

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

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

June 30, 2019

**TAHLEQUAH PUBLIC WORKS AUTHORITY AND
CITY LIGHT & WATER**

<u>TABLE OF CONTENTS</u>	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
REQUIRED SUPPLEMENTARY INFORMATION:	
Management's Discussion and Analysis	3
BASIC FINANCIAL STATEMENTS:	
Statement of Net Position	9
Statement of Revenue, Expenses, and Changes in Net Position	10
Statement of Cash Flows	11
Notes to Financial Statements	12
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 <i>GOVERNMENT AUDITING STANDARDS</i>	22



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Tahlequah Public Works Authority and City Light & Water ("the Authority"), a component unit of the City of Tahlequah, Oklahoma, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the 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 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2019, 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 as listed in the Table of Contents 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated on April 14, 2020, our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.



April 14, 2020

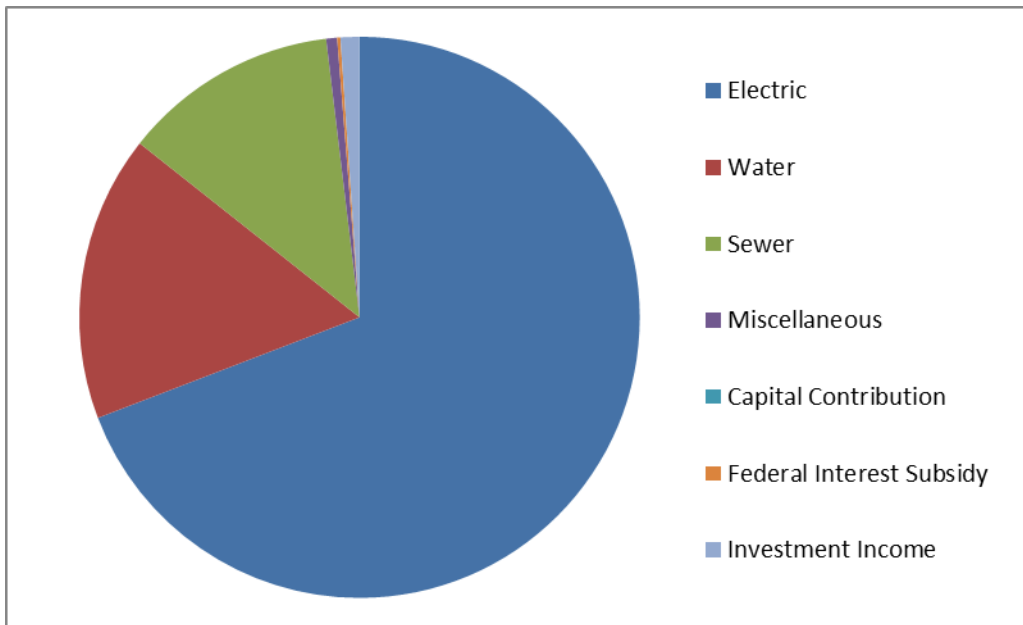
MANAGEMENT’S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial performance of the Tahlequah Public Works Authority and City Light & Water (“the Authority”), a component unit of the City of Tahlequah, Oklahoma, provides an overview of the Authority’s financial activities for the fiscal year ended June 30, 2019. Please read it in conjunction with the Authority’s basic financial statements.

Financial Highlights

At June 30, 2019 the Authority’s net assets total \$42.3 million. Of this, \$9 million is considered unrestricted.

The following chart provides a graphical breakdown of revenues by category for the fiscal year ending June 30, 2019.



In the fiscal year ended June 30, 2019, the Authority’s revenues exceeded expenses creating an increase in net assets after net transfers out of \$1,836,938, or 4.5%.

