

**EAST CENTRAL OKLAHOMA
GAS AUTHORITY**

AUDITED FINANCIAL STATEMENTS

APRIL 30, 2020 AND 2019



EAST CENTRAL OKLAHOMA GAS AUTHORITY

APRIL 30, 2020 AND 2019

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Independent Auditors' Report

To the Board of Directors
East Central Oklahoma Gas Authority
Gore, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the East Central Oklahoma Gas Authority, (the Authority), as of and for the years ended April 30, 2020 and 2019, and the related notes to the 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly we express no such opinion. An audit also includes evaluating the appropriateness

of accounting policies used and the reasonableness of significant account 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the East Central Oklahoma Gas Authority as of April 30, 2020 and 2019, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

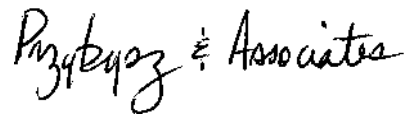
Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 statement in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the supplemental information for cost-sharing employer pension plans on pages 21 and 22 be presented to supplement the financial statements. Such information, although not a part of the financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental 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 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 July 13, 2020, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
July 13, 2020

FINANCIAL STATEMENTS

EAST CENTRAL OKLAHOMA GAS AUTHORITY

STATEMENTS OF NET POSITION

AS OF APRIL 30,	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	\$ 399,696	\$ 343,060
Restricted checking account	17,253	17,008
Certificate of deposit	108,724	106,854
Accounts receivable, net of allowance for doubtful accounts	25,816	23,438
Prepaid insurance	2,348	1,697
Total Current Assets	553,837	492,057
Capital Assets		
Land	5,000	5,000
Buildings	78,739	78,739
Furniture and equipment	40,184	34,934
Utility property	906,366	906,366
Transportation equipment	20,220	20,220
Total	1,050,509	1,045,259
Less: accumulated depreciation	709,378	687,813
Net Capital Assets	341,131	357,446
Noncurrent Assets		
Deposits	75	75
Restricted net pension asset	-	19,417
Total Noncurrent Assets	75	19,492
Total Assets	895,043	868,995
Deferred Outflows of Resources		
Deferred amounts related to pensions	15,330	11,101
Total Deferred Outflows of Resources	15,330	11,101
Total Assets and Deferred Outflows of Resources	\$ 910,373	\$ 880,096

See accompanying notes.

EAST CENTRAL OKLAHOMA GAS AUTHORITY

STATEMENTS OF NET POSITION

AS OF APRIL 30,	2020	2019
Liabilities		
Current Liabilities		
Accounts payable	\$ 10,736	\$ 15,842
Payroll taxes payable	2,887	2,234
Sales tax payable	1,493	2,388
Accrued compensated absences	2,693	-
Utility deposits	17,000	16,800
Current maturity of long-term debt	19,955	19,955
Total Current Liabilities	54,764	57,219
Noncurrent Liabilities		
Long-term debt	13,303	33,258
Net pension liability	1,487	-
Total Noncurrent Liabilities	14,790	33,258
Total Liabilities	69,554	90,477
Deferred Inflows of Resources		
Deferred amounts related to pensions	3,921	5,666
Total Deferred Inflows of Resources	3,921	5,666
Net Position		
Net investment in capital assets	307,873	304,233
Restricted	-	19,417
Unrestricted	529,025	460,303
Total Net Position	836,898	783,953
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 910,373	\$ 880,096

See accompanying notes.

EAST CENTRAL OKLAHOMA GAS AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED APRIL 30,	2020	2019
Operating Revenue		
Gas sales, net of bad debts	\$ 362,910	\$ 438,376
Other Income	397	1,016
Total Operating Revenue	363,307	439,392
Operating Expenses		
Advertising	793	1,283
Auto expense	3,457	6,245
Depreciation	21,565	19,948
Donations	100	1,672
Employee benefits	21,576	8,749
Fees and dues	4,103	4,425
Gas purchases	62,012	86,913
Insurance	7,918	7,566
Miscellaneous expense	534	531
Office expense	10,115	7,245
Outside services	3,799	2,810
Payroll taxes	7,971	6,977
Phone and utilities	15,831	13,548
Professionals fees	10,654	10,287
Repairs & maintenance	32,639	14,065
Town compensation	-	38,000
Transportation expense	8,039	8,710
Travel	2,674	2,420
Uniforms	1,386	-
Wages	97,111	84,781
Total Operating Expenses	312,277	326,175
Net Operating Income	51,030	113,217
Nonoperating Revenue		
Gain on disposition of asset	-	7,794
Interest income	1,915	1,149
Total Nonoperating Revenue	1,915	8,943
Change In Net Position	52,945	122,160
Net Position, Beginning of Year	783,953	661,793
Net Position, End of Year	\$ 836,898	\$ 783,953

See accompanying notes.

