



Financial Statements and Reports Required by
Government Auditing Standards and by the Uniform
Guidance

June 30, 2023

Muskogee City - County Port Authority

Muskogee City - County Port Authority

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Independent Auditor's Report

To the Board of Directors
Muskogee City-County Port Authority
Muskogee, Oklahoma

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of Muskogee City-County Port Authority (the Port Authority), as of and for the year ended June 30, 2023, and the related statements of activities, which collectively comprise the Port Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Port Authority as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities of the Audit of the Financial Statements section of our report. We are required to be independent of the Port Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

The financial statements present only the Muskogee City-County Port Authority and do not purport to, and do not present fairly, the financial position of the City of Muskogee, Oklahoma, as of June 30, 2023, and the changes in its financial position or, where applicable, its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Correction of Error

As discussed in Note 9 to the financial statements, certain errors resulting in an understatement of amounts previously reported for capital assets and unearned revenue as of June 30, 2022, were discovered by management of the Port Authority during the current year. Accordingly, a restatement has been made to the Port Authority's net position as of July 1, 2022, to correct the errors. Our opinions are not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Port Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Port Authority's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Port Authority's basic financial statements. The schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2024 on our consideration of the Port Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Port Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port Authority's internal control over financial reporting and compliance.

The image shows a handwritten signature in cursive script that reads "Eide Sully LLP".

Oklahoma City, Oklahoma
January 19, 2024

Our discussion and analysis of the financial performance of the Muskogee City-County Port Authority (the Port Authority), provides an overview of the Port Authority's financial activities for the year ended June 30, 2023. This discussion should be read in conjunction with the financial statements and other information to better understand the financial condition and performance of the Port Authority. Prior fiscal year information is presented for comparative purposes.

Financial Highlights

- The financial statements have been restated as of July 1, 2022, to correct errors previously reported in the financial statements. The corrections impacted capital assets, unearned revenue, and net position. See Note 9 to the financial statements for more information.
- The assets of the Port Authority exceeded its liabilities and deferred inflows of resources at the close of the 2023 fiscal year by \$22,037,609 (net position). Of this amount, \$2,447,655 (unrestricted net position), or 11%, may be used to meet the Port Authority's ongoing obligations. The assets of the Port Authority exceeded its liabilities and deferred inflows of resources at the close of the 2022 fiscal year by \$19,705,923, as restated.
- The Port Authority's net position increased by \$2,331,686 for the year ended June 30, 2023. The Port Authority's net position increased by \$4,210,870 (as restated) for the year ended June 30, 2022.
- Operating revenues for year ended June 30, 2023, increased by \$318,026 compared to the previous year. The increase was primarily due to increased port fees.
- For the year ended June 30, 2023, actual financial operations of the Port were favorable compared to the operating budget prepared and approved by the Port Authority. Operating revenues of the Port Authority slightly exceeded the budget expectations. Non-operating revenues significantly exceeded budget expectations as a result of capital grants and flood loss recovery. Expenses were slightly less than the budget expectations.
- Net non-operating revenue (expense) for year ended June 30, 2023, decreased by \$336,384 compared to the previous year. The decrease is attributable to a large gain on disposal of assets for the year ended June 30, 2022.

Overview of the Financial Statements

These financial statements consist of two sections: Management's Discussion and Analysis (this section) and the basic financial statements (including the notes to the financial statements).

Fiduciary Fund

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the entity-wide financial statements because the resources of those funds are not available to support the Port Authority's own programs. The Port Authority has one fiduciary fund – the Muskogee City-County Port Authority Profit Sharing Plan. As of July 31, 2022, all the assets had been distributed according to plan provisions and has been fully liquidated as of June 30, 2023.

Financial Statements

The statements of net position present information on all of the Port Authority's assets, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether the financial position of the Port Authority is improving or deteriorating.

Condensed Statements of Net Position

June 30, 2023 and 2022

	2023	As Restated 2022
Current Assets	\$ 7,880,455	\$ 7,695,451
Leases Receivable, Net of Current portion	4,721,300	4,943,758
Capital Assets, Net	20,380,181	16,976,613
Total assets	32,981,936	29,615,822
Current Liabilities	5,258,080	3,672,770
Non-current Liabilities	691,109	788,426
Total liabilities	5,949,189	4,461,196
Total Deferred Inflows of Resources	4,995,138	5,448,703
Net Position		
Net Investment in Capital Assets	19,589,954	16,084,021
Unrestricted	2,447,655	3,621,902
Total net position	\$ 22,037,609	\$ 19,705,923

The statements of revenues, expenses, and changes in net position show the business-type activity of the Port Authority and provides information regarding income and expenses, both operating and non-operating, that affect net position.