Using This Annual Report

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

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

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

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

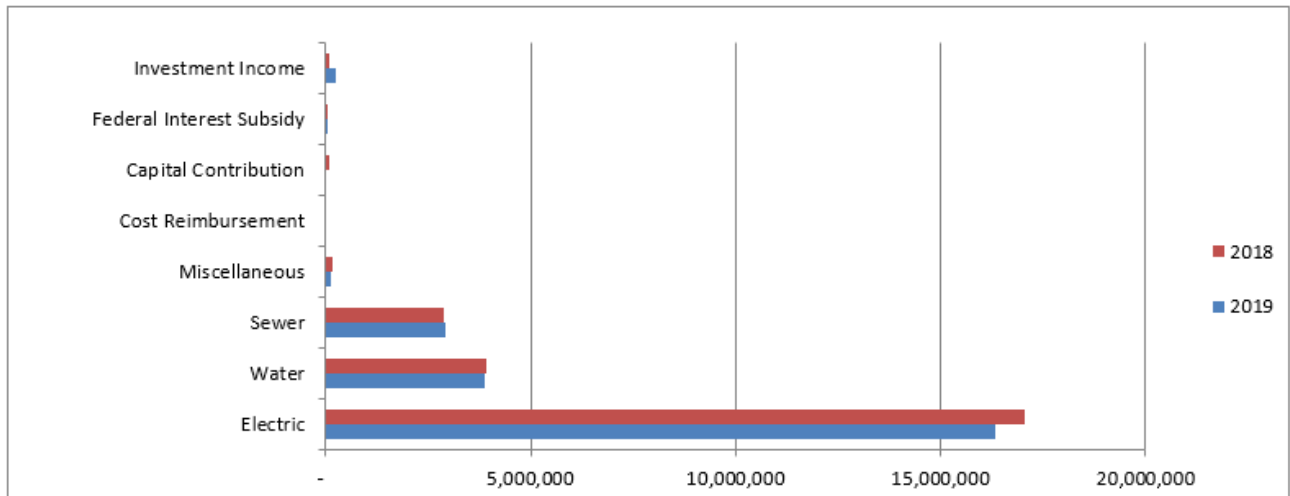
The third statement, the statement of cash flows, presents detailed information about the cash activity during the year. The statement is divided into five parts. The first part presents operating cash flows and shows the net cash provided by the operating activities of the Authority. The second section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

