The statement of net position and the statement of revenues, expenses, and changes in net position report information on Tahlequah Public Works Authority, City Light & Water, and on the Authority as a whole. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as the Authority's operating results.

These two statements report net position and changes in net position. Net position - the difference between assets and liabilities - are a measurement of the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net position are an indicator of whether its financial health is improving or deteriorating. Numerous other non-financial factors, such as the quality of services provided and the condition and safety of the facilities are important in assessing the overall health of the Authority.

These statements include assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

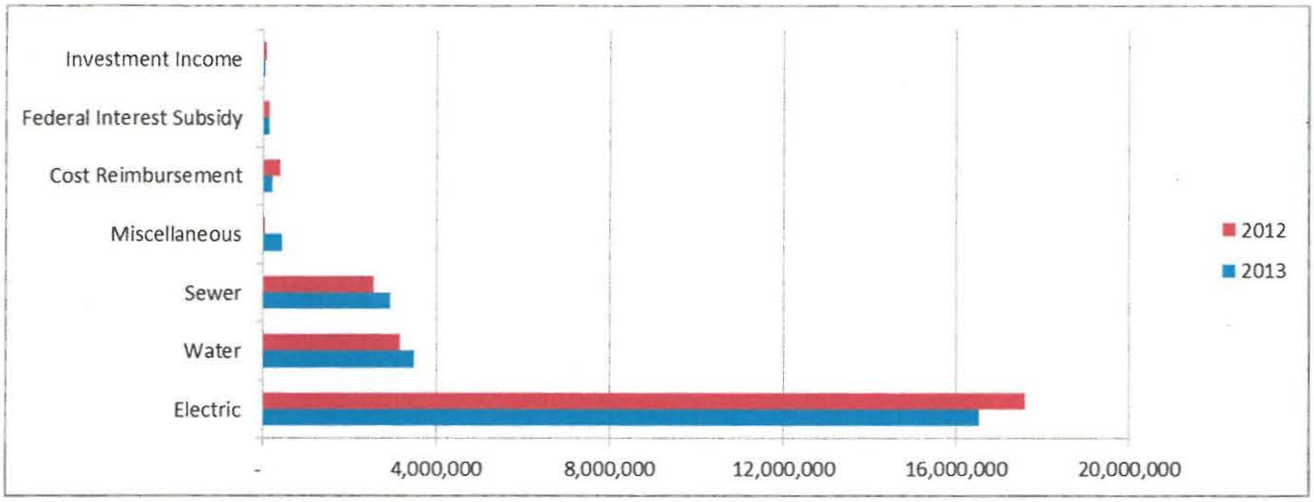
The third statement, the statement of cash flows, presents detailed information about the cash activity during the year. The statement is divided into five parts. The first part presents operating cash flows and shows the net cash provided by the operating activities of the Authority. The second section reflects cash flows from non-capital items. The third section reflects cash flows from capital and related financing activities. The fourth section reflects cash provided by investing activities. And, finally, the fifth section reconciles the net cash provided or used to the operating income or loss reflected on the statement of revenues, expenses, and changes in net position. The statement provides information regarding the Authority's ability to generate future net cash flows, its ability to meet its obligations as they come due and its needs for external funding.

