

Wagoner Public Works Authority

A COMPONENT UNIT OF THE CITY OF WAGONER, OKLAHOMA

P.O. BOX 406
City Offices 918-485-2554

Wagoner, Oklahoma 74477
City Clerk 918-485-4586

FINANCIAL STATEMENTS

JUNE 30, 2018 and 2017



Clothier & Company CPA's P.C.

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WAGONER PUBLIC WORKS AUTHORITY

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June 30, 2018 and 2017

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Independent Auditors' Report

Board of Trustees
Wagoner Public Works Authority
Wagoner, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Wagoner Public Works Authority (Authority), as of and for the years ended June 30, 2018 and 2017, and the related notes to the 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority, as of June 30, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages I through VI 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.

Disclaimer of Opinion on Supplementary Information

The budgetary comparison information on page 18, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2019, on our consideration of the Wagoner Public Works 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 solely 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 effectiveness of the Wagoner Public Works Authority's 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 Wagoner Public Works Authority's internal control over financial reporting and compliance.



Clothier & Company, CPA's, P.C.

January 9, 2019

Wagoner Public Works Authority

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Management's Discussion and Analysis For Year Ended June 30, 2018

As management of the Wagoner Public Works Authority, we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2018. The Authority implemented Governmental Accounting Standards Board Statement 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$13,176,020 (net assets). Of this amount, \$3,501,459 (unrestricted net assets) may be used to meet the authority's ongoing obligations to citizens and creditors in accordance with the Authority's fund designation and fiscal policies.
- The Authority's total net assets increased by \$121,750 for fiscal year end, but historically increased by \$243,635 for 2017 and decreased by \$143,474 for 2016. For the 17/18 fiscal year, unrestricted net assets increased by \$279,791.
- The Authority's total liabilities were \$12,201,682 at the end of the 2018/17 fiscal year, a decrease of \$401,313 from the \$12,602,995 for the 2016/17 fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of two components: 1) unit-wide financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The Authority operates a utility service in a proprietary fund.

Unit-wide financial statements – The authority-wide financial statements are designed to provide readers with a broad overview of the Authority's finance, in a manner similar to a private-sector business.

The statement of fund net position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of revenues, expenses and changes in fund net position presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

The business-type activities of the Authority include Sanitation, Water, Sewer, and Electric.

The financial statements can be found on pages 5 through 8 of this report.

Proprietary Funds – The Authority maintains one proprietary fund. The Authority uses a proprietary fund to account for all its water, sewer, electric, and sanitation operations.

Notes to the Financial Statements - The footnote section provides additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 9 through 14 of this report.

Other information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budget versus actual. Required supplementary information can be found on page 18 of this report.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Authority's financial position. In the case of the Wagoner Public Works Authority, assets exceeded liabilities by \$13,054,270 as of June 30, 2018.

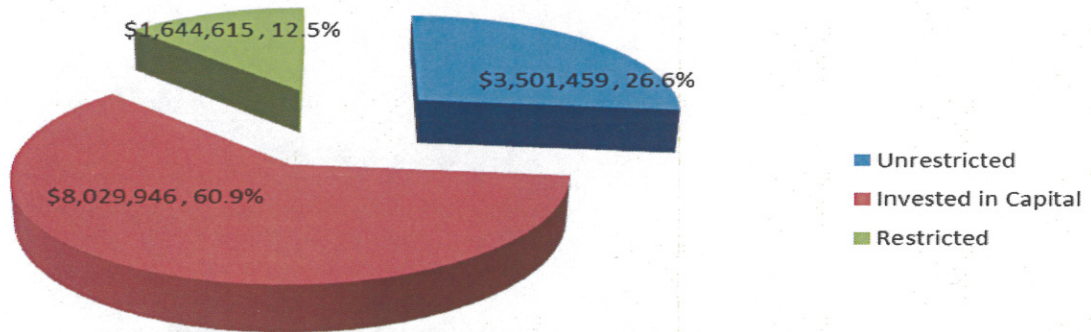
The largest portion of the Authority's net assets, 60.9%, (as compared to 62.7% in 2017) is invested in capital assets. The Authority uses these capital assets to provide service to citizens; consequently these assets are not available for future spending. Restricted net assets of the Authority are 12.5% (as compared to 12.6% in 2017) of total net assets and are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets 26.6% (as compared to 24.7% in 2017) may be used to meet the authority's ongoing obligation to citizens and creditors.

As of June 30, 2018, the Authority is able to report positive balances in all three categories of net assets.

The implementation of GASB Statement 34 requires the Authority to present comparable information in the various analyses.