Financial Overview

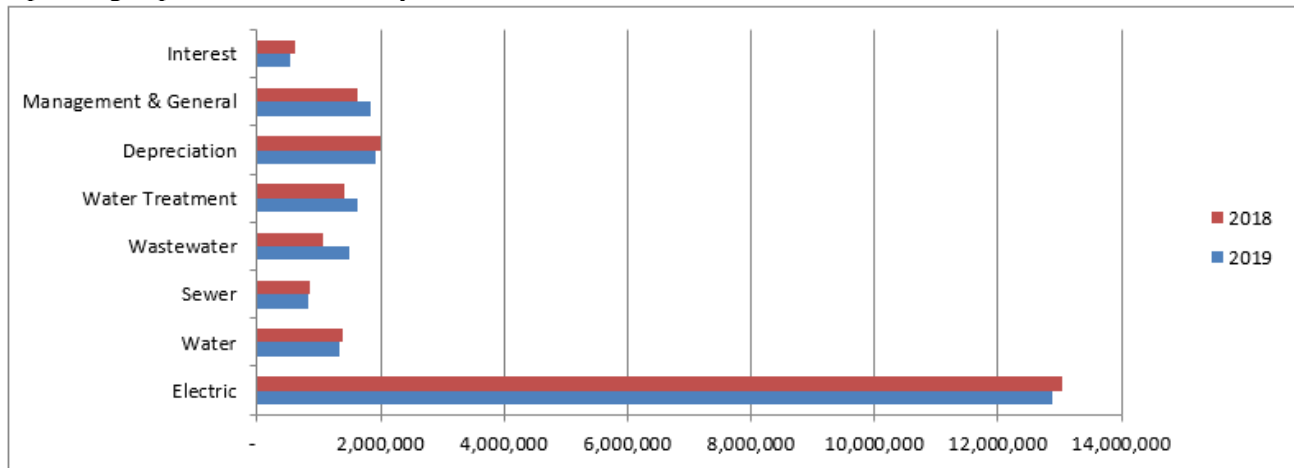
Statement of Position, End of Year

	June 30	
	2019	2018
Current Assets	\$ 19,402,856	\$ 18,625,859
Noncurrent Assets	43,461,561	43,088,685
Total Assets	62,864,417	61,714,544
Current Liabilities	5,905,774	5,247,821
Noncurrent Liabilities	14,673,117	16,018,606
Total Liabilities	20,578,891	21,266,427
Net Position		
Investment in Capital Assets	28,455,769	28,483,051
Restricted for Debt Service	4,825,152	3,917,884
Unrestricted	9,004,605	8,047,182
Total Net Position	\$ 42,285,526	\$ 40,448,117

Operating revenues for the fiscal years ended June 30, 2019 and 2018:



Operating expenses for the fiscal years ended June 30, 2019 and 2018:



Operating Results for the Year Ended

	June 30	
	2019	2018
Operating Revenues	\$ 23,329,083	\$ 24,020,048
Less Operating Expenses	21,933,630	21,346,333
Net Operating Revenue	1,395,453	2,673,715
Net Nonoperating Expenses	(241,451)	(473,515)
Net Transfers In (Out)	683,407	(523,293)
Increase (Decrease) in Net Assets	1,837,409	1,676,907
Net Position, Beginning of Year, restated	40,448,117	38,771,210
Net Position, End of Year	\$ 42,285,526	\$ 40,448,117

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

Below is a condensed look at the statement of cash flows for fiscal 2019 and 2018.

Cash Flows for the Year Ended

	June 30	
	2019	2018
Cash Provided (Used) by:		
Operating Activities	\$ 4,142,894	\$ 4,222,735
Noncapital Financing Activities	683,407	(613,458)
Capital and Related Financing Activities	(3,348,699)	(5,342,530)
Investing Activities	381,869	84,556
Net Increase (Decrease) in Cash	1,859,471	(1,648,697)
Cash, Beginning of Year	12,996,826	14,645,523
Cash, End of Year	\$ 14,856,297	\$ 12,996,826

Description of Capital Assets and Long-Term Debt Activity

At June 30, 2019 the Authority had \$43.5 million invested in capital assets, net of accumulated depreciation of \$40.1 million. Net depreciation charges totaled \$2 million for the year ended June 30, 2019. Details of these assets are shown below for the years ended June 30, 2019 and 2018.

	Capital Assets at Year-End	
	June 30	
	2019	2018
Non-depreciable:		
Land	\$ 365,882	\$ 365,882
Construction-in-progress	1,580,448	2,624,353
Total Non-depreciable Assets at Historical Cost	1,946,330	2,990,235
Depreciable:		
Buildings and Improvements	3,917,993	1,344,871
Machinery and Equipment	6,560,379	6,271,751
Utility Property	71,126,767	70,748,531
Total Depreciable Assets at Historical Cost	81,605,139	78,365,153
Less Accumulated Depreciation	(40,089,908)	(38,266,703)
Net Depreciable Assets	41,515,231	40,098,450
Capital Assets, Net	\$ 43,461,561	\$ 43,088,685

At June 30, 2019, the Authority had \$16.9 million in debt outstanding. The table below summarizes the outstanding debt by type for the years ended June 30, 2019 and 2018.

	Outstanding Debt, at Year-End	
	June 30	
	2019	2018
Revenue Bonds - COT, net of discount	\$ 1,930,194	\$ 2,891,059
2010 Drinking Water SRF	13,042,153	13,433,520
2011 Drinking Water SRF	609,732	754,999
2019 Drinking Water SRF	1,116,855	-
Capital Leases	237,052	417,115
	\$ 16,935,986	\$ 17,496,693

More detailed information about the Authority's outstanding debt is presented in Note 4 to the basic financial statements.