Muskogee City-County Port Authority
Management's Discussion and Analysis (Unaudited)
June 30, 2023 and 2022

Changes in Net Position
Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>As Restated 2022</u>
Revenues		
Operating Revenues		
Port fees - rail and barge	\$ 840,605	\$ 725,966
Lease income	735,948	701,362
Industrial development	480,000	409,075
Other	<u>210,795</u>	<u>112,919</u>
Total operating revenues	<u>2,267,348</u>	<u>1,949,322</u>
Expenses		
Operating Expenses		
Personnel	1,224,580	1,161,609
General and administrative	688,877	504,575
Operations	2,117,284	512,010
Depreciation	<u>382,706</u>	<u>374,427</u>
Total operating expenses	<u>4,413,447</u>	<u>2,552,621</u>
Non-operating Revenue (Expense)		
Interest income	474,304	355,941
Interest expense	(29,126)	(32,180)
Insurance proceeds	-	300,000
Capital grants	3,083,259	1,707,762
Gain on disposal	<u>949,348</u>	<u>2,482,646</u>
Net non-operating revenue	<u>4,477,785</u>	<u>4,814,169</u>
Change in Net Position	2,331,686	4,210,870
Net Position, Beginning of Year	<u>19,705,923</u>	<u>15,495,053</u>
Net Position, End of Year	<u>\$ 22,037,609</u>	<u>\$ 19,705,923</u>

These statements contain the income and expenses of the Port Authority's operations.

The Port Authority's net position increased by \$2,331,686 for the year ended June 30, 2023. The increase can be attributed to capital grants of \$3.1 million and a gain on disposal of capital assets of \$949,348 offset by extensive repairs necessary in the current year.

Changes in net position over time may serve as a useful indicator of the Port Authority's financial position. The Port Authority's assets exceeded liabilities and deferred inflows of resources by \$22,037,609 at June 30, 2023.

By far, the largest portion of the Port Authority's net position reflect its investment in capital assets comprised of land, streets, utilities, docks, and waterway channel improvements, net of related outstanding debt used to acquire those assets. The Port Authority uses these capital assets to operate the Port, enabling it to provide transportation and other services and to develop land for lease to industries for the creation of jobs and area economic development activities. Various Port Authority property included in the capital assets generates both operating income and non-operating income.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found starting on page 16 of this report.

Capital Asset and Debt Administration

Capital Assets

The largest portion of the Port Authority's total assets reflects its investment in capital assets of \$20,380,181, or 62%, of total assets and \$16,976,613 (as restated), or 57%, of total assets at June 30, 2023 and 2022, respectively. This investment in capital assets includes land, buildings, infrastructure of streets, utilities, railroad, docks and waterway channel improvements, and machinery and equipment. In fiscal year 2023, construction in progress was for Rail Access Project, Port Infrastructure, Levee Project, Port Roads Project, and Smith Ferry Road Project. See Note 4 to the financial statements.

Long-term Debt

At June 30, 2023 and 2022, the Port Authority had total debt outstanding of \$790,227 and \$892,592, respectively. Proceeds of the various debt instruments were to facilitate the purchase of real estate as well as construction of the facilities, railspur, road improvements and for equipment located at the Port. There was no new debt in the current year. See Note 5 to the financial statements.

Other Developments

During the fiscal year ending June 30, 2019, the Authority received notice of a federal grant award in the amount of \$5,789,210. The USDOT BUILD grant funds will be used to modernize rail access to the Port of Muskogee and expand the capacity of the Port Railcar Marshaling yard. The grant has a non-federal match requirement in the amount of \$5,789,210. The non-federal cost share partners are as follows:

- City of Muskogee Foundation - \$3,000,000
- City of Muskogee Capital Improvements Project - \$500,000
- Oklahoma Development Finance Authority - \$2,100,000
- Muskogee City-County Port Authority - \$189,210

During the fiscal year ending June 30, 2021, the Authority received notice of a federal grant award in the amount of \$4,900,000 from Economic Development Administration (EDA) for the purpose of raising the elevation of Tract D and construction of a certified levee to protect other lands and facilities at the Port of Muskogee. The grant has a non-federal match requirement in the amount of \$4 million. Additionally, the Authority received a non-federal cost share grant in the amount of \$800,000 from Oklahoma Development Finance Authority, leaving the Authority with a grant match liability in the amount of approximately \$1 million. The non-federal cost share partners are as follows:

- Oklahoma Development Finance Authority - \$800,000
- Muskogee City-County Port Authority - Approximately \$1,000,000

Further, during the fiscal year ending June 30, 2023, the Authority received a notice of a federal grant award in the amount of \$23.9 million from PIDP for the purpose of waterfront infrastructure. The Authority received a non-federal cost share grant in the amount of \$6,000,000.

The grant awards are based on estimated project costs which may ultimately be more or less than the actual project costs, resulting in the rebalancing of the federal and non-federal cost share and the Authority's grant match liability.

