# Oklahoma Municipal Power Authority

## A Component Unit of the State of Oklahoma

Financial Statements

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2014 and 2013

# Oklahoma Municipal Power Authority
## A Component Unit of the State of Oklahoma
### As Of And For The Years Ended December 31, 2014 and 2013

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# Independent Accountants' Report on Financial Statements and Supplementary Information

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# INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Oklahoma Municipal Power Authority
Edmond, Oklahoma

## Report on the Financial Statements

We have audited the accompanying financial statements of Oklahoma Municipal Power Authority (the Authority), a component unit of the State of Oklahoma, which comprise the Statements of Net Position as of December 31, 2014 and 2013, and the related Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows for the years then ended and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to the Authority'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 Authority'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.

To the Board of Directors
Oklahoma Municipal Power Authority

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oklahoma Municipal Power Authority as of December 31, 2014 and 2013 and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

*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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economical, 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have issued our report dated March 26, 2015 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 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* in considering The Authority’s internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 26, 2015

## *Introduction*

The following Management's Discussion and Analysis, or MD&A, serves as an introduction to the financial statements of the Oklahoma Municipal Power Authority (also referred to as the Authority or OMPA). It is intended to be an objective and easily understandable analysis of significant financial, operating activities and events for the fiscal year ending December 31, 2014 compared to the fiscal year ended December 31. 2013. It also provides an overview of the Authority's general financial condition and results of operations for the fiscal year ending December 31, 2013 compared to the previous fiscal year ending December 31, 2012.

## *Basic Financial Statements*

### *Statement of Net Position*

Assets are separated into current and non-current categories. Current assets include restricted and unrestricted cash and investments, accounts receivable, inventory, prepayments and other current assets. Non-current assets include restricted and unrestricted investments, costs recoverable in future periods, net capital assets and other non-current assets.

GASB Concept Statement No. 4, *Elements of Financial Statements*, defines deferred outflows of resources as the consumption of net assets in one period that are applicable to future periods. The Authority defines accumulated decrease in fair value of hedging derivatives and unamortized loss on advance refunding of bonds as deferred outflows of resources in the Statement of Net Position.

Consistent with the reporting of assets on the Statement of Net Position, liabilities are segregated into current and non-current categories. Current liabilities include accounts payable, interest payable and current portion of long term debt and notes payable, current portion of derivative liabilities, and other accrued expenses. Non-current liabilities includes long-term debt and notes payable, and non-current derivative liabilities.

Deferred inflows of resources are defined in GASB Concept Statement No. 4, as the acquisition of net assets that apply to future periods. The Authority defines rate stabilization as deferred inflow of resources in the Statement of Net Position.

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

Operating results are reported separately from non-operating results. Non-operating results relate primarily to financing and investing activities. These statements identify operating revenues from sales to cities (system) and energy market sales (off-system). Operating expenses are presented by major cost category. Revenues remaining are available to service debt, finance capital activities, and to cover contingencies.

### *Statement of Cash Flows*

The Statement of Cash Flows presents cash flows from operating activities, capital and related financing activities, non-capital financing activities, and investing activities. These statements are prepared using the direct method, which reports gross cash receipts and payments, and presents a reconciliation of operating income to net cash provided by operating activities.

# Oklahoma Municipal Power Authority
## A Component Unit of the State of Oklahoma
### Management's Discussion and Analysis
### (Unaudited)

## Assets and Deferred Outflows of Resources

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Utility plant, net | $ 502,330,246 | $ 453,766,210 | $ 421,575,946 |
| Non-current investments | 76,562,140 | 86,660,660 | 76,292,901 |
| Other assets | 126,657,320 | 119,211,332 | 115,699,714 |
| Current assets | 133,931,244 | 201,559,815 | 95,047,318 |
| Total assets | 839,480,950 | 861,198,017 | 708,615,879 |
| Deferred outflows of resources | 36,313,913 | 21,267,385 | 27,133,314 |
| Total assets and deferred outflows of resources | $ 875,794,863 | $ 882,465,402 | $ 735,749,193 |

## Liabilities, Deferred Inflows of Resources and Net Position

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Long-term debt, net | $ 760,486,275 | $ 771,410,510 | $ 619,778,767 |
| Current portion of long-term debt | 22,012,755 | 21,484,675 | 20,412,995 |
| Other current liabilities | 42,433,000 | 42,530,804 | 42,746,276 |
| Other non-current liabilities | 7,866,419 | 7,368,595 | 9,389,199 |
| Total liabilities | 832,798,449 | 842,794,584 | 692,327,237 |
| Deferred inflows of resources | 10,995,633 | 13,745,632 | 15,245,632 |
| Net position | | | |
| Net investment in capital assets | (36,668,721) | (34,070,518) | (14,267,196) |
| Restricted | 40,972,155 | 42,868,629 | 23,219,520 |
| Unrestricted | 27,697,347 | 17,127,075 | 19,224,000 |
| Total net position | 32,000,781 | 25,925,186 | 28,176,324 |
| Total liabilities, deferred inflows of resources and net position | $ 875,794,863 | $ 882,465,402 | $ 735,749,193 |

## Revenues, Expenses and Changes in Net Position

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Operating revenues | | | |
| System | $ 179,448,648 | $ 162,965,303 | $ 156,164,638 |
| Off-system | 7,213,292 | 17,398,645 | 13,496,046 |
| Non-operating revenues | | | |
| Interest income | 2,143,731 | 2,573,145 | 2,365,358 |
| Gain/(loss) on sale of assets | 2,875 | --- | 875 |
| Lease revenue | 2,632,057 | 2,738,738 | 2,839,279 |
| Deferred costs | (472,322) | 3,478,045 | 1,048,341 |
| SSEP grant revenues | --- | --- | 1,299,283 |
| Total revenues | 190,968,281 | 189,153,876 | 177,213,820 |
| Operating expenses | 156,152,107 | 154,794,099 | 140,321,480 |
| Non-operating expenses | | | |
| Interest expense, net | 30,139,531 | 26,744,005 | 27,977,616 |
| Amortization | 2,540,788 | 2,772,280 | 2,799,533 |
| (Increase)/decrease in fair value of investments | (3,939,740) | 7,094,630 | 225,541 |
| SSEP grant expenditures | --- | --- | 1,299,283 |
| Total expenses | 184,892,686 | 191,405,014 | 172,623,453 |
| Net increase in net position | $ 6,075,595 | $ (2,251,138) | $ 4,590,367 |

### *Financial Highlights*

For the second consecutive year Oklahoma experience a much cooler summer than normal. The billed peak demand was slightly lower in 2014 at 721MW compared to 726MW for 2013. 2014 and 2013 peak demands were both considerably lower than the 800MW recorded in 2012.

The adjustment of investments to market value had a favorable impact in 2014 of $3,939,740 compared to an unfavorable adjustment of $7,094,630 and an unfavorable adjustment of $225,541 in 2013 and 2012, respectively. However, the Authority typically holds all investments until maturity, so the market value gains and losses during the term of the investments are not normally realized.

On November 21, 2014, The Authority issued $88,740,000 of Series 2014A and $34,440,000 of Series 2014B Power Supply System Revenue Refunding Bonds. The 2014 series bonds carry a fixed interest rate of 3.000% to 5.000% and are due January 2019 through 2038. The proceeds were used to refund all or a portion of the Authority's Series 2001B Bonds, Series 2003A Bonds and Series 2008A Bonds.

# Oklahoma Municipal Power Authority
## A Component Unit of the State of Oklahoma
### Management's Discussion and Analysis
### (Unaudited)

On January 31, 2013, The Authority issued $132,900,000 of Series 2013A Power Supply System Revenue Bonds. The Series 2013A bonds carry a fixed interest rate of 3.125% to 4.000% and are due January 2028 through 2047. The proceeds are primarily being used for the construction of the Charles D. Lamb Energy Center, a 103 MW simple cycle peaking plant to be located in Ponca City, Oklahoma.

On August 1, 2013, The Authority issued $39,565,000 of Series 2013B Power Supply System Revenue Bonds. The Series 2013B bonds carry a fixed interest rate of 3.625% to 5.000% and are due January 2024 through 2030. The proceeds are primarily being used for capacity upgrades at the McClain and Redbud plants, and to fund environmental compliance upgrades at the Authority's co-owned coal plants.

Net costs recoverable in future years represent the amount by which depreciation/amortization either exceeds or is less than principal repayment on debt. The Authority sets rates to cities on a cash basis utilizing essentially level debt service, and the deferred costs allow the Authority to convert from cash-based rates to accrual accounting. For 2014, principal repayment on debt exceeded depreciation/amortization resulting in a decrease to net position of $472,322. For 2013 depreciation/amortization exceeded principal repayment on debt resulting in an increase to net position of $3,478,045.

### *Utility Plant and Debt Administration*

### Utility Plant

Net utility plant increased $48.6 million in 2014 and $32.2 million in 2013, primarily due to the construction on the Charles D. Lamb Energy Center.