Financial Overview

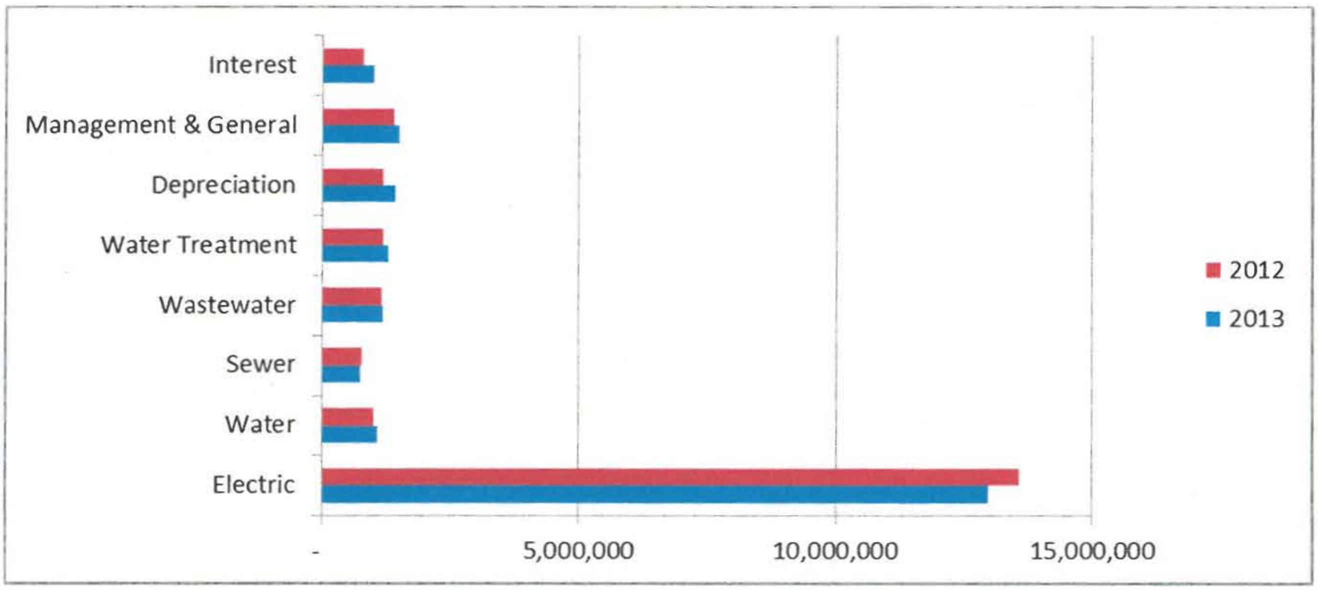
Statement of Net Position, End of Year

	June 30	
	2013	2012 (restated)
Current Assets	$ 17,290,580	$ 17,900,999
Noncurrent Assets	39,837,563	38,042,196
Total Assets	57,128,143	55,943,195
Current Liabilities	4,961,779	4,070,261
Noncurrent Liabilities	22,035,150	21,674,531
Total Liabilities	26,996,929	25,744,792
Net Position		
Investment in Capital Assets	23,893,145	23,941,261
Restricted for Debt Service	1,822,184	4,844,088
Unrestricted	4,415,885	1,413,054
Total Net Position	$ 30,131,214	$ 30,198,403

Operating revenues for the fiscal years ended June 30, 2013 and 2012:



Operating expenses for the fiscal years ended June 30, 2013 and 2012:



Operating Results for the Year Ended

	June 30	
	2013	2012 (restated)
Operating Revenues	$ 23,574,630	$ 23,680,319
Less Operating Expenses	20,236,294	20,295,861
Net Operating Revenue	3,338,336	3,384,458
Net Nonoperating Expenses	864,558	585,018
Net Transfers Out	2,540,967	4,204,027
Increase (Decrease) in Net Assets	(67,189)	(1,404,587)
Net Position, Beginning of Year (restated)	30,198,403	31,602,990
Net Position, End of Year	$ 30,131,214	$ 30,198,403

Another way to assess the financial health of an entity is to look at the statement of cash flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows also helps users assess an entity's ability to generate future net cash flows, its ability to meet its obligations as they come due and its needs for external financing.

Below is a condensed look at the statement of cash flows for fiscal 2013 and 2012.

