

MUSKOGEE CITY-COUNTY PORT AUTHORITY

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2016

MUSKOGEE CITY-COUNTY PORT AUTHORITY
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For Year Ended June 30, 2016

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MUSKOGEE CITY-COUNTY PORT AUTHORITY

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MANAGEMENT DISCUSSION AND ANALYSIS

This discussion and analysis is required supplementary information, presented to the reader as an overview of the Muskogee City-County Port Authority's financial condition and performance, in accordance with Governmental Accounting Standards Board Pronouncement 34 (GASB 34).

One of the objectives of the GASB 34 reporting model is to present "an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions or conditions" in a way "that will be of interest to user groups who historically have not shown much interest in the government's financial reports".

USING THIS ANNUAL REPORT

In accordance with the GASB 34 reporting model, the financial condition of the Authority is presented in the Statement of Net Assets; the financial performance of the Authority is presented in the Statement of Activities; and the Authority's Fund Balance is divided into pieces in order to provide more information about the contribution of each piece, or activity, to the whole of the financial condition of the Authority.

Statement of Net Assets and Statement of Activities

Together, the Statement of Net Assets and the Statement of Activities are intended to show the Authority's financial condition and the change in the Authority's financial condition resulting from the current year's financial activities.

Fund Balances

Unlike many other forms of government, the Authority receives no annual appropriation and has no taxing authority. The Authority operates as a business enterprise, deriving all of its operating revenues from property leases, port fees charged to shippers and industrial development service contracts with the Union Pacific Railroad Company and the City of Muskogee. Operating revenues are used for the general administration of the Authority, maintenance of the Authority's facilities and expenses associated with the Authority's service contracts. Capital improvements are funded with the net of operating revenues after deductions, debt and grants from local, state and federal economic development programs.

For the purpose of recognizing the contribution of certain funds and activities to the whole of the Authority's financial condition and performance, the Authority allocates assets, liabilities, net assets, income and expense between its Governmental Fund and its Proprietary Funds. In its Governmental Fund,

"See Auditor's Disclaimer of Opinion"

the Authority records its General Administrative Expenses (including expenses associated with certain industrial development activities), Debt Service and Construction in Progress. In its Proprietary Funds, the Authority records its revenues and expenses for Port Operations, Railroad Operations, Grounds Maintenance and Marina Operations.

Summary of activities for the current year and comparison to last year

For the year ending June 30, 2016, the Authority's Net Operating Income was \$736,261 compared with \$785,585, for the previous year, a difference of \$49,324, due primarily to increased operating expenses.

After deducting Depreciation Expense and the Net of Interest Income and Expense, the Authority's Net Income was \$419,339 compared with \$463,614 for the previous year, a difference of \$44,275.

The following table illustrates, in summary form, a comparison of financial activities in the current year with those in the previous year.

	<u>06/30/16</u>	<u>06/30/15</u>	<u>Variance</u>
Operating Revenues	\$2,743,347	\$2,693,733	\$ 49,614
Operating Expenses	\$2,007,086	\$1,908,148	\$ 98,938
Net Operating Income	\$ 736,261	\$ 785,585	\$ 49,324
Less Depreciation Expense	\$ 246,806	\$ 246,229	\$ 577
Less Net of Interest Income and Expense	\$ 70,116	\$ 75,742	\$ 5,626
Net Income	\$ 419,339	\$ 463,614	\$ 44,275

Analysis of current year's activity on the financial condition of the Port Authority

As a result of the current year's activities, the net assets of the Authority, recorded in the Audited Financial Statements as Statement of Net Assets (see page 3), totaled \$11,871,220, an increase in the Net Assets of the Authority of \$478,337.

Analysis of balances and transactions of individual funds and impact on future resources

The business activities of the Authority during the current year, recorded in the Audited Financial Statements as Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds (see page 10), generated sufficient net revenues to cover the General Administrative Expenses of the Authority, Capital Outlays and Debt Service, recorded in the Audited Financial Statements as Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds (see page 7).

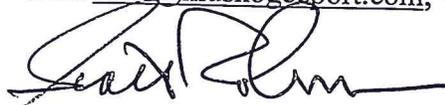
Analysis of significant budget variances

For the year ending June 30, 2016, Net Operating Income was \$736,261 compared with \$749,122 budgeted for the year, resulting in less Net Operating Income than budgeted by \$12,861. After deducting the net of Non-Operating Income and Expense, Net Income was \$419,339 compared with \$452,435 budgeted for the year, resulting in less Net Income than budgeted by \$33,096. Budget variances were due to a number of factors, including less revenue attributable to Port Fees than budgeted by \$64,825, due, for the most part, to continued weakness in the shipment of iron and steel associated with the oil and gas sector of the economy; and, more operating expenses than budgeted by \$120,787, due, for the most part, to Marketing and Business Development Expenses (\$20,336), Salaries and Payroll Expenses (\$68,204) and Employee Pension Contributions (\$38,618). Interest payments on Bonds and Notes Payable were more than budgeted by \$20,679 due to recognition of accrued interest on the Muskogee Industrial Trust Loan as a current year expense (\$16,993) and early payoff of the 2005 Series A Muskogee County Bonds (\$5,110).

	<u>06/30/16</u>	<u>Budget</u>	<u>Variance</u>
Operating Revenue			
Port Fees	\$ 902,525	\$ 967,350	\$ 64,825
All Other Operating Revenue	<u>\$1,840,822</u>	<u>\$1,668,071</u>	<u>\$ 172,751</u>
	\$2,743,347	\$2,635,421	\$ 107,926
Operating Expense			
Marketing and Business Development	\$ 125,336	\$ 105,000	\$ 20,336
Salaries and Payroll Expenses	\$ 903,234	\$ 835,030	\$ 68,204
Employee Pension Contributions	\$ 101,359	\$ 62,741	\$ 38,618
All Other Operating Expense	<u>\$ 877,157</u>	<u>\$ 883,528</u>	<u>\$ 6,371</u>
	\$2,007,086	\$1,886,299	\$ 120,787
Net Operating Income	\$ 736,261	\$ 749,122	\$ 12,861
Non-Operating Income	\$ 5,444	\$ 5,000	\$ 444
Less Non-Operating Expense			
Depreciation	\$ 246,806	\$ 246,806	-
Interest on MIT Loan	\$ 16,993	\$ -	\$ 16,993
Interest on 2005 Series A Bonds	\$ 18,975	\$ 13,865	\$ 5,110
All Other Interest	<u>\$ 39,592</u>	<u>\$ 41,016</u>	<u>\$ 1,424</u>
	\$ 322,366	\$ 301,687	\$ 20,679
Net Income	\$ 419,339	\$ 452,435	\$ 33,096

HOW TO CONTACT THE AUTHORITY'S FINANCIAL MANAGEMENT

If you have any questions about this discussion and analysis or about the Audited Financial Statements that follow, please feel free to contact Scott Robinson, Port Director, by telephone at 918.682.7886, by email scott@muskogeeport.com, or by mail at P. O. Box 2819, Muskogee Oklahoma, 74402.