EAST CENTRAL OKLAHOMA GAS AUTHORITY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED APRIL 30,	2020	2019
Cash Flows from Operations		
Cash receipts from customers and other sources	\$ 360,234	\$ 450,866
Cash payments to suppliers for goods and services	(183,775)	(221,064)
Cash payments to employees for services	(94,418)	(84,781)
Net Cash Provided by Operating Activities	82,041	145,021
Cash Flows from Capital and Related Financing Activities		
Fixed asset additions	(5,250)	(49,772)
Principal paid on debt	(19,955)	(19,955)
Net Cash Used By Capital and Related Financing Activities	(25,205)	(69,727)
Cash Flows from Investing Activities		
Interest income	1,915	1,149
Proceeds from disposition of assets	-	7,794
Reinvestment of certificate of deposit earnings	(1,870)	(1,097)
Net Cash Provided By Investing Activities	45	7,846
Net Increase In Cash, Cash Equivalents and Restricted Cash	56,881	83,140
Cash, Cash Equivalents, and Restricted Cash At Beginning of Year	360,068	276,928
Cash, Cash Equivalents, and Restricted Cash At End of Year	\$ 416,949	\$ 360,068
Reconciliation to the Statement of Net Position		
Cash and cash equivalents	\$ 399,696	\$ 343,060
Restricted checking account	17,253	17,008
Total Cash, Cash Equivalents and Restricted Cash	\$ 416,949	\$ 360,068
Reconciliation Of Operating Income To Net Cash Provided By Operating Activities		
Operating income	\$ 51,030	\$ 113,217
Adjustments to reconcile net income to net cash from Operating activities:		
Depreciation	21,565	19,948
(Increase) decrease in:		
Accounts receivable	(2,378)	7,838
Prepaid insurance	(651)	2,417
Restricted net pension asset	19,417	(3,855)
Deferred outflows relating to pension	(4,229)	1,629
Increase (decrease) in:		
Accounts payable	(5,106)	2,566
Payroll taxes payable	653	(280)
Accrued compensated absences	2,693	
Sales tax payable	(895)	836
Customer deposits	200	2,800
Net pension liability	1,487	-
Deferred inflows relating to pension	(1,745)	(2,095)
Net Cash Provided by Operating Activities	\$ 82,041	\$ 145,021

See accompanying notes.

EAST CENTRAL OKLAHOMA GAS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2020 AND 2019

Nature of Business

East Central Oklahoma Gas Authority (the Authority) is a public trust created May 25, 1963 under the provision of Title 60, Oklahoma statutes, Section 176 to 180. The beneficiaries of the trust are the Town of Webbers Falls and the Town of Gore. The primary purpose of the trust is to make available natural gas to the users in the Town of Webbers Falls and Gore, Oklahoma.

The Authority is governed by a five member board of trustees. Four of the five trustees are residents of either the Town of Gore or the Town of Webbers Falls. The fifth trustee shall not be a resident of either town, but rather a resident of the general area being serviced by the Authority.

1. Summary of Significant Accounting Policies

a. Basis of Presentation

The Authority's financial statements are prepared in conformity with principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities.

The Authority accounts for its operations as an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

b. Financial Reporting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Authority. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

c. Fair Value of Financial Instruments

The Authority's financial instruments include cash and cash equivalents, certificates of deposit, accounts receivable and accounts payable. The Authority's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximate fair value because of the short maturity of these instruments.