WPWA's Net Assets

	<u>June 30,</u> <u>2018</u>	<u>June 30,</u> <u>2017</u>	<u>Increase</u> <u>(Decrease)</u>
Current assets	\$5,076,769	\$4,703,918	\$372,851
Capital assets and other assets	20,300,933	20,953,347	(652,414)
Total Assets	<u>\$25,377,702</u>	<u>\$25,657,265</u>	<u>(\$279,563)</u>
Current liabilities	\$2,091,937	\$1,988,733	\$103,204
Long term liabilities	10,109,745	10,614,262	(504,517)
Total Liabilities	<u>\$12,201,682</u>	<u>\$12,602,995</u>	<u>(\$401,313)</u>
Net assets:			
Invested in capital assets, net of debt	\$8,029,946	\$8,190,582	(\$160,636)
Restricted	1,644,615	1,642,020	2,595
Unrestricted	3,501,459	3,221,668	279,791
Total Net Assets	<u>\$13,176,020</u>	<u>\$13,054,270</u>	<u>\$121,750</u>

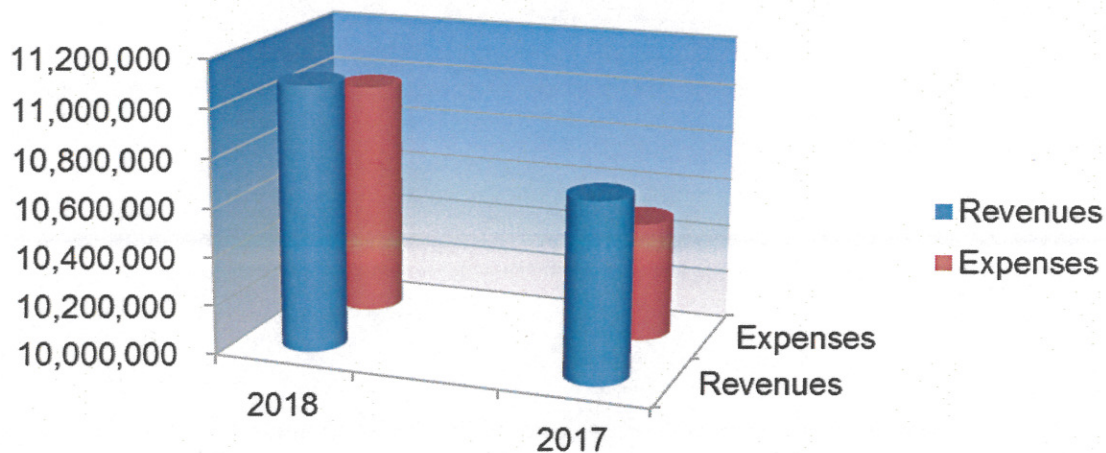


Analysis of the Authority's Operations – The following table provides a summary of the Authority's operations for the years ended June 30, 2018 and 2017. Business activities increased the Authority's net assets by \$121,750.

Wagoner Public Works Authority's Changes in Net Assets

Revenues:	<u>2018</u>	<u>2017</u>	<u>Increase (Decrease)</u>
Program Revenues:			
Charges for services	10,930,920	10,563,859	367,061
Non-Operating Income	122,847	149,504	(26,657)
Capital grants and contributions	0	0	0
General revenues:			0
Investment earnings	36,238	21,118	15,120
Transfer- in	0	0	0
Total Revenues	<u>11,090,005</u>	<u>10,734,481</u>	<u>355,524</u>
Expenses:			
Utility and supporting services	9,762,097	9,397,917	364,180
Interest expense	372,926	254,726	118,200
Depreciation	833,232	838,203	(4,971)
Total expenses	<u>10,968,255</u>	<u>10,490,846</u>	<u>477,409</u>
 Increase (Decrease) in net assets	 121,750	 243,635	 121,885
 Net assets – July 1	 <u>13,054,270</u>	 <u>12,810,635</u>	 <u>243,635</u>
 Net assets- June 30	 <u><u>13,176,020</u></u>	 <u><u>13,054,270</u></u>	 <u><u>365,520</u></u>

Revenues and Expenses



Debt Administration

At the end of the current fiscal year, the Authority had a total notes payable of \$10,614,874, as compared to \$11,097,167 at the end of the prior year. This is a decrease of \$482,293. In 2009, the Authority obtained a note along with debt forgiveness credits applied through the American Recovery and Reinvestment Act to construct improvements to the water line infrastructure. In 2012, The Authority refinanced the 2005 OWRB note and entered into a new note for the purpose of installing an automatic meter reading system throughout our service area. In August of 2013, the Authority signed a promissory note with OWRB in the amount of \$7,710,000 to expand and improve the WPWA's Water Treatment Plant.