On-site construction of the Charles D. Lamb Energy Center began in March 2014, and will be completed in the spring of 2015. The facility will meet the Authorities capacity needs for the foreseeable future. As of February, 2015 the facility's construction progress is on-time and under-budget.

At December 31, 2014, generation plant in service, including fuel reserves, totaled $349.6 million, net of depreciation. Electric plant consisted of generation plant in the amount of $347.1 million that represents ownership in 162 megawatts of undivided ownership in plants in both Texas, Louisiana and Arkansas, 110 megawatts of the undivided ownership in the McClain plant, 156 megawatts of undivided ownership in the Redbud plant, plus 137 megawatts of generating plant owned and operated by the Authority in Oklahoma. Electric plant also includes lignite reserves that totaled $2.5 million at year end 2014.

The Authority also has $17.7 million of general plant, net of depreciation, consisting of substation facilities, a small amount of transmission lines, and the OMPA headquarters building.

### Debt Administration

Revenue bonds outstanding at year end 2014 were $719 million, including the current portion of debt paid January 2, 2015. This amount excludes the FPL Wind Energy note of approximately $42 million that is secured by lease revenues from FPL Wind Energy. The revenue bonds outstanding in 2013 and 2012 were $744 million and $590 million, respectively. The current portion of revenue bonds payable at year end 2014, in the amount of $20 million, was paid in January 2015.

## Southwest Power Pool Integrated Marketplace

On March 1st, 2014, the Southwest Power Pool launched the Integrated Marketplace. SPP became the central authority, administering day ahead energy and operating reserves products across the entire market footprint. The Integrated Marketplace also includes financial products for transmission congestion hedging. OMPA staff were well prepared during the market start, and the launch was a success. This was a significant change from the SPP Energy Imbalance Service market that OMPA operated in since 2007. As expected, when the Integrated Market launched, physical bi-lateral energy trading in SPP was significantly reduced. Consequently, Off-system or energy market sales declined to $7,213,292 in 2014 from $17,398,645 in 2013. Currently, all market energy sales represent transactions in the ERCOT market.

## Contacting the Authority's Financial Management

Questions about this report or requests for additional financial information can be directed to:

OMPA
Manager of Accounting Services
P.O. Box 1960
Edmond, Oklahoma 73083-1960

# Oklahoma Municipal Power Authority
## A Component Unit of the State of Oklahoma
### Statements of Net Position
### As Of And For The Years Ended December 31, 2014 and 2013

## Assets and Deferred Outflows of Resources

| | 2014 | 2013 |
|---|---|---|
| **Utility Plant, at Cost** | | |
| Utility plant in service | $ 611,162,943 | $ 587,118,646 |
| Less accumulated depreciation | 243,838,171 | 224,208,014 |
| | 367,324,772 | 362,910,632 |
| Construction in progress | 89,238,289 | 42,964,564 |
| Intangible plant assets, net | 3,784,230 | 4,023,384 |
| Leased electric plant, net | 41,982,955 | 43,867,630 |
| | 502,330,246 | 453,766,210 |
| **Non-current Restricted Investments** | 59,045,279 | 64,731,528 |
| **Non-current Investments** | 17,516,861 | 21,929,132 |
| **Other Assets** | | |
| Unamortized organization costs and other assets | 683,357 | 768,776 |
| Net costs recoverable in future years | 113,490,986 | 114,555,699 |
| Other non-current assets | 12,482,977 | 3,886,857 |
| | 126,657,320 | 119,211,332 |
| Total non-current assets | 705,549,706 | 659,638,202 |
| **Current Assets** | | |
| Cash and cash equivalents | 15,749,731 | 10,300,398 |
| Investments | 246,186 | 4,726,111 |
| Interest receivable | 320,643 | 324,504 |
| Accounts receivable | 15,663,454 | 15,021,434 |
| Inventory | 9,145,664 | 6,606,084 |
| Other current assets | 652,277 | 657,696 |
| Restricted cash and cash equivalents | 47,897,292 | 76,493,785 |
| Restricted investments | 43,164,779 | 86,068,393 |
| Restricted interest receivable | 1,091,218 | 1,361,410 |
| Total current assets | 133,931,244 | 201,559,815 |
| Total assets | 839,480,950 | 861,198,017 |
| **Deferred Outflow of Resources** | | |
| Accumulated decrease in fair value of hedging derivatives | 11,746,531 | 8,633,961 |
| Unamortized loss on advance refunding of bonds | 24,567,382 | 12,633,424 |
| Total assets and deferred outflows of resources | $ 875,794,863 | $ 882,465,402 |

## Liabilities, Deferred Inflows of Resources and Net Position

| | 2014 | 2013 |
|---|---|---|
| **Long-term Debt** | | |
| Revenue bonds payable | $ 698,605,000 | $ 724,445,000 |
| Less unamortized net discount/(premium) | (21,896,075) | (4,982,555) |
| | 720,501,075 | 729,427,555 |
| Note payable | 39,985,200 | 41,982,955 |
| | 760,486,275 | 771,410,510 |
| Non-current derivative liability | 7,866,419 | 7,368,595 |
| Total non-current liabilities | 768,352,694 | 778,779,105 |
| **Current Liabilities** | | |
| Accounts payable | 19,305,159 | 17,187,875 |
| Accrued expenses | 5,356,905 | 7,731,695 |
| Interest payable | 13,890,824 | 16,345,868 |
| Current portion of long-term debt | 20,015,000 | 19,600,000 |
| Current portion of note payable | 1,997,755 | 1,884,675 |
| Current derivative liability | 3,880,112 | 1,265,366 |
| Total current liabilities | 64,445,755 | 64,015,479 |
| Total liabilities | 832,798,449 | 843,906,792 |
| **Deferred Inflow of Resources** | | |
| Unearned revenue – rate stabilization | 10,995,633 | 13,745,632 |
| **Net Position** | | |
| Net investment in capital assets | (36,668,721) | (34,070,518) |
| Restricted – expendable for | | |
| Debt service | 28,841,802 | 31,634,008 |
| Capital acquisitions | 2,207,603 | 2,074,681 |
| Specific operating activities | 9,922,750 | 9,159,940 |
| Unrestricted | 27,697,347 | 17,127,075 |
| Total net position | 32,000,781 | 25,925,186 |
| Total liabilities, deferred inflow of resources and net position | $ 875,794,863 | $ 882,465,402 |

# Oklahoma Municipal Power Authority
## A Component Unit of the State of Oklahoma
### Statements of Revenues, Expenses and Changes in Net Position
### For the Years Ended December 31, 2014 and 2013

| | 2014 | 2013 |
|---|---|---|
| **Operating Revenues** | | |
| System | $ 179,448,648 | $ 162,965,303 |
| Off-system | 7,213,292 | 17,398,645 |
| | 186,661,940 | 180,363,948 |
| **Operating Expenses** | | |
| Purchased power | 27,171,053 | 47,851,403 |
| Generation | 82,394,439 | 62,517,964 |
| Transmission | 17,747,381 | 16,760,352 |
| Other operating expenses | 8,712,406 | 8,068,546 |
| Depreciation | 20,126,828 | 19,595,834 |
| | 156,152,107 | 154,794,099 |
| **Operating Income** | 30,509,833 | 25,569,849 |
| **Non-operating Revenues (Expenses)** | | |
| Investment income | 2,143,731 | 2,573,145 |
| Net increase in fair value of investments | 3,939,740 | (7,094,630) |
| Gain/(loss) on sale of assets | 2,875 | --- |
| Lease revenue | 2,632,057 | 2,738,738 |
| Amortization of organization costs | (85,420) | (85,420) |
| Amortization of other assets | (353,180) | (332,488) |
| | 8,279,803 | (2,200,665) |
| Interest and debt expense | | |
| Interest expense – revenue bonds | (28,963,299) | (25,450,105) |
| Buy America Bond subsidy proceeds | 1,455,826 | 1,444,838 |
| Interest expense – other | (2,632,058) | (2,738,738) |
| Amortization of loss on bond refunding, discount and bond issue costs | (2,102,188) | (2,354,372) |
| | (32,241,719) | (29,098,377) |
| Net non-operating expenses | (23,961,916) | (31,299,032) |
| **Net Deferred Costs Recoverable in Future Years** | (472,322) | 3,478,045 |
| Increase in net position | 6,075,595 | (2,251,138) |
| **Net Position, Beginning of Year** | 25,925,186 | 28,176,324 |
| **Net Position, End of Year** | $ 32,000,781 | $ 25,925,186 |

