

Financial Statements

June 30, 2022

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 accompanying financial statements of Muskogee City - County Port Authority (the Port Authority) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Muskogee City-County 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 respective financial position of Muskogee City - County Port Authority, as of June 30, 2022, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (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 for the Audit of the Financial Statements section of our report. We are required to be independent of Muskogee City - County Port Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Adoption of New Accounting Standard

As discussed in Note 1 to the financial statements, the Port Authority has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended June 30, 2022. No restatements were necessary with regards to this new standard. Our opinions are not modified with respect to this matter.

Correction of Errors

As discussed in Note 11 to the financial statements, certain errors resulting in an overstatement of amounts previously reported for capital assets as of June 30, 2021, 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, 2021, 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 the 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 Muskogee City - County 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 opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 Muskogee City - County 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 Muskogee City - County 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 4 through 8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2023 on our consideration of the Muskogee City - County 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 Muskogee City - County 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 Muskogee City - County Port Authority's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma
January 24, 2023

Management's Discussion and Analysis
June 30, 2022

Muskogee City-County Port Authority

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, 2022. 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, 2021, to correct errors previously reported in the financial statements. The corrections impacted capital assets and net position. See Note 11 to the financial statements for more information. The 2021 condensed statement of net position was also restated for the impact of the implementation of Government Accounting Standards Board Statement (GASB) No. 87. See Note 1 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 2022 fiscal year by \$18,660,976 (net position). Of this amount, \$3,041,262 (unrestricted net position), or 16.3%, 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 2021 fiscal year by \$15,495,053, as restated.
- The Port Authority's net position increased by \$3,165,923 for the year ended June 30, 2022. The Port Authority's net position increased by \$1,116,646 for the year ended June 30, 2021.
- Operating revenues for year ended June 30, 2022, decreased by \$141,569 compared to the previous year. The decrease was primarily due to a decrease in lease income resulting from the impact of the implementation of GASB No. 87.
- For the year ended June 30, 2022, 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 the sale of real estate, capital grants and flood loss recovery. Expenses were slightly more than the budget expectations due to rail and locomotive maintenance.
- Net non-operating revenue (expense) for year ended June 30, 2022, increased by \$2,758,234 compared to the previous year. The increase is attributable to gains related to the disposal of capital assets.

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 (PSP).

The assets and net position of the PSP decreased by \$614,674 for the fiscal year ended June 30, 2022. The assets

and net position of the PSP increased by \$85,008 for the fiscal year ended June 30, 2021. The PSP is invested in cash and cash equivalents and mutual funds, and held by two custodians.

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, 2022 and 2021

	2022	As restated 2021
Current Assets	\$ 7,695,451	\$ 3,021,655
Leases receivable, net of current portion	4,943,758	5,546,659
Capital Assets, Net	16,512,306	16,341,680
	<hr/>	<hr/>
Total assets	29,151,515	24,909,994
	<hr/>	<hr/>
Current Liabilities	4,253,410	2,199,391
Non-current Liabilities	788,426	1,068,424
	<hr/>	<hr/>
Total liabilities	5,041,836	3,267,815
	<hr/>	<hr/>
Total Deferred Inflows of Resources	5,448,703	6,147,126
	<hr/>	<hr/>
Net Position		
Net Investment in Capital Assets	15,619,714	15,046,171
Restricted	-	82,665
Unrestricted	3,041,262	366,217
	<hr/>	<hr/>
Total net position	\$ 18,660,976	\$ 15,495,053
	<hr/>	<hr/>

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.