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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Muskogee City-County Port Authority

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Muskogee City-County Port Authority as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Muskogee City-County Port Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Muskogee City-County Port Authority, as of June 30, 2016, 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.

Other Matters

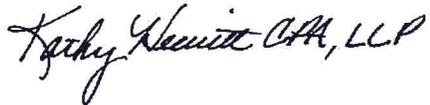
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on page 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Muskogee City-County Port Authority's basic financial statements. The introductory section and combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



KATHY HEWITT, CPA, LLP
Muskogee, Oklahoma
December 14, 2016

MUSKOGEE CITY-COUNTY PORT AUTHORITY
STATEMENT OF NET ASSETS
As of June 30, 2016

	Government Activities	Business Type Activities	Total
<u>Assets</u>			
Current Assets			
Cash and Cash Equivalents	\$ 1,306,224	\$ 200	\$ 1,306,424
Investments	\$ 101,115	\$ -	\$ 101,115
Accounts Receivable	\$ 12,988	\$ 327,243	\$ 340,231
Prepays	\$ 30,694	\$ -	\$ 30,694
Total Current Assets	\$ 1,451,021	\$ 327,443	\$ 1,778,464
Restricted Assets			
Prepays	\$ -	\$ 19,251	\$ 19,251
Total Restricted Assets	\$ -	\$ 19,251	\$ 19,251
Non-Current Assets			
Land		\$ 6,309,258	\$ 6,309,258
Construction in Progress	\$ 21,978	\$ 172,562	\$ 194,540
Property & Equipment	\$ 4,170,151	\$ 5,862,954	\$ 10,033,105
Accumulated Depreciation	\$ (936,595)	\$ (3,144,073)	\$ (4,080,668)
Total Fixed Assets	\$ 3,255,534	\$ 9,200,701	\$ 12,456,235
Total Assets	\$ 4,706,555	\$ 9,547,395	\$ 14,253,950
<u>Liabilities</u>			
Current Liabilities			
Current Portion Long Term Debt	\$ 90,656	\$ 664,361	\$ 755,017
Refundable Deposits	\$ 1,060	\$ 2,025	\$ 3,085
Accounts Payable	\$ 1,197	\$ 113	\$ 1,310
Total Current Liabilities	\$ 92,913	\$ 666,499	\$ 759,412
Non-Current Liabilities			
ODFA Loan-3 Forks Harbor	\$ 1,452,612	\$ -	\$ 1,452,612
EDIF Loan-Dal Tile Railspur	\$ -	\$ 119,462	\$ 119,462
Beach Group Loan	\$ -	\$ 98,391	\$ 98,391
Klutts Equipment Loan	\$ -	\$ 61,536	\$ 61,536
Muskogee Industrial Trust	\$ -	\$ 424,817	\$ 424,817
Mabrey Bank	\$ -	\$ 92,889	\$ 92,889
Accrued Interest - MIT Loan	\$ -	\$ 128,628	\$ 128,628
Total Long Term Debt	\$ 1,452,612	\$ 925,723	\$ 2,378,335
Less Current Portion Long Term Debt	\$ (90,656)	\$ (664,361)	\$ (755,017)
Total Long Term Liabilities	\$ 1,361,956	\$ 261,362	\$ 1,623,318
Total Liabilities	\$ 1,454,869	\$ 927,861	\$ 2,382,730
<u>Net Assets</u>			
Assigned Fund Balance	\$ -	\$ 10,000	\$ 10,000
Unassigned Fund Balance	\$ 3,251,686	\$ 8,609,534	\$ 11,861,220
Total Net Assets	\$ 3,251,686	\$ 8,619,534	\$ 11,871,220
Total Liabilities & Net Assets	\$ 4,706,555	\$ 9,547,395	\$ 14,253,950

PLEASE SEE NOTES TO ACCOMPANY FINANCIAL STATEMENTS

MUSKOGEE CITY-COUNTY PORT AUTHORITY
MUSKOGEE, OKLAHOMA
STATEMENT OF ACTIVITIES
For The Year Ended
June 30, 2016

	Program Revenues		
	Expenses	Charges for Services	Net (Expense) Revenue
Governmental Activities			
General Operations	\$ 632,214	\$ -	\$ (632,214)
Industrial Development	\$ 629,255	\$ 563,264	\$ (65,991)
Interest on Long Term Debt	\$ 35,197	\$ -	\$ (35,197)
Total Governmental Activities	\$ 1,296,666	\$ 563,264	\$ (733,402)
Business Type Activities			
Port, Rail & Grounds Maintenance Activities	\$ 896,917	\$ 2,077,003	\$ 1,180,086
Marina Activities	\$ 95,507	\$ 100,703	\$ 5,196
Interest on Long Term Debt	\$ 40,363	\$ -	\$ (40,363)
Total Business Activities	\$ 1,032,787	\$ 2,177,706	\$ 1,144,919

Governmental Activities		Business Type Activities	
Net Expenses over Revenues	\$ (733,402)	Net Revenues over Expenses	\$ 1,144,919
Transfer To/From Other Funds	\$ 610,127	Transfer To/From Other Funds	\$ (610,127)
Prior Period Adjustments	\$ -	Prior Period Adjustments	\$ 58,999
Unrestricted Investment Earnings	\$ 5,444	Unrestricted Investment Earnings	\$ -
Miscellaneous Other Income	\$ 52	Miscellaneous Other Income	\$ 2,325
Changes in Net Assets	<u>\$ (117,779)</u>	Changes in Net Assets	<u>\$ 596,116</u>
Net Assets - Beginning	\$ 3,369,465	Net Assets - Beginning	\$ 8,023,418
Net Assets - Ending	<u>\$ 3,251,686</u>	Net Assets - Ending	<u>\$ 8,619,534</u>

