

**TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & WATER
TAHLEQUAH, OKLAHOMA**

**AUDITED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
For the Year Ended June 30, 2023**

Audited By:
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INDEPENDENT

AUDITOR'S

REPORTS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Tahlequah Public Works Authority and City Light & Water (the "Authority"), a component unit of the City of Tahlequah, Oklahoma, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Tahlequah Public Works Authority and City Light & Water's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the component unit of the City of Tahlequah, Oklahoma, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Tahlequah Public Works Authority and City Light & Water and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Tahlequah Public Works Authority and City Light & Water's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material

misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Tahlequah Public Works Authority and City Light & Water's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Tahlequah Public Works Authority and City Light & Water's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated **October 18, 2023** 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 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 of on the effectiveness of the 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 Authority's internal control over financial reporting and compliance.

Robert St. Pierre

Robert St. Pierre, C.P.A., P.C.
Stilwell, Oklahoma
October 18, 2023

MANAGEMENT'S

DISCUSSION AND

ANALYSIS

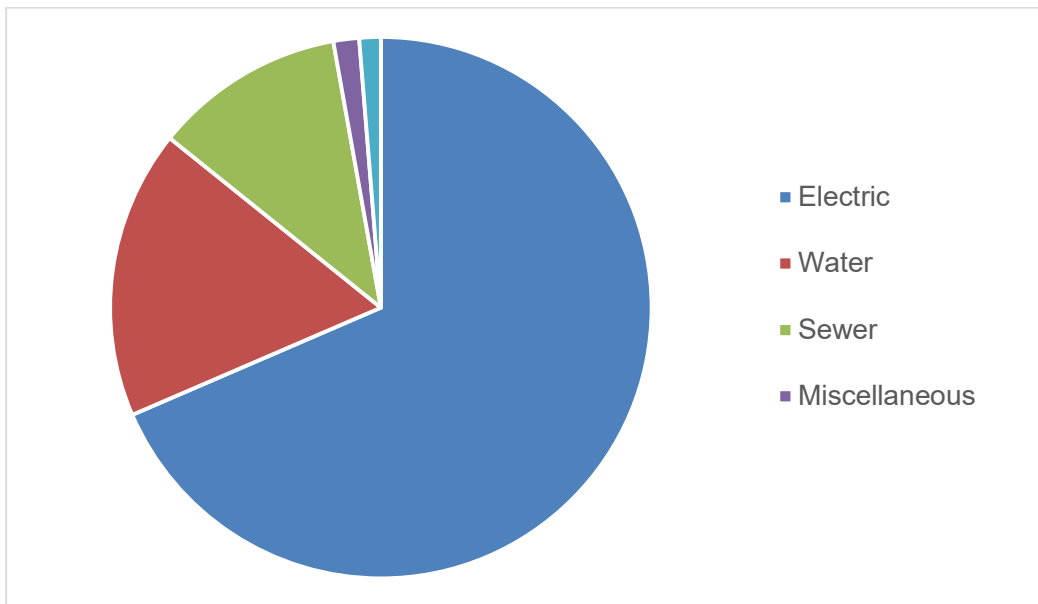
MANAGEMENT’S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial performance of the Tahlequah Public Works Authority and City Light & Water (“the Authority”), a component unit of the City of Tahlequah, Oklahoma, provides an overview of the Authority’s financial activities for the fiscal year ended June 30, 2023. Please read it in conjunction with the Authority’s basic financial statements.

Financial Highlights

At June 30, 2023, the Authority’s net position totals \$51.1 million. Of this, \$38.5 million is considered unrestricted.

The following chart provides a graphical breakdown of revenues by category for the fiscal year ending June 30, 2023.



In the fiscal year ended June 30, 2023, the Authority’s revenues exceeded expenses, creating an increase in net position after net transfers out of \$3,270,041.