Economic Factors and Next Year's Budget

The Port Authority has entered into long-term lease agreements with approximately 20 tenant industries and operators. Payments for current land leases and operating agreements for leasing Port improvements are scheduled to generate annual revenues of \$2,774,890 for each of the fiscal years 2024, 2025 and 2026. It is expected that expiring leases will be renewed at higher rates. The Port Authority earns additional revenues from railroad and barge shipping activities and, in certain agreements, revenues earned by operators of Port Authority facilities.

The Port Authority approves its operating budget each year in June. The budget for the fiscal year ending June 30, 2024, projects total revenues of \$2,274,890, total expenses of \$2,191,400, and net income of \$85,588. Lease income is projected to be \$985,340 and port fee to be \$830,000. Industrial development is estimated to be at \$1,233,500.

Requests for Information

This financial report is designed to provide a general overview of the Port Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Muskogee City-County Port Authority, P.O. Box 2819, Muskogee, Oklahoma, 74402.

Muskogee City-County Port Authority

Statement of Net Position

June 30, 2023

Assets	
Current Assets	
Cash and cash equivalents	\$ 2,968,401
Restricted cash	1,840,489
Receivables, net	
Lease	467,286
Accounts	193,183
Interest	32,962
Construction deposit	2,329,918
Prepaid expenses	48,216
	<hr/>
Total current assets	7,880,455
Lease receivables, net of current portion	4,721,300
Capital Assets, Non-depreciable	9,430,877
Capital Assets, Net of Depreciation	10,949,304
	<hr/>
Total assets	32,981,936
	<hr/>
Liabilities	
Current Liabilities	
Accounts payable and accrued expenses	2,530,018
Unearned revenue	2,628,944
Current portion of long-term debt	99,118
	<hr/>
Total current liabilities	5,258,080
Long-term Debt, Net of Current Portion	691,109
	<hr/>
Total liabilities	5,949,189
	<hr/>
Deferred Inflows of Resources	
Deferred inflows - leases	4,995,138
	<hr/>
Total Deferred Inflows of Resources	4,995,138
	<hr/>
Net Position	
Net investment in capital assets	19,589,954
Unrestricted	2,447,655
	<hr/>
Total net position	\$ 22,037,609
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See Notes to Financial Statements

Muskogee City-County Port Authority
Statement of Revenues, Expenses and Changes in Net Position
June 30, 2023

Operating Revenues	
Port fees - rail and barge	\$ 840,605
Lease income	735,948
Industrial development	480,000
Other	210,795
	<u>2,267,348</u>
Operating Expenses	
Personnel	1,224,580
General and administrative	688,877
Repairs and maintenance	2,117,284
Depreciation and Amortization	382,706
	<u>4,413,447</u>
Operating loss	<u>(2,146,099)</u>
Non-operating Revenue (Expense)	
Interest income	474,304
Interest expense	(29,126)
Capital grants	3,083,259
Gain on disposal of assets	949,348
	<u>4,477,785</u>
Change in Net Position	2,331,686
Net Position, Beginning of Year, as previously reported	18,660,976
Prior period adjustments (See Note 9)	1,044,947
	<u>19,705,923</u>
Net Position, Beginning of Year, as restated	19,705,923
Net Position, End of Year	<u>\$ 22,037,609</u>

See Notes to Financial Statements

Muskogee City-County Port Authority

Statement of Cash Flow

June 30, 2023

Operating Activities	
Cash received from customers	\$ 2,753,317
Cash paid to suppliers	(2,450,830)
Cash paid for salaries, employee benefits and taxes	<u>(1,204,066)</u>
Net Cash used in Operating Activities	<u>(901,579)</u>
Capital and Related Financing Activities	
Interest received on leases	341,695
Intergovernmental grants	3,080,491
Advance paid on construction project	(2,329,918)
Acquisition of capital assets	(2,686,493)
Proceeds from sale of capital assets	1,066,848
Principal payments on long-term debt	(102,365)
Interest paid	<u>(29,126)</u>
Net Cash used in Capital and Related Financing Activities	<u>(658,868)</u>
Investing Activities	
Interest received on investments	<u>134,280</u>
Net Cash from Investing Activities	<u>134,280</u>
Net Change in Cash and Cash Equivalents	(1,426,167)
Cash and Cash Equivalents, Beginning of Year	<u>6,235,057</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 4,808,890</u></u>
Cash and Cash Equivalents is comprised of the following:	
Cash and cash equivalents	\$ 2,968,401
Restricted cash	<u>1,840,489</u>
	<u><u>\$ 4,808,890</u></u>

See Notes to Financial Statements

Muskogee City-County Port Authority

Statement of Cash Flow

June 30, 2023

Reconciliation of Operating Loss to Net	
Cash from Operating Activities	
Operating loss	<u>\$ (2,146,099)</u>
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation and amortization	382,706
Changes in assets and liabilities	
Lease receivables	358,073
Accounts receivable	209,089
Other receivables	386,925
Prepaid expenses	(14,553)
Accounts payable and accrued expenses	375,845
Deferred inflows of resources	<u>(453,565)</u>
Total adjustments	<u>1,244,520</u>
Net Cash used in Operating Activities	<u><u>\$ (901,579)</u></u>

Muskogee City-County Port Authority
Statement of Changes in Fiduciary Net Position – Fiduciary Fund
Year Ended June 30, 2023

Additions:	
Investment income:	
Dividends and interest	2
Total additions	2
Deductions:	
Benefits paid and rollovers	194,345
Total deductions	194,345
Net Change in fiduciary net position	(194,343)
Net Position restricted for 401(a) plan, Beginning of Year	194,343
Net Position restricted for 401(a) plan, End of Year	\$ -

This fund was liquidated in year ended June 30, 2023.