BASIC FINANCIAL STATEMENTS

MUSKOGEE CITY-COUNTY PORT AUTHORITY
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE-GOVERNMENTAL FUNDS
As of June 30, 2016

Assets

Current Assets	
Cash and Cash Equivalents	\$ 1,306,224
Investments	\$ 101,115
Accounts Receivable	\$ 12,988
Prepays	\$ 30,694
Total Current Assets	<u>\$ 1,451,021</u>
Restricted Assets	
Cash	<u>\$ -</u>
Total Restricted Assets	\$ -
Total Assets	<u><u>\$ 1,451,021</u></u>

Liabilities

Current Liabilities	
Current Portion Long Term Debt	\$ 90,656
Refundable Deposits	\$ 1,060
Accounts Payable	\$ 1,197
Total Current Liabilities	<u>\$ 92,913</u>
Long Term Liabilities	
Total Long Term Debt	\$ 1,452,612
Less Current Portion Long Term Debt	<u>\$ (90,656)</u>
Total Long Term Liabilities	<u>\$ 1,361,956</u>
Total Liabilities	\$ 1,454,869

Fund Balance

Assigned Fund Balance	\$ -
Unassigned Fund Balance	<u>\$ (3,848)</u>
Total Fund Balance	\$ (3,848)
Total Liabilities & Fund Balance	<u><u>\$ 1,451,021</u></u>

PLEASE SEE NOTES TO ACCOMPANY FINANCIAL STATEMENTS

MUSKOGEE CITY-COUNTY PORT AUTHORITY
Reconciliation of Fund Balance to Total Liabilities Net Assets
Governmental Funds

Total liabilities & fund balance - governmental funds \$ 1,451,021

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets net of accumulated depreciation are not financial resources and therefore
are not reported in the funds \$ 3,255,534

Total liabilities & net assets of governmental activities \$ 4,706,555

MUSKOGEE CITY-COUNTY PORT AUTHORITY
MUSKOGEE, OKLAHOMA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For The Year Ended
June 30, 2016

Revenues

Charges for Services	\$ -
Industrial Development Income	\$ 563,264
Investment Income	\$ 5,444
Miscellaneous Income	\$ 52
Total Revenues	<u>\$ 568,760</u>

Expenditures

General Government Expenses	\$ 632,214
Industrial Development Expenses	\$ 629,255
Capital Outlays	\$ 20,759
Capital Outlays-Construction in Progress	\$ -
Debt Service - Interest Expense	\$ 35,197
Debt Service-Principal	\$ 88,577
Total Expenses	<u>\$ 1,406,002</u>

Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (837,242)</u>
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Other Financing Sources (Uses)	
Transfers From Other Funds	\$ 610,127
Bond Loan Proceeds	\$ -
Total Other Financing Sources	<u>\$ 610,127</u>

Net Change In Fund Balance	\$ (227,115)
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Net Changes in Fund Balances

Fund Balances - Beginning	\$ 3,369,465
Add Reconciling Items (See page 8)	\$ (117,779)
Fund Balances - Ending	<u>\$ 3,251,686</u>

PLEASE SEE NOTES TO ACCOMPANY FINANCIAL STATEMENTS

MUSKOGEE CITY-COUNTY PORT AUTHORITY
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental
Funds to the Statement of Activities
June 30, 2016

Net Change in Governmental Fund Balances	\$ (227,115)
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Amounts reported in governmental activities in the statement of net assets are different because:

Prior period adjustment	\$ -
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Repayment of bond principal is an expenditure in the governmental funds but the repayment reduces the long term liabilities in the statement of net assets	\$ 88,577
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Capital Outlays are cash expenditures in the governmental funds but the expenditures increase the fixed assets in the statement of fixed assets	\$ 20,759
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Change in Net Assets of Governmental Activities	<u><u>\$ (117,779)</u></u>
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MUSKOGEE CITY-COUNTY PORT AUTHORITY
STATEMENT OF NET ASSETS
Proprietary Funds
As of June 30, 2016

<u>Assets</u>	Port	Rail	Grounds Maintenance	Marina	Total
Current Assets					
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ 200	\$ 200
Investment	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Receivable	\$ 179,856	\$ 129,852	\$ -	\$ 15,545	\$ 325,253
Reimbursable Expenses Receivable	\$ 1,990	\$ -	\$ -	\$ -	\$ 1,990
Prepays	\$ -	\$ -	\$ -	\$ -	\$ -
Total Current Assets	\$ 181,846	\$ 129,852	\$ -	\$ 15,745	\$ 327,443
Restricted Assets					
Prepays	\$ 19,251	\$ -	\$ -	\$ -	\$ 19,251
Total Restricted Assets	\$ 19,251	\$ -	\$ -	\$ -	\$ 19,251
Non-Current Assets					
Land	\$ 6,309,258	\$ -	\$ -	\$ -	\$ 6,309,258
Construction in Progress	\$ 43,715	\$ 128,847	\$ -	\$ -	\$ 172,562
Property & Equipment	\$ 2,573,530	\$ 2,634,454	\$ 231,139	\$ 423,831	\$ 5,862,954
Accumulated Depreciation	\$ (1,904,598)	\$ (1,047,410)	\$ (159,126)	\$ (32,939)	\$ (3,144,073)
Total Fixed Assets	\$ 7,021,905	\$ 1,715,891	\$ 72,013	\$ 390,892	\$ 9,200,701
					\$ -
Total Assets	\$ 7,223,002	\$ 1,845,743	\$ 72,013	\$ 406,637	\$ 9,547,395
Liabilities					
Current Liabilities					
Current Portion Long Term Debt	\$ 569,238	\$ 15,582	\$ -	\$ 79,541	\$ 664,361
Refundable Deposits	\$ -	\$ -	\$ -	\$ 2,025	\$ 2,025
Accounts Payable	\$ -	\$ -	\$ 113	\$ -	\$ 113
Prepaid Leases	\$ -	\$ -	\$ -	\$ -	\$ -
Total Current Liabilities	\$ 569,238	\$ 15,582	\$ 113	\$ 81,566	\$ 666,499
Non-Current Liabilities					
Accrued Interest	\$ 128,658	\$ -	\$ -	\$ -	\$ 128,658
EDIF Loan-Dal Tile Railspur	\$ -	\$ 119,462	\$ -	\$ -	\$ 119,462
Marina Loan	\$ -	\$ -	\$ -	\$ 92,889	\$ 92,889
Construction and Equipment Loans	\$ 584,744	\$ -	\$ -	\$ -	\$ 584,744
Total Long Term Debt	\$ 713,402	\$ 119,462	\$ -	\$ 92,889	\$ 925,753
Less Current Portion Long Term Debt	\$ (569,238)	\$ (15,582)	\$ -	\$ (79,541)	\$ (664,361)
Total Long Term Liabilities	\$ 144,164	\$ 103,880	\$ -	\$ 13,348	\$ 261,392
Total Liabilities	\$ 713,402	\$ 119,462	\$ 113	\$ 94,914	\$ 927,891
Net Assets					
Assigned Fund Balance	\$ 10,000	\$ -	\$ -	\$ -	\$ 10,000
Unassigned Fund Balance	\$ 6,499,600	\$ 1,726,281	\$ 71,900	\$ 311,723	\$ 8,609,504
Total Net Assets	\$ 6,509,600	\$ 1,726,281	\$ 71,900	\$ 311,723	\$ 8,619,504
Total Liabilities & Net Assets	\$ 7,223,002	\$ 1,845,743	\$ 72,013	\$ 406,637	\$ 9,547,395