# Oklahoma Municipal Power Authority
## A Component Unit of the State of Oklahoma
### Statements of Cash Flows
### For the Years Ended December 31, 2014 and 2013

| | 2014 | 2013 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Cash received from customers | $ 184,157,116 | $ 178,658,519 |
| Cash paid to suppliers | (141,153,168) | (125,690,077) |
| Cash paid to employees | (7,036,856) | (6,467,870) |
| Net cash provided by operating activities | 35,967,092 | 46,500,572 |
| **Cash Flows from Capital and Related Financing Activities** | | |
| Proceeds from issuance of bonds | 123,180,000 | 172,485,000 |
| Payment on bonds refunded | (129,005,000) | --- |
| Payment of bond issue costs | (566,694) | (1,000,032) |
| Bond issuance premium | 3,941,202 | 1,163,913 |
| Capital expenditures for utility plant | (69,543,535) | (55,185,022) |
| Interest paid on long-term debt | (31,418,343) | (22,495,132) |
| BAB subsidies received | 1,455,826 | 1,444,838 |
| Principal payments on long-term debt | (19,600,000) | (18,635,000) |
| Proceeds from sale of capital assets | 2,874 | --- |
| Net cash provided by/(used in) capital and related financing activities | (121,553,670) | 77,778,565 |
| **Cash Flows from Investing Activities** | | |
| Proceeds from sales and maturities of investments | 140,814,276 | 115,990,361 |
| Purchases of investments | (79,392,472) | (209,496,241) |
| Lease receivable (advance) receipts | 399,835 | 336,837 |
| Payments made for lease receivables | 1,800,000 | --- |
| Income received on investments | 2,417,780 | 1,726,350 |
| Net cash used in investing activities | 62,439,419 | (91,442,693) |
| **Increase/(Decrease) in Cash and Cash Equivalents** | (23,147,159) | 32,836,444 |
| **Cash and Cash Equivalents, Beginning of Year** | 86,794,183 | 53,957,740 |
| **Cash and Cash Equivalents, End of Year** | $ 63,647,023 | $ 86,794,183 |
| **Consisting of** | | |
| Cash and cash equivalents | $ 15,749,731 | $ 10,300,398 |
| Restricted cash and cash equivalents | 47,897,023 | 76,493,785 |
| Total cash and cash equivalents | $ 63,647,023 | $ 86,794,183 |

**Noncash Items from Investing and Capital and Related Financing Activities**

| | | |
|---|---|---|
| Change in fair value of investments | $ 3,939,740 | $ (7,094,630) |
| Discount accretion/premium amortization on investments | $ (383,313) | $ (935,665) |
| Reduction of note payable and depreciation expense on leased electric plant | $ 1,884,675 | $ 1,777,995 |
| Capital expenditures for utility plant included in accounts payable | $ 1,797,657 | $ 955,401 |

| | 2014 | 2013 |
|---|---|---|
| **Reconciliation of Operating Income to Net Cash Provided by Operating Activities** | | |
| Operating income | $ 30,509,833 | $ 25,569,849 |
| Adjustments to reconcile net operating revenues to net cash provided by operating activities | | |
| Depreciation | 19,885,528 | 19,375,146 |
| Amortization of other assets included in operating expenses | 241,300 | 3,334,769 |
| Unearned revenues – rate stabilization | (2,749,999) | (1,500,000) |
| Changes in assets and liabilities which provided/(used) cash | | |
| Accounts receivable | (642,020) | (205,429) |
| Inventory | (2,539,580) | 433,608 |
| Other current assets | (7,207,160) | (192,688) |
| Accounts payable and accrued expenses | (1,530,810) | (314,683) |
| Net cash provided by operating activities | $ 35,967,092 | $ 46,500,572 |

## Note 1: Nature of Operations and Summary of Significant Accounting Policies

### *Nature of Operations*

The Oklahoma Municipal Power Authority (the Authority) is a governmental agency of the state of Oklahoma created in 1981 pursuant to the Oklahoma Municipal Power Authority Act to provide a means of municipal electric systems in Oklahoma to jointly plan, finance, acquire and operate electrical power supply facilities necessary to meet the electrical energy requirements of their consumers. As an agency of the State of Oklahoma (the State), the Authority is subject to the State of Oklahoma Council of Bond Oversight, and is bound by various state statutes related to units of the State. The Authority's employees are eligible to participate in the State retirement plan. The Authority is a discretely presented component unit in the financial statements of the State of Oklahoma.

On July 1, 1985, the Authority began selling electric power to its participating municipalities under Power Sales Contracts. The Power Sales Contracts have a primary term through December 31, 2027. In 2005, Amendment No. 1 to the Power Sales Contract was executed by the Authority and members representing over 99% of the Authority's load. Amendment No. 1 provides for a rolling 15-year notice of termination of the Power Sales Contract by either the Authority or the participating municipalities commencing in 2013. No participating municipality has given a notice of termination and neither has the Authority. Under the Power Sales Contract, either the participating municipality or the Authority may limit the power and energy to be purchased or provided. The Authority has not elected to limit its obligation to provide power and energy under the Power Sales Contracts, nor have any of the participating municipalities elected to limit their obligation to purchase full requirements power from the Authority.

The Authority has a 100% ownership interest in a 64 megawatts (MW) combined cycle generating facility and a 29 MW hydroelectric generating facility. The Authority has 100% ownership of a gas unit in Ponca City, Oklahoma, with a generating capacity of 42 MW. The Authority also has joint ownership of 23%, 13%, 11.72%, 3.906% and 2.344% in five other generating facilities, having total generating capacities of 478 MW, 1,200 MW, 690 MW, 650 MW and 650 MW, respectively. All of the joint ownership facilities are operated by other entities. The Authority has also entered into certain power purchase and transmission arrangements in order to supplement generating capacity owned by the Authority and to provide for the transmission of the Authority's power and energy to the participating municipalities.

The Authority bills participants and other power purchasers monthly for power used. The terms generally require payment within 20 days of the billing date. The Authority does not require participants to collateralize the obligation related to power billed.

### *Use of Estimates*

The preparation of financial statements in conformity 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### *System of Accounts and Basis of Accounting*

The Authority's accounts are maintained in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission, as required by the Power Sales Contracts with the participating municipalities, and in conformity with accounting principles generally accepted in the United States of America using the accrual basis of accounting, including the application of regulatory accounting as described in Governmental Accounting Standards Board (GASB) Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

The Authority considers electric revenues and costs that are directly related to the generation, purchase, transmission and distribution of electricity to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as non-operating.

In March 2012, the GASB issued Statement No. 65 - *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The utility implemented this standard effective January 1, 2013.

### *Utility Plant and Depreciation*

Utility plant is recorded at cost, including capitalized net interest cost on borrowed funds used for construction of utility plant. Capitalized net interest cost on borrowed funds includes amortization of bond discounts and bond premiums, interest expense and interest income. The Authority capitalized $4,889,804 and $7,695,681 of interest in 2014 and 2013, respectively.

Depreciation of generating facilities in which the Authority holds an undivided ownership interest is calculated on a straight-line basis using a group-composite method over the expected services' lives, which range from 20 to 45 years. Depreciation of other utility plant is calculated on a straight-line basis using the estimated useful lives of the depreciable property, which range from three to 10 years. A half year convention is generally used for all assets when placed in service, except in instances where specific assumptions have been made for rate making purposes. Retirements together with removal costs, less salvage value, are charged to accumulated depreciation based upon average unit cost.

The cost of major replacements of property is capitalized to utility plant accounts. The cost of maintenance, repairs and replacements of minor items of property is expensed as incurred.

The Authority has implemented GASB Statement No. 51, *Financial Reporting for Intangible Assets* (Statement 51). Statement 51 requires that all intangible assets not specifically excluded by its scope be classified as capital assets. Intangible assets are amortized using the straight line method over a period of 5 to 40 years.

#### *Cash Equivalents*

For the purpose of the statement of cash flow, cash and cash equivalents have original maturities of three months or less from the date of acquisition. The Authority considers investments in government security money market funds to be cash equivalents.

#### *Investments and Investment Income*

The Authority accounts for investments at their fair value. Fair value is determined using quoted market prices. Investment income and net increase or decrease in the fair market value of investments are presented in the Statement of Revenues, Expenses and Change in Net Position.

#### *Accounts Receivable*

Accounts receivable are stated at the amount billed plus any accrued and unpaid interest. Accounts receivable are ordinarily due 20 days from the billing date. Accounts that are unpaid after the due date bear interest at a local bank's prime rate per month. The Authority does not consider an allowance for uncollectible accounts necessary. Its customers are municipalities and historically receivables have been collectible.

#### *Inventory Pricing*

Inventory consists of fuel stock and is stated at weighted average cost.

#### *Organization Costs*

Development activity costs incurred by the Authority through June 30, 1985, are included in organization costs. Such costs are being amortized on a straight-line basis over 37 years in accordance with the Authority's rate-making policy.

#### *Costs Recoverable in Future Years*

The Power Sales Contracts with the participating municipalities provide for billings to those municipalities for output and services of the generating facilities, for payment of current operating and maintenance expenses (excluding depreciation and amortization), for payment of scheduled debt principal and interest, and for deposits in certain funds, all in compliance with the bond resolutions. Net deferred costs recoverable in future years represent the amount by which depreciation/amortization exceeds principal repayment on debt. The Authority sets rates to cities on a cash basis utilizing essentially level debt service, and the deferred costs allow the Authority to convert from cash-based rates to accrual accounting. Net deferred cost will become a reduction in net income at such future time as the principal repayment exceeds depreciation and amortization. Annual budgets and changes in power rates are approved by the Authority's Board of Directors. During 2014 and 2013, billings to participating municipalities under Power Sales Contracts were $176,278,650 and $161,959,730, respectively.