EAST CENTRAL OKLAHOMA GAS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2020 AND 2019

1. Summary of Significant Accounting Policies (continued)

d. Income Taxes

The Authority is exempt from income taxes as a governmental agency.

e. Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

f. Accounts Receivable

Accounts receivable consists of gas fees and surcharges billed to residential and commercial/ industrial customers based on consumption. Management establishes an allowance for uncollectible accounts receivable based on historical collection experience and management's evaluation of the collectability of outstanding accounts receivable. The allowance for doubtful accounts was \$4,188 and \$3,097 at April 30, 2020 and 2019, respectively.

g. Prepaid Expenses

Payments made to vendors for services that will benefit future periods are recorded as prepaid expenses using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expense in the year which services are consumed.

h. Capital Outlays and Depreciation

Capital outlays of the Authority are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, repairs and renewals of relatively minor items are charged to expense as incurred. The estimated useful lives of the assets are as follows:

	<u>Life</u>
Buildings	10-40 years
Furniture and equipment	5-10 years
Utility property	5-50 years
Transportation equipment	5 years

It is the Authority's policy to capitalize assets purchased for \$500 or more and to expense assets purchased for less than \$500.

EAST CENTRAL OKLAHOMA GAS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2020 AND 2019

1. Summary of Significant Accounting Policies (continued)

i. Utility Deposit Policy

Customers are required to make a meter deposit before being connected to the gas authority. These deposits are refundable to customers when the Authority no longer services the customer. The Authority uses the customer deposits to pay the customers' final bill and refunds directly to the customer the balance remaining, if any, of the deposit.

j. Compensated Absences

Employees earn vacation pay in varying amounts based upon length of service with the Authority. Employees cannot carryforward unused vacation days from year to year without written approval from the Authority. The Authority had \$2,693 accrued for compensated absences at April 30, 2020. There was no accrual for compensated absences at April 30, 2019 as the amount was not material to the financial statements.

k. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position has 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 that time. The Authority recognizes deferred outflows of resources related to pensions.

In addition to liabilities, the statement of net position has a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows 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 recognizes deferred inflows of resources related to pensions.

l. Net Position

Net position of the Authority are classified in three components - net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

EAST CENTRAL OKLAHOMA GAS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2020 AND 2019

1. Summary of Significant Accounting Policies (continued)

I. Net Position (continued)

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of net position that does not meet the definition of "restricted" or "net invested in capital assets".

The Authority does not have a policy addressing whether it considers restricted or unrestricted to have been spent when expenditures are incurred for purposes when both are available. Authority personnel decide which resources to use at the time the expenditures are incurred. For classification of net position amounts, restricted amounts would be reduced first, followed by unrestricted.

m. Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Authority. Operating revenues consist primarily of gas sales. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities.

n. 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.

2. Cash Deposits

Exposure to custodial credit related to deposits exists when the Authority holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Authority's name; or collateralized without a written or approved collateral agreement.

EAST CENTRAL OKLAHOMA GAS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2020 AND 2019

2. Cash Deposits (continued)

The Authority's policy as it relates to custodial credit risk is to comply with state law and secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 100% of the uninsured deposits and accrued interest thereon. Acceptable collateral is defined in state statutes and includes U.S. Treasury securities and direct obligations of municipalities, counties, and school districts in the state of Oklahoma, surety bonds and letters of credit.

The Authority maintains its operating bank accounts in one local financial institution. All time and savings deposits held are insured for up to \$250,000. Separately, demand deposits are added together and insured for up to \$250,000. At April 30, 2020 and 2019, the Authority had no deposits that were uninsured. The bank balances and carrying amount of the Authority's deposits held were as follows:

Description	At April 30, 2020		At April 30, 2019	
	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount
Insured	\$ 358,724	\$ 358,724	\$ 357,069	\$ 357,069
Pledged with letter of credit	168,482	166,949	110,121	109,853
Total	\$ 527,206	\$ 525,673	\$ 467,190	\$ 466,922

Deposits as reported in the following statement of net position captions:

As Of April 30,	2020	2019
Cash and cash equivalents	\$ 399,696	\$ 343,060
Restricted checking account	17,253	17,008
Certificate of deposit	108,724	106,854
Total	\$ 525,673	\$ 466,922

The Authority does not believe that there is any significant risk associated with the concentrations of credit nor has the Authority experienced any losses in such accounts.

3. Restricted Funds

Certain resources of the Authority are classified as restricted assets on the statement of net position. These funds are customer utility deposits and have a balance of \$17,000 and \$16,800 at April 30, 2020 and 2019, respectively.