PLEASE SEE NOTES TO ACCOMPANY FINANCIAL STATEMENTS

MUSKOGEE CITY-COUNTY PORT AUTHORITY
MUSKOGEE, OKLAHOMA
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds
Year Ended June 30, 2016

	Port Activity	Rail Activity	Grounds Maintenance Activity	Marina Activity	TOTAL
<u>Revenues</u>					
Lease Income	\$ 1,136,264	\$ -	\$ -	\$ 70,516	\$ 1,206,780
Port Fees (Rail & Barge)	\$ 202,599	\$ 699,926	\$ -	\$ -	\$ 902,525
Other Operational Income (Rent, etc.)	\$ 40,539	\$ -	\$ -	\$ 30,187	\$ 70,726
Total Revenues	\$ 1,379,402	\$ 699,926	\$ -	\$ 100,703	\$ 2,180,031
<u>Operating Expenses</u>					
Abstracting, Engineering & Advisory Services	\$ -	\$ -	\$ -	\$ 771	\$ 771
Advertising, Dues, Marketing & Port Promotion	\$ -	\$ -	\$ -	\$ 2,458	\$ 2,458
Employee Training	\$ -	\$ -	\$ -	\$ -	\$ -
Insurance-Employee & Liability	\$ 20,395	\$ 73,817	\$ 58,398	\$ 36,255	\$ 188,865
Merchandise	\$ -	\$ -	\$ -	\$ 12,416	\$ 12,416
Miscellaneous Expense	\$ -	\$ -	\$ -	\$ 359	\$ 359
Office Expense and Telephone	\$ -	\$ 1,364	\$ 682	\$ 5,698	\$ 7,744
Repairs and Maintenance	\$ 39,537	\$ 214,402	\$ 106,833	\$ 26,971	\$ 387,743
Salaries & Payroll Tax Expense	\$ -	\$ 112,098	\$ 109,668	\$ -	\$ 221,766
Employee Pension Contribution	\$ -	\$ 10,338	\$ 6,439	\$ -	\$ 16,777
Total Operating Expenses	\$ 59,932	\$ 412,019	\$ 282,020	\$ 84,928	\$ 838,899
Net Operating Income	\$ 1,319,470	\$ 287,907	\$ (282,020)	\$ 15,775	\$ 1,341,132
<u>Non-Operating Income</u>					
Interest Income	\$ -	\$ -	\$ -	\$ -	\$ -
Other Income	\$ -	\$ -	\$ -	\$ -	\$ -
Total Non-Operating Income	\$ -	\$ -	\$ -	\$ -	\$ -
<u>Non-Operating Expenses</u>					
Depreciation and Amortization	\$ 75,997	\$ 53,068	\$ 13,881	\$ 10,579	\$ 153,525
Interest Expense	\$ 35,967	\$ -	\$ -	\$ 4,396	\$ 40,363
Total Non-Operating Expenses	\$ 111,964	\$ 53,068	\$ 13,881	\$ 14,975	\$ 193,888
Change in Net Assets	\$ 1,207,506	\$ 234,839	\$ (295,901)	\$ 800	\$ 1,147,244
Total Net Assets - Beginning					\$ 8,023,418
Prior Period Adjustments					\$ 58,999
Rounding					\$ -
Less Transfers To/From Other Funds					\$ (610,127)
Total Net Assets - Ending					<u>\$ 8,619,534</u>

PLEASE SEE NOTES TO ACCOMPANY FINANCIAL STATEMENTS

MUSKOGEE CITY-COUNTY PORT AUTHORITY
MUSKOGEE, OKLAHOMA
Statement of Cash Flows - Proprietary Funds
For Year Ended June 30, 2016

	Port Activity	Rail Activity	Grounds Maintenance Activity	Marina Activity
Cash Flows from Operating Activities				
Cash received from customers	\$ 1,379,402	\$ 699,926	\$ -	\$ 100,703
Cash payments to suppliers for goods and services	\$ (59,932)	\$ (289,583)	\$ (165,913)	\$ (84,928)
Cash payments to and for employees	\$ -	\$ (122,436)	\$ (116,107)	\$ -
Net cash provided (used) by operating activities	\$ 1,319,470	\$ 287,907	\$ (282,020)	\$ 15,775
Cash Flows From Non-Capital Financing Activities				
Transfers from other funds	\$ -	\$ -	\$ 295,926	\$ 76,979
Transfers to other funds	\$ (922,003)	\$ (61,059)	-	\$ -
Net cash provided (used) by non-capital financing activities	\$ (922,003)	\$ (61,059)	\$ 295,926	\$ 76,979
Cash Flows from Capital and Related Financing Activities				
Fixed Asset Purchases	\$ (20,880)	\$ (131,185)	\$ (14,019)	\$ -
Increase in Accounts Receivable	\$ (98,741)	\$ (77,981)	\$ -	\$ (13,332)
Decrease in Accounts Receivable	\$ -	\$ -	\$ -	\$ -
Increase in Reimbursable Accounts Receivable	\$ -	\$ -	\$ -	\$ -
Prior Period Adjustment	\$ 58,999	\$ -	\$ -	\$ -
Increase in Liabilities	\$ -	\$ -	\$ 113	\$ -
Decrease in Liabilities	\$ (372,581)	\$ (17,682)	\$ -	\$ (75,026)
Interest Expense	\$ (35,967)	\$ -	\$ -	\$ (4,396)
Net cash provided (used) by capital and related financing activities	\$ (469,170)	\$ (226,848)	\$ (13,906)	\$ (92,754)
Cash Flows from Investing Activities				
	\$ -	\$ -	\$ -	\$ -
Net increase (decrease) in cash and cash equivalents	\$ (71,703)	\$ -	\$ -	\$ -
Cash and cash equivalents at July 1, 2014	\$ 71,703	\$ -	\$ -	\$ 200
Cash and cash equivalents at June 30, 2015	\$ -	\$ -	\$ -	\$ 200