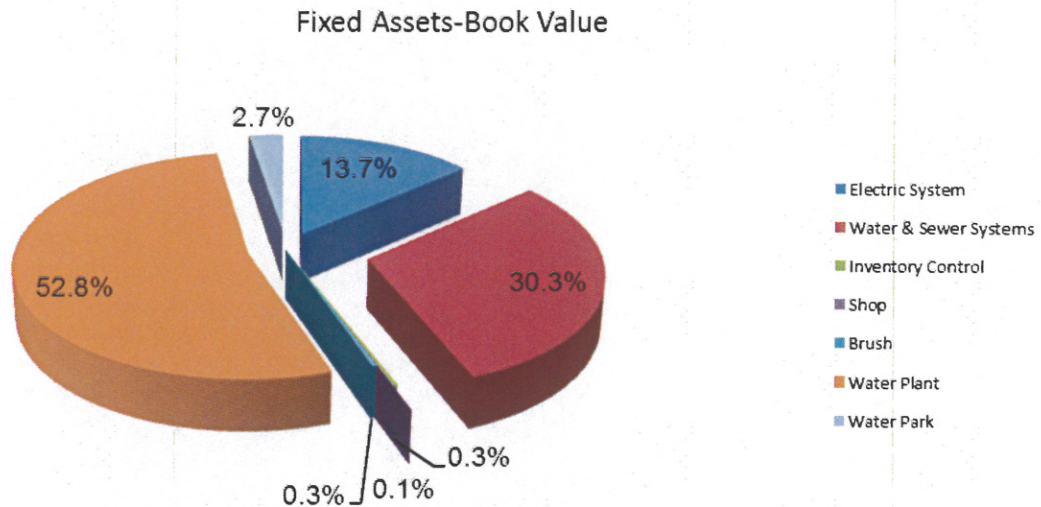
Outstanding Debt at Year End Bonds and Notes Payable

	Balance 6/30/2017	Proceeds	Principal Payment	Balance 6/30/2018
OWRB Loan FAP-13-0002L	2,340,000	0	360,000	1,980,000
OWRB Note 8-29-12 OIP	50,455	0	16,966	33,489
Debt Defeasance Costs	(127,471)	0	(42,863)	(84,608)
OWRB ORF-09-0029-DW	611,421	0	37,128	574,293
OWRB Note 2012A	746,289	0	60,674	685,615
OWRB NOTE 8/26/13	7,383,473	0	20,000	7,363,473
American Bank-Jetter	48,000	0	15,684	32,316
American Bank-Chipper	45,000	0	14,704	30,296
	<u>11,097,167</u>	<u>0</u>	<u>482,293</u>	<u>10,614,874</u>

Capital Assets

The following is a description of significant capital assets and the changes during the current year.

	Cost	Additions/ Deletions	Accumulated Depreciation	Ending
Electric System	6,138,249	18,185	(3,602,982)	2,553,452
Water & Sewer Systems	12,002,923	138,688	(6,529,671)	5,611,940
Inventory Control	125,892	0	(76,983)	48,909
Shop	106,811	0	(95,026)	11,785
Brush	60,414	0	(10,572)	49,842
Water Plant	12,000,511	26,976	(2,154,855)	9,872,632
Water Park	1,036,300	0	(540,040)	496,260
	<u>31,471,100</u>	<u>183,849</u>	<u>(13,010,129)</u>	<u>18,644,820</u>



Financial Analysis of Authority Funds

The following shows significant variations between original and final budget amounts and between final budget amounts and actual results for the Authority:

- The WPWA participated in a trade in program for a mini excavator, costs to WPWA was actually only \$2,000 but the program actually required the WPWA to receive entire amount for trade in value and to expense out the entire amount as well, \$55,500 were added to both the budget revenue and expense respectively.
- The electric sales did not meet budgeted projections by approximately \$311,000, due to weather conditions and customer usage. Also, in July 2017, an increase in sewer rates was passed resulting in an increase in revenues above the original budget by \$77,000.

Economic Factors and Next Year's Budget and Rates.

- Cost of living raises were given across the board by 2.5% and also to select employees for receiving license upgrades, ending probation, and merit.
- Additional funds were budgeted to bring service lines to a new housing edition.
- A wage rate study is underway to help analyze employee job classification, pay scale, as well as other beneficial data.
- It is anticipated, that the WPWA will obtain a new loan for an electric bucket truck. The down payment is already included in the budget.