Note 1 - Significant Accounting Policies**Organization and Reporting Entity**

The Muskogee City-County Port Authority (the Port 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. 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. Terms of office are for one year beginning each July 1st and the positions are eligible for re-election. The Chair's 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 her 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.

Approximately 67% of the Port Authority's receivables as of June 30, 2023, is from three customers.

The Port Authority has no component units, as defined by the Governmental Accounting Standards Board (GASB).

The Port Authority is a component unit of the City of Muskogee, Oklahoma. These financial statements do not purport to, and do not present fairly, the financial position of the City of Muskogee, Oklahoma.

Fiduciary fund

Fiduciary funds are used to report resources held by the Port in a purely custodial capacity. The Muskogee City-County Port Authority Profit Sharing Plan (PSP) is a trust controlled by the Port Authority for the exclusive benefit of eligible employees and their beneficiaries with the intention to provide a measure of retirement security. The PSP has a fiscal year-end of December 31; however, the accompanying Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position reflect the PSP as of and for the twelve months ended June 30, 2023. With the creation of the 457(b) plan, the PSP was no longer receiving contributions and funds were rolled into the new plan or paid out to the participants based on elections made by the participants. As of July 31, 2022, all the assets had been distributed according to plan provisions and has been fully liquidated as of June 30, 2023.

Basis of Accounting

The activities of the Port Authority are accounted for in a proprietary fund. Proprietary funds are used to account for a government's ongoing organizations and activities that are similar to those found in the private sector. The measurement focus is on the determination of net income, financial position, and cash flows. As a result, the Port Authority uses the accrual method of accounting, whereby revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Port Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues consist of lease revenue from tenants and other revenue from usage of the Port. Operating expenses are costs associated with operating the Port Authority. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and on deposit and investments with initial maturities of three months or less. Restricted cash represents deposits which are not freely available for use by the Authority and are instead held for a specific purpose, typically grant funded activities.

Fair Value Measurements

The Port Authority follows the guidance of GASB Statement No. 72, *Fair Value Measurement and Application*, which provides guidance for determining a fair value measurement for financial reporting purposes. The Port Authority categorizes its assets and liabilities measured at fair value within the hierarchy established by generally accepted accounting principles. Assets and liabilities valued at fair value are categorized based on inputs to valuation techniques as follows:

Level 1 input – Quoted prices for identical assets or liabilities in an active market that an entity has the ability to access.

Level 2 input – Quoted prices for similar assets or liabilities in active markets and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 input – Inputs that are unobservable for the asset or liability which are typically based upon the Authority's own assumptions as there is little, if any, related market activity.

Hierarchy – The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

Inputs – If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

Accounts Receivable

Accounts receivable reflect the amounts owed for tonnage, port fee, rail operations and other reimbursable project expenditures. Accounts receivable are short-term, non-interest bearing, and uncollateralized and are considered past due after 30 days. An allowance for doubtful accounts is established by management, based on past experience and analysis of current receivable collectability and estimated to be \$43,222 as of June 30, 2023.

Lease Receivables and Deferred Inflow of Resources

The Authority, as a lessor, recognizes a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. The lease receivable is measured at the present value of the lease payments expected to be received during the lease term. The deferred inflow of resources is measured as the value of the lease receivables in addition to any payments received at or before the commencement of the lease term that relate to future periods.

The amortization of the lease receivable and the recognition of the related interest revenue of each financing arrangement is determined using the effective interest method. Any payments received are allocated first to the interest receivable and then to the lease receivable.

Deferred inflows of resources are recognized as inflows of resources (example, revenue) coinciding with the reduction of the lease receivables determined by the effective interest method. Interest income resulting from these lease financing arrangements is presented in the non-operating revenues section on the Statement of Revenues, Expenses, and Changes in Net Position.

Capital Assets

Capital assets are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the respective assets ranging from 3 to 40 years. Maintenance and repairs are charged to expense as incurred, whereas renewals and betterments are generally capitalized. Donated property is capitalized at its acquisition value at the date of the gift. The Port Authority follows the practice of capitalizing items over \$5,000 with a useful life of more than one year. Interest incurred during the construction phase of capital assets of the enterprise activities is expensed in accordance with GASB Statement No. 89.