Using This Annual Report

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

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

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

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

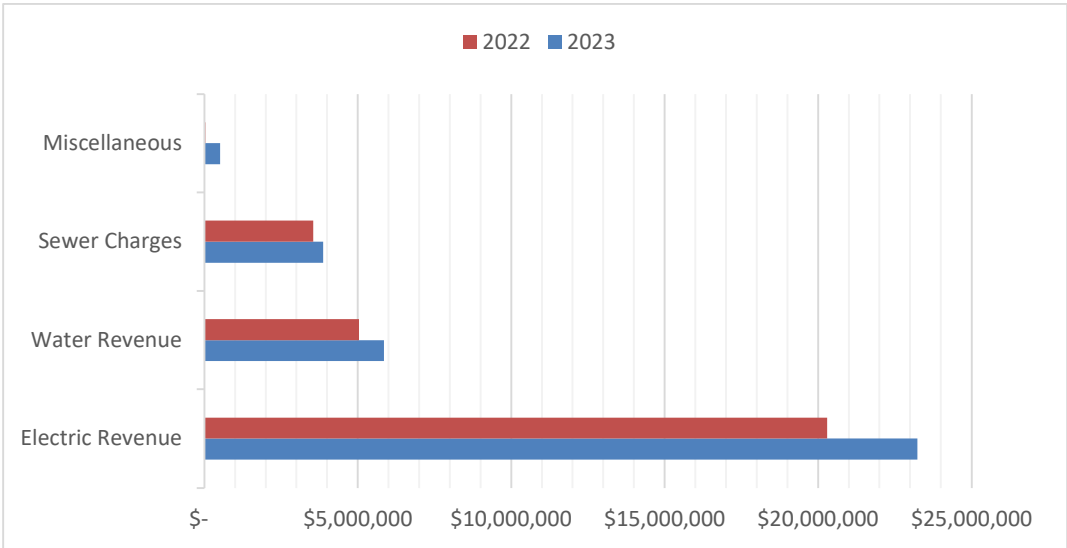
The third statement, the statement of cash flows, presents detailed information about the cash activity during the year. The statement is divided into five parts. The first part presents operating cash flows and shows the net cash provided by the operating activities of the Authority. The second section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