### *Net Position*

Net position of the Authority is classified in three components. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted assets are non-capital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Authority, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted assets are remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted assets. When both restricted and unrestricted resources are available for use for the same purpose, it is the Authority’s policy to use unrestricted resources first, then restricted resources as they are needed.

### *Deferred Outflows of Resources*

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

#### *Unamortized Loss on Advance Refundings*

Financing costs incurred in connection with the issuance of Power Supply System Revenue Bonds and losses on advance refundings of previous bonds have been deferred. These amounts are being amortized over the life of the respective bonds in accordance with the Authority’s rate-making policy.

#### *Derivative Financial Instruments*

The Authority has implemented GASB Statement No. 53 Accounting and Financial Reporting for Derivative Instruments (Statement 53). Statement 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

The Authority has entered into an interest rate swap (Note 7) to synthetically cap the effects of the short-term fluctuations in the variable interest rates. The contract requires the Authority to pay a fixed rate and receive a variable price based upon indices. This transaction meets the requirements of Statement No. 53. Realized gains or losses on the interest rate swap are recorded as either a reduction of or an addition to interest expense.

The Authority uses commodity price swap contracts (Note 8) to hedge the effects of fluctuations in the prices for natural gas during the Authority's peak sales periods. The contracts require the Authority to pay a fixed price for natural gas and receive a variable price based upon common indices. These transactions meet the requirements of Statement No. 53. Realized gains and losses on commodity swap contracts are recorded as either a reduction of or addition to fuel cost.

### *Deferred Inflows of Resources*

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

#### *Unearned Revenues – Rate Stabilization*

The Authority designs its electric service rates to recover costs, as defined above, of providing power supply services. In order to minimize possible future rate increases, each year the Authority determines a rate stabilization amount to be charged or credited to revenues. There were rate stabilization withdrawals of $2,750,000 and $1,500,000 in 2014 and 2013, respectively. These amounts are reflected as increases or decreases in unearned revenues – rate stabilization in the accompanying statements of net position. Rate stabilization deferrals or withdrawals are approved by the Board of Directors through the budget approval process.

### *Compensated Absences*

Under terms of employment, employees are granted vacation and sick leave in varying amounts based on years of service. Only benefits considered vested are disclosed in these statements. Vested vacation leave is accrued when earned in the financial statements. The liability is liquidated from the general operating revenue of the Authority.

### *Risk Management*

The Authority manages its risks through coverages provided by private insurers for workers' compensation, employee dishonesty and boiler/machinery and other property risks by the State of Oklahoma's Risk Management Administration for automobile and tort liabilities. Settled claims have not exceeded reserves in the last three years. There were no significant reductions in coverage compared to prior year.

#### *Income Taxes*

The Authority is exempt from Federal income taxes, as it is a political subdivision of the State. The Authority is exempt from Oklahoma state income taxes as provided under the Municipal Power Authority Act.

#### *Major Customers*

The Authority currently serves 39 municipalities in Oklahoma and two partial requirements customers. Five full requirements customers accounted for approximately 65% and 66% of the Authority's operating revenues (two of which accounted for 48 % and 49% of the Authority's operating revenues) for the years ended December 31, 2014 and 2013, respectively.

#### *Lease Receivables*

The Authority has established a policy whereby customers can borrow funds to finance improvements to their municipal electric systems. All lending is approved by the Authority's board and is generally limited to 30% of the customers pervious 12 month billing from the Authority. The leases are classified as other assets on the Authority's balance sheet. Lease receivables from cities totaled $2,464,552 and $1,064,387 at December 31, 2014 and 2013, respectively.

#### *Effect of New Accounting Standards on Current Period Financial Statements*

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 67, Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25; Statement No. 68, Accounting and Financial reporting for Pensions - an amendment of GASB Statement No. 27; Statement No. 69, Government Combinations and Disposals of Government Operations; and Statement No. 70, Accounting and Financial reporting for Nonexchange Financial Guarantees. Application of these standards may restate portions of these financial statements.

#### *Comparative Data*

Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

## Note 2: Deposits, Investments and Investment Income

### *Deposits*

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State; bonds of any city, county, school district or special road district of the State; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

None of the Authority's bank balances of $2,634,933 and $4,006,919 were exposed to custodial credit risk at December 31, 2014 and 2013, respectively.

The Authority has collateral in the form of a line of credit with FHLBank of Topeka for $4 million and $4 million as of December 31, 2014 and 2013, respectively.

### *Investments*

The management of investments is under the custody of the Authority's management. Investing is performed in accordance with the formally adopted investment policies of the Authority. The funds may be invested in (1) direct obligations of the United States government of which the full faith and credit of the United States government is pledged; (2) certificates of deposit at savings and loan associations and banks, which are federally insured or when the funds are secured by acceptable collateral; (3) savings accounts at savings and loan associations and banks, to the extent they are fully federally insured; (4) any bonds or other obligations guaranteed by any agency or corporation that has been created pursuant to an Act of Congress as an agency or instrumentality of the United States of America; (5) bonds, notes or other evidences of the indebtedness issued or guaranteed by any corporation which are, at the time of purchase, rated by two nationally recognized rating agencies in their highest rating category; (6) repurchase agreements secured by 1 or 4 above provided collateral is kept safe by a representative of the Authority; and (7) interests in portfolios of money market instruments containing obligations described above. Any un-invested funds shall be deposited in a bank or banks within Oklahoma that are approved and designated by the Board of Directors of the Authority. The management of investments in the bond funds is performed in accordance with applicable bond indentures.

At December 31, 2014 and 2013, the Authority had the following investments and maturities:

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | | Maturities in Years | | | |
| Type | Fair Value | Less Than 1 | 1-5 | 6-10 | More Than 10 |
| U.S. agencies obligations | $ 119,478,720 | $ 42,916,585 | $ 24,546,083 | $ 24,868,103 | $ 27,147,949 |
| Certificates of deposit | 494,379 | 494,379 | — | — | — |
| Money market funds | 61,012,101 | 61,012,101 | — | — | — |
| | $ 180,985,200 | $ 104,423,065 | $ 24,546,083 | $ 24,868,103 | $ 27,147,949 |

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | | Maturities in Years | | | |
| Type | Fair Value | Less Than 1 | 1-5 | 6-10 | More Than 10 |
| U.S. agencies obligations | $ 172,238,901 | $ 86,264,936 | $ 26,091,572 | $ 23,969,980 | $ 35,912,413 |
| Certificates of deposit | 5,216,263 | 4,719,304 | 496,959 | — | — |
| Money market funds | 82,787,264 | 82,787,264 | — | — | — |
| | $ 260,242,428 | $ 173,771,504 | $ 26,588,531 | $ 23,969,980 | $ 35,912,413 |

**Interest Rate Risk** – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy limits investments of operating and maintenance funds with a term beyond five years to a total of $11 million, with $4 million of this amount invested at 10 years or less. The debt service reserve accounts may be invested beyond 10 years provided the yield is adequate. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately. The Authority's was in compliance with this policy at December 31, 2014 and 2013.

**Credit Risk** – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The various bond indentures limit the types of investments the Authority may invest in and the related credit risk of those investments. At December 31, 2014, the Authority's investments in U.S. agencies obligations not directly guaranteed by the U.S. government were rated as follows:

| Investment | Moody's | S&P | Fitches |
|---|---|---|---|
| U.S. agency securities not directly guaranteed by the U.S. government | Aaa | AA+ | AAA |
| Certificates of deposit | Not rated | Not rated | Not rated |
| Money market mutual funds | Aaa | AAAm | AAAmmf |

At December 31, 2013, the Authority's investments in U.S. agencies obligations not directly guaranteed by the U.S. government were rated as follows:

| Investment | Moody's | S&P | Fitches |
|---|---|---|---|
| U.S. agency securities not directly guaranteed by the U.S. government | Aaa | AA+ | AAA |
| Certificates of deposit | Not rated | Not rated | Not rated |
| Money market mutual funds | Aaa | AAAm | AAAmmf |

**Custodial Credit Risk** – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the underlying securities for the Authority's investments at December 31, 2014 and 2013 are held by the counterparties in the Authority's name.

**Concentration of Credit Risk** – The Authority places no limit on the amount that may be invested in any one issuer. At December 31, 2014, the Authority's investment in agency obligations of Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, and Federal Home Loan Mortgage Corporation constituted 13.83%, 39.31%, 9.80% and 3.08%, respectively, of its total investments. At December 31, 2013, the Authority's investment in agency obligations of Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, and Federal Home Loan Mortgage Corporation constituted 21.71%, 30.79%, 5.43% and 8.25%, respectively, of its total investments.

**Investments Highly Sensitive to Market Changes** – At December 31, 2014, the Authority held $121,109,172 in government mutual funds and U.S. Agencies which mature from 2015 to 2027. These investments can vary in market value depending on current interest rates. It is the Authority's practice to hold these investments to maturity, but, depending on the market, they may be sold prior to maturity, which can result in a gain or loss. The market value of these investments at December 31, 2014, was $119,973,099.