The Port Authority records impairments to its capital assets when it becomes probable that the carrying value of the assets will not be fully recovered over their estimated lives. Impairments are recorded to reduce the carrying value of the assets to their estimated fair values, as determined by the Port Authority, based on facts and circumstances in existence at the time of the determination, estimates of probable future economic conditions, and other information. No impairments were recorded in 2023.

Unearned Revenue

Unearned revenue represents payments and/or revenue received but not yet recognized since it has not yet been earned.

Deferred Inflows of Resources

A deferred inflow of resources is an acquisition of a government's net position (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The Port Authority records deferred inflows of resources for certain long-term leases.

Net Position

Net position represents the difference between assets, liabilities, and deferred inflows of resources. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Port Authority or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. As of June 30, 2023, there was no restricted net position. Unrestricted net position is net position that does not meet the definition of "net investment in capital assets" or "restricted net position."

Compensated Absences

The Authority does not accrue compensatory time for exempt employees. There is no allowance for carryover of compensatory time.

Capital Grants

Certain expenditures of the Port Authority are funded through various grants from local, state, and federal sources. These grants are considered earned as the related allowable expenses are incurred. Grants for capital asset acquisition and construction are reported in the statements of revenues, expenses, and changes in net position as capital grants.

During the year ended June 30, 2023, capital grants were for expenditures incurred in connection with the Rail Access Project, Port Infrastructure, Levee Project, and Port Roads Project.

Operating revenues

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 operating revenue consists of recurring rentals from pasture and residence.

The Authority has a contract with the City of Muskogee to oversee the management and direction of industrial development for the city. Under the contract the Authority is reimbursed for its expenses related to this activity.

Use of Estimates

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

Implementation of New Standard

As of July 1, 2022, the Port Authority adopted GASB Statement No. 96, *Subscription Based Information Technology Arrangements*. The objective of the Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for subscription-based information technology agreements by governments. The impact to the Port Authority had no significant effect on the financial statements.

Note 2 - Cash and Cash Equivalents and Investments

The deposit balances of the Port Authority, which consist of cash balances, are categorized below to give an indication of the level of custodial credit risk assumed by the Port Authority at June 30, 2023.

Level of risk	
Insured by the Federal Deposit Insurance Corporation	\$ 250,000
Collateralized with securities held by the pledging financial institution in the Port Authority's name	4,643,640
Total bank balances	\$ 4,893,640
Total book balances	\$ 4,808,890

It is the policy of the Port Authority to invest funds in insured or collateralized time-deposit accounts and direct obligations of the United States government. The Port Authority has certain guidelines, but no formal policies regarding credit risk, custodial risk, concentration of credit risk, and interest rate risk.

Note 3 - Leases

Lessor

The Port Authority functions as a landlord whose primary operations consist of leasing the Muskogee City-County Port. Based on the standards established by GASB Statement No. 87, *Leases*, the Port Authority is the lessor of nine lease agreements with private entities meeting the classification requirements of long-term leases. For each of these leases, the Port Authority recognizes a lease receivable and a deferred inflow of resources. The discount rates used for the present value calculations for the leases is as follows:

1-3 years	3.25%
4-5 years	3.50%
6-10 years	4.25%
11-15 years	5.25%
16-20 years	5.75%
21+ years	6.00%

In general, the Port Authority's leasing arrangements typically include one or more of the following sources of income: base rental revenue and additional rentals for throughput and railroad maintenance. To determine the schedule of future payments necessary to calculate the present value of each lease receivable, only base rental revenues and guaranteed portions of throughput are included. If a particular lease includes predetermined "step" increases for base rent throughout the lease term this information is included in the present value calculation. If base rent increases are based upon an index (such as the Consumer Price Index), future increases are not included in the present value calculation. These future increases will be recognized as inflows of resources (revenue) in the periods to which they relate. The lease terms used in the calculations begin in the year immediately preceding the first year of the presentation of these financial statements. The end dates used in the calculations for each lease are either the end of the lease, the end of the lease including options to extend assuming these options meet the definition of noncancelable periods and are reasonably certain to be exercised, the end of the initial term if extensions are considered to be cancelable periods, or the useful life of the underlying assets. For the year ended June 30, 2023, lease related revenues (not including short-term leases) are recognized as follows:

Base rental revenue	\$ 607,063
Guaranteed throughput	59,209
Interest	<u>303,191</u>
 Total	 <u><u>\$ 969,463</u></u>

Additionally, \$171,113 was recognized for the year ended June 30, 2023 for variable throughput and railroad fees.