Cash Flows for the Year Ended

	June 30	
	2013	2012
Cash Provided (Used) by:		
Operating Activities	$ 5,406,854	$ 4,390,741
Noncapital Financing Activities	(2,540,967)	(4,204,027)
Capital and Related Financing Activities	(3,553,668)	(1,853,645)
Investing Activities	418,309	30,024
Net Increase (Decrease) in Cash	(269,472)	(1,636,907)
Cash, Beginning of Year	11,448,582	13,085,489
Cash, End of Year	$ 11,179,110	$ 11,448,582

Description of Capital Assets and Long-Term Debt Activity

At June 30, 2013 the Authority had $39.8 million invested in capital assets, net of accumulated depreciation of $31.8 million. Net depreciation charges totaled $1.4 million for the year ended June 30, 2013. Details of these assets are shown below for the years ended June 30, 2013 and 2012.

Capital Assets at Year-End

	June 30	
	2013	2012
Non-depreciable:		
Land	$ 229,006	$ 229,006
Total Non-depreciable Assets at Historical Cost	229,006	229,006
Depreciable:		
Buildings and Improvements	1,302,529	985,617
Machinery and Equipment	4,502,060	4,061,650
Utility Property	65,646,490	63,241,754
Total Depreciable Assets at Historical Cost	71,451,079	68,289,021
Less Accumulated Depreciation	(31,842,522)	(30,475,831)
Net Depreciable Assets	39,608,557	37,813,190
Capital Assets, Net	$ 39,837,563	$ 38,042,196

At June 30, 2013 the Authority had $23.1 million in debt outstanding. The table below summarizes the outstanding debt by type for the years ended June 30, 2013 and 2012.

Outstanding Debt, at Year-End

	June 30	
	2013	2012
Revenue Bonds - COT, net of discount	$ 7,091,385	$ 7,832,249
2010 Drinking Water SRF	14,516,418	14,579,385
2011 Drinking Water SRF	1,428,000	65,550
	$ 23,035,803	$ 22,477,184

More detailed information about the Authority's outstanding debt is presented in Note 4 to the basic financial statements.

Economic Factors and Next Year's Outlook

For the fiscal year ending June 30, 2013 Operating Revenues were slightly down compared to Fiscal Year ending June 30, 2012. This can be attributed to a slight decrease in electric sales for Fiscal Year 2013. Net Operating Revenues were down for the year due to the decrease in electric sales.

FY 2013 we continued the installation of AMR Water Meters throughout our system. In FY 2013, TPWA purchased a building which now serves as our warehouse operations center. This acquisition has been a valuable resource in helping us manage our inventory. We were able to pay cash for the building and improvements.

At the end of FY 2013, we reviewed the financing of the Drinking Water State Revolving Fund, (DWSRF) we realized that some monies were still available. We decided to utilize the funding with matching funds to build a 3 million gallon water storage tank to replace an existing 1 million gallon storage tank that was built in 1964. This project should be completed in FY 2014.

TPWA is involved in a project to extend our water and waste water treatment collection to the southwest part of Tahlequah. This project is part of our long range planning but we have been able to move this project forward due to a shared expense with the Cherokee Nation.

Economic Outlook

TPWA budgeted a slight increase in electric sales of approximately 2%. We are expecting the NSU Event center to come on line in December of 2013. We also expect to see a slight uptick in new housing projects for rentals to be completed in FY 2014. One factor which may affect our revenue of course will be milder temperatures in the year.

TPWA budgeted a slight decrease in water sales. The main reason for the decrease is directly related to lower temperatures as compared to record setting heat and prolonged periods of days without rain in the previous year.

Waste Water: The costs associated with treating waste water can be impacted by EPA and DEQ regulations. Efforts are under way to lower the amount of phosphorous discharged into the streams. We are able to comply with all current standards. If those standards change, TPWA will have to address the new restrictions with possible upgrades. The cost associated with any changes or upgrades to our facilities are unknown at this time.

Contacting the Authority's Financial Management

This financial report is designed to provide our customers, investors, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Authority's office at 101 North College Avenue, P. O. Box 29, Tahlequah, Oklahoma 74465.