Financial Overview

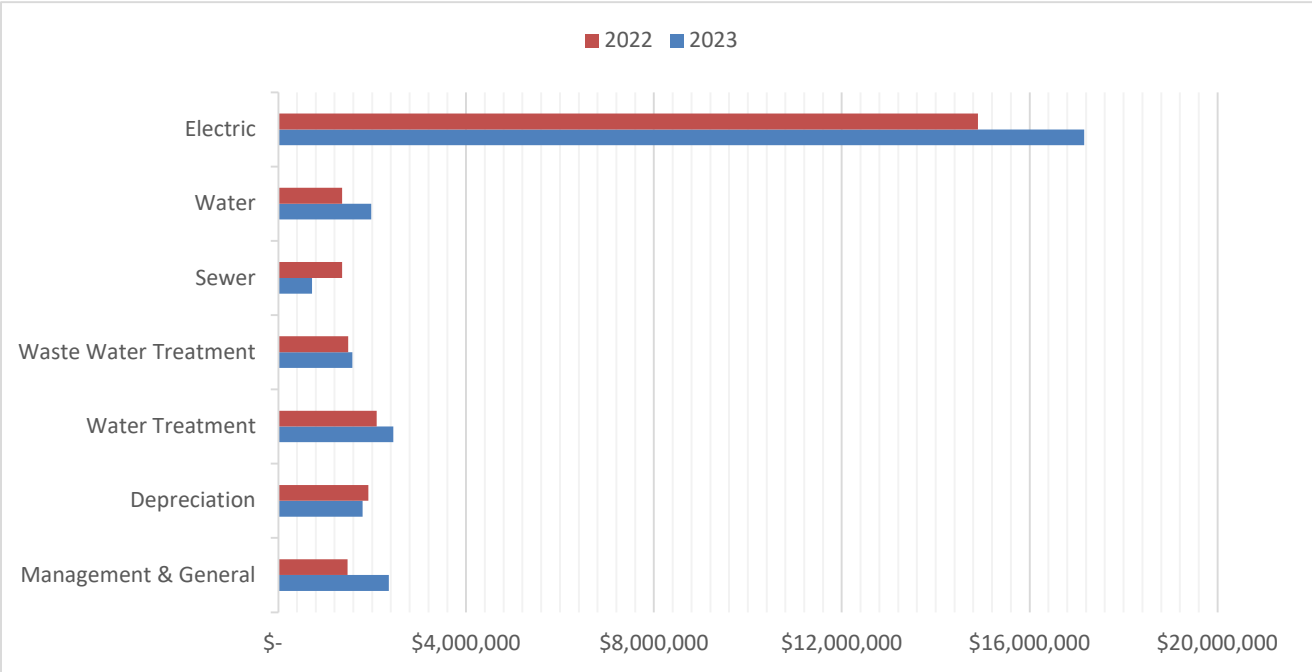
Statement of Net Position, End of Year

	<u>June 30, 2023</u>
Current Assets	\$ 29,032,064
Noncurrent Assets	<u>49,261,945</u>
Total Assets	<u>\$ 78,294,009</u>
Current Liabilities	\$ 2,354,063
Noncurrent Liabilities	<u>24,861,438</u>
Total Liabilities	<u>27,215,501</u>
Net Position	
Investment in Capital Assets	25,745,236
Restricted	12,563,343
Unrestricted	<u>12,769,929</u>
Total Net Position	<u>51,078,508</u>
Total Liabilities & Net Position	<u>\$ 78,294,009</u>

Operating revenues for the fiscal year ended June 30, 2023 compared to June 30, 2022:



Operating expenses for the fiscal year ended June 30, 2023 compared to June 30, 2022:



Operating Results for the Year Ended June 30, 2023

	June 30, 2023
Operating Revenues	\$ 33,149,364
Less Operating Expenses	<u>(28,686,639)</u>
Net Operating Revenue	4,462,725
Net Nonoperating Income (Expense)	139,729
Net Transfers In (Out)	<u>(1,332,415)</u>
Increase (Decrease) in Net Assets	3,270,039
Net Position, Beginning of Year (Restated)	47,808,469
Net Position End of Year	<u><u>\$ 51,078,508</u></u>

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

Below is a condensed look at the statement of cash flows for fiscal 2023:

Cash Flows for the Year Ended June 30, 2023

	June 30, 2023
Cash Provided (Used) by:	
Operating Activities	\$ 6,265,005
Noncapital Financing Activities	(1,074,637)
Capital and Related Financing Activities	(4,242,462)
Investing Activities	765,501
Net Increase (Decrease) in Cash Flows	1,713,407
Cash, Beginning of Year	19,694,057
Cash, End of Year	\$ 21,407,464

Description of Capital Assets and Long-Term Debt Activity

At June 30, 2023 the Authority had \$49.2 million invested in capital assets, net of accumulated depreciation of \$50.1 million. Net depreciation charges totaled \$1.8 million for the year ended June 30, 2023. Details of these assets are shown below for the years ended June 30, 2023.

Capital Assets at Year-End June 30, 2023

	Balance at June 30, 2023
Non-Depreciable:	
Land	\$ 387,912
Construction-in-Progress	15,608,122
Depreciable:	
Infrastructure	\$ 71,593,117
Vehicles	4,186,372
Buildings and Improvements	3,736,788
Machinery and Equipment	3,914,567
Total Capital Assets, Cost Basis	99,426,878
<i>Less: Accumulated Depreciation</i>	<i>(50,164,933)</i>
Capital Assets, Net	\$ 49,261,945

At June 30, 2023, the Authority had \$23.5 million in debt outstanding. The table below summarizes the outstanding debt by type for the years ended June 30, 2023.

Outstanding Debt, at Year-End June 30, 2023

	Balance at June 30, 2023	Current Portion Due
2018 DWSRF Loan	8,174,910	193,999
2019 Clean Water Loan	10,886,000	628,000
2021 Clean Water Loan	4,455,799	127,726
Total Long-Term Debt	\$ 23,516,709	\$ 949,725

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

Economic Factors and Next Year's Outlook

Per TPWA General Manager, Mike Doublehead: FY 2023 proved to be a challenging year with the continued supply chain shortages. The availability of materials and equipment ranging from PVC pipe, electric transformers, and heavy-duty bucket trucks continued during the year.

Our budgeted revenue for all operations was \$29.3 million in FY 2023. The YTD actual revenue was \$33.1 million. Electric revenue was the primary driver of the increased revenue. The water and sewer revenue also exceeded budgeted expectations. The hot summer months were a part of the increases. For the electric department, the cost increases were driven by a higher PCA (Power Cost Adjustments), which are driven by the cost to produce and deliver electricity. As I reported last year, the cost of natural gas was higher than in previous years. At this time last year, the cost of natural gas was in the high \$6 and low \$7 range. We are seeing a trend in the mid to low \$3 range for natural gas now.