PLEASE SEE NOTES TO ACCOMPANY FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

MUSKOGEE CITY-COUNTY PORT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Muskogee City-County Port Authority (hereinafter known as the "Authority") is an agency of the state of Oklahoma, created by ordinance of the City of Muskogee and by resolution of the Board of County Commissioners for Muskogee County, in accordance with the provisions of Title 82, Chapter 15, Sections 1101-1137 of the Oklahoma Statutes, as amended, for the purpose of exercising certain enumerated powers deemed to be essential governmental functions of the state of Oklahoma. As a public trust, the Authority is exempt from Federal and state income taxes.

The Authority provides for the operation, improvement and expansion of public and private facilities at the Port of Muskogee. Publicly owned facilities are financed from the Authority's operating revenues, grants and loans. Pursuant to a lease agreement between the Authority and Johnston's Port 33, Inc., Johnston's, dba Oakley's Terminal-Muskogee performs truck, rail and barge loading and unloading operations at the publicly owned terminal at the Port of Muskogee. The Authority supports the development of privately owned facilities through long term leases and by the issuance of debt, in the form of industrial revenue bonds and notes, to industrial manufacturing and other port related enterprises. In some cases, title to facilities acquired remains with the Authority until the related debt is retired and then passes to the lessee at a nominal cost. The constructed facilities are pledged as security for the related obligations and are leased to users for periods of up to twenty-five years.

The Authority is a jointly governed entity administered by a Board of Trustees ("Board") that acts as the authoritative and legislative body of the entity. The Board is comprised of thirteen voting board members. Of the thirteen, seven are appointed by Muskogee County (County Commissioners). These appointees serve four year terms and are eligible to be re-appointed. The remaining six board members are appointed by the City of Muskogee (Muskogee City Council). These appointees serve four year terms and are eligible to be re-appointed. No board members receive compensation for serving on the Board.

The Board of Trustees annually elects the Chair(person), Vice-Chair(person), and Secretary-Treasurer from existing board members. These terms of office are for one year beginning each July 1st and the positions are eligible for re-election. The Chair responsibilities are to preside at all meetings of the Board; be the chief officer of the Authority; perform all duties commonly incident to the position of presiding officer of a board, commission or business organization and exercise supervision over the business of the Authority, its officers and employees.

The Board of Trustees appoints a Director of the Authority. The position of the Director is a non-voting position on the Board, and the Director receives annual compensation for his duties. The compensation package of the Director is passed by resolution of the Board. The Director's main responsibility is acting as chief executive officer of the Authority as prescribed by the Board of Trustees.

The Authority has a contract with the City of Muskogee to oversee the management and direction of economic development for the city. Under the contract the Authority is reimbursed for its expenses related to this activity. For the fiscal year ending June 30, 2016 a budget of \$550,164 was established and approved by the City Council.

The accompanying general purpose financial statements comply with the provisions of GASB Statement No. 14, “*The Financial Reporting Entity*”, in that the financial statements include all organizations, activities, and functions that comprise the Authority. Component units are legally separate entities for which the Authority (the primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization’s governing body and either (1) the Authority’s ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the Authority. Using these criteria, the Authority has no component units.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*. Major individual governmental funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available as they are collected within thirty-one days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Grants and entitlements and interest associated with the current fiscal period are all considered being susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when the Authority receives cash.

FUND ACCOUNTING

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Authority uses governmental funds and proprietary funds.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental funds assets and liabilities is reported as fund balance.

The Authority reports the following major governmental funds;

General Fund – The general fund is used to account for all financial resources of the Authority except those required to be accounted for in another fund. The general fund balance is available to the Authority for any purpose provided it is expended or transferred according to the general laws of Oklahoma.

Debt Service Fund – The debt service fund accounts for the servicing of general long-term debt and revenues generated by the Authority that are required to be used in payment of long-term debt.

Construction In Progress – Construction in progress fund accounts for construction projects not completed. These include Three Forks Harbor, BNSF Railspur, Rail Access Improvements and Large Industrial Tract.

FAIR VALUE MEASUREMENTS

The Authority adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (“SFAS 157”) with respect to financial assets and liabilities. This standard is now referred to as FASB ASC 820.10. This codified standard defines fair value measurement based on an exit price. An exit price is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date as opposed to an entry price which is the transaction price that would be paid to acquire an asset or received to assume a liability. In most instances these prices are different however they can be equal. The codified standard also establishes valuation techniques which include the following:

1. Market approach – prices derived from market transactions for identical or comparable assets or liabilities,
2. Income approach – conversion of future amounts such as cash flows or earnings to a single present amount based on current market expectations about those future amounts and/or,
3. Cost approach – the amount that would currently be required to replace the service capacity of an asset.

Finally, the codified standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels:

- | | |
|----------|--|
| Level 1: | Quoted prices in active markets for identical assets or liabilities. These include, but are not limited to, cash and cash equivalents, common and preferred stocks, and mutual funds; |
| Level 2: | Inputs that are derived principally from or corroborated by observable market data. These include but are not limited to government agency issues, corporate bonds and municipal securities; |
| Level 3: | Inputs that are unobservable and significant to the overall fair value measurement. These include but are not limited to non-public common stocks and personally held notes receivable. |

Financial assets and liabilities are carried at fair value on a recurring basis and therefore currently subject to the codified standard which include investments and beneficial interest in assets, if any, held by others. Fair value is stated at Level 1.

REVENUES – EXCHANGE AND NON-EXCHANGE TRANSACTIONS

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Authority, available means expected to be received within thirty-one days of fiscal year-end. Under the modified accrual basis, only interest is considered to be both measurable and available at fiscal year-end. This interest is not considered to be material to the financial statements taken as a whole and has not been recorded.