At December 31, 2013, the Authority held $182,910,573 in government mutual funds and U.S. Agencies which mature from 2014 to 2027. These investments can vary in market value depending on current interest rates. It is the Authority's practice to hold these investments to maturity, but, depending on the market, they may be sold prior to maturity, which can result in a gain or loss. The market value of these investments at December 31, 2013, was $177,455,164.

### *Summary of Carrying Values*

The carrying values of deposits and investments shown above are included in the Statements of Net Position as follows:

| | 2014 | 2013 |
|---|---|---|
| Carrying value | | |
| Deposits | $ 2,634,933 | $ 4,006,919 |
| Investments | 180,985,195 | 260,242,428 |
| | $ 183,620,128 | $ 264,249,347 |
| Included in the following Statement of Net Position captions: | | |
| Cash and cash equivalents | $ 15,749,731 | $ 10,300,398 |
| Investments – current | 246,186 | 4,726,111 |
| Non-current investments | 17,516,861 | 21,929,132 |
| Restricted cash and cash equivalents | 47,897,292 | 76,493,785 |
| Restricted investments – current | 43,164,779 | 86,068,393 |
| Non-current restricted investments | 59,045,279 | 64,731,528 |
| | $ 183,620,128 | $ 264,249,347 |

### *Investment Income*

Investment income for the years ended December 31, 2014 and 2013, consisted of:

| | 2014 | 2013 |
|---|---|---|
| Net interest and accretion income | $ 2,143,731 | $ 2,573,145 |
| Net increase/(decrease) in fair value of investments | 3,939,740 | (7,094,630) |
| | $ 6,083,471 | $ (4,521,485) |

## Note 3: Electric Utility Plant

Electric utility plant assets activity for the years ended December 31, 2014 and 2013, were:

| | 2014 | | | |
|---|---|---|---|---|
| | January 1 | Additions | Retirements | December 31 |
| Non-depreciable plant | | | | |
| Construction work in progress | $ 42,964,564 | $ 64,623,304 | $ (18,349,579) | $ 89,238,289 |
| Depreciable plant | | | | |
| General plant | 26,457,388 | 1,145,801 | (16,599) | 27,586,590 |
| Generation plant | 558,214,612 | 22,893,170 | — | 581,107,782 |
| Fuel reserves, net | 2,446,646 | 64,910 | (42,985) | 2,468,571 |
| Intangible assets | 5,415,318 | 488,297 | — | 5,903,615 |
| Leased electric plant | 57,739,000 | — | — | 57,739,000 |
| Total depreciable plant | 650,272,964 | 24,592,178 | (59,584) | 674,805,558 |
| Total electric utility plant | 693,237,528 | 89,215,482 | (18,409,163) | 764,043,847 |
| Less accumulated depreciation for | | | | |
| General plant | (8,930,304) | (947,765) | 16,599 | (9,861,470) |
| Generation plant | (215,277,710) | (18,809,951) | 110,960 | (233,976,701) |
| Intangible assets | (1,391,934) | (727,451) | — | (2,119,385) |
| Leased electric plant | (13,871,370) | (1,884,675) | — | (15,756,045) |
| Total accumulated depreciation | (239,471,318) | (22,369,842) | 127,559 | (261,713,601) |
| Electric utility plant, net | $ 453,766,210 | $ 66,845,640 | $ (18,281,604) | $ 502,330,246 |

| | 2013 | | | |
|---|---|---|---|---|
| | January 1 | Additions | Retirements | December 31 |
| Non-depreciable plant | | | | |
| Construction work in progress | $ 1,931,623 | $ 44,072,742 | $ (3,039,801) | $ 42,964,564 |
| Depreciable plant | | | | |
| General plant | 26,036,036 | 421,352 | — | 26,457,388 |
| Generation plant | 547,939,854 | 10,274,758 | — | 558,214,612 |
| Fuel reserves, net | 2,386,163 | 105,958 | (45,475) | 2,446,646 |
| Intangible Assets | 3,297,893 | 2,117,425 | — | 5,415,318 |
| Leased electric plant | 57,739,000 | — | — | 57,739,000 |
| Total depreciable plant | 637,398,946 | 12,919,493 | (45,475) | 650,272,964 |
| Total electric utility plant | 639,330,569 | 56,992,235 | (3,085,276) | 693,237,528 |
| Less accumulated depreciation for | | | | |
| General plant | (7,996,255) | (934,049) | — | (8,930,304) |
| Generation plant | (196,865,328) | (18,390,489) | (21,893) | (215,277,710) |
| Intangible Assets | (799,665) | (592,269) | — | (1,391,934) |
| Leased electric plant | (12,093,375) | (1,777,995) | — | (13,871,370) |
| Total accumulated depreciation | (217,754,623) | (21,694,802) | (21,893) | (239,471,318) |
| Electric utility plant, net | $ 421,575,946 | $ 35,297,433 | $ (3,107,169) | $ 453,766,210 |

The following reconciles depreciation expense as reported above to the statements of revenues, expenses and changes in net position:

| | 2014 | 2013 |
|---|---|---|
| Depreciation expense, as reported above | $ 22,369,842 | $ 21,694,802 |
| Reduction of note payable and depreciation expense on leased electric plant | (1,884,675) | (1,777,995) |
| Amortization of intangible assets | (358,339) | (320,973) |
| Amortization of McClain turbine overhaul liability | — | — |
| Depreciation expense as reported in the statements of revenues, expenses and changes in net position | $ 20,126,828 | $ 19,595,834 |

## Note 4: Long-term Debt

Long-term liability activity for the years ended December 31, 2014 and 2013, are as follows:

| 2014 | January 1 | Additions | Payments or Amortization | December 31 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Revenue bonds payable | $ 744,045,000 | $ 123,180,000 | $(148,605,000) | $ 718,620,000 | $ 20,015,000 |
| Less unamortized net (discount)/premium | 4,982,555 | 17,442,657 | (529,137) | 21,896,075 | — |
| Total revenue bonds payable | 749,027,555 | 140,622,657 | (149,134,137) | 740,516,075 | 20,015,000 |
| Note payable | 43,867,630 | — | (1,884,675) | 41,982,955 | 1,997,755 |
| Derivative liabilities | 8,633,961 | 3,112,570 | — | 11,746,531 | 3,880,112 |
| Total long-term debt | $ 801,529,146 | $ 143,735,227 | $(151,018,812) | $ 794,245,561 | $ 25,892,867 |

| 2013 | January 1 | Additions | Payments or Amortization | December 31 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Revenue bonds payable | $ 590,195,000 | $ 172,485,000 | $ (18,635,000) | $ 744,045,000 | $ 19,600,000 |
| Less unamortized net (discount)/premium | 4,351,137 | 1,163,914 | (532,496) | 4,982,555 | — |
| Total revenue bonds payable | 594,546,137 | 173,648,914 | (19,167,496) | 749,027,555 | 19,600,000 |
| Note payable | 45,645,625 | — | (1,777,995) | 43,867,630 | 1,884,675 |
| Derivative liabilities | 12,110,086 | — | (3,476,125) | 8,633,961 | 1,265,366 |
| Total long-term debt | $ 652,301,848 | $ 173,648,914 | $ (24,421,616) | $ 801,529,146 | $ 22,750,041 |

***Revenue Bonds Payable***

The Authority has issued Power Supply System Revenue Bonds to finance portions of its acquisition and construction activities and establish bond reserve investments.

Revenue bonds outstanding at December 31, 2014 and 2013, are as follows:

| | 2014 | 2013 |
|---|---|---|
| Power Supply System Revenue Bonds, Series 1992B, 4.65% to 6.00%, due January 1, 1997 to January 1, 2024 | $ 70,585,000 | $ 78,785,000 |
| Power Supply System Revenue Bonds, Series 2001B, Variable Rate Demand Obligations (0.06% and 0.13% at December 31, 2013 and 2012, respectively), due January 1, 2021 to January 1, 2027 | --- | 25,575,000 |
| Power Supply System Revenue Bonds, Series 2003A, 1.20%, due January 1, 2024 to January 1, 2025 | --- | 16,100,000 |
| Power Supply System Revenue Bonds, Series 2003B, 2.00% to 3.75%, due January 1, 2005 to January 1, 2014 | --- | 3,495,000 |
| Power Supply System Revenue Bonds, Series 2005A, Variable Rate Demand Obligations (0.04% and 0.06% at December 31, 2014 and 2013, respectively), due January 1, 2007 to January 1, 2023 | 39,700,000 | 43,100,000 |
| Power Supply System Revenue Bonds, Series 2007A, 4.125% to 4.75%, due January 1, 2028 to January 1, 2047 | 135,375,000 | 135,375,000 |
| Power Supply System Revenue Bonds, Series 2008A, 5.00% to 6.00%, due January 1, 2015 to January 1, 2038 | 12,000,000 | 99,330,000 |
| Power Supply System Revenue Bonds, Series 2010A, 2.00% to 5.00%, due January 1, 2011 to January 1, 2028 | 95,295,000 | 99,800,000 |
| Power Supply System Revenue Bonds, Series 2010B, 6.31% to 6.44%, due January 1, 2039 to January 1, 2045 | 70,000,000 | 70,000,000 |
| Power Supply System Revenue Bonds, Series 2013A, 3.125% to 4.00%, due January 1, 2028 to January 1, 2047 | 132,920,000 | 132,920,000 |
| Power Supply System Revenue Bonds, Series 2013B, 3.625% to 5.00%, due January 1, 2024 to January 1, 2030 | 39,565,000 | 39,565,000 |
| Power Supply System Revenue Refunding Bonds, Series 2014A, 3.00%to 5.00%, due January 1, 2019 to January 1, 2038 | 88,740,000 | --- |
| Power Supply System Revenue Refunding Bonds, Series 2014B, 3.00%to 5.00%, due January 1, 2021 to January 1, 2027 | 34,440,000 | --- |
| | 718,620,000 | 744,045,000 |
| Less current portion of revenue bonds payable | 20,015,000 | 19,600,000 |
| Revenue bonds payable less current portion | $ 698,605,000 | $ 724,445,000 |