Water usage was up, which helped drive the increase of the water / wastewater revenue. As the sewer revenue is based on water usage, it only makes sense that both revenues increased. We continued with our rate structure plans and it appears to be helping. We will monitor this going forward and adjust the rates accordingly as needed.

FY2024 Economic Outlook

Per TPWA General Manager, Mike Doublehead: We are seeing an increase in wages within our industry. As I speak with other Public Power Communities, they are seeing the same thing. I believe that TPWA is in a good financial position to be able to address any labor concerns and will continue to attract talented people to work in our industry. We have lost a few experienced employees to other entities as they are also looking for talented well-trained people to fill open positions.

The "Silver Tsunami" is also affecting TPWA as several of our long-term employees are planning their retirement. We continue to train our people in-house and by using outside entities to help us get ready for these eventual retirements. We've also evaluated our wages and adjusted our minimum starting wage to \$15 per hour for entry level employees.

Supply shortages will be a concern going forward. The price of transformers has continued to increase as well as longer lead times. As we look at replacing some of our aging equipment, we are being told that lead times are 4 – 5 years out for heavy-duty bucket trucks. Other heavy-duty machines such as dozers, back hoes, derrick diggers, etc. are 4 – 5 years out for delivery. We were very fortunate that our electric superintendent, Mr. Gary Stephens, was able to locate and procure two new bucket trucks. Mr. Stephens found a 55 ft bucket and a 40ft bucket truck with immediate delivery available. The board of Trustees recognized this opportunity and approved the purchase of this equipment. Better yet, we were able to purchase the units with substantial savings under the quoted long lead delivery time.

Interest rates have continued to rise. The good news is that we can benefit from having some cash on hand to take advantage of these higher interest rates with our financial institutions. The downside will be felt if we must borrow any money on a long-term basis.

TPWA will invest in improvements to our infrastructure such as the water line on Muskogee Avenue. We have also begun to work on the 477 electric line conversion for the current 4/0 (aught) wire line. We are looking into the possibility of a dual circuit building to help us manage the growth of the electrical needs for our community. We will be able to pay cash for the construction of the water line relocation as well as the 477 reconductor project. Our estimated cost for the Muskogee Avenue water line relocation is \$2.1 million. The 477 circuit estimates are \$1.5 million if we build 4 miles of the line.

We have already purchased the bulk of the materials for the 477 reconductor line and will look to hire an outside contractor for the actual construction of this 477-line upgrade.

The Cherokee Nation continues to invest in improvements of physical buildings and water and waste-water line improvements. We are working with them as our entire community benefits from these improvements. Our Tribal funding line item will increase this next fiscal year as we work together to make these improvements. Our relationship with our tribal partners is strong as we have a joint interest in improving our services to our community.

In closing, the TPWA is a public trust and subject to the governmental tort claims act. As of the time of this writing, we have no pending legal claims against the entity.

FINANCIAL

STATEMENTS

TAHLEQUAH PUBLIC WORKS AUTHORITY and CITY LIGHT & WATER
STATEMENT OF NET POSITION
For the Year Ended June 30, 2023