WAGONER PUBLIC WORKS AUTHORITY
Statement of Fund Net Position
June 30, 2018 and 2017

	ASSETS	
	2018	2017
Current Assets		
Cash and cash equivalents	\$ 3,722,252	\$ 3,436,889
Accounts receivable(net)	740,845	627,262
Interest receivable	12,670	6,604
Inventory	534,107	552,776
Due from other funds	66,895	80,387
	5,076,769	4,703,918
Capital Assets		
Inventory control	125,892	125,892
Shop	106,811	106,811
Water & sewer system	12,132,211	12,002,923
Water plant	12,027,487	12,000,511
Electric system	6,165,834	6,138,249
Water park	1,036,300	1,036,300
Brush	60,414	60,414
Accumulated depreciation	(13,010,129)	(12,183,351)
	18,644,820	19,287,749
Other Assets		
Restricted cash	1,644,615	1,642,021
Debt issue costs(net)	11,498	23,577
	1,656,113	1,665,598
	Total Other Assets	Total Other Assets
	1,656,113	1,665,598
	Total Assets	Total Assets
	\$ 25,377,702	\$ 25,657,265

See accompanying notes and independent auditors' report.

WAGONER PUBLIC WORKS AUTHORITY
Statement of Fund Net Position
June 30, 2018 and 2017

	2018	2017
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 518,712	\$ 469,944
Other payables	659,526	679,147
Due to other funds	158,753	124,215
Salaries and benefits payable	139,037	127,805
Current maturities	505,129	482,905
Interest payable	110,780	104,717
Total Current Liabilities	2,091,937	1,988,733
Long Term Liabilities		
Notes payable	10,614,874	11,097,167
Less: current maturities	(505,129)	(482,905)
Total Long Term Liabilities	10,109,745	10,614,262
Net Position		
Net invested in capital assets	8,029,946	8,190,582
Restricted for deposits/loan	890,528	878,173
Restricted for other purposes	754,087	763,847
Unrestricted net assets	3,501,459	3,221,668
Total Net Position	13,176,020	13,054,270
Total Liabilities and Net Position	\$ 25,377,702	\$ 25,657,265

See accompanying notes and independent auditors' report.

WAGONER PUBLIC WORKS AUTHORITY
Statement of Revenues, Expenses and Changes in Fund Net Position
Year Ended June 30, 2018 and 2017

	2018	2017
Revenue		
Charges for services	\$ 10,930,920	\$ 10,563,859
Total Revenue	10,930,920	10,563,859
 Operating Expenses		
Water plant	444,818	445,531
Water distribution	1,017,879	897,444
Water disposal	1,019,432	988,026
Water disposal distribution	222,268	222,963
Electric distribution	6,153,056	5,934,517
Electric office	404,907	361,947
Shop	178,785	169,571
Inventory control	54,715	52,429
Brush department	223,970	190,283
Capital project fund expense	16,852	135,206
Bad debt expense	25,415	0
Depreciation expense	833,232	838,203
Total Operating Expenses	10,595,329	10,236,120
Operating Income	335,591	327,739
 Other Income (Expenses)		
Interest income	36,238	21,118
Other income	122,847	149,504
Interest expense	(372,926)	(254,726)
Total Other Income	(213,841)	(84,104)
 Change in Net Position	\$ 121,750	\$ 243,635

See accompanying notes and independent auditors' report.

WAGONER PUBLIC WORKS AUTHORITY

Statement of Cash Flows

Year Ended June 30, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities:		
Receipts from Customers	\$ 10,811,271	\$ 10,546,055
Payment to Suppliers	(8,164,854)	(7,664,495)
Payment to Employees	(1,532,132)	(1,773,818)
Net Cash Provided by Operating Activities	1,114,285	1,107,742
Cash Flows From Noncapital Financing Activities:		
Other NonOperating Receipts	120,423	149,372
Interest Paid on Long Term Debt	(372,926)	(254,726)
Decrease in inter-fund payables	48,031	(11,795)
Net Cash (Used) by Noncapital Financing Activities	(204,472)	(117,149)
Cash Flows From Capital and Related Financing Activities:		
Proceeds from Issuance of Debt	0	93,000
Payment of Debt	(482,293)	(493,050)
Disposal of Asset	55,547	0
Purchase of Capital Assets	(243,427)	(233,826)
Net Cash (Used) by Capital and Related Financing Activities	(670,173)	(633,876)
Cash Flows From Investing Activities:		
Receipts of Interest and Dividends	36,238	21,250
Increase (Decrease) in Cash Reserve	9,485	(83,297)
Net Cash Provided by Investing Activities	45,723	(62,047)
Net Decrease in Cash and Cash Equivalents	285,363	294,670
Cash and Cash Equivalents at Beginning of Year	3,436,889	3,142,219
Cash and Cash Equivalents at End of Year	\$ 3,722,252	\$ 3,436,889
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 335,591	\$ 327,739
Adjustments to reconcile operating income to net cash provided by operating activities:		
Add Depreciation Expense	833,232	838,203
(Increase) Decrease Current Assets		
(Increase) Decrease Receivables, net	(119,649)	(17,804)
(Increase) Decrease Inventories	18,669	36,634
Increase (Decrease) Current Liabilities		
Increase (Decrease) Accounts payable	54,831	28,312
Increase (Decrease) Accrued liabilities	(19,621)	(118,377)
Increase (Decrease) Other liabilities	11,232	13,035
Net Cash Provided by (Used in) Operating Activities	\$ 1,114,285	\$ 1,107,742