Economic Factors and Next Year's Outlook

FY 2019 was a year in which our electric sales forecast did not meet budgeted expectations. Our actual electric revenue was 7.3% less than projected while our electric current purchased was off by 5.6% of budgeted projections. Typically, our revenues are closely tied to the amount of electricity purchased from the GRDA. When our revenues are impacted by decreasing electricity sales, our overall operating revenues are also negatively affected. The weather patterns continue to produce mild summers and winters which directly affect electric revenues.

TPWA has hired a rate analyst to study our electric rates and revenues in 2020. We expect to have the analysis completed in the early spring.

We have shored up the operational costs associated with the water and wastewater treatment operations. The rate increases implemented over the last two years have helped to offset the operational costs of those facilities. We must keep in mind that TPWA is investing heavily in water and wastewater treatment expansions and upgrades. These improvements are financed with low interest loans from the Oklahoma Water Resources Board.

Economic Outlook

FY 2020: We are in the middle of the systems improvement for our water treatment facilities. We are 95% complete on the Tenkiller Water Plant Treatment expansion. The TeeHee Water Treatment Plant improvements have ground to a halt. TPWA has experienced issues with delays from the contractor. We will have to find a qualified contractor to finish this project. The delay will increase the total cost of this project which means we will not be able to close out the loan in FY 2020.

The Wastewater Treatment Plant improvements are nearly ready to go out for bids. We have come to an agreement with the State Historical Preservation Society, the Cherokee Nation, the Oklahoma Water Resources Board, and others to move this project forward. There are some significant historical findings adjacent to the site of our proposed Flow Equalization Basin, (FEB), which we must address.

Last year, we mentioned that we are focused on this year and the next 3-5 years of future retirements. We have instituted basic supervisory training for those individuals identified to possess the talent to lead our organization in the future.

All of this planning in place will help us prepare for the future of TPWA. With that said, no one anticipated the COVID -19 virus which has swept the globe. This health crisis is causing us to take a hard look at our budgeting process for FY 2021. FY 2021 may be a year in which we postpone any equipment purchases and system upgrades. The big question facing utilities everywhere is the impact on small businesses. Owners of small restaurants, hair and nail salons, and other small and family owned businesses will be impacted. I am concerned that some of these types of businesses may not survive the economic impacts. If these businesses close, it will have a negative impact on the sales of utilities.

Through mid-April 2020, we are witnessing a decline in electric sales from the small business sector in our community. We will be paying close attention to the revenue as well as our operating costs during this last fiscal quarter.

TPWA is a Public Trust and is subject to the Governmental Tort Claims Act. We are involved in a lengthy and ongoing easement dispute. We do not anticipate the dispute to have a significant negative impact to our financial performance. However, we are prepared to address this issue if we are required to appear in court.

Tahlequah Public Works Authority and City Light & Water
Statement of Net Position
June 30, 2019

	Public Works Authority	City Light & Water	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 4,014,140	\$ 3,409	\$ 4,017,549
Restricted Assets:			
Cash and cash equivalents	10,838,748	-	10,838,748
Investments	60,269	-	60,269
Inventory	1,296,698	-	1,296,698
Accounts receivable (net of allowance)	3,189,592	-	3,189,592
Total current assets	<u>19,399,447</u>	<u>3,409</u>	<u>19,402,856</u>
Noncurrent Assets:			
Capital assets, net	43,461,561	-	43,461,561
Total noncurrent assets	<u>43,461,561</u>	<u>-</u>	<u>43,461,561</u>
Total Assets	<u>62,861,008</u>	<u>3,409</u>	<u>62,864,417</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	1,266,433	-	1,266,433
Accrued expenses	263,228	-	263,228
Capital leases, current portion	117,027	-	117,027
Notes payable, current portion	712,000	-	712,000
Revenue bonds payable, COT, current portion	1,935,000	-	1,935,000
Less: unamortized discount	(4,806)	-	(4,806)
Meter deposit liability	1,616,892	-	1,616,892
Total current liabilities	<u>5,905,774</u>	<u>-</u>	<u>5,905,774</u>
Noncurrent Liabilities:			
Compensated absences	496,352	-	496,352
Capital leases	120,025	-	120,025
Notes payable	14,056,740	-	14,056,740
Total noncurrent liabilities	<u>14,673,117</u>	<u>-</u>	<u>14,673,117</u>
Total Liabilities	<u>20,578,891</u>	<u>-</u>	<u>20,578,891</u>
NET POSITION			
Invested in capital assets, net of related debt	28,455,769	-	28,455,769
Restricted for debt service	4,825,152	-	4,825,152
Unrestricted	9,001,196	3,409	9,004,605
Total Net Position	<u>\$ 42,282,117</u>	<u>\$ 3,409</u>	<u>\$ 42,285,526</u>