Principal and interest payments of revenue bonds (assuming a 5.80% on the 2005A bonds) for the years ending after December 31, 2014, are as follows:

| Year Ending December 31, | Principal | Interest | Total |
|---|---|---|---|
| 2015 | $ 20,015,000 | $ 27,526,474 | $ 47,541,474 |
| 2016 | 20,760,000 | 31,985,179 | 52,745,179 |
| 2017 | 21,665,000 | 30,919,967 | 52,584,967 |
| 2018 | 22,775,000 | 29,730,704 | 52,505,704 |
| 2019 | 22,465,000 | 28,471,692 | 50,936,692 |
| 2020 – 2024 | 116,290,000 | 124,314,320 | 240,604,320 |
| 2025 – 2029 | 105,035,000 | 96,281,022 | 201,316,022 |
| 2030 – 2034 | 84,140,000 | 75,462,474 | 159,602,474 |
| 2035 – 2039 | 95,395,000 | 57,227,120 | 152,622,120 |
| 2040 – 2044 | 123,035,000 | 34,335,202 | 157,370,202 |
| 2045 – 2047 | 87,045,000 | 7,378,559 | 94,423,559 |
| | $ 718,620,000 | $ 543,632,713 | $1,262,252,713 |

The bonds are payable from, and collateralized by, a pledge of and security interest in the proceeds of the sale of the bonds, the operating revenues of the Authority and assets in the funds established by the respective bond resolution. Interest on all fixed rate and term rate bonds is payable semiannually on January 1 and July 1; interest on variable rate bonds is payable on the first business day of each month. Neither the State nor any political subdivision thereof, nor any participating municipality which has contracted with the Authority, is obligated to pay principal or interest on the bonds. The Authority does not have any taxing authority. Additionally, the Authority must have approval from the State of Oklahoma Council of Bond Oversight in order to issue bonds.

The Power Supply System Revenue Bonds, Series 1992B, Series 1994A, Series 2003B and Series 2005A were issued to advance refund previously outstanding bonds of the Authority. The differences between the Authority's net carrying amount of the refunded bonds and the net proceeds of the refunding bonds were deferred and are being amortized over the terms of the refunding bonds. The transactions resulted in a net reduction of debt service cost over the term of the refunding bonds.

The net proceeds of the Series 1992B and Series 1994A bonds have been irrevocably deposited with an escrow agent and have been used to purchase direct obligations of the United States government. The principal and interest on these obligations will be sufficient to pay the refunded bonds at their maturity and to pay interest to such date. Upon establishment of the escrow account, the refunded bonds are considered to be defeased and are no longer considered obligations of the Authority. As of December 31, 2014 and 2013, the Authority's only remaining defeased bonds are the Series 1992A, which have a balance of $36,430,000 and $38,035,000, respectively. These bonds are not considered to be outstanding obligations of the Authority.

On February 13, 2001, the Authority issued $45,000,000 of Power Supply System Revenue Bonds, Series 2001A. Additionally, on February 23, 2001, the Authority issued $25,575,000 of Power Supply System Revenue Bonds, Series 2001B. The proceeds from the 2001 bond issuances were used by the Authority to fund the purchase of 23% undivided interest in the McClain generating facility located outside of Oklahoma City, Oklahoma. The Series 2001B bonds bore interest at a variable interest rate pursuant to a weekly auction rate process until April 16, 2008, at which time the Authority converted them to a term rate mode at an interest rate of 3.85% through December 31, 2011. The Series 2001B bonds were remarketed on January 1, 2012, the mandatory tender date, in a private placement with Wells Fargo Bank, N.A. The bonds will continue in the term rate mode for a subsequent interest period ending January 3, 2015. The Series 2001B bonds have a mandatory tender date on or about January 5, 2015 and may be remarketed at that time. In the event of a failed remarketing, all un-remarketed bonds would bear interest at a maximum rate of 12% per annum. The scheduled payment of principal and interest on the Series 2001B bonds are guaranteed under an insurance policy issued by Financial Security Assurance Inc.

On April 1, 2003, the Series 2003A bonds were issued in the amount of $16,100,000 to fund the second gas turbine located in Ponca City, Oklahoma. The Series 2003A bonds bore interest at a variable interest rate pursuant to a weekly auction rate process until April 16, 2008, at which time the Authority converted them to a term rate mode at an interest rate of 3.875% through June 30, 2012. The Series 2003A bonds were remarketed on July 1, 2012. The bonds were remarketed in a fixed term rate mode at an interest rate of 1.20% for a subsequent interest period ending January 3, 2015. The Series 2001B bonds have a mandatory tender date on January 5, 2015 and may be remarketed at that time. In the event of a failed remarketing, all un-remarketed bonds would bear interest at a maximum rate of 12% per annum. The scheduled payment of principal and interest on the Series 2001B bonds are guaranteed under an insurance policy issued by Financial Security Assurance Inc.

The Authority issued Series 2003B Revenue Refunding Bonds on November 5, 2003, to refund the majority of the Series 1994B bonds. The scheduled payment of principal and interest on the Series 2003B bonds are guaranteed under an insurance policy issued by Financial Security Assurance Inc.

The Authority issued Series 2005A Revenue Refunding Bonds on October 6, 2005, to refund the outstanding balance of the Series 1990A bonds. A refunding loss of approximately $4.9 million was recorded and will be amortized over the life of the new bond issue. The refunding provided a present value refunding savings of approximately $3,600,000. The Series 2005A bonds bore a variable interest rate pursuant to a weekly auction rate process until November 21, 2008, at which time the Authority converted them to daily mode (Variable Rate Demand Obligations). The Series 2005A bonds are limited to a per annum interest rate of 14%. The Series 2005A bonds, when issued initially in the auction rate mode, were insured by MBIA Insurance Corporation.

The Authority issued $135,375,000 Series 2007A of Power Supply System Revenue Bonds on March 22, 2007. The proceeds of this issue were used for the construction of the John W. Turk Jr. power plant, the acquisition of the Redbud generating plant, construction costs of the OMPA headquarters building and other miscellaneous projects. A portion of these funds were intended for the construction of the Redrock generating facility, which has subsequently been cancelled. The 2007A bonds carry a fixed interest rate of 4.125% to 4.54% and are due January 2028 thru January 2047. The scheduled payment of principal and interest on the 2007A bonds are guaranteed by Financial Guaranty Insurance Company.

The Authority issued $99,330,000 of Series 2008A Power Supply System Revenue Bonds on October 30, 2008. The proceeds were used for the construction of the John W. Turk Jr. power plant, the acquisition of the Redbud generating plant, and other capital projects. The Series 2008A bonds carry a fixed interest rate of 5.00% to 6.00% and are due January 2015 thru January 2038. There is no bond insurance policy associated with the Series 2008A bonds.

On March 10, 2010, the Authority issued $111,260,000 of Series 2010A Power Supply Refunding Bonds. Proceeds from this issue were used for the refunding of $89,055,000 of the Power Supply Revenue Bonds Series 1994A, and $27,710,000 of the Power Supply Revenue Bonds Series 2001A. The Series 2010A bonds carry a fixed interest rate of 2.00% to 5.00% and are due January 2011 thru January 2028.The transaction resulted in a net refunding loss of $9,609,104, and had a net present value savings of 6.13%.

The Authority issued $70,000,000 of Series 2010B Power Supply System Revenue Bonds (Federally Taxable Build America Bonds – Direct Pay) on August 11, 2010. The proceeds were used for the construction of the John W. Turk Jr. power plant and other capital projects. The Series 2010B bonds carry a fixed interest rate of 6.31% to 6.44% and are due January 2039 thru January 2045. The Authority receives a Federal subsidy equal to 33% of interest payable.

On January 31, 2013, The Authority issued $132,900,000 of Series 2013A Power Supply System Revenue Bonds. The Series 2013A bonds carry a fixed interest rate of 3.125% to 4.000% and are due January 2028 thru 2047. The proceeds are primarily being used for the construction of the Charles D. Lamb Energy Center, a 103 MW simple cycle peaking plant to me located in Ponca City, Oklahoma.