EAST CENTRAL OKLAHOMA GAS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2020 AND 2019

4. Capital Assets

Activity of capital assets consists of the following:

	May 1, 2019	Additions	Retirements	April 30, 2020
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Buildings	78,739	-	-	78,739
Furniture & Equipment	34,934	5,250	-	40,184
Utility property	906,366	-	-	906,366
Transportation equipment	20,220	-	-	20,220
Total Capital Assets	1,045,259	5,250	-	1,050,509
Less: accumulated depreciation	687,813	21,565	-	709,378
Net Capital Assets	\$ 357,446	\$ (16,315)	\$ -	\$ 341,131

	May 1, 2018	Additions	Retirements	April 30, 2019
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Buildings	50,586	28,153	-	78,739
Furniture & Equipment	33,535	1,399	-	34,934
Utility property	906,366	-	-	906,366
Transportation equipment	11,000	20,220	11,000	20,220
Total Capital Assets	1,006,487	49,772	11,000	1,045,259
Less: accumulated depreciation	678,865	19,948	11,000	687,813
Net Capital Assets	\$ 327,622	\$ 29,824	\$ -	\$ 357,446

5. Long-Term Debt

Long-term debt consists of the following:

As Of April 30,	2020	2019
Payable to the State of Oklahoma. Payments are made monthly in the amount of \$1,662.88 with 0% interest. The loan is unsecured and scheduled to mature December 2021.	\$ 33,258	\$ 53,213
Total	33,258	53,213
Less current maturities	19,955	19,955
Long-Term Debt	\$ 13,303	\$ 33,258

EAST CENTRAL OKLAHOMA GAS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2020 AND 2019

5. Long-Term Debt (continued)

Debt is scheduled to mature as follows:

April 30,	Principal	Interest	Total
2021	\$ 19,955	\$ -	\$ 19,955
2022	13,303	-	13,303
Total	\$ 33,258	\$ -	\$ 33,258

Activity of the long-term debt consists of the following:

As Of	May 1, 2019	Additions	Retirements	April 30, 2020	Due Within One Year
State of Oklahoma	\$ 53,213	\$ -	\$ 19,955	\$ 33,258	\$ 19,955
Net pension liability	-	1,487	-	1,487	-
Total	\$ 53,213	\$ -	\$ 19,955	\$ 33,258	\$ 19,955

As Of	May 1, 2018	Additions	Retirements	April 30, 2019	Due Within One Year
State of Oklahoma	\$ 73,168	\$ -	\$ 19,955	\$ 53,213	\$ 19,955
Total	\$ 73,168	\$ -	\$ 19,955	\$ 53,213	\$ 19,955

The net pension was an asset of \$19,417 at April 30, 2019 was reported as both a restricted asset and restricted net position in the accompanying statement of net position.

6. Letter of Credit

The Authority has an unused irrevocable letter of credit from their local bank allowing for borrowings up to \$370,000 expiring on October 6, 2020.

7. Pension Plan

Oklahoma Municipal Retirement Fund - Defined Benefit

The Authority contributes to the OkMRF for all eligible employees. The plan is an agent multiple employer-defined benefit plan administered by OkMRF. The OkMRF plan issues a separate financial report and can be obtained from the OkMRF or their website: www.okmrf.org/reports.html. Benefits are established or amended by the City Council in accordance with O.S. Title 11, Section 48-101-102.

The Authority participates in the Town of Gore and Gore PWA pension plan. The amounts reported in the accompanying financial statements have been allocated based on contributions using the Town of Gore and Gore PWA pension reports.

EAST CENTRAL OKLAHOMA GAS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2020 AND 2019

7. Pension Plan (continued)

Summary of Significant Accounting Policies

For purposes of measuring the net pension asset/liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's plan and additions to/deductions from the Authority's fiduciary net position have been determined on the same basis as they are reported by OkMRF. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value based on market prices. Detailed information about the OkMRF plan's fiduciary net position is available in the separately issued OkMRF financial report.

Eligibility Factors and Benefit Provisions

Eligibility - All regular, full-time employees except police, firefighters and other employees who are covered under an approved system.

Probationary period - None.

Employee contributions - 3.75% of pay.

Service

Credited service - The last period of continuous employment with the employer excluding any periods before 11/1/1992.