ASSETS	Public Works Authority	City Light & Water	2023 Total
CURRENT ASSETS			
Cash and Cash Equivalents (Note B)	\$ 8,737,950	\$ 106,171	\$ 8,844,121
Restricted Cash and Cash Equivalents (Note B)	12,563,343	-	12,563,343
Inventory	1,732,911	-	1,732,911
Accounts Receivable (Net of Allowance) (Note C)	5,691,317	-	5,691,317
Prepaid Insurance	306,543	-	306,543
	<hr/>	<hr/>	<hr/>
TOTAL CURRENT ASSETS	29,032,064	106,171	29,138,235
FIXED ASSETS (NOTE D)			
Land	387,912	-	387,912
Construction-in-Progress	15,608,122	-	15,608,122
Infrastructure	71,593,117	-	71,593,117
Vehicles	4,186,372	-	4,186,372
Buildings and Improvements	3,736,788	-	3,736,788
Machinery and Equipment	3,914,567	-	3,914,567
Less: Accumulated Depreciation	(50,164,933)	-	(50,164,933)
	<hr/>	<hr/>	<hr/>
TOTAL FIXED ASSETS	49,261,945	-	49,261,945
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	\$ 78,294,009	\$ 106,171	\$ 78,400,180
<hr/>			
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Accounts Payable and Accrued Expenses	\$ 670,232	\$ -	\$ 670,232
Emergency & Agency Assistance	354,550	-	354,550
Sales Tax Payable	90,281	-	90,281
Accrued Interest Payable	75,287	-	75,287
Accrued Salaries	213,988	-	213,988
Current Portion of Long-Term Debt - Revenue Bonds (Note E)	628,000	-	628,000
Current Portion of Long-Term Debt - Notes Payable (Note E)	321,725	-	321,725
	<hr/>	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	2,354,063	-	2,354,063
NON-CURRENT LIABILITIES			
Compensated Absences	364,147	-	364,147
Meter Deposit Liabilities	1,930,307	-	1,930,307
Revenue Bonds Payable (Note E)	10,258,000	-	10,258,000
Notes Payable (Note E)	12,308,984	-	12,308,984
	<hr/>	<hr/>	<hr/>
TOTAL NON-CURRENT LIABILITIES	24,861,438	-	24,861,438
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	27,215,501	-	27,215,501
<hr/>			
NET POSITION (RESTATED)			
Invested in Capital Assets (Net of Related Debt)	25,745,236	-	25,745,236
Restricted Accounts	12,563,343	-	12,563,343
Unrestricted	12,769,929	106,171	12,876,100
	<hr/>	<hr/>	<hr/>
TOTAL NET POSITION (Restated)	51,078,508	106,171	51,184,679
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES AND NET POSITION	\$ 78,294,009	\$ 106,171	\$ 78,400,180

TAHLEQUAH PUBLIC WORKS AUTHORITY and CITY LIGHTS & WATER
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2023

	<u>Public Works Authority</u>	<u>City Light & Water</u>	<u>2023 Totals</u>
OPERATING REVENUES			
Electric Revenue	\$ 23,231,326	\$ -	\$ 23,231,326
Water Revenue	5,852,628	-	5,852,628
Sewer Charges	3,876,613	-	3,876,613
Miscellaneous	188,797	-	188,797
TOTAL OPERATING REVENUES	<u>33,149,364</u>	<u>-</u>	<u>33,149,364</u>
OPERATING EXPENSES			
Electric Service	17,161,868	-	17,161,868
Water Service	1,981,651	-	1,981,651
Sewer Service	719,481	-	719,481
Warehouse Expense	636,625		636,625
Waste Water Treatment	1,578,153	-	1,578,153
Water Treatment	2,454,385	-	2,454,385
Depreciation	1,800,000	-	1,800,000
Management and General	2,354,476	113,723	2,468,199
TOTAL OPERATING EXPENSES	<u>28,686,639</u>	<u>113,723</u>	<u>28,800,362</u>
NET OPERATING GAIN (LOSS)	<u>4,462,725</u>	<u>(113,723)</u>	<u>4,349,002</u>
NONOPERATING REVENUES (EXPENSES)			
Interest Income	429,982	2,884	432,866
Grants / Tribal Revenue	332,633	-	332,633
Interest Expense and Fees	(622,886)	-	(622,886)
TOTAL NONOPERATING REVENUE (EXPENSES)	<u>139,729</u>	<u>2,884</u>	<u>142,613</u>
INCOME BEFORE CONTRIBUTIONS & TRANSFERS	4,602,454	(110,839)	4,491,615
Transfers In	-	-	-
Transfer Between TPWA & CL&W	(1,332,415)	1,451,295	118,880
Transfers Out to City	-	(1,332,415)	(1,332,415)
INCREASE (DECREASE) IN NET POSITION	3,270,039	8,041	3,278,080
NET POSITION, BEGINNING OF YEAR (Restated)	<u>47,808,469</u>	<u>98,130</u>	<u>47,906,599</u>
NET POSITION, END OF YEAR	<u>\$ 51,078,508</u>	<u>\$ 106,171</u>	<u>\$ 51,184,679</u>

TAHLEQUAH PUBLIC WORKS AUTHORITY and CITY LIGHT & WATER
STATEMENT OF CASH FLOWS
For The Year Ended June 30, 2023