See accompanying notes to the basic financial statements.

**Tahlequah Public Works Authority and City Light & Water
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2019**

	Public Works Authority	City Light & Water	Total
OPERATING REVENUES			
Electric revenue	\$ 16,343,916	\$ -	\$ 16,343,916
Water revenue	3,894,021	-	3,894,021
Sewer charges	2,941,521	-	2,941,521
Miscellaneous	149,625	-	149,625
Cost reimbursement	-	-	-
Total operating revenues	<u>23,329,083</u>	<u>-</u>	<u>23,329,083</u>
OPERATING EXPENSES			
Electric service	12,891,276	-	12,891,276
Water service	1,341,169	-	1,341,169
Sewer service	835,434	-	835,434
Wastewater treatment	1,489,066	-	1,489,066
Water treatment	1,612,055	-	1,612,055
Depreciation of fixed assets	1,916,423	-	1,916,423
Management and general	1,778,942	69,265	1,848,207
Total operating expenses	<u>21,864,365</u>	<u>69,265</u>	<u>21,933,630</u>
Net operating gain(loss)	<u>1,464,718</u>	<u>(69,265)</u>	<u>1,395,453</u>
NONOPERATING REVENUES (EXPENSES)			
Interest subsidy from federal government	43,943	-	43,943
Investment income	256,771	471	257,242
Interest expense and related fees	(542,636)	-	(542,636)
Total nonoperating revenue (expenses)	<u>(241,922)</u>	<u>471</u>	<u>(241,451)</u>
Income before contributions and transfers	1,222,796	(68,794)	1,154,002
Capital contributions	-	-	-
Transfers in	1,617,424	-	1,617,424
Transfers between TPWA & CL&W	(1,003,282)	1,003,282	-
Transfers out	-	(934,017)	(934,017)
Increase (decrease) in net position	1,836,938	471	1,837,409
Net position at beginning of year	<u>40,445,179</u>	<u>2,938</u>	<u>40,448,117</u>
Net position at end of year	<u>\$ 42,282,117</u>	<u>\$ 3,409</u>	<u>\$ 42,285,526</u>

See accompanying notes to the basic financial statements.

Tahlequah Public Works Authority and City Light & Water
Statement of Cash Flows
For the Year Ended June 30, 2019