Non-exchange transactions, in which the Authority receives value without directly giving value in return, include grants and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year the use is first permitted, matching requirements, in which the Authority must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

EXPENSES/EXPENDITURES

On an accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

CASH AND CASH EQUIVALENTS

Cash received by the Authority is pooled for investment purposes. Equity interest in the pool is presented as “Cash and Cash Equivalents” on the statement of net assets and governmental fund balance sheet by activity or fund. The Authority utilizes a financial institution to service bonded debt as principal and interest payments come due. The balance in this account is presented on the financial statements as “Restricted Assets: Cash”

During fiscal year 2015-2016, investments were limited to Certificates of Deposit. Interest revenue is credited to the general fund. For presentation in the financial statements, investments with an original maturity of three months or less at the time they are purchased by the Authority are considered to be cash equivalents. Investments with an original maturity of more than three months that are purchased from the pool are reported as investments.

RESTRICTED ASSETS

Restricted assets are cash and cash equivalents whose use is limited by legal requirements. Restricted cash represents amounts required by debt covenant to be segregated for final year debt payment and accrued interest on bonds. Restricted cash and cash equivalents represents special assessment proceeds restricted for the 1999 and 2005 County Bond Fund.

CAPITAL ASSETS

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements as needed. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not.

COMPENSATED ABSENCES

The Authority does not accrue compensatory time on exempt employees. Except for one week of vacation time, which must be taken during the year earned or lost, the Authority purchases any unused sick leave and vacation time on an annual basis.

RESERVATIONS OF FUND BALANCE

The Authority records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore, are not available for appropriations or expenditure in the governmental fund balance sheet. Unreserved fund balance indicates that portion of fund equity, which is available for appropriations, in future periods. Fund equity reserves have been established for encumbrances in the Port and Rail fund.

NET ASSETS

Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets (construction in progress). Net assets are reported as restricted when there are legal limitations imposed on their use by Authority legislation or external restrictions by creditors, grantor, laws or regulations of other governments.

USE OF ESTIMATES

The Authority recognizes the use of estimates in determining certain financial statement disclosures such as useful lives of assets, bad debts related to accounts receivable and accounts payable. The Authority has adopted a financial reporting policy of conservatism where it relates to the use of estimates. Actual results may differ from those estimates.

DEFERRED REVENUES

The Authority reports unearned deferred revenue in the governmental fund balance sheet. Deferred and unearned revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In general, monies received within thirty-one days after year-end are considered to have been for prior year services.

NOTE 2 - DEPOSITS

Cash resources of several individual funds are combined to form a pool of cash and investments. Statutes require the classification of funds held by the Authority into three categories.

Category 1 consists of active funds – those funds required to be kept in cash or near cash status for immediate use by the Authority. Such funds must be maintained either as cash in the Authority treasury or in depository accounts payable or withdraw-able on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of inactive funds – those funds not required for use within the current two year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of interim funds – those funds not needed for immediate use, but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds or other obligations of the State of Oklahoma;
- No-loan money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time, and,
- Under limited circumstances, corporate debt obligations rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited, the issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited, an investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Authority, and must be purchased with the expectation it will be held to maturity.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "*Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements.*"

UNRESTRICTED CASH

The Port maintains an operating checking account and project accounts at Firststar Bank. The project accounts consist of Waterway Development and Industrial Development. With the exception of petty cash, the Federal Deposit Insurance Corporation insures all accounts. Account balances over Federal Deposit Insurance Corporation limits are uncollateralized through an agreement with the Authority. The fair value of the balances equals their reported amounts. \$250,000 of the deposits were classified as Category 1, collateralized, as defined by GASB Statement 3. The balance of the deposits and petty cash were classified as Category 2, as defined by GASB Statement 3. At year-end the respective balances were as follows:

OPERATIONS ACCOUNT	\$1,326,947
WATERWAY DEVELOPMENT	198
PETTY CASH	<u>350</u>
TOTAL	\$1,327,495

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable reflect the current (60 days or less) amounts owed for tonnage, lease rents, port fee, rail operations and other reimbursable project expenditures for the period ended June 30, 2016. There is no provision for doubtful accounts or bad debts as there has been no historical evidence of significant problems arising from accounts receivable collection. Account balances over 90 days are approximately \$68,567.

NOTE 4 - RESTRICTED ASSETS

The organization recognizes the restriction of funds for debt retirement, prepaid leases, specific repairs and capital improvements. Please refer to those notes under Restricted Assets for specific details regarding long-term debt and sinking fund retirement requirement. The following accounts are combined under the heading Restricted Assets, Cash:

<u>OWNER</u>	<u>TYPE</u>	<u>INSTITUTION</u>	<u>RATE</u>	<u>AMOUNT</u>
PORT	PREPAID LEASE	PORT	NONE	\$19,251

NOTE 5 - FIXED ASSETS

Property, plant and equipment are recorded at historical cost and depreciation is recognized over the estimated useful life of the assets utilizing the conservative straight-line depreciation method. A summary of property, plant and equipment useful lives is as follows:

<u>ASSET</u>	<u>AVERAGE LIFE</u>
PORT FACILITIES	40 YEARS
CONFERENCE ROOM & OFFICE	20 YEARS
RAIL OPERATIONS EQUIPMENT	10 YEARS
THREE FORKS HARBOR	50 YEARS

NOTE 6 - OTHER ASSETS

On May 14, 1985, the Authority entered into an agreement with the Cherokee Nation for a fifty-year river bed lease in the amount of \$50,000 in retrospect to an injunction granted in 1983, with the lease payment to be amortized over the life of the lease. Amortization for the year ended June 30, 2016, was \$1,000.

NOTE 7 - CURRENT LIABILITIES

Current liabilities include liabilities due within the current accounting period. These liabilities include trade accounts payable, accrued payroll taxes and short term portion of notes payable.

NOTE 8 - LONG TERM LIABILITIES

GOVERNMENT

During a prior fiscal year, the Authority authorized the issuance of a \$1.5 million note to facilitate the construction and equipping of facilities located at the Port of Muskogee. Subsequently the Oklahoma Development Finance Authority purchased the note. The note carries an adjustable interest rate of prime less 1%. This rate is changed annually on November 1. During the current fiscal year the rate began at 2.25% and was not adjusted as of June 30, 2016. The loan is amortized over twenty five years with monthly payments that are also adjusted annually. The note is secured by revenues generated by the Authority. Amortization of the note began in November 2003.