	<u>Public Works Authority</u>	<u>City Light & Water</u>	<u>2023 Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 32,815,068	\$ -	\$ 32,815,068
Payments to vendors and suppliers	(20,140,971)	(113,723)	(20,254,694)
Payments to employees	(6,295,369)	-	(6,295,369)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>6,378,728</u>	<u>(113,723)</u>	<u>6,265,005</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers between TPWA & CL&W	\$ (1,193,517)	\$ 1,451,295	257,778
Transfers Out	-	(1,332,415)	(1,332,415)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(1,193,517)</u>	<u>118,880</u>	<u>(1,074,637)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES			
Purchases of capital assets	(2,824,460)	-	(2,824,460)
Proceeds from capital debt	-	-	-
Principal paid on capital debt	(795,116)	-	(795,116)
Interest and fees on capital debt, net of subsidy	(622,886)	-	(622,886)
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	<u>(4,242,462)</u>	<u>-</u>	<u>(4,242,462)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Grant Income	332,633	-	332,633
Interest Income	429,984	2,884	432,868
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>762,617</u>	<u>2,884</u>	<u>765,501</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>1,705,366</u>	<u>8,041</u>	<u>1,713,407</u>
CASH AT THE BEGINNING OF THE YEAR	<u>19,595,927</u>	<u>98,130</u>	<u>19,694,057</u>
CASH AT THE END OF THE YEAR	<u>\$ 21,301,293</u>	<u>\$ 106,171</u>	<u>\$ 21,407,464</u>
RECONCILIATION OF CASH TO STATEMENT OF NET POSITION:			
Cash and Cash Equivalents	\$ 8,737,950	\$ 106,171	\$ 8,844,121
Restricted Cash and Cash Equivalents	12,563,343	-	12,563,343
	<u>\$ 21,301,293</u>	<u>\$ 106,171</u>	<u>\$ 21,407,464</u>

TAHLEQUAH PUBLIC WORKS AUTHORITY and CITY LIGHT & WATER
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2023

	<u>Public Works Authority</u>	<u>City Light & Water</u>	<u>2023 Total</u>
Reconciliation of Operating Income (Loss) to Net Cash			
Provided by Operating Activities:			
Operating Income (Loss)	\$ 4,462,723	\$ (113,723)	\$ 4,349,000
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Depreciation	1,800,000	-	1,800,000
(Increase) Decrease in:			-
Accounts Receivable	(334,296)	-	(334,296)
Inventories	963,434	-	963,434
Prepaid Insurance	17,486	-	17,486
(Increase) Decrease in:			-
Accounts Payable	(704,908)	-	(704,908)
Meter Deposits	138,898		
Compensated Absences	35,391	-	35,391
Net Cash Provided (Used) by Operating Activities	<u>\$ 6,378,728</u>	<u>\$ (113,723)</u>	<u>\$ 6,265,005</u>

FINANCIAL

STATEMENT

NOTES

**TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & WATER
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023**

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1: REPORTING ENTITY

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

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

2: BASIS OF PRESENTATION

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

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

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

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles 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.

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

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

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

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

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

Income Tax Status— As a Title 60 Public Trust, the Authority is exempt from income taxes.

3: ASSETS, LIABILITIES, AND NET POSITION

Deposits and Investments—For financial statement presentation and for purposes of the statement of cash flows, the Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with a maturity date of three months or less. Debt instruments with a maturity date of more than three months are considered to be investments. Investments are stated at their fair market value.

Custodial Credit Risk—Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned, or the Authority will not be able to recover collateral securities that are in the possession of an outside party. The Authority was exposed to custodial credit risk of \$0 at June 30, 2023.

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset:

Accounts Receivable—Management considers all receivables as of June 30, 2023 to be revenues earned at year-end and not yet received. They are reported net of allowances for uncollectible accounts.

Inventories—Inventory is generally stated at the lower of cost and net realizable value on the first-in, first-out method.

Fixed Assets—Property, plant and equipment are recorded at cost. Depreciation is provided on the straight-line basis, beginning the year of acquisition, over the estimated useful lives of the related assets. Expenditures for repairs and maintenance are charged to expense as incurred, whereas major improvements that extend the life of the asset are capitalized.