See accompanying notes and independent auditors' report.

WAGONER PUBLIC WORKS AUTHORITY
Notes to the Financial Statements
June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Wagoner Public Works Authority (WPWA) is a public trust and a component unit of the City of Wagoner, Oklahoma. The WPWA was created in 1972 in the interest of the public health and for the purpose of providing adequate sewer and drainage facilities in the City of Wagoner. The WPWA is governed by a board of 8 trustees. The WPWA is managed by a director and supervisors and utilizes the accounting office of the City to maintain its accounting records.

PROPRIETARY FUND ACCOUNTING

The financial statements of the Wagoner Public Works Authority have been prepared in conformity with generally accepted accounting principles (GAAP) 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. With respect to proprietary activities, the Authority has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*.

Gross Revenue Fund

The Gross Revenue Fund accounts for the activities of the Wagoner Public Works Authority in much the same way that a private business would account for its activities. The intent of which being that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Authority provides electric service, water service, sewer service, and refuse collections for the residents of Wagoner, Oklahoma.

BASIS OF PRESENTATION

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This Statement provides for the most significant change in financial reporting in over twenty years and required implementation by Wagoner Public Works Authority for fiscal years ending after June 15, 2003.

In June 2001, GASB issued Statement No. 38, *Certain Financial Statement Note Disclosures*, which in part addressed the need to reevaluate certain existing disclosure requirements in the context of the reporting model in Statement No. 34. Wagoner Public Works Authority implemented Statement No. 38 in conjunction with Statement No. 34 in a previous year.

BASIS OF ACCOUNTING

The Authority utilizes the accrual basis of accounting for its business-type activities. Under this method, revenues are recorded when earned and expenses when incurred. The financial statements are presented using the economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the utility system are included on the statement of net assets. Total net position is segregated into 1) amounts invested in plant, infrastructure and facilities, net of related debt, 2) restricted for payment of loan principal and interest and 3) unrestricted. Operating statements present increases and decreases in net position.

BUDGETS AND BUDGETARY ACCOUNTING

The Board of Trustees of the Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. The Wagoner Public Works Authority voluntarily submits to the Board of Trustees a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the two preceding years. The budget is submitted in summary form. In addition, more detailed line item budgets are included for administrative control.

WAGONER PUBLIC WORKS AUTHORITY
Notes to the Financial Statements
June 30, 2018

- B. Public hearings are conducted to obtain taxpayer comment.
- C. Prior to June 30 the budget is legally enacted through passage of an ordinance.
- D. The Public Works secretary is required to present a monthly report to the Board of Trustees showing any variance from the approved budget.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, cash equivalents include all highly liquid debt instruments with maturities of three months or less at the date of their acquisition. Funds held in reserve are not considered to be part of cash.

ACCOUNTS RECEIVABLE

The Authority is principally a utility provider including electric, water, sewer and sanitation services to the residents of the City of Wagoner, Oklahoma. The Authority grants credit to customers, most of who are residential homes, under credit terms that the Authority believes are customary in the industry. Deposits are obtained from customers based on the Authorities policies as to type of customer.

Operating revenues are defined as those revenues generated directly from the primary activity of services provided by the Wagoner Public Utilities Authority. Non-operating revenues are those generated by non utility services such as interest income or disposal of equipment. Revenues are recognized when there is persuasive evidence of an arrangement, delivery has occurred, the price has been fixed or is determinable, and collectability can be reasonably assured. The Authority provides allowances for expected doubtful accounts based upon historical bad debt.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Additions, renewals, and betterments over \$500 are capitalized whereas expenditures for maintenance and repairs are charged to expense. The cost and related accumulated depreciation of assets retired or sold are removed from the appropriate asset and depreciation accounts, and the resulting gain or loss is reflected in income.