Tahlequah Public Works Authority and City Light & Water
Statement of Net Position
June 30, 2013

	Public Works Authority		City Light & Water		Total	
ASSETS						
Current Assets:						
Cash and cash equivalents	$	4,196,914	$	2,357	$	4,199,271
Restricted Assets:						
Cash and cash equivalents		6,979,839		-		6,979,839
Investments		563,076				563,076
Inventory		1,441,928		-		1,441,928
Accounts receivable (net of allowance)		4,088,466		-		4,088,466
Notes receivable		18,000		-		18,000
Total current assets		17,288,223		2,357		17,290,580
Noncurrent Assets:						
Capital Assets, net		39,837,563		-		39,837,563
Total noncurrent assets		39,837,563		-		39,837,563
Total Assets		57,125,786		2,357		57,128,143
LIABILITIES						
Current Liabilities:						
Accounts payable		1,808,967		-		1,808,967
Accrued expenses		367,819		-		367,819
Notes payable, current portion		712,000		-		712,000
Revenue bonds payable, COT, current portion		780,000		-		780,000
Meter deposit liability		1,292,993		-		1,292,993
Total current liabilities		4,961,779		-		4,961,779
Noncurrent Liabilities:						
Compensated Absences		383,528		-		383,528
Unfunded OPEB obligation		107,819		-		107,819
Notes payable		15,232,418		-		15,232,418
Revenue bonds payable (COT)		6,311,385		-		6,311,385
Total noncurrent liabilities		22,035,150		-		22,035,150
Total Liabilities		26,996,929		-		26,996,929
NET POSITION						
Invested in capital assets, net of related debt		23,893,145		-		23,893,145
Restricted for debt service		1,822,184		-		1,822,184
Unrestricted		4,413,528		2,357		4,415,885
Total Net Position	$	30,128,857	$	2,357	$	30,131,214

See accompanying notes to the basic financial statements.

Tahlequah Public Works Authority and City Light & Water
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2013

	Public Works Authority	City Light & Water	Total
OPERATING REVENUES			
Electric revenue	$ 16,527,839	$ -	$ 16,527,839
Water revenue	3,479,740	-	3,479,740
Sewer charges	2,921,698	-	2,921,698
Miscellaneous	434,869	-	434,869
Cost reimbursement	210,484	-	210,484
Total operating revenues	23,574,630	-	23,574,630
OPERATING EXPENSES			
Electric service	12,997,886	-	12,997,886
Water service	1,077,458	-	1,077,458
Sewer service	745,157	-	745,157
Wastewater treatment	1,181,703	-	1,181,703
Water treatment	1,298,913	-	1,298,913
Depreciation of fixed assets	1,432,633	-	1,432,633
Management and general	1,461,014	41,530	1,502,544
Total operating expenses	20,194,764	41,530	20,236,294
Net operating gain(loss)	3,379,866	(41,530)	3,338,336
NONOPERATING REVENUES (EXPENSES)			
Interest subsidy from federal government	126,322	-	126,322
Investment income	21,755	48	21,803
Interest expense and related fees	(1,012,683)	-	(1,012,683)
Total nonoperating revenue (expenses)	(864,606)	48	(864,558)
Income before transfers	2,515,260	(41,482)	2,473,778
Transfers In	1,418,287	-	1,418,287
Transfers between TPWA & CL&W	(1,257,668)	1,257,668	-
Transfers Out	(2,743,116)	(1,216,138)	(3,959,254)
Increase (decrease) in net position	(67,237)	48	(67,189)
Net position at beginning of year (restated)	30,196,094	2,309	30,198,403
Net position at end of year	$ 30,128,857	$ 2,357	$ 30,131,214

See accompanying notes to the basic financial statements.