Muskogee City-County Port Authority

Notes to Financial Statements

June 30, 2023

The schedule of future payments that are included in the measurement of the lease receivable, showing principal and interest separately, for each of the five subsequent fiscal years and in five-year increments thereafter are as follows:

For the fiscal year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 467,286	\$ 289,446	\$ 756,732
2025	295,039	271,071	566,110
2026	311,909	254,200	566,109
2027	278,573	236,983	515,556
2028	241,685	222,883	464,568
2029 - 2033	780,102	960,604	1,740,706
2034 - 2038	262,250	812,029	1,074,279
2039 - 2043	353,736	720,544	1,074,280
2044 - 2048	477,135	597,143	1,074,278
2049 - 2053	643,586	430,696	1,074,282
2054 - 2058	794,097	206,289	1,000,386
2059 - 2063	119,241	68,258	187,499
2064 - 2068	160,840	26,660	187,500
2069 - 2073	3,107	16	3,123
	<u>\$ 5,188,586</u>	<u>\$ 5,096,822</u>	<u>\$ 10,285,408</u>

GASB No. 87 Excluded Leases Short-Term

In accordance with GASB No. 87, the Port Authority does not recognize a lease receivable and a deferred inflow of resources for short-term leases. Short-term leases are certain leases that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised.

Note 4 - Capital Assets

Activity in capital assets for the year ended June 30, 2023, was as follows:

	June 30, 2022 (As Restated)	Increases	Decreases	June 30, 2023
Real estate and land improvement	\$ 3,075,761	\$ 3,070	\$ (117,500)	\$ 2,961,331
Construction in progress (not depreciated)	2,862,385	3,607,161	-	6,469,546
Total non-depreciable assets	5,938,146	3,610,231	(117,500)	9,430,877
Port	6,909,214	-	-	6,909,214
Buildings	1,727,809	-	-	1,727,809
Railway and Rail Equipment	2,024,904	-	-	2,024,904
Vehicles & General Maintenance Equipment	286,890	14,639	-	301,529
Three Forks Harbor and Marina	5,067,750	269,104	-	5,336,854
River Center and Office Equipment	1,231,724	9,800	-	1,241,524
Industrial Development	11,211	-	-	11,211
Total depreciable assets	17,259,502	293,543	-	17,553,045
Less accumulated depreciation for				
Port	(2,318,978)	(125,738)	-	(2,444,716)
Buildings	(1,055,586)	(41,962)	-	(1,097,548)
Railway and Rail Equipment	(1,359,249)	(47,448)	-	(1,406,697)
Vehicles & General Maintenance Equipment	(203,569)	(25,095)	-	(228,664)
Three Forks Harbor and Marina	(1,180,633)	(109,381)	-	(1,290,014)
River Center and Office Equipment	(93,378)	(32,634)	-	(126,012)
Industrial Development	(9,642)	(448)	-	(10,090)
Total accumulated depreciation	(6,221,035)	(382,706)	-	(6,603,741)
Total capital assets, net	\$ 16,976,613	\$ 3,521,068	\$ (117,500)	\$ 20,380,181

Construction in progress consists of expenditures incurred in connection with projects undertaken and incomplete at June 30, 2023. These include Rail Access Project, Port Infrastructure, Levee Project, and Smith Ferry Road Project.

Note 5 - Long-term Liabilities

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

Note payable to Oklahoma Development Finance Authority requiring monthly payments of \$7,076, including interest, and matures October 2028. The note carries an adjustable interest rate of prime less 1%, that goes into effect each November 1. The rate was 2.25% as of June 30, 2023. The note is secured by revenues generated by the Port Authority	\$ 429,886
Note payable to Oklahoma Industrial Finance Authority requiring monthly payments of \$3,442, including interest, and matures April 2033. The note carries an adjustable interest rate of prime less 1%, with a floor of 2.5%. The new rate goes into effect each May 1. The rate was 2.5% as of June 30, 2023. The note is secured by revenues generated by the Port Authority	<u>360,341</u>
Total long-term debt	790,227
Less current portion	<u>(99,118)</u>
Long-term debt, less current portion	<u><u>\$ 691,109</u></u>

Muskogee City-County Port Authority

Notes to Financial Statements

June 30, 2023

At June 30, 2023, debt service requirements of the Port Authority were as follows (interest requirements are estimated based on the interest rate in effect as of June 30, 2023):

Year ended June 30,	Principal	Interest
2024	\$ 99,118	\$ 45,247
2025	103,904	39,480
2026	110,017	33,368
2027	116,496	26,889
2028	153,891	20,355
2029-2033	206,801	37,728
Total	\$ 790,227	\$ 203,067

The Port Authority's borrowings contain a provision that the outstanding borrowings are due immediately upon the occurrence or existence of (1) payments required by the Note agreements are not made when due or the occurrence or existence of any event which results in acceleration of the maturing of and obligation of any notes or (2) when, in the judgment of the note holder, the collateral becomes unsatisfactory or insufficient either in character or value and, upon request, the Authority fails to provide additional collateral as required by the holder.

The Authority holds a line of credit for \$2.5 million with BancFirst with a maturity date of February 3, 2028, and a variable interest rate of the prime rate. No borrowings have occurred as of June 30, 2023. Subsequent to year-end, approximately \$2.2 million was drawn on the line of credit.