On August 1, 2013, The Authority issued $39,565,000 of Series 2013B Power Supply System Revenue Bonds. The Series 2013B bonds carry a fixed interest rate of 3.625% to 5.000% and are due January 2024 thru 2030. The proceeds are primarily being used for capacity upgrades at the McClain and Redbud plants, and to fund environmental compliance upgrades at the Authority's co-owned coal plants.

On November 21, 2014, The Authority issued $88,740,000 of Series 2014A and $34,440,000 of Series 2014B Power Supply System Revenue Refunding Bonds. The 2014 series bonds carry a fixed interest rate of 3.000% to 5.000% and are due January 2019 through 2038. The proceeds were used to refund all or a portion of the Authority's Series 2001B Bonds, Series 2003A Bonds and Series 2008A Bonds.

Under the bond resolutions, the Authority has covenanted that it will establish and collect rents, rates and charges under the Power Sales Contracts and will otherwise charge and collect rents, rates and charges for the use or sale of the output, capacity or service of its system which, together with other available revenues, are reasonably expected to yield net revenues for the 12-month period commencing with the effective date of such rents, rates and charges equal to at least 1.10 times the aggregate debt service for such period and, in any event, as are required, together with other available funds, to pay or discharge all other indebtedness, charges and liens payable out of revenues under the resolutions.

### *Note Payable*

The Authority has issued $57,739,000 in a taxable limited obligation note. The note bears an interest rate of 6%. Annual principal and interest payments of $4,516,732 are due through December 31, 2028. The note is payable solely from lease payments made by FPL Energy Oklahoma Wind, LLC on a leased electric plant (*Note 10*) with no recourse to the Authority.

Principal and interest payments of the note payable for the years ending after December 31, 2014, are as follows:

| Year Ending December 31, | Principal | Interest | Total |
|---|---|---|---|
| 2015 | $ 1,997,755 | $ 2,518,977 | $ 4,516,732 |
| 2016 | 2,117,620 | 2,399,112 | 4,516,732 |
| 2017 | 2,244,678 | 2,272,054 | 4,516,732 |
| 2018 | 2,379,358 | 2,137,374 | 4,516,732 |
| 2019 | 2,522,120 | 1,994,612 | 4,516,732 |
| 2020 – 2024 | 15,070,469 | 7,512,193 | 22,582,662 |
| 2025 – 2028 | 15,650,956 | 2,415,976 | 18,066,932 |
| | $ 41,982,956 | $ 21,250,298 | $ 63,234,254 |

## Note 5: Restricted Assets

At December 31, 2014 and 2013, restricted net position is available for the following purposes:

| | 2014 | 2013 |
|---|---|---|
| Debt service | $ 28,841,802 | $ 31,634,008 |
| Capital acquisitions | 2,207,603 | 2,074,681 |
| Specific operating activities | 9,922,750 | 9,159,940 |
| Total restricted expendable net position | $ 40,972,155 | $ 42,868,629 |

The restrictions of the various accounts are as follows:

- Specific operating activities – By the end of each month, this account is to include sufficient monies to provide for payment of the succeeding month's expenses.
- Capital acquisitions – This account is restricted for payment of construction costs & capital acquisitions.
- Debt service accounts – This account is restricted for payment of the current portion of bond principal and interest, and maintenance of debt service reserves sufficient to cover the maximum annual principal and interest requirements of the respective related bond issues.

## Note 6: Employee Benefit Plans

### *Defined Benefit Plan*

#### Plan Description

The Authority contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing multiple-employer public employee retirement system administered by the Oklahoma Public Employees Retirement System (the System). The Plan provides retirement, disability and death benefits to plan members and beneficiaries. The benefit provisions are established and may be amended by the legislature of the State. Title 74 of the Oklahoma Statutes, Sections 901-943, as amended, assigns the authority for management and operation of the Plan to the Board of Trustees of the System. The System issues a publicly available annual financial report that includes financial statements and required supplementary information for the Plan. That annual report may be obtained by writing to: Oklahoma Public Employees Retirement System, 6601 N. Broadway Extension, Suite 129, Oklahoma City, Oklahoma 73116 or by calling 1-800-733-9008.

#### Funding Policy

Plan members, state employees, Authority employees and the Authority are required to contribute at a rate set by statute. The contribution requirements of plan members and the Authority are established and may be amended by the legislature of the State. The contribution rate for the Authority was 16.5% for 2014. The 2014 contribution rate for Authority employees was 3.5%.The 2013 contribution rate for the Authority was 16.5% The 2013 contribution rate for Authority employees was 3.5%.

The Authority's contributions to the Plan for the years ended December 31, 2014, 2013 and 2012, were approximately $842,000, $779,000 and $757,000, respectively, and were equal to their required contributions for each year. The funded ratio of the Plan was 88.6% at June 30, 2014 compared to 81.6% at June 30, 2013 and 80.2% at June 30, 2012.

### *Deferred Compensation Plan*

Authority employees may participate in a voluntary deferred compensation plan provided for under Section 457 of the Internal Revenue Code. Employees pay no state or federal income tax (*i.e*., only FICA on amounts contributed to the plan), and the income earned on plan assets is also nontaxable. The assets in the plan are held in trust until paid or made available to participants. The assets are not subject to claims of the Authority's general creditors.

Contributions to the deferred compensation plan may not exceed the maximum allowable by IRS guidelines. Plan withdrawals are available at retirement, termination of employment and in the event of disability or unforeseen emergency. In the event of death, the beneficiary receives the full account value based upon current fair value.

### *401(a) Money Purchase Plan*

The Authority participates in a voluntary deferred compensation plan provided for under Section 401(a) of the Internal Revenue Code. The plan is structured so that the Authority will match employee contributions into the Section 457 plan, up to a limit of 5% of the employee's annual salary. The Authority contributed $127,000 and $92,000 into the plan in 2014 and 2013, respectively. The assets are not subject to claims of the Authority's general creditors.

The deferred compensation plan and the money purchase plan are administered by ICMA Retirement Corporation, a nonprofit organization specifically designed to serve municipal employees. The assets are held by ICMA, and are not presented in the Authority's financial statements

## Note 7: Interest Rate Swap Agreements

### *Objective of the Interest Rate Swap*

The Authority's asset/liability strategy is to have a mixture of fixed- and variable-rate debt to take advantage of market fluctuations. As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Authority entered into an interest rate swap agreement in a notional amount equal to the outstanding principal on the 2005A bond issue. The intention of the swap is to effectively change the Authority's variable interest rate on the 2005A issue to a synthetic fixed rate of 5.05%.

***Terms***

On March 19, 2009, the Authority entered into an interest rate swap agreement with Deutsche Bank. The agreement, which will continue until January 1, 2023, provides for the Authority to receive interest from the counterparty at SIFMA Municipal Swap Index, and to pay interest to the counterparty at a fixed rate of 5.05% on notional amounts that match the outstanding principal portion of the 2005A bonds, which was $39,700,000 and $43,100,000 at December 31, 2014 and 2013, respectively. Under the agreement, the Authority pays interest semi-annually and receives interest monthly. The net interest expense resulting from the agreement is included in interest expense.

***Fair Value***

As of December 31, 2014 and 2013, the agreements had a negative fair value of $7,175,348 and $7,839,174, respectively, calculated using the par-value method (*i.e.*, the fixed rate on the swap was compared with the current fixed rates that could be achieved in the marketplace should the swap be unwound). The fixed-rate component was valued by discounting the fixed-rate cash flows using the current yield to maturity of a comparable bond. The variable-rate component was assumed to be at par value because the interest rate resets to the market rate at every reset date. The fair value was then calculated by subtracting the estimated market value of the fixed component from the established market value of the variable component.

***Credit Risk***

The swap's fair value represented the Authority's credit exposure to the counterparty as of December 31, 2014. Should the counterparty to this transaction fail to perform according to the terms of the swap agreement, the Authority has a maximum possible loss equivalent to the swap's fair value at that date. At December 31, 2014, the Authority was not exposed to credit risk because the swap had a negative fair value. The transaction does not require collateral from the Authority or the counterparty.

Deutsche Bank, the counterparty in this transaction, had the following credit rating at December 31, 2014:

| Moody's | S&P | Fitches |
|---|---|---|
| A3 | A | A+ |

Deutsche Bank, had the following credit rating at December 31, 2013:

| Moody's | S&P | Fitches |
|---|---|---|
| A2 | A | A+ |

***Basis Risk***

The swap exposes the Authority to basis risk should the relationship between the variable rate being paid on the 2005A bond issue and the SIFMA Municipal Swap Index rate being received change in a manner adverse to the Authority. If an adverse change occurs in the relationship between these rates, the expected cost savings may not be fully realized.

***Termination Risk***

The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate notes would no longer have a synthetic fixed rate of interest. Also, if the swap has a negative fair value at the time of termination, the Authority would be liable to the counterparty for a payment equal to the swap's then fair value.