It is the policy of the Authority to provide depreciation based on the estimated useful life of the individual units of property and equipment. The depreciation methods and the estimated useful lives used as the basis for the application of those methods are as follows:

<u>Description</u>	<u>Method</u>	<u>Estimated Useful Life</u>
Building and improvements.....	Straight-line.....	40 Years
Vehicles.....	Straight-line.....	5 Years
Electric, sewer & water systems & improvements.....	Straight-line.....	40 Years
Equipment.....	Straight-line.....	10 Years

INVENTORIES

Items in inventory consist of finished goods to be used for the repair and maintenance of the utility infrastructure. The items are not for sale. Inventories are stated at cost. A physical inventory is taken at the end of the year. Due to the implementation of Statement No. 34, Wagoner Public Works Authority has also done an inventory of small equipment that is not capitalized.

INVESTMENTS

Investments are stated at cost, which approximates market. Investment income consists of interest and dividends.

METER DEPOSITS

Meter Deposits consist of deposits paid for the use of water and electric meters by citizens of Wagoner. The cash is deposited in the First Wagoner Bank and in certificates of deposit. By law these deposits are either applied against their account or are refunded when the depositor moves from the address where the meter is located.

WAGONER PUBLIC WORKS AUTHORITY
Notes to the Financial Statements
June 30, 2018

COMPENSATED ABSENCES

A total of 30 days vacation may be accumulated by each employee and carried over to the next year. Accrued vacation is recorded as a liability of the Authority. When an employee is terminated or quits, accumulated vacation is paid. The Authority will pay twenty-five dollars for each unused accrued sick leave day to a maximum of one hundred days at either: death, disability retirement, retirement at age 65 or older, or early retirement age 55 or older, plus 10 years of continuous service. When an employee is terminated or quits, they are not paid for the accrued sick leave. As of June 30, 2018 the Public Works Authority had unrecorded sick leave of \$193,679.

2. ECONOMIC DEPENDENCY

The Wagoner Public Works Authority is dependent on the Grand River Dam Authority (G.R.D.A.) for their purchase of electricity used for re-sale. For the year ended June 30, 2018, the Wagoner Public Works Authority purchased \$4,603,820 worth of electricity from G.R.D.A.

3. CASH AND INVESTMENTS

The Wagoner Public Works Authority maintains depository accounts with First Bank and Trust and American Bank for use by individual funds. Investments consist of Certificates of Deposit, all of which are kept with the same banks noted above. For custodial credit risk each depository maintains segregated collateral in an amount proportionate to its deposits. Funds restricted for debt service are maintained by BOK Trust Services, an outside custodian.

4. ACCOUNTS RECEIVABLE

Due from customers	\$	896,534	
Allowance for bad accounts		(143,096)	
Other receivables		(12,593)	
		740,845	
Total	\$	740,845	

Other receivables are unapplied credits and AMP Plan receivable.

5. PROPERTY AND EQUIPMENT

	Cost	Additions/ Deletions	Accumulated Depreciation	Ending
Electric System	6,138,249	18,185	(3,602,982)	2,553,452
Water & Sewer Systems	12,002,923	138,688	(6,529,671)	5,611,940
Inventory Control	125,892	0	(76,983)	48,909
Shop	106,811	0	(95,026)	11,785
Brush	60,414	0	(10,572)	49,842
Water Plant	12,000,511	26,976	(2,154,855)	9,872,632
Water Park	1,036,300	0	(540,040)	496,260
	31,471,100	183,849	(13,010,129)	18,644,820

6. TRANSFERS

The Gross Revenue Fund regularly transfers money and assets to and from the City of Wagoner funds. During the year ended June 30, 2018 the following transfers were made from the Gross Revenue Fund.

City of Wagoner - Operations	\$	600,999	
City of Wagoner - Utilities		121,603	
Emergency Medical Services - Utilities		13,800	
		736,402	
Transfer Out	\$	658,012	

WAGONER PUBLIC WORKS AUTHORITY
Notes to the Financial Statements
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Transfer In \$ 120,484

The transfers out are recorded in the Electric Distribution operating expenses and the transfers in are recorded in the Capital Project Fund.

7. CONCENTRATION OF CREDIT RISK

The Wagoner Public Works Authority and the City of Wagoner maintains their bank accounts in three banks located in Oklahoma. Demand accounts are guaranteed by the Federal Deposit Insurance Corporation up to \$250,000 and none demand accounts are also guaranteed up to \$250,000.

Both the City and Wagoner Public Works Authority have the same treasurer and therefore share both the FDIC insurance and the Letters of Credit. The FDIC insurance and Letters of Credit are large enough to cover both organizations bank balances at year end.