Tahlequah Public Works Authority and City Light & Water
Statement of Cash Flows
For the Year Ended June 30, 2013

	Public Works Authority	City Light & Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	$ 23,992,541	$ -	$ 23,992,541
Payments to suppliers	(15,180,776)	(17,530)	(15,198,306)
Payments to employees	(3,363,381)	(24,000)	(3,387,381)
Net cash provided by (used in) operating activities	5,448,384	(41,530)	5,406,854
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from City of Tahlequah	1,418,287	-	1,418,287
Transfers between TPWA & CL&W	(1,257,668)	1,257,668	-
Transfers to City of Tahlequah	(2,743,116)	(1,216,138)	(3,959,254)
Net cash (used in) noncapital financing activities	(2,582,497)	41,530	(2,540,967)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(3,272,064)	-	(3,272,064)
Proceeds from sale/transfer of capital assets	55,274	-	55,274
Proceeds from capital debt	2,095,483	-	2,095,483
Principal paid on capital debt	(1,546,000)	-	(1,546,000)
Interest and fees on capital debt	(886,361)	-	(886,361)
Net cash (used in) capital and related financing activities	(3,553,668)	-	(3,553,668)
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of investments	380,580	-	380,580
Interest	37,681	48	37,729
Net cash provided by investing activities	418,261	48	418,309
Net increase (decrease) in cash and cash equivalents	(269,520)	48	(269,472)
Balance - beginning of year	11,446,273	2,309	11,448,582
Balance - end of year	$ 11,176,753	$ 2,357	$ 11,179,110
RECONCILIATION TO STATEMENT OF NET ASSETS			
Cash and cash equivalents	4,196,914	2,357	4,199,271
Restricted cash and cash equivalents	6,979,839	-	6,979,839
	$ 11,176,753	$ 2,357	$ 11,179,110
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	$ 3,379,866	$ (41,530)	$ 3,338,336
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	1,432,633	-	1,432,633
Change in assets and liabilities			
Accounts receivable	284,778	-	284,778
Inventory	(342,525)	-	(342,525)
Other assets	114	-	114
Accounts payable	240,324	-	240,324
Accrued expenses	320,061	-	320,061
Deposits	133,133	-	133,133
Net cash provided by (used in) operating activities	$ 5,448,384	$ (41,530)	$ 5,406,854

See accompanying notes to the basic financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Tahlequah Public Works Authority (the "Authority") have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of significant accounting policies follows:

A. REPORTING ENTITY

The Tahlequah Public Works Authority "the Authority" is a public trust created under the authority of and pursuant to the provisions of Title 60, Oklahoma Statute 1961, Sections 176 to 180, on December 4, 1970 for the use and benefit of the City of Tahlequah, Oklahoma. The Authority was established to manage utility facilities whether water, sewage, electric, or other forms or types of public and municipal services within or without the corporate boundaries of the City of Tahlequah, Oklahoma and the conservation of public welfare in these areas.

City Light & Water is a department of the City of Tahlequah charged with oversight of Tahlequah Public Works Authority.

B. BASIS OF PRESENTATION

Fund Accounting – The Authority utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Basis of Accounting - The accounts in this report are presented on the accrual basis of accounting. Under this method revenues are recognized in the accounting period in which they are earned and expenses are recognized in the accounting period in which the related liability is incurred.

Operating revenues for the Authority are those generated from its primary operations. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the operation of the Authority. All other expenses are reported as non-operating expenses.

Use of Estimates – Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents – For the purpose of the statement of cash flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

B. BASIS OF PRESENTATION (Cont'd)

Inventories – Inventory is generally stated at cost on the first-in, first-out method.

Capital Assets – Property, Plant and Equipment are recorded at cost. Depreciation is provided on the straight-line basis, beginning the year of acquisition, over the estimated useful lives of the related assets. Expenditures for repairs and maintenance are charged to expense as incurred, whereas major improvements are capitalized.

Compensated Absences – Vested or accumulated vacation and sick leave is recorded as an expense and liability as the benefits accrue to employees.

Accounts Receivable – Management considers all receivables as of June 30, 2013 to be revenues earned at year-end and not yet received. They are reported net of allowances for uncollectible accounts.

Deferred Outflow/Inflows of Resources
In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflow of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has no items that qualify for reporting in this category.