Vesting - Credited service plus transferred service from other OkMRF employers.

Benefit Eligibility - 7 or more years of vesting service.

Final Average Compensation - The average of the 5 highest consecutive years of salaries out of the last 10 years of service.

Accrued Benefit - Plan CC 1.875% of final average compensation multiplied by the number of years of credited service.

Normal Retirement Age - Age 65 with 7 or more years of vesting service.

Normal Retirement

Eligibility - Termination of employment on or after normal retirement age.

Benefit - The accrued benefit payable immediately.

Early Retirement

Eligibility - Termination after age 55 with 7 or more years of vesting service.

Benefit - The accrued benefit payable starting at normal retirement age, or the accrued benefit reduced 5% per year for commencement prior to normal retirement age.

EAST CENTRAL OKLAHOMA GAS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2020 AND 2019

7. Pension Plan (continued)

Eligibility Factors and Benefit Provisions (continued)

Disability Retirement

Eligibility - Total and permanent disability after 7 or more years of service.

Benefit - The accrued benefit is payable upon disablement without reduction for early payment.

Termination Before Retirement Age

Before vesting - Return of employee contributions, if any, with interest.

After vesting - The accrued benefit payable starting at normal retirement age, or a reduced benefit payable at an early retirement age.

In-service Death

Before vesting - Return of employee contributions, if any, with interest.

After vesting (married participants only) - 50% of the accrued benefit is payable to the spouse until death or remarriage.

After vesting (other participants) - 50% of the accrued benefit is payable for 5 years certain.

Payment Options

Normal form - The normal form of payment of the accrued benefit is a monthly lifetime annuity with 5 years certain.

Optional forms - Disability retirement benefits are paid only under the normal form. Other retirement benefits are available under actuarially equivalent optional forms:

Joint and 50% survivor annuity

Joint and 66-2/3rds% last survivor annuity

Joint and 100% survivor annuity

Cost of Living - This plan has not elected the automatic post-retirement cost-of-living adjustments.

As of April 30, 2020, the Authority membership consisted of:

Retirees and beneficiaries currently receiving benefits	5
Vested inactive members	1
Active members	20
Total	26

Contributions

The Authority has the authority to set and amend contributions rates by ordinance for the OkMRF defined benefit plan in accordance with O.S. Title 11, Section 48-102. The employer contribution rate was 6.83% for the fiscal year ending April 30, 2020. Contributory members are required to contribute 3.75% of gross wages to OkMRF.

Contributions made by the Authority were \$6,418 for the year ended April 30, 2020.

EAST CENTRAL OKLAHOMA GAS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2020 AND 2019

7. Pension Plan (continued)

Actuarial Assumptions

The total pension liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Date of last actuarial valuation	July 1, 2019
Actuarial cost method	Entry age normal
Rate of return on investments and discount rate	7.50%
20 year tax-free bond yield	1.75%
Projected salary increase	Rates by age
Post retirement cost-of-living increase	None
Inflation rate	2.75%
Mortality table	Before retirement (employee rates) PubG-2010 (25%A/75%B) males PubG-2010 (50%A/50%B) females with projected mortality improvement After retirement (annuitant rates) PubG-2010 (25%A/75%B) males PubG-2010 (50%A/50%B) females with projected mortality improvement Disabled (disabled retiree rates) PubG-2010, males and females
Percent of married employees	100%
Spouse age difference	3 years (female spouses younger)
Turnover	Select and ultimate rates Ultimate rates are age-related Additional rates per thousand are added during the first 5 years: Year 1: 225 Year 2: 140 Year 3: 100 Year 4: 70 Year 5: 40
Date of last experience study	September 2017 for the fiscal years 2012 thru 2016

Discount Rate

The discount rate used to value benefits was the long-term expected rate of return on plan investments, 7.50% since the plan's net fiduciary position is projected to be sufficient to make projected benefit payments.