Subsequent to year-end, the Authority executed a new note payable for \$1.89 million with Armstrong Bank with a maturity date of December 29, 2024, and an interest rate of 7.25%. This note is secured by Port Authority's property and guaranteed by the City of Muskogee Foundation.

Conduit Debt

The Port Authority acted as an agent for an Oklahoma corporation in financing transactions between the corporation and a financial institution located in Texas. The amount was issued as a revenue bond in the amount of \$6 million in June 1998 with final maturity in May 2023. In management's opinion, the Port Authority has no obligation under this debt and, therefore, liabilities have not been recorded in the Port Authority's financial statements. The outstanding amount was paid off in May 2023.

The long-term liability balances and activity for the year ended June 30, 2023, were as follows:

	<u>June 30, 2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2023</u>	<u>Amount Due Within One</u>
Notes payable	\$ 892,592	\$ -	\$ 102,365	\$ 790,227	\$ 99,118
Total long-term liabilities	<u>\$ 892,592</u>	<u>\$ -</u>	<u>\$ 102,365</u>	<u>\$ 790,227</u>	<u>\$ 99,118</u>

Note 6 - Risk Management

The Port Authority is exposed to various risks of loss related theft of, damage to, and destruction of assets; errors and omissions and natural disasters for which the Port Authority carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

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 a 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 7 - Commitments and Contingencies

In the normal course of operations, the Port Authority receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of audits of grant funds is not believed to be material.

The Port Authority is a defendant in various lawsuits. Although the outcome of such lawsuits is not presently determinable, management believes the resolution of these matters will not have a material adverse effect on the financial condition of the Port Authority.

Note 8 - Postemployment Benefits Plans and Health Insurance

The Authority terminated its qualified profit-sharing plan during the year ended June 30, 2023. The participants elected to roll-over the funds into the newly created 457(b) Plan, or receive a distribution related to their account benefits. The 457(b) Plan is a qualified deferred compensation retirement plan that is available for governments and certain nongovernment employers. This plan allows qualifying employee contributions into it on a pretax or after-tax basis.

The Authority provides group health insurance for its employees. Each electing employee must pay ten percent. Employees must also pay 100% of any premiums for dependents. Such amounts were approximately \$15,000 for the year ended June 30, 2023.

Note 9 - Correction of Error

Net Position as of July 1, 2022, has been restated as follows for the below items. These adjustments were necessary to properly state capital assets, grant revenue, and unearned revenue.

Beginning Net Position - as Originally Presented	\$ 18,660,976
Correction of errors:	
Adjustment to record unearned revenue as grant revenue prior to June 30, 2022	580,640
Adjustment to record capital costs that should have been accrued as of June 30, 2022	<u>464,307</u>
	<u>1,044,947</u>
Beginning Net Position - as Restated	<u><u>\$ 19,705,923</u></u>

As a result of the restatement of capital assets and grant activity, the Change in Net Position for the year ended June 30, 2022 would have increased by \$1,044,947.



Other Report
June 30, 2023

Muskogee City-County Port Authority



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 Directors
Muskogee City-County Port Authority
Muskogee, 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 Muskogee City-County Port Authority (the Port Authority), which comprise the statement of net position as of June 30, 2023, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 19, 2024. Our report includes an emphasis of matter paragraph describing the acknowledgement that the Port Authority’s financial statements reflect only the assets, liabilities, and revenues and expenses of the Port Authority and not the Muskogee City-County Port Authority.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Port Authority’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 Port Authority’s consolidated 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 identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2023-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Port Authority'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 Port Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma
January 19, 2024



Independent Auditor’s Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors
Muskogee City-County Port Authority
Muskogee, Oklahoma

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Muskogee City-County Port Authority’s (the Port Authority) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on Port Authority’s major federal program for the year ended June 30, 2023. The Port Authority’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, Muskogee City-County Port Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2023.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Port Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Port Authority’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Port Authority's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Port Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Port Authority's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Port Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Port Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Port Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-002 to be material weaknesses.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Port Authority's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Port Authority's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

The image shows a handwritten signature in black ink that reads "Eric Sully LLP". The signature is written in a cursive, professional style.

Oklahoma City, Oklahoma
January 19, 2024

Muskogee City-County Port Authority
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Grantor's Project Number	Federal Grant Expenditures
U.S. Department of Transportation			
Direct Program:			
National Infrastructure Investments: Better Utilizing Investments to Leverage Development (BUILD) Grant	20.933	N/A	\$ 2,222,424
Total U.S. Department of Transportation			<u>2,222,424</u>
U.S. Department of Commerce			
Direct Program:			
Economic Development Cluster: Economic Adjustment Assistance	11.307	N/A	<u>137,862</u>
Total U.S. Department of Commerce			<u>137,862</u>
Total Expenditures of Federal Awards			<u>\$ 2,360,286</u>
Total Expenditures of Federal Awards under Cash Basis of Accounting			\$ 2,360,286
Prior year accruals paid in current fiscal year			(510,663)
Current year accruals not paid in current fiscal year			<u>1,217,281</u>
Total Expenditures of Federal Awards under Generally Accepted Accounting Principles			<u>\$ 3,066,904</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Muskogee City-County Port Authority (the Authority) under programs of the federal government for the year ended June 30, 2023. The information is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Muskogee City-County Port Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of Muskogee City-County Port Authority.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the cash basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

No federal financial assistance has been provided to a subrecipient.