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

1. *Invested in capital assets, net of related debt* – consists of capital assets, net of accumulated depreciation and reduced by the outstanding balance of any notes or other borrowings attributable to those assets.
2. *Restricted net position* – consists of net position with constraints placed on the use either by external groups, laws or enabling legislation.
3. *Unrestricted net position* – all other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

It is the Authority's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Income Taxes – As a Title 60 Public Trust, the Authority is exempt from income taxes.

2. DEPOSIT AND INVESTMENT RISKS

The Authority held the following deposits and investments at June 30, 2013:

Type	Fair Value
Demand Deposits	$ 6,701,470
Time Deposists	3,566,090
Money Market Accounts	911,550
U.S. Government Obligations	563,076
Total Deposits and Investments	$ 11,742,186
Reconciliation to Statement of Net Assets:	
Cash and Cash Equivalents	$ 4,199,271
Restricted Cash and Cash Equivalents	6,979,839
Investments	563,076
	$ 11,742,186

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned or the Authority will not be able to recover collateral securities that are in the possession of an outside party. The Authority was not exposed to custodial credit risk at June 30, 2013.

3. CAPITAL ASSETS

A summary of property, plant, and equipment activity for fiscal 2013 follows:

	Balance at June 30, 2012	Additions	Deletions	Balance at June 30, 2013
Non-depreicable:				
Land	$ 229,006			$ 229,006
Total Non-depreciable Assets at Historical Cost	229,006	-	-	229,006
Depreciable:				
Buildings and Improvements	985,617	316,912		1,302,529
Machinery and Equipment	4,061,650	550,416	(110,006)	4,502,060
Utility Property	63,241,754	2,404,736		65,646,490
Total Depreciable Assets at Historical Cost	68,289,021	3,272,064	(110,006)	71,451,079
Less Accumulated Depreciation	(30,475,831)	(1,432,633)	65,942	(31,842,522)
Net Depreciable Assets	37,813,190	1,839,431	(44,064)	39,608,557
Capital Assets, Net	$ 38,042,196	$ 1,839,431	$ (44,064)	$ 39,837,563

4. LONG TERM LIABILITIES

As of June 30, 2013, long-term debt payable consisted of the following:

Notes Payable:

2010 Series Drinking Water SRF Promissory Note to the Oklahoma Water Resources Board, original issue amount $16,320,000, secured by utility revenues, interest rate of 2.99% and administrative fee of 0.5%, final maturity of March 15, 2041, $15,332,418 drawn to date	$ 14,516,418
2011 Series Drinking Water SRF Promissory Note to the Oklahoma Water Resources Board, original issue amount $1,680,000, secured by utility revenues, interest rate of 1.78% and administrative fee of 0.5%, final maturity of March 15, 2023	1,428,000
	$ 15,944,418
Current portion	$ 712,000
Noncurrent portion	15,232,418
Total notes payable	$ 15,944,418

4. LONG TERM LIABILITIES (Cont'd)

Revenue Bonds Payable:

2009A Series Build America Sales Tax Revenue Bonds, dated September 1, 2009, original amount of $9,135,000 secured by utility assets and revenues and pledged sales tax, interest rates from 2.474% to 5.551%, final maturity of December 1, 2019	$ 7,150,000
Less unamortized discount	(58,615)
Total revenue bonds payable, net	$ 7,091,385
Current portion	$ 780,000
Noncurrent portion	6,311,385
Total revenue bonds payable, net	$ 7,091,385

Changes in Long-Term Debt:

The following is a summary of changes in long-term debt for the year ended June 30, 2013:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Amount Due in One Year
Notes Payable	$ 14,644,935	$ 2,095,483	$ (796,000)	$ 15,944,418	$ 712,000
Revenue Bonds Payable	7,900,000	-	(750,000)	7,150,000	780,000
	$ 22,544,935	$ 2,095,483	$ (1,546,000)	$ 23,094,418	$ 1,492,000

4. LONG TERM LIABILITIES (Cont'd)

Debt Service Requirements to Maturity:

The annual debt service requirements to maturity for long-term debt as of June 30, 2013 are as follows:

	Notes Payable*		Revenue Bonds Payable	
Year Ending June 30,	Principal	Interest	Principal	Interest
2014	712,000	574,647	780,000	345,147
2015	712,000	550,874	810,000	310,824
2016	712,000	528,058	845,000	271,539
2017	712,000	505,242	885,000	227,940
2018	712,000	482,426	925,000	180,606
2019-2023	3,852,000	2,069,888	2,905,000	236,855
2024-2028	2,720,000	1,542,580	-	-
2029-2033	2,720,000	1,067,940	-	-
2034-2038	2,720,000	593,300	-	-
2039-2041	1,360,000	132,899	-	-
	$ 16,932,000	$ 8,047,853	$ 7,150,000	$ 1,572,911

*Principal amounts not fully drawn at June 30, 2013.

5. RESTATEMENT OF NET POSITION

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, requires debt issuance costs to be expensed when incurred, as opposed to being capitalized and amortized over the life of the debt issue. The Authority has elected early implementation of this standard and in accordance, the opening Net Position of the Public Works Authority fund has been decreased by $538,387.

6. RETIREMENT PROGRAMS

Effective February 28, 2005 the Authority changed its Defined Contribution Plan to a 401(A) Non-standardized Profit Sharing Plan. Under the new plan employees become eligible immediately upon employment. Employer contributions are at the sole discretion of the Authority and are allocated using a Nonintegrated (pro rata) formula. Any employee forfeitures are used to reduce any employer contributions. Employees become 100% vested after three years of service. No employee contributions are allowed under this plan.

In addition to the Profit Sharing Plan described in Note 5, the Authority has also established a Section 457 Retirement Plan for all full time employees. Under this Plan, there is no fixed dollar amount of retirement benefits. The employee's actual retirement benefit will depend on the amount of their account balances at the time of retirement. The account balance will reflect the employee deferral contributions, if any, in the

6. RETIREMENT PROGRAMS (Cont'd)

period of time the employee participates in the Plan and their success in investing and re-investing the assets of their accounts.

7. OTHER POSTEMPLOYMENT BENEFITS

The Authority provides post-retirement benefit options for health care for retired employees and their dependents that elect to make required contributions. Effective July 1, 2012 the board voted to modify that the plan will require 25 years of service and raised the age to qualify to 62. Benefits cease at age 65. At June 30, 2013, four retired employees are receiving benefits under this plan.

The contribution requirement of the Authority is an implicit subsidy. The implicit subsidy is not a direct payment from the employer on behalf of the member, but rather stems from the pooling of retired members with currently employed members which are, on average, younger and healthier, thus reducing the cost to retirees. Plan members receiving benefits contributed 100% of the total premiums through their required contributions.

As of June 30, 2011, the most recent valuation date, the plan was unfunded. No increase in net OPEB obligation was recognized in fiscal 2013. Given changes to the plan, outlined above, the Authority has opted not to revalue the liability as the amount is reasonably expected to decline to insignificant amounts within the next year.

8. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; employee health, life and accident benefits; unemployment; and natural disasters. The Authority maintains commercial insurance coverage for claims arising from such matters other than certain natural disasters. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

9. COMMITMENTS AND CONTINGENCIES

During the ordinary course of business, the Authority may be subjected to various lawsuits and civil action claims. There were no pending lawsuits or claims against the Authority at June 30, 2013 that management believes would result in a material loss in the event of an adverse outcome.

10. SUBSEQUENT EVENTS

Management reviewed activity through November 11, 2013, for subsequent events which may be material to the fiscal 2013 financial statements.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Arledge
& Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of the
Tahlequah Public Works Authority
and City Light & Water
Tahlequah, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Tahlequah Public Works Authority and City Light & Water ("the Authority"), a component unit of the City of Tahlequah, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 11, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Arledge & Associates, P.C.

November 11, 2013