8. LONG TERM DEBT

OWRB 2008 Stimulus Loan - On September 15, 2009 the Wagoner Public Works Authority signed a promissory note with the Oklahoma Water Resources Board in the sum of \$1,200,000. The purpose of this promissory note is to construct improvements to the water system of Wagoner Public Works Authority. Interest is to accrue at the rate of 2.203% per annum plus an administrative fee of 0.5% per annum. The loan is carried on the books of Wagoner Public Works Authority net of debt forgiveness credits applied through the American Recovery and Reinvestment Act. Payments are remitted semi-annually every March and September 15th. The Authority has pledged and assigned the revenues and receipts derived from the operations of water, sanitary sewer, solid waste management and electric systems as security. The balance as of June 30, 2018 was \$574,293.

OWRB Water Plant Loan - On August 27, 2012 the Wagoner Public Works Authority signed a 10 year promissory note with the Oklahoma Water resources Board in the sum of \$4,250,000. The purpose of this promissory note was the refinancing of the May 3, 2005 loan. Interest is to accrue at an average fixed rate of 2.66%. The Authority has pledged and assigned the revenues and receipts derived from the operations of water, sanitary sewer, solid waste management, and electric systems as security. The balance as of June 30, 2018 was \$1,980,000.

Debt defeasance costs include a payoff premium on the old loan and a deposit to cover the payment of interest on the old loan from August 27, 2012 to October 1, 2014.

In addition to the debt defeasance cost Wagoner Public Works Authority incurred debt issuance costs of \$158,828, which are made up of; a) OWRB Administrative Fees of \$13,470, b) Underwriter's Discount of \$16,658, c) Legal and professional fees of \$108,315 and d) other costs of \$20,385.

Both the debt defeasance costs and the debt issuance costs are deferred and amortized over the life of the new debt using the effective interest method. Debt payable is reported net of the applicable premium and debt defeasance costs. Amortization for the current year was \$16,966 for OIP and \$42,863 for DDC. The current year interest expense in the financial statements includes amortization of debt defeasance cost, original issue premium of \$33,489, and debt issue costs totaling \$84,608.

OWRB 2012a Loan - On November 15, 2012, the Wagoner Public Works Authority signed a promissory note with the Oklahoma Water Resources Board in the sum of \$1,200,000. The purpose of this promissory note was for improvements to the drinking water system. Interest is to accrue at the fixed rate of 1.67% per annum inclusive of administrative fees of one half of one percent. The Authority has pledged and assigned the revenues and receipts derived from the operations of water, sanitary sewer, solid waste management, and electric systems as security. Semi-annual payments of principal, interest and administrative fees are to be paid directly to OWRB's trustee bank every March and September 15th. The balance as of June 30, 2018 was \$685,615.

OWRB 2013 Loan - On August 26, 2013, the Wagoner Public Works Authority signed a promissory note with the Oklahoma Water Resources Board in the sum of \$7,710,000. The purpose of this promissory note was the construction of improvements to the drinking water system. This note shall bear interest at a rate of 3.12% per annum plus an administrative fee at the rate of 0.5% per annum on the outstanding balance of disbursed loan proceeds. The interest and administrative fee payments shall be made on a semi-annual basis, commencing on March 15, 2014 and continuing each March 15 and September 15 thereafter for

WAGONER PUBLIC WORKS AUTHORITY
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the term of the loan. The principal repayment shall begin on the earlier of March 15 and September 15 following the project completion date or September 15, 2018 and shall continue semiannually for the term of the loan. The Authority has pledged and assigned the revenues and receipts derived from the operations of water, sanitary sewer, solid waste management, and electric systems as security. The balance as of June 30, 2018 was \$7,363,473.

	Balance 6/30/2017	Proceeds	Principal Payment	Balance 6/30/2018
OWRB Loan FAP-13-0002L	2,340,000	0	360,000	1,980,000
OWRB Note 8-29-12 OIP	50,455	0	16,966	33,489
Debt Defeasance Costs	(127,471)	0	(42,863)	(84,608)
OWRB ORF-09-0029-DW	611,421	0	37,128	574,293
OWRB Note 2012A	746,289	0	60,674	685,615
OWRB NOTE 8/26/13	7,383,473	0	20,000	7,363,473
American Bank-Jetter	48,000	0	15,684	32,316
American Bank-Chipper	45,000	0	14,704	30,296
	<u>11,052,167</u>	<u>0</u>	<u>467,589</u>	<u>10,614,874</u>

Debt service requirements:

	Current Maturities	Debt Service
2018	505,129	883,089
2019	518,012	877,133
2020	509,116	845,238
2021	712,919	1,022,718
2022	912,872	1,194,452
2023-2027	2,729,816	3,842,748
2028-2032	3,251,837	3,531,712
2033-2037	1,475,173	1,543,582
Thereafter	0	0
Total	<u>10,614,874</u>	<u>13,740,673</u>

9. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from these estimates.