In March, 2008, the Authority borrowed \$750,000 from the Oklahoma Industrial Finance Authority. The purpose of the loan was to escrow the possible loss claim from the original contractor on the Three Forks Harbor project. The initial interest rate of this loan was 4.25% and monthly installment payments began May 1, 2008. The note carries an adjustable interest rate of prime less 1% but not less than 2.5%. This interest rate is adjusted annually on May 1. The interest rate effective June 1, 2016 was 2.5%.

BUSINESS

During a prior fiscal year the Authority entered into a grant/loan program with the Department of Housing and Urban Development-EDIF program to aid in the construction of the new railspur at Dal Tile Company. In accordance with the terms of the program, the Authority borrowed \$311,638.50 for the construction project. The loan is non-interest bearing. Monthly re-payments began in February 2004, and will continue for 240 months until the loan is retired. The balance of economic payback number 10312 at June 30, 2016 is \$119,461.98.

During the fiscal year ended June 30, 2006, the Authority borrowed \$196,783.02 to facilitate road improvements to Beach Equipment. These funds were secured from the Oklahoma Department of Commerce Community Development Grant Fund. This is a non-interest bearing note with monthly payments beginning in July, 2006 and continuing for 240 months. The balance of economic payback number 11616 at June 30, 2016 is \$98,391.42.

During the fiscal year ended June 30, 2008, the Authority entered into an agreement with the Muskogee Industrial Trust wherein the Authority was granted a credit line loan of up to \$500,000 for the purpose of purchasing real estate within the Port site. Advances on the note have totaled \$424,816.76 to date. This note accrues interest at the rate of 4% and both interest and principle are due and payable April 17, 2017.

In January, 2013, the Authority borrowed \$370,000 from Mabrey Bank (previously Citizens Security Bank) to purchase Arrowhead Marina. The interest rate of this loan is 3.25%. Monthly installment payments began February 1, 2013 and continuing for 54 months at which time the entire remaining principle and unpaid interest will be due and payable in full. The principal balance at June 30, 2016 is \$92,888.52.

Debt Service Requirements to Maturity

	<u>Government</u>		<u>Business</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
Fiscal Year End 6/30/2017	\$ 90,656.13	\$ 33,116.75	\$664,360.82	\$15,309.62
Fiscal Year End 6/30/2018	\$ 92,786.08	\$ 30,986.82	\$ 44,723.61	\$ 52.66
Fiscal Year End 6/30/2019	\$ 94,966.21	\$ 28,806.71	\$ 31,375.68	\$ -
Fiscal Year End 6/30/2020	\$ 97,197.68	\$ 26,575.22	\$ 31,375.68	\$ -
Fiscal Year End 6/30/2021	\$ 99,481.68	\$ 24,291.32	\$ 31,375.68	\$ -
Fiscal Year End 6/30/2022-26	\$533,597.07	\$ 85,267.53	\$120,521.40	\$ -
Fiscal Year End 6/30/2027-31	\$371,140.04	\$ 26,078.80	\$ 1,989.49	\$ -
Fiscal Year End 6/30/2032-33	<u>\$ 72,787.09</u>	<u>\$ 1,748.47</u>	<u>\$ -</u>	<u>\$ -</u>
Total	\$1,452,611.98	\$256,871.62	\$ 925,722.36	\$15,362.28

NOTE 9 - FUND BALANCE

The trustees of the organization have established a reserve for dock face repairs in the amount of \$10,000.

NOTE 10 - LEASE INCOME-PORT FEES-MISCELLANEOUS INCOME

Lease income is derived from lease contracts of Port facilities. Port fees consist of tonnage assessments and contract switching fees from the Union Pacific Railroad. Other operational income consists of recurring rentals from pasture and residence.

NOTE 11 - OTHER ITEMS

- During the latter months of calendar year 1993, the Port authorized the purchase of life insurance policies on the Port director with premiums to be paid by the Port. This is not considered a qualified pension plan.
- No provision for accrued vacation or sick leave have been recorded in these financial statements as the amounts are not material to the financial statements taken as a whole.
- During the fiscal year ended June 30, 1998, the Port Authority entered into aggressive planning for Three Forks Harbor along the Arkansas River. The property site is located on federally owned property and leased to the Authority by the U. S. Army Corps of Engineers. Construction improvements are permitted by the U. S. Army Corps of Engineers. The project is progressing in phases. Total first phase project costs were initially estimated to be \$5,386,015. Funding for the project has been secured through local, state and federal grants. Construction began on Phase I on March 11, 2003. Phase I was completed April 19, 2006. Phase II construction commenced during the fiscal year ending June 30, 2006, and were completed in the first quarter of 2009.
- During a prior fiscal year, the City of Muskogee committed to financially aid in the construction of the Dal Tile Railspur. The commitment consisted of a one-time payment to the Authority in the amount of \$214,286.68, which represents the discounted value of the Department of Housing and Urban Development-EDIF loan over 240 periods at 4% interest. The City did not specify restrictions or conditions related to the funding and it was recorded as Aid to Construction-Dal Tile Railspur.

NOTE 12 - RISK POOL

The Port Authority utilizes workman's compensation insurance through the state of Oklahoma workman's compensation fund. This is a public entity risk pool. Participants share in the cost of maintaining the fund and claims against the fund. As such, the Port Authority could be at risk should the fund incur adverse conditions. Presently there is not reason to believe the risk pool will create a contingency beyond premium costs to the Port Authority and therefore no contingency has been recorded.

NOTE 13 – POSTEMPLOYMENT BENEFITS PLANS

The Authority maintains a qualified profit sharing plan for eligible employees. Annually the board of trustees determines the percentage of each key employee's wages that the Authority will contribute to the plan. During fiscal year ended June 30, 2016, the board authorized a contribution of \$101,359.48 (nine percent of all eligible employee's wages). During fiscal year ended June 30, 2015, the contribution was \$78,480.64. During fiscal year ended June 30, 2014, the contribution was \$87,310.88

NOTE 14 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, damage to, and theft or destruction of assets; errors and omissions; injuries to employees and natural disaster. The Authority carries insurance for liability, property, and crime damage. Coverages provided are as follows:

- Business Auto Coverage Liability
- Umbrella Liability
- Commercial General Liability
- Public Officials and Employment Practices Liability
- Commercial Property
- Railroad Protective Liability
- Marine General Liability
- Marine Operator's Legal Liability
- Docks and Piers Property Protection
- Crime Coverage
- Vacant Property
- Storage Tank Third Party Liability

The Authority has had no significant reduction in insurance coverage from prior years. The Authority has had no settlements that exceed insurance coverage for the past five years.