Note 3 - Indirect Cost Rate

The Authority does not draw for indirect administrative expenses and has not elected to use the 10% de minimus cost rate.

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of independent auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified?	Yes
Significant deficiencies identified not considered to be material weakness?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness identified?	Yes
Significant deficiencies identified not considered to be material weakness?	None Reported
Type of independent auditor's report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance 2 CFR 200.516(a)?	Yes

Name of Federal Program	Federal Financial Assistance Listing
National Infrastructure Investments: Better Utilizing Investments to Leverage Development (BUILD)	20.933
Dollar threshold used to distinguish between Type A and Type B programs:	\$ 750,000
Auditee qualified as low-risk auditee	No

Section II – Financial Statement Findings

**2023-001 Material Adjustments
Material Weakness in Financial Reporting**

Criteria: The development and implementation of a year-end financial reporting control system, including proper identification and recognition of revenue amounts, is the responsibility of the Authority’s management.

Governmental Accounting Standards Board (GASB) requires that revenue from expenditure-driven (reimbursement) grants, including those used for capital projects, should be recognized as expenditures or capitalized costs are incurred, provided all other eligibility requirements are met. Thus, the revenue recognized should be when the underlying capitalizable expenditures (or normal expenditures) are incurred.

Condition: The Authority’s financial reporting control system in place for FY2023 did not identify all required adjustments required in order for the financial statements to be presented in accordance with generally accepted accounting principles (GAAP), including two prior period adjustments.

In addition to grant transactions, certain liabilities that were required to be accrued were not accrued as of year-end. Additionally, certain adjustments to the schedule of expenditures of federal awards were necessary to properly state the schedule under the cash basis of accounting as presented by the Authority.

Cause: There was a lack of proper reconciliation of grant activity to ensure grant revenue, deferred revenue, and construction in progress for capital grants, as well as for the schedule of federal expenditures. Further, procedures to record proper accruals in order to be in compliance with GAAP were not in place.

Effect: Material adjustments, including restatement of prior period amounts, by the auditors were necessary to correctly present the financial statements for grant revenue, deferred revenue, construction-in-progress, and accounts payable.

Recommendation:

We recommend that management design a revenue recognition process to recognize revenue when eligibility requirements are met on a reimbursement basis rather than on a receipt basis. Further, the Authority should continue to evaluate and weigh the costs and benefits of developing and implementing a year-end financial reporting system. The year end financial reporting process should include procedures to identify and record entries in accordance with GAAP.

Views of Responsible

Officials: Management agrees with the finding.

Section III – Federal Award Findings and Questioned Costs

2023-002 **U.S. Department of Transportation,
National Infrastructure Investments: Better Utilizing Investments to Leverage Development
(BUILD) Grant
Assistance Listing Number 20.933**

**Procurement
Material Weakness in Internal Control over Compliance**

Criteria: 2 CFR 200.303(a) establishes that the auditee must establish and maintain effective internal control over the federal award the provides assurance that the entity is managing the federal award in compliance with federal statutes, regulations and conditions of the federal award.

Non-federal entities other than states, including those operating federal programs as subrecipients of states, must follow the procurement standards set out at 2 CFR sections 200.318 through 200.326. They must use their own documented procurement procedures, which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable federal statutes and the procurement requirements identified in 2 CFR Part 200.

Effective May 14, 2022, the non-Federal entity must ensure that all applicable programs comply with section 70914 of the Build America, Buy America (BABA) Act, including through incorporation of a Buy America preference in the terms and conditions of each award with an infrastructure project.

Condition: The Port Authority’s formally documented policy pre-dates Uniform Guidance and does not include many of the necessary procurement provisions.

Cause: The Port Authority does not have a policy in place under the most current regulations for the federal programs the Port Authority administrates.

Effect: The Port Authority does not have a policy in place and is at risk for not being in accordance with federal regulations for the federal programs the Port Authority administrates.

However, note that the Port Authority does use an engineering firm that appears to be following a policy that is up-to-date with federal regulations for this federal program.

Questioned costs:
None reported.

Context: Procurement requirements were applicable to 1 vendor for this program in FY2023.
The vendor appears to have bidding documents in accordance with federal regulations,
including the BABA Act.

Repeat Finding
From Prior Year: No

Recommendation: The policy should be updated to include all federal requirements for
procurement and updated on a regular basis as those regulations change.

Views of
Responsible Officials: We agree with the finding.