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

NOTE B: CASH AND CASH EQUIVALENTS

The Authority held the following cash and cash equivalents at June 30, 2023:

Type:	2023	Recon. to Statement of Net Position:	2023
Petty Cash	\$ 2,500	Cash and Cash Equivalents	\$ 8,737,950
Checking Accounts	8,735,450	Restricted Cash and Cash Equivalents	12,669,514
Bond Accounts	640,361		
Reserve Accounts	9,920,410	Total Recon. of Cash and Restricted Cash	\$ 21,407,464
Meter Deposit Funds	1,770,982	Equivalents	
Money Markets - Bond Funds	231,590		
City Light & Water	106,171		
Total Cash and Cash Equivalents	\$ 21,407,464		

NOTE C: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2023, represent outstanding charges for services provided. Aged accounts receivable was as follows:

	June 30, 2023
Current	\$ 4,573,846
30 Days and Over	1,074,189
60 Days and Over	57,537
90 Days and Over	39,905
<i>Less: Allowance for Doubtful Accounts</i>	<u>(54,160)</u>
Net Accounts Receivable	<u>\$ 5,691,317</u>

It's the Authority's policy to accrue an allowance for approximately 1.5X the 90 day and over accounts receivable.

NOTE D: FIXED ASSETS

The Authority's changes in property, plant, and equipment as of June 30, 2023, consisted of the following:

	Balance Balance at June 30, 2022	Restatement	Additions	Deletions	Balance Balance at June 30, 2023
Non-Depreciable:					
Land	\$ 387,912	-	-	-	\$ 387,912
Construction-in-Progress	13,875,926	-	2,802,094	(1,069,898)	15,608,122
Depreciable:					
Infrastructure	\$ 70,421,036	-	1,172,081	-	\$ 71,593,117
Vehicles	4,019,886	-	262,065	(95,579)	4,186,372
Buildings and Improvements	3,736,788	-	-	-	3,736,788
Machinery and Equipment	3,845,358	-	244,456	(175,247)	3,914,567
Total Capital Assets, Cost Basis	96,286,906	-	4,480,696	(1,340,724)	99,426,878
<i>Less: Accumulated Depreciation</i>	<u>(47,394,145)</u>	<u>(1,217,653)</u>	<u>(1,800,001)</u>	<u>246,866</u>	<u>(50,164,933)</u>
Capital Assets, Net	<u>\$ 48,892,761</u>	<u>(1,217,653)</u>	<u>2,680,695</u>	<u>(1,093,858)</u>	<u>\$ 49,261,945</u>

The Authority's fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful life. It is the Authority's policy to capitalize all fixed assets with a cost over \$5,000.

NOTE E: LONG-TERM DEBT

As of June 30, 2023, long-term debt payable consisted of the following:

Notes Payable:

- 2018 Series Drinking Water SRF Promissory Note to the Oklahoma Water Resources Board, original issue amount \$8,200,000, secured by utility revenues, interest rate of 2.65% and administrative fee of 0.5%, final maturity of March 15, 2050.
- 2019 Series Clean Water SRF Promissory Note to the Oklahoma Water Resources Board, original issue amount \$12,850,000, secured by utility revenues, interest rate of 2.65% and administrative fee of 0.5%, final maturity of October 1, 2037.

2021 Series Clean Water SRF Promissory Note to the Oklahoma Water Resources Board, original issue amount \$6,750,000, secured by utility revenues, interest rate of 2.07% and administrative fee of 0.5%, final maturity of September 15, 2049

Revenue Bonds:

- Utility System Revenue Note, Taxable Series 2019, original issue amount of \$12,850,000, secured by utility revenues, interest rate of 2.65%, final maturity October 1, 2037.

Changes in Long-Term Debt:

	Balance at June 30, 2022	Additions	Reductions	Balance at June 30, 2023	Current Portion Due
2012 AMR Bonds Payable	\$ 158,026	\$ -	\$ 158,026	\$ -	\$ -
2018 DWSRF Loan	8,037,469	162,531	25,090	8,174,910	193,999
2019 Clean Water Loan	11,498,000	-	612,000	10,886,000	628,000
2021 Clean Water Loan	3,872,243	583,556	-	4,455,799	127,726
Total Long-Term Debt	<u>\$ 23,565,738</u>	<u>\$ 746,087</u>	<u>\$ 795,116</u>	<u>\$ 23,516,709</u>	<u>\$ 949,725</u>

Debt Service Requirements to Maturity:

The annual debt service requirements to maturity for long-term debt as of June 30, 2023 are as follows:

Year Ending June 30,	Notes Payable		Revenue Bonds Payable	
	Principal	Interest	Principal	Interest
2024 - Current Portion	\$ 321,725	\$ 253,145	\$ 628,000	\$ 284,345
2025	331,335	342,248	644,000	267,597
2026	340,517	333,066	660,000	250,425
2027	349,963	323,620	678,000	232,815
2028	359,048	314,535	695,000	214,742
2029	369,662	303,920	713,000	196,206
2030-2034	2,008,138	1,359,776	3,857,000	685,501
2035-2039	2,305,328	1,062,580	3,011,000	161,584
2040-2044	2,648,166	719,745	-	-
2045-2049	3,044,793	227,696	-	-
2050-2054	552,034	3,118	-	-
	<u>\$ 12,630,709</u>	<u>\$ 5,243,449</u>	<u>\$ 10,886,000</u>	<u>\$ 2,293,215</u>

NOTE F: FAIR VALUE MEASUREMENT

The definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

SAS 157 defines fair value as the amount that would be received from the sale of an asset or paid for the transfers of a liability in an orderly transaction between market participants, i.e. an exit price. To estimate an exit price, a three-tier hierarchy is used to prioritize the inputs.

- Level 1: Quoted prices in active markets for identical securities.
- Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spread and credit risk).
- Level 3: Significant unobservable inputs (including the Authority's own assumptions in determining the fair value of investments).

Fair value of assets measured on a recurring basis at June 30, 2023 are as follows:

Fair Value Measurements at Reporting Date June 30, 2023	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market - BancFirst 2019 Bond Fund	231,590	231,590	-	-
Total	\$ 231,590	\$ 231,590	\$ -	\$ -

NOTE G: RETIREMENT PROGRAMS

Effective February 28, 2005 the Authority changed its Defined Contribution Plan to a 401(A) Non- standardized Profit-Sharing Plan. Under the new plan employees become eligible immediately upon employment. Employer contributions are at the sole discretion of the Authority and are allocated using a Nonintegrated (pro rata) formula. Any employee forfeitures are used to reduce any employer contributions. Employees become 100% vested after three years of service. No employee contributions are allowed under this plan. During fiscal year 2023, the Authority contributed \$489,812 to the Profit-Sharing Plan.

In addition to the Profit-Sharing Plan described above, the Authority has also established a Section 457 Retirement Plan for all full-time employees. Under this Plan, there is no fixed dollar amount of retirement benefits. The employee’s actual retirement benefit will depend on the amount of their account balances at the time of retirement. The account balance will reflect the employee deferral contributions, if any, in the period of time the employee participates in the Plan and their success in investing and re-investing the assets of their accounts.

NOTE H: OTHER POST EMPLOYMENT BENEFITS

The Authority provides post-retirement benefit options for health care for retired employees and their dependents that elect to make required contributions. Effective July 1, 2012 the board voted to modify the plan to require 25 years of service and raised the qualifying age to 62. Benefits cease at age 65. At June 30, 2023, no retired employees were receiving benefits under this plan. Management expects few, if any, employees to qualify for and take advantage of this benefit. No liability has been accrued for this benefit as management does not believe the amount would be material to the financial statements.

NOTE I: RISK MANAGEMENT

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

NOTE J: COMMITMENTS AND CONTINGENCIES

During the ordinary course of business, the Authority may be subjected to various lawsuits and civil action claims. There were no pending lawsuits or claims against the Authority at June 30, 2023 that management believes would result in a material loss in the event of an adverse outcome.

NOTE K: RESTATEMENT OF BEGINNING NET POSITION

Per GASB No. 62, Codification of Accounting and Financial Reporting Guidance, corrections of errors in previously issued financial statements are reported as prior-period adjustments. A detail of the restatements to the Organization’s beginning net position are listed below:

1. Adjustment to Fixed assets for Duplicated assets \$360,286.
2. Adjustment for change in fixed asset lives (\$575,544).
3. Adjustment to Accounts Receivables to reconcile to correct balance for \$1,674,925.
4. Adjustment to Inventory for Software cost issues \$804,996.

Pursuant to GASB No. 62, a net amount of \$2,294,663 in restatements of the beginning net position was made for the fiscal year ending June 30, 2023.

NOTE L: SUBSEQUENT EVENTS

The management of the Authority has evaluated subsequent events through **October 18, 2023**, which is the date the financial statements were available to be issued.

SUPPLEMENTARY

INFORMATION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Tahlequah Public Works Authority and City Light & Water (the "Authority"), a component unit of the City of Tahlequah, Oklahoma, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated **October 18, 2023**.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

Robert St. Pierre

Robert St. Pierre C.P.A., P.C.
Stilwell, Oklahoma
October 18, 2023