The Authority provides group health insurance for its employees. Each electing employee must pay ten percent. Employees must also pay 100% of any premium for dependents.

NOTE 15 – SUBSEQUENT EVENTS

We have evaluated all events subsequent to the balance sheet date of June 30, 2016, through the financial statement issuance date of December 14, 2016, and determined there are subsequent events requiring additional disclosure.

During the years ended June 30, 2014, 2015 and 2016, the City of Muskogee Foundation (CoMF) awarded grant funds to the Authority in the amount of \$2 million, \$3 million and \$3 million, respectively, to fund the Authority's Strategic Investment Program (SIP), a local economic development incentive program.

The SIP program has been funded on a calendar year basis; therefore, it is possible that funding commitments by the Authority could be made in one or more fiscal years. The purpose of the SIP is to provide incentives for the expansion of existing industry as well as incentives for the recruitment of new industry. The level of incentive is based on the amount of capital investment to be made and the number and quality of jobs created by the industry. The incentives are performance-based, meaning incentives are paid after investment has been made and after jobs have been created. The Authority acts as administrator of the grant funds and contracts with qualifying industry through SIP performance agreements.

As evidenced by executed performance agreements during the 2014 calendar year, the Authority committed grant funds in the amount of \$688,790. The balance of the SIP grant award for 2014, in the amount of \$1,311,210, was written off by the CoMF.

As evidenced by executed performance agreements during the 2015 calendar year, the Authority committed 2015 grant funds in the amount of \$500,000. The balance of the SIP grant award for 2015, in the amount of \$2,500,000, was written off by the CoMF.

In March of 2016, previously executed performance agreements, in the amount of \$125,190, were cancelled by the grantees and written off by the CoMF. As of the date of this report, the Authority has not executed any performance agreements for 2016. The balance of grant funds not committed by December 31, 2016, if any, will be written off by CoMF.

On November 21 and 22, 2016, the Muskogee City-County Port Authority terminated the employment of two employees. On December 8, 2016, the two employees filed charges with the U.S. Equal Employment Opportunity Commission against the Muskogee City-County Port Authority for employment discrimination. Perfected charges have not been received from the EEOC and no action is required at this time.

OTHER REPORTS

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

To the Board of Trustees of
Muskogee City-County Port Authority

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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Muskogee City-County Port Authority, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Muskogee City-County Port Authority's basic financial statements, and have issued our report thereon dated December 14, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Muskogee City-County Port 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Muskogee City-County Port Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Muskogee City-County Port Authority's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Kathy Hewitt CPA, LLP". The signature is written in a cursive, flowing style.

KATHY HEWITT, CPA, LLP
Muskogee, Oklahoma
December 14, 2016

REQUIRED SUPPLEMENTARY INFORMATION

MUSKOGEE CITY-COUNTY PORT AUTHORITY
MUSKOGEE, OKLAHOMA
STATEMENT OF REVENUES AND EXPENSES TO BUDGET
Year End June 30, 2016

	June 30, 2016	ORIGINAL BUDGET	FINAL BUDGET	VARIANCE
<u>Revenues</u>				
Lease Income	\$ 1,206,780	\$ 1,093,857	\$ 1,093,857	\$ 112,923
Port Fees (Rail and Barge)	\$ 902,525	\$ 967,350	\$ 967,350	\$ (64,825)
Industrial Development	\$ 563,264	\$ 550,164	\$ 550,164	\$ 13,100
Other Operational Income (Rent, etc)	\$ 70,778	\$ 24,050	\$ 24,050	\$ 46,728
Total Revenues	\$ 2,743,347	\$ 2,635,421	\$ 2,635,421	\$ 107,926
<u>Operating Expenses</u>				
Abstracting, Engineering & Advisory services	\$ -	\$ 2,500	\$ 2,500	\$ 2,500
Accounting, Auditing & Legal	\$ 21,450	\$ 18,750	\$ 18,750	\$ (2,700)
Marketing & Business Development	\$ 125,336	\$ 105,000	\$ 105,000	\$ (20,336)
General Merchandise	\$ 12,416	\$ 15,000	\$ 15,000	\$ 2,584
Employee Training	\$ 7,038	\$ 10,000	\$ 10,000	\$ 2,962
Dues & Subscriptions	\$ 30,966	\$ 25,000	\$ 25,000	\$ (5,966)
Insurance-Employee & Liability	\$ 258,533	\$ 266,778	\$ 266,778	\$ 8,245
Miscellaneous Expense	\$ 491	\$ 500	\$ 500	\$ 9
Office Expense & Telephone	\$ 90,710	\$ 80,000	\$ 80,000	\$ (10,710)
Repairs & Maintenance	\$ 413,490	\$ 400,000	\$ 400,000	\$ (13,490)
Salaries & Payroll Tax Expense	\$ 903,234	\$ 835,030	\$ 835,030	\$ (68,204)
Staffing & Recruitment	\$ -	\$ -	\$ -	\$ -
Travel	\$ 42,063	\$ 65,000	\$ 65,000	\$ 22,937
Employee Pension Contribution	\$ 101,359	\$ 62,741	\$ 62,741	\$ (38,618)
Total Operating Expenses	\$ 2,007,086	\$ 1,886,299	\$ 1,886,299	\$ (120,787)
Net Operating Income Before Non-Operating Items	\$ 736,261	\$ 749,122	\$ 749,122	\$ (12,861)
<u>Non-Operating Income</u>				
Interest Income	\$ 5,444	\$ 5,000	\$ 5,000	\$ 444
Total Non-Operating Income	\$ 5,444	\$ 5,000	\$ 5,000	\$ 444
<u>Non-Operating Expenses</u>				
Depreciation & Amortization	\$ 246,806	\$ 246,806	\$ 246,806	\$ -
Interest on Bonds and Notes Payable	\$ 75,560	\$ 54,881	\$ 54,881	\$ (20,679)
Total Non-Operating Expenses	\$ 322,366	\$ 301,687	\$ 301,687	\$ (20,679)
Net Income After Non-Operating Items	\$ 419,339	\$ 452,435	\$ 452,435	\$ (33,096)

PLEASE SEE NOTES TO ACCOMPANY FINANCIAL STATEMENTS