EAST CENTRAL OKLAHOMA GAS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2020 AND 2019

7. Pension Plan (continued)

Discount Rate (continued)

The Authority has adopted a funding method that is designed to fund all benefits payable to participants over the course of their working careers. Any differences between actual and expected experience are funded over a fixed period to ensure all funds necessary to pay benefits have been contributed to the trust before those benefits are payable. Thus, the sufficiency of pension plan assets was made without a separate projection of cash flows.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (2.75%). Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of July 1, 2019 are summarized in the following table:

	<u>Target Allocation</u>	<u>Real Return</u>	<u>Weighted Return</u>
Large cap stocks - S&P 500	25%	5.80%	1.45%
Small/mid cap stocks - Russell 2500	10%	6.40%	0.64%
Long/short equity - MSCI ACWI	10%	5.00%	0.50%
International stocks - MSCI EAFE	20%	6.20%	1.24%
Fixed income bonds - Barclay's Capital Aggregate	30%	2.30%	0.69%
Real estate - NCREIF	5%	4.60%	0.23%
Cash equivalents - 3 month Treasury	0%	0.00%	0.00%
Total	<u>100%</u>		
Average real return			4.75%
Inflation			<u>2.75%</u>
Long-term expected return			<u>7.50%</u>

EAST CENTRAL OKLAHOMA GAS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2020 AND 2019

7. Pension Plan (continued)

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension (asset) / liability of the Authority calculated using the discount rate of 7.50%, as well as what the Authority's net pension (asset) / liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
Net Pension (Asset) / Liability	\$ 165,660	\$ 10,282	\$ (109,662)
As allocated to the Authority	23,954	1,487	(15,857)

Changes in Net Pension Liability

The total pension liability was determined based on an actuarial valuation performed as of July 1, 2019 which is also the measurement date. There were no changes in assumptions or changes in benefit terms that affected measurement of the total pension liability. There were also no changes between the measurement date of July 1, 2019 and the Authority's report ending date of April 30, 2020, that would have had a significant impact on the net pension liability.

Plan Liability, Deferred Outflows / Inflows of Resources and Pension Expense

At April 30, 2020, the Authority had a liability of \$788 due to the Plan for April employer and employee contributions. The Authority reported \$21,039 in pension expense for the year ended April 30, 2020. At April 30, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,837	\$ 2,453
Changes in assumptions	3,460	-
Net difference between projected and actual earnings on pension plan investments	1,435	1,468
Authority contributions subsequent to the measurement date	5,598	-
Total	\$ 15,330	\$ 3,921

\$5,598 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended April 30, 2021. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

EAST CENTRAL OKLAHOMA GAS AUTHORITY

NOTES TO FINANCIAL STATEMENTS

APRIL 30, 2020 AND 2019

7. Pension Plan (continued)

Plan Liability, Deferred Outflows / Inflows of Resources and Pension Expense (continued)

<u>Year Ended April 30,</u>	<u>Net Increase In Pension Expense</u>
2021	\$ 1,411
2022	497
2023	1,283
2024	1,218
2025	1,132
thereafter	270
	<u>\$ 5,811</u>

8. Concentrations of Credit Risk

Financial instruments that potentially subject the Authority to credit risk consist primarily of accounts receivable. The receivables are from individuals located within the same geographic region.

9. Risk Management

The Authority is exposed to various levels of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority carries commercial insurance, auto, and workers compensation for risk of loss.

There has been no significant reduction in the Authority's insurance coverage from the previous year. In addition, there have been no settlements in excess of the Authority's coverage in any of the prior four fiscal years.

10. Subsequent Events

The Authority has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended April 30, 2020 through July 13, 2020, the date the financial statements were available to be issued. The spread of the COVID-19 coronavirus has caused global economic uncertainty. The impact on the Authority will likely be decrease in revenues due to an inability of customers to pay utility bills caused by increased unemployment levels. The Authority is closely monitoring its operations, liquidity, and capital resources to minimize the current and future impact of this unprecedented situation. However, the full financial impact of the pandemic cannot reasonably be estimated at this time.