***Swap Payments and Associated Debt***

Using rates as of December 31, 2014 debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term are set forth in the table below. As rates vary, variable-rate interest payments and net swap payments will vary.

| | Variable-Rate Notes | | | |
|---|---|---|---|---|
| | Principal | Interest | Interest Rate Swap, Net | Total |
| 2015 | $ 3,600,000 | $ 274,130 | $ 1,478,220 | $ 5,352,350 |
| 2016 | 3,700,000 | 245,295 | 1,322,730 | 5,268,025 |
| 2017 | 3,900,000 | 215,275 | 1,160,850 | 5,276,125 |
| 2018 | 4,200,000 | 183,280 | 988,320 | 5,371,600 |
| 2019 | 4,400,000 | 149,310 | 805,140 | 5,354,450 |
| 2020 – 2023 | 19,900,000 | 236,605 | 1,275,870 | 21,412,475 |
| | $ 39,700,000 | $ 1,303,895 | $ 7,031,130 | $ 48,035,025 |

## Note 8: Commodity Price Swap Contracts

***Objective of the Swap***

The Authority is exposed to market price fluctuations on its purchase of natural gas. To protect itself from natural gas price fluctuations, the Authority periodically enters into natural gas price swap contracts.

***Terms***

The Authority enters into natural gas price swap contracts at various fixed prices and notional amounts. Each swap contract provides for the Authority to pay a fixed price, and for the contract counterparty to pay a floating price for the notional amount of the contract. The notional amount of each natural gas price swap contract is measured in MMBtu's with the floating price based on a specific published natural gas price index (spot price) for the relevant contract month. At December 31, 2014, the Authority's outstanding natural gas price swap contracts were as follows:

| Maturity Date | Notional Quantity (MMBTU) | Fixed Price ($/MMBTU) | Fair Value |
|---|---|---|---|
| Jan. 31, 2015 | 200,000 | 4.23 – 4.77 | $ (283,235) |
| Feb. 28, 2015 | 200,000 | 4.23 – 4.77 | (328,050) |
| May 31, 2015 | 260,000 | 3.585 – 4.05 | (329,132) |
| June 30, 2015 | 260,000 | 3.585 – 4.05 | (316,740) |
| July 31, 2015 | 360,000 | 3.524 – 4.05 | (380,649) |
| Aug. 31, 2015 | 460,000 | 3.16 – 4.05 | (419,971) |
| Sept 30, 2015 | 260,000 | 3.585 – 4.05 | (296,769) |
| Dec. 31, 2015 | 200,000 | 3.921 – 4.30 | (182,514) |
| Jan. 31, 2016 | 200,000 | 3.921 – 4.30 | (157,421) |
| Feb. 29, 2016 | 200,000 | 3.921 – 4.30 | (154,431) |
| May 31, 2016 | 280,000 | 3.52 – 4.06 | (230,301) |
| June 30, 2016 | 310,000 | 3.49 – 4.06 | (229,057) |
| July 31, 2016 | 370,000 | 3.49 – 4.06 | (232,228) |
| Aug. 31, 2016 | 460,000 | 3.49 – 4.06 | (275,944) |
| Sept. 30, 2016 | 280,000 | 3.52 – 4.06 | (193,222) |
| Dec. 31, 2016 | 200,000 | 3.87 – 4.37 | (99,910) |
| Jan. 31, 2017 | 200,000 | 3.87 – 4.37 | (81,267) |
| Feb. 28, 2017 | 200,000 | 3.87 – 4.37 | (79,996) |
| May 31, 2017 | 210,000 | 3.48 – 3.75 | (70,492) |
| June 30, 2017 | 210,000 | 3.48 – 3.75 | (63,255) |
| July 31, 2017 | 260,000 | 3.48 – 3.75 | (65,703) |
| Aug. 31, 2017 | 260,000 | 3.48 – 3.75 | (62,338) |
| Sept. 30, 2017 | 160,000 | 3.48 – 3.75 | (38,558) |
| | 6,000,000 | | $ (4,571,183) |

At December 31, 2013, the Authority had outstanding natural gas price swap contracts with notional amounts totaling 4,470,000 MMBtu's at fixed prices between $3.495 to $4.06 per MMBtu, and expiring between May 2014 and September 2017.

#### *Fair Value*

The outstanding natural gas price swap contracts had a negative fair value of $4,571,183 and $794,787 at December 31, 2014 and 2013, respectively. The fair value is estimated by discounting actual and implied forward prices using the zero-coupon method. The future net settlement amounts are calculated by assuming that the current forward rates implied by the forward curve for natural gas prices correctly anticipate future spot prices. The future net settlement amounts are then discounted using the spot rates implied by the current interest yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of each contract.

#### *Credit Risk*

At December 31, 2014 and 2013, the Authority was not exposed to credit risk because the natural gas price swaps had a negative fair value. However, should the fair value of the contracts become positive, the Authority would be exposed to credit risk related to the counterparty of the contract in the amount of the positive fair value. The swap agreements do not require collateral from the Authority or the counterparty.

At December 31, 2014, all swap transactions had the following credit ratings:

| | Moody's | S&P | Fitches |
|---|---|---|---|
| BOK | A1 | A | A |
| Shell | Aa1 | AA | |
| JPMorgan | Aa3 | A+ | A+ |

At December 31, 2013, all swap transactions had the following credit ratings:

| | Moody's | S&P | Fitches |
|---|---|---|---|
| BOK | A1 | A | A |
| Shell | Aa1 | AA | |
| JPMorgan | Aa3 | A+ | A+ |

#### *Termination Risk*

The Authority or the counterparty may terminate any of the swap contracts if the other party fails to perform under the contract terms. Also, if at the time of the termination, any swap contract has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swaps fair value.

## Note 9: Commitments and Contingencies

### *Purchase Power*

During 2014 and 2013, approximately $19,261,000 and $20,730,000 of power was purchased pursuant to several long-term purchase agreements. The Authority is obligated to purchase, at a minimum, approximately $19,153,000 of power in 2015.

### *Investment Exchange*

During 1996, the Authority entered into an agreement with an investment banking firm to exchange investment securities at the other party's option. The securities to be received by the Authority pursuant to this agreement must be investments permitted by the Authority's debt covenants and must yield a guaranteed fixed interest rate. The term of the agreement extends through January 1, 2014. No investment security exchanges have occurred since inception.

### *General Litigation*

The Authority is subject to claims and lawsuits that arise in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the changes in financial position and cash flows of the Authority. As of December 31, 2014, there were no claims asserted or lawsuits pending against the Authority.

### *Open Contracts*

The Authority has signed construction contracts that continue into subsequent years. The value of services provided and the corresponding liability as of December 31, 2014 and 2013, has been accrued in these financial statements. As of December 31, 2014, approximately $15 million is left to be expended.

## Note 10: Leased Electric Plant

The Authority executed a Power Purchase Agreement for 51 MW with FPL Energy Oklahoma Wind, LLC (FPLE Oklahoma) for the development of a wind generation facility in northwestern Oklahoma. Under the Power Purchase Agreement, FPLE Oklahoma was responsible for acquiring, constructing and installing the wind project. The Authority issued a taxable limited obligation note (the Note), which is payable solely from lease payments made by FPLE Oklahoma with no recourse to the Authority (*Note 4*). The Authority used the proceeds of the Note to finance the Authority's acquisition of the wind project and has leased the wind project to FPLE Oklahoma under a long-term capital lease agreement for an amount sufficient to pay debt service, principal and interest on the Note. The Power Purchase Agreement has a term of approximately 25 years, and power is sold on a take and pay basis. FPLE Oklahoma retains the operational risk related to the wind project.

The following lists the components of the lease agreement as of December 31, 2014 and 2013:

| | 2014 | 2013 |
|---|---|---|
| Total minimum lease payments to be received | $ 63,234,254 | $ 67,750,987 |
| Less: Amounts representing interest included in total minimum lease payments | 21,251,298 | 23,883,357 |
| Net minimum lease payments receivable | $ 41,982,956 | $ 43,867,630 |

## Note 11: Subsequent Events

The Authority evaluated subsequent events through March 26, 2015, the date that the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements.

On March 12, 2015, the Authority's Board approved a long-term Power Sales Contract with the Town of Mooreland, Oklahoma. Moorland will begin service with the Authority in early 2016, and will be the Authority's 40$^{th}$ member city.

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# INDEPENDENT AUDITORS' 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 Directors
Oklahoma Municipal Power Authority
Edmond, Oklahoma

We have audited the financial statements of Oklahoma Municipal Power Authority as of and for the year ended December 31, 2014, and have issued our report thereon dated March 26, 2015. 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 the Oklahoma Municipal Power Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Oklahoma Municipal Power Authority's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Oklahoma Municipal Power Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Oklahoma Municipal Power Authority's internal control over financial reporting.

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 controls 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

To the Board of Directors
Oklahoma Municipal Power Authority

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the financial statements of Oklahoma Municipal Power Authority 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*.

This report is intended solely for the information and use of the Board of Directors, management, federal, and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 26, 2015