	Public Works Authority	City Light & Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 24,377,649	\$ -	\$ 24,377,649
Payments to suppliers	(15,541,295)	(45,765)	(15,587,060)
Payments to employees	(4,624,195)	(23,500)	(4,647,695)
Net cash provided by (used in) operating activities	<u>4,212,159</u>	<u>(69,265)</u>	<u>4,142,894</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from City of Tahlequah	1,617,424	-	1,617,424
Transfers between TPWA & CL&W	(1,003,282)	1,003,282	-
Transfers to City of Tahlequah	-	(934,017)	(934,017)
Net cash provided by (used in) noncapital financing activities	<u>614,142</u>	<u>69,265</u>	<u>683,407</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(2,463,077)	-	(2,463,077)
Proceeds from sale/transfer of capital assets	173,778	-	173,778
Proceeds from capital debt	1,116,855	-	1,116,855
Principal paid on capital debt	(1,686,698)	-	(1,686,698)
Interest and fees on capital debt, net of subsidy	(489,557)	-	(489,557)
Net cash (used in) capital and related financing activities	<u>(3,348,699)</u>	<u>-</u>	<u>(3,348,699)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of investments	118,050	-	118,050
Interest	263,348	471	263,819
Net cash provided by investing activities	<u>381,398</u>	<u>471</u>	<u>381,869</u>
Net increase (decrease) in cash and cash equivalents	1,859,000	471	1,859,471
Balance - beginning of year	12,993,888	2,938	12,996,826
Balance - end of year	<u>\$ 14,852,888</u>	<u>\$ 3,409</u>	<u>\$ 14,856,297</u>
RECONCILIATION TO STATEMENT OF NET ASSETS			
Cash and cash equivalents	4,014,140	3,409	4,017,549
Restricted cash and cash equivalents	10,838,748	-	10,838,748
	<u>\$ 14,852,888</u>	<u>\$ 3,409</u>	<u>\$ 14,856,297</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 1,464,718	\$ (69,265)	\$ 1,395,453
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	1,916,423	-	1,916,423
Change in assets and liabilities			
Accounts receivable	975,609	-	975,609
Inventory	(17,762)	-	(17,762)
Accounts payable	(369,095)	-	(369,095)
Accrued expenses	56,485	-	56,485
Deposits	72,957	-	72,957
Compensated absences	112,824	-	112,824
Net cash provided by (used in) operating activities	<u>\$ 4,212,159</u>	<u>\$ (69,265)</u>	<u>\$ 4,030,070</u>

See accompanying notes to the basic financial statements.

**TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER**
Notes to Basic Financial Statements
June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

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

B. BASIS OF PRESENTATION

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

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

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

Use of Estimates – Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents – For the purpose of the statement of cash flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

**TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER
Notes to Basic Financial Statements
June 30, 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

B. BASIS OF PRESENTATION (Cont'd)

Inventories – Inventory is generally stated at cost on the first-in, first-out method.

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

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

Accounts Receivable – Management considers all receivables as of June 30, 2019 to be revenues earned at year-end and not yet received. They are reported net of allowances for uncollectible accounts.

Deferred Outflow/Inflows of Resources

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

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

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

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

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

Income Taxes – As a Title 60 Public Trust, the Authority is exempt from income taxes.

**TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER**
Notes to Basic Financial Statements
June 30, 2019

2. DEPOSIT AND INVESTMENT RISKS

The Authority held the following deposits and investments at June 30, 2019:

<u>Type</u>		
Demand Deposits	\$	7,876,852
Time Deposits		5,142,445
Money Market Accounts		1,837,000
U.S. Treasury Notes		60,269
Total Deposits and Investments	\$	<u>14,916,566</u>
 Reconciliation to Statement of Net Position:		
Cash and Cash Equivalents	\$	4,017,549
Restricted Cash and Cash Equivalents		10,838,748
Investments		60,269
	\$	<u>14,916,566</u>

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned or the Authority will not be able to recover collateral securities that are in the possession of an outside party. The Authority was exposed to custodial credit risk of \$3,276,067 at June 30, 2019.

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Authority has the following recurring fair value measurements as of June 30, 2019:

- Money Market Funds of \$1,837,000 are valued using quoted market prices (Level 1 inputs).
- U.S. Treasury Notes of \$60,269 are valued using quoted market prices (Level 1 inputs).

The money market funds had a Moody's credit rating of Aaa at June 30, 2019.

**TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER
Notes to Basic Financial Statements
June 30, 2019**

3. CAPITAL ASSETS

A summary of property, plant, and equipment activity for fiscal 2019 follows:

	<u>Balance at June 30, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance at June 30, 2019</u>
Non-depreciable:					
Land	\$ 365,882	\$ -	\$ -	\$ -	\$ 365,882
Construction-in-progress	2,624,353	1,254,521	-	(2,298,426)	1,580,448
Total Non-depreciable Assets at Historical Cost	<u>2,990,235</u>	<u>1,254,521</u>	<u>-</u>	<u>(2,298,426)</u>	<u>1,946,330</u>
Depreciable:					
Buildings and Improvements	1,344,871	654,093	-	1,919,029	3,917,993
Machinery and Equipment	6,271,751	482,926	(266,996)	72,698	6,560,379
Utility Property	70,748,531	71,537	-	306,699	71,126,767
Total Depreciable Assets at Historical Cost	78,365,153	1,208,556	(266,996)	2,298,426	81,605,139
Less Accumulated Depreciation	(38,266,703)	(1,916,423)	93,218	-	(40,089,908)
Net Depreciable Assets	<u>40,098,450</u>	<u>(707,867)</u>	<u>(173,778)</u>	<u>2,298,426</u>	<u>41,515,231</u>
Capital Assets, Net	<u>\$ 43,088,685</u>	<u>\$ 546,654</u>	<u>\$ (173,778)</u>	<u>\$ -</u>	<u>\$ 43,461,561</u>

**TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER**
Notes to Basic Financial Statements
June 30, 2019

4. LONG TERM LIABILITIES

As of June 30, 2019, long-term debt payable consisted of the following:

Notes Payable:

2010 Series Drinking Water SRF Promissory Note to the Oklahoma Water Resources Board, original issue amount \$16,320,000, secured by utility revenues, interest rate of 2.99% and administrative fee of 0.5%, final maturity of March 15, 2041 \$ 13,042,153

2011 Series Drinking Water SRF Promissory Note to the Oklahoma Water Resources Board, original issue amount \$1,680,000, secured by utility revenues, interest rate of 1.78% and administrative fee of 0.5%, final maturity of March 15, 2023 609,732

2019 Series Drinking Water SRF Promissory Note to the Oklahoma Water Resources Board, original issue amount \$1,116,855, secured by utility revenues, interest rate of 2.99% and administrative fee of 0.5%, final maturity of March 15, 2041 1,116,855

\$ 14,768,740

Current portion \$ 712,000

Noncurrent portion 14,056,740

Total notes payable \$ 14,768,740

Revenue Bonds:

2009A Series Build America Sales Tax Revenue Bonds, dated September 1, 2009, original amount of \$9,135,000 secured by pledged sales tax, interest rates from 2.474% to 5.551%, final maturity of December 1, 2019 \$ 1,935,000

Less unamortized discount (4,806)

Total revenue bonds payable, net \$ 1,930,194

Current portion \$ 1,935,000

Total revenue bonds payable \$ 1,935,000

**TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER
Notes to Basic Financial Statements
June 30, 2019**

4. LONG TERM LIABILITIES (Cont'd)

Capital Leases:

\$79,010 capital lease obligation for the purchase of a loader/backhoe, matures December 2019 with stated interest of 1.575%	8,188
\$44,670 capital lease obligation for the purchase of a truck, matures December 2019 with stated interest of 1.575%	4,629
\$42,874 capital lease obligation for the purchase of a truck, matures December 2019 with stated interest of 1.575	4,443
\$37,742 capital lease obligation for the purchase of a truck, matures February 2020 with stated interest of 2.1%	5,262
\$38,773 capital lease obligation for the purchase of a truck, matures February 2020 with stated interest of 2.1%	5,408
\$67,726 capital lease obligation for the purchase of a truck, matures February 2020 with stated interest of 2.1%	9,447
\$83,828 capital lease obligation for the purchase of a truck, matures July 2020 with stated interest of 1.8%	13,752
\$311,841 capital lease obligation for the purchase of a vacuum truck, matures May 2022 with stated interest of 2.39%	<u>185,922</u>
Total capital leases payable	<u>\$ 237,051</u>
Current portion	\$ 117,027
Noncurrent portion	<u>120,024</u>
Total capital leases payable	<u>\$ 237,051</u>

**TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER
Notes to Basic Financial Statements
June 30, 2019**

4. LONG TERM LIABILITIES (Cont'd)

Changes in Long-Term Debt:

The following is a summary of changes in long-term debt for the year ended June 30, 2019:

	<u>Balance</u> <u>June 30, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2019</u>	<u>Amount Due</u> <u>in One Year</u>
Notes Payable	\$ 14,188,519	\$ 1,116,855	\$ (536,634)	\$ 14,768,740	\$ 712,000
Revenue Bonds	2,905,000	-	(970,000)	1,935,000	1,935,000
Capital Leases	417,115	-	(180,064)	237,051	117,027
	<u>\$ 17,510,634</u>	<u>\$ 1,116,855</u>	<u>\$ (1,686,698)</u>	<u>\$ 16,940,791</u>	<u>\$ 2,764,027</u>

Debt Service Requirements to Maturity:

The annual debt service requirements to maturity for long-term debt as of June 30, 2019 are as follows:

<u>Year Ending June 30,</u>	<u>Notes Payable</u>		<u>Revenue Bonds Payable</u>		<u>Capital Leases Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 712,000	\$ 464,327	\$ 1,935,000	\$ 44,755	\$ 117,027	\$ 4,211
2021	712,000	440,553	-	-	65,426	2,267
2022	712,000	417,737	-	-	54,598	719
2023	649,733	394,921	-	-	-	-
2024	544,000	374,482	-	-	-	-
2025-2029	2,720,000	1,492,700	-	-	-	-
2030-2034	2,720,000	1,018,060	-	-	-	-
2035-2039	2,720,000	543,420	-	-	-	-
2040-2043	3,279,007	98,225	-	-	-	-
	<u>\$ 14,768,740</u>	<u>\$ 5,244,425</u>	<u>\$ 1,935,000</u>	<u>\$ 44,755</u>	<u>\$ 237,051</u>	<u>\$ 7,197</u>

**TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER
Notes to Basic Financial Statements
June 30, 2019**

5. RETIREMENT PROGRAMS

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

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

6. OTHER POSTEMPLOYMENT BENEFITS

The Authority provides post-retirement benefit options for health care for retired employees and their dependents that elect to make required contributions. Effective July 1, 2012 the board voted to modify the plan to require 25 years of service and raised the qualifying age to 62. Benefits cease at age 65. At June 30, 2019, no retired employees were receiving benefits under this plan. Management expects few, if any, employees to qualify for and take advantage of this benefit. No liability has been accrued for this benefit as management does not believe the amount would be material to the financial statements.

7. RISK MANAGEMENT

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

**TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER
Notes to Basic Financial Statements
June 30, 2019**

9. COMMITMENTS AND CONTINGENCIES

During the ordinary course of business, the Authority may be subjected to various lawsuits and civil action claims. There were no pending lawsuits or claims against the Authority at June 30, 2019 that management believes would result in a material loss in the event of an adverse outcome.

10. SUBSEQUENT EVENTS

Management reviewed activity through April 14, 2020, for subsequent events which may be material to the fiscal 2019 financial statements.

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



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 the
Tahlequah Public Works Authority
and City Light & Water
Tahlequah, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Tahlequah Public Works Authority and City Light & Water ("the Authority"), a component unit of the City of Tahlequah, Oklahoma, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 14, 2020.

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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2019-001.

Authority's Response to Findings

Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Arlidge & Associates, P.C.

April 14, 2020

TAHLEQUAH PUBLIC WORKS AUTHORITY

SCHEDULE OF FINDINGS

Year Ended June 30, 2019

Finding 2019-001: Capital Assets

Criteria: Subledgers for capital assets should be reviewed and reconciled to the general ledger.

Condition: Subledgers did not reconcile to the general ledger.

Cause and Effect: The Authority was not accurately recording and reviewing capital assets resulting in immaterial variances between the subledger and general ledger.

Recommendation: We recommend the Authority revise their processes and procedures relating to recording capital assets along with reviewing and reconciling the capital asset listing to the general ledger on a monthly basis.

Management's response: We have identified software issues and are waiting for the software provider to update the system. We are also implementing procedures to correct and prevent this matter.