REQUIRED SUPPLEMENTARY INFORMATION

EAST CENTRAL OKLAHOMA GAS AUTHORITY

SCHEDULES OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

FOR THE YEAR ENDED APRIL 30, 2020

	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Total Pension Liability						
Service cost	\$ 42,356	\$ 38,774	\$ 43,036	\$ 41,700	\$ 34,022	\$ 31,183
Interest cost	43,920	39,060	36,686	30,917	27,611	26,953
Benefit changes due to plan amendments	115,142	-	-	-	-	-
Difference between expected and actual experience	29,237	3,110	(29,840)	14,712	(2,826)	-
Changes of assumptions	18,973	-	14,728	-	-	-
Benefit payment, including refunds of employee contributions	(16,139)	(16,160)	(18,150)	(7,824)	(24,160)	(12,981)
Net change in total pension liability	233,489	64,784	46,460	79,505	34,647	45,155
Total pension liability - beginning	593,518	528,734	482,274	402,769	368,122	322,967
Total pension liability - ending	\$ 827,007	\$ 593,518	\$ 528,734	\$ 482,274	\$ 402,769	\$ 368,122
Plan Net Fiduciary Position						
Contributions - employer	\$ 39,424	\$ 37,533	\$ 37,029	\$ 35,714	\$ 33,042	\$ 29,773
Contributions - employee	21,644	20,630	20,214	19,608	18,087	16,347
Net investment income	52,475	47,292	67,689	5,511	12,504	58,558
Benefit payments, including refunds of employee contributions	(16,139)	(16,160)	(18,150)	(7,824)	(24,160)	(12,981)
Administrative	(1,524)	(1,345)	(1,173)	(970)	(924)	(871)
Net change in plan net fiduciary position	95,880	87,950	105,609	52,039	38,549	90,826
Plan net fiduciary position - beginning	720,845	632,895	527,286	475,247	436,698	345,872
Plan net fiduciary position - ending	\$ 816,725	\$ 720,845	\$ 632,895	\$ 527,286	\$ 475,247	\$ 436,698
Net pension (asset) / liability - ending	\$ 10,282	\$ (127,327)	\$ (104,161)	\$ (45,012)	\$ (72,478)	\$ (68,576)
Percent allocated to the Authority	14.46%	15.25%	14.94%	15.22%	17.76%	15.88%
Plan net fiduciary position as percentage of total pension liability	98.76%	121.45%	119.70%	109.33%	117.99%	118.63%
Covered employee payroll	\$ 544,017	\$ 542,313	\$ 500,414	\$ 524,235	\$ 500,887	\$ 431,826
Net pension (asset)/liability position as percentage of covered employee payroll	1.89%	-23.48%	-20.81%	-8.59%	-14.47%	-15.88%

Notes to Schedule:

- The schedule is intended to show 10 years - additional information will be presented as it becomes available
- This plan includes the Town of Gore, Gore PWA and East Central Oklahoma Gas Authority. The pension asset and deferred inflows/outflows relating to the pension has been allocated to each entity accordingly.
- The following are changes in actuarial assumptions that affect the measurement of the total pension liability:
 - Effective July 1, 2017
 - Lowered the long-term investment return rate from 7.50% to 7.25%
 - Lowered the cost of living rate assumption from 3.00% to 2.75%
 - Effective July 1, 2019
 - Updated mortality assumptions adopting tables on the first-ever mortality study specific to public plan pension participants that was released by the Society of Actuaries.

See independent auditor's report.

EAST CENTRAL OKLAHOMA GAS AUTHORITY

SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED APRIL 30, 2020

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Authority's contractually required contribution	\$ 5,641	\$ 5,724	\$ 5,511	\$ 5,383	\$ 5,865	\$ 4,722
Contributions in relation to the contractually required contribution	\$ (5,641)	\$ (5,724)	\$ (5,511)	\$ (5,383)	\$ (5,865)	\$ (4,722)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Authority's covered-employee payroll	\$ 82,598	\$ 83,807	\$ 80,695	\$ 78,810	\$ 85,864	\$ 69,138
Contributions as a percentage of covered-employee payroll	6.83%	6.83%	6.83%	6.83%	6.83%	6.83%

Note to Schedule:

The schedule is intended to show 10 years - additional information will be presented as it becomes available

See independent auditor's report.

ADDITIONAL REQUIRED REPORT



**Independent Auditors' Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With *Government Auditing Standards***

To the Board of Directors
East Central Oklahoma Gas Authority
Gore, 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 East Central Oklahoma Gas Authority, as of and for the year ended April 30, 2020, and the related notes to the financial statements, which collectively comprise Authority's financial statements, and have issued our report thereon dated July 13, 2020, which was modified to reflect the omission of the management's discussion and analysis.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

This 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 Authority's internal control or on compliance. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Przybysz & Associates, CPAs, P.C.
Fort Smith, Arkansas
July 13, 2020