10. CONTINGENT LIABILITY

The Wagoner Public Works Authority is guarantor on a loan for the Wagoner Hospital Authority. The loan was made with First Bank & Trust Company, which is now BancFirst, in Wagoner, Oklahoma for the amount of \$3,000,000 on July 13, 2007. Wagoner Public Works collateralizes the note with its receipts and assets. As of June 30, 2018 the balance owed was \$2,881,624. The Authority signed a Guaranty Agreement with First Bank & Trust Company on December 6, 2016 for a loan dated July 21, 2015 for \$1,000,000 for Wagoner Hospital Authority. The balance as of June 30, 2018 was \$471,170. On September 21, 2017 BancFirst in Wagoner made a loan for \$450,000 that Wagoner Public Works Authority guaranteed payment with its receipts and assets. There does not appear to be a reasonable probability the Wagoner Hospital Authority will default and Wagoner Public Works Authority will become liable for the balance.

11. RETIREMENT PLAN

The underwriter and plan administrator for the Wagoner Public Works Authority's retirement plan is the New York Life Insurance Company. The plan is a defined contribution plan. The City Clerk and Human Resources Director are the trustees for the plan. The plan is qualified under Code Sec. 401 only to the extent provided in Rev. Proc. 2005-16.

WAGONER PUBLIC WORKS AUTHORITY
Notes to the Financial Statements
June 30, 2018

The contribution types are employer non-elective profit sharing contributions and after-tax voluntary employee contributions. The employer has a fixed contribution equal to 8% of compensation of participants eligible to share in allocations. For the year ending June 30, 2018, retirement plan contributions paid by the Wagoner Public Works Authority totaled \$109,617.

An employee becomes eligible after 6 months of regularly full time employment in the relevant eligibility computation period. The employee cannot be covered by another qualified employer benefit plan to which the employer contributes. Normal retirement age is considered 65 and early retirement age is considered 55.

Allocation of earnings with respect to the amount which are not subject to participant investment direction and which are contributed to the plan after the valuation date will be determined by using a weighted average based on the amount of time that has passed between the date a contribution or distribution is made and prior valuation date.

Upon termination of employment, distributions under the plan may be made in lump-sum cash distributions. Distributions in excess of \$5,000 may be made as soon as administratively feasible. Distribution in amounts less than \$5,000 will be made in the same manner.

Hardship distributions are allowed under the plan. Distributions upon death prior to receiving any benefits shall be made pursuant to the election of the participant's beneficiary.

12. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date the financial statements were available to be issued and no event was found that needed disclosed. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.



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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*.

Board of Trustees
Wagoner Public Works Authority
Wagoner, 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 business-type activities of the Wagoner Public Works Authority (Authority) as of and for the year ended June 30, 2018 and 2017, and the related notes to the financial statements, which comprise the Authority's basic financial statements, and have issued our report thereon dated January 9, 2019.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority'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

considered 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 of material misstatements, 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 in 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.



Clothier & Company, CPA's, P.C.

January 9, 2019

Required Supplemental Information

WAGONER PUBLIC WORKS AUTHORITY
Budget to Actual Comparison
Year Ended June 30, 2018

<u>GENERAL FUND</u>	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
	<u>BUDGET</u>	<u>BUDGET</u>		
Revenue Summary				
	\$ 12,496,794	\$ 12,552,341	\$ 11,090,005	\$ 1,462,336
Adjustments	0	0	0	0
Total Revenue	12,496,794	12,552,341	11,090,005	1,462,336
Expenditure Summary				
Water Plant	915,297	909,697	444,818	464,879
Water Distribution	1,637,216	1,694,591	1,017,879	676,712
Water Disposal	1,203,184	1,203,184	1,019,432	183,752
Electric Distribution	7,296,831	7,295,917	6,169,908	1,126,009
Electric Office	469,641	475,241	404,907	70,334
Shop	208,014	208,014	178,785	29,229
Inventory Control	62,421	62,421	54,715	7,706
Water Disposal-Distribution	435,392	434,478	222,268	212,210
Brush	268,798	268,798	223,970	44,828
Total Expenditures	12,496,794	12,552,341	9,736,682	2,815,659
Adjustments to Expenditures				
Interest Expense	0	0	372,926	(372,926)
Depreciation Expense	0	0	833,232	(833,232)
Bad Debt Expense	0	0	25,415	(25,415)
Total adjustments	0	0	1,231,573	(1,231,573)
Total Expenditures	12,496,794	12,552,341	10,968,255	1,584,086
Excess of Revenue Over (Under) Expenditures	0	0	121,750	(121,750)

See accompanying independent auditors' report.