Changes in Net Position
Years Ended June 30, 2022 and 2021

	2022	2021 *
Revenues		
Operating Revenues		
Port fees - rail and barge	\$ 725,966	\$ 733,812
Lease income	701,362	951,200
Industrial development	409,075	337,346
Other	112,919	68,533
	<u>1,949,322</u>	<u>2,090,891</u>
Expenses		
Operating Expenses		
Personnel	1,161,609	1,101,272
General and administrative	504,575	232,304
Operations	512,010	339,344
Depreciation	374,427	312,313
	<u>2,552,621</u>	<u>1,985,233</u>
Non-operating Revenue (Expense)		
Interest income	355,941	5,950
Interest expense	(32,180)	(33,597)
FEMA flood loss recovery	67,672	587,491
Insurance proceeds	300,000	-
Capital grants	595,143	451,144
Gain on Disposal	2,482,646	-
	<u>3,769,222</u>	<u>1,010,988</u>
Change in Net Position	3,165,923	1,116,646
Net Position, Beginning of Year	15,495,053	14,767,582
Prior period adjustments	<u>-</u>	<u>(389,175)</u>
Net Position, End of Year, as restated	<u><u>\$ 18,660,976</u></u>	<u><u>\$ 15,495,053</u></u>

* Not adjusted for GASB No. 87

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

The Port Authority's net position increased by \$3,165,923 for the year ended June 30, 2022. The increase can be attributed gains on disposal of capital assets.

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 \$18,660,976 at June 30, 2022.

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 15 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 \$16,512,306, or 57%, of total assets and \$16,341,680 as restated, or 66%, of total assets at June 30, 2022 and 2021, 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 2022, construction in progress was for the 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, 2022 and 2021, the Port Authority had total debt outstanding of \$892,592 and \$1,295,509, 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. 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 \$1,650,000. 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 \$850,000. The non-federal cost share partners are as follows:

- Oklahoma Development Finance Authority - \$800,000
- Muskogee City-County Port Authority - \$850,000

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 \$2,140,073 for each of the fiscal years 2023, 2024 and 2025. 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, 2023, projects total revenues of \$2,276,988, total expenses of \$2,191,400, and net income of \$85,588. Lease income is projected to be \$878,453 and port fee to be \$830,000. Industrial development is estimated to be at \$480,000.

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, 2022

Assets

Current Assets

Cash and cash equivalents	\$ 3,128,598
Assigned cash	3,106,459
Lease receivables	602,901
Accounts receivable	402,272
Receivable for flood damage	386,925
Accrued interest receivable	34,633
Prepaid expenses	33,663

Total current assets	7,695,451
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Lease receivables, net of current portion	4,943,758
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Capital Assets, Non-depreciable	5,473,839
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Capital Assets, Net of Depreciation	11,038,467
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Total assets	29,151,515
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Liabilities

Current Liabilities

Accounts payable and accrued expenses	472,585
Unearned revenue	3,676,659
Current portion of long-term debt	104,166

Total current liabilities	4,253,410
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Long-term Debt, Net of Current Portion	788,426
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Total liabilities	5,041,836
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Deferred Inflows of Resources

Deferred inflows - leases	5,448,703
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Total Deferred Inflows of Resources	5,448,703
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Net Position

Net investment in capital assets	15,619,714
Unrestricted	3,041,262

Total net position	\$ 18,660,976
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Muskogee City-County Port Authority
Statement of Revenues, Expenses and Changes in Net Position
June 30, 2022

Operating Revenues	
Port fees - rail and barge	\$ 725,966
Lease income	701,362
Industrial development	409,075
Other	112,919
	<hr/>
Total operating revenues	1,949,322
	<hr/>
Operating Expenses	
Personnel	1,161,609
General and administrative	504,575
Repairs and maintenance	512,010
Depreciation and Amortization	374,427
	<hr/>
Total operating expenses	2,552,621
	<hr/>
Operating loss	(603,299)
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Non-operating Revenue (Expense)	
Interest income	355,941
Interest expense	(32,180)
FEMA flood loss recovery federal grant	67,672
Insurance proceeds	300,000
Capital grants	595,143
Gain on disposal of assets	2,482,646
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Net non-operating revenue (expense)	3,769,222
	<hr/>
Change in Net Position	3,165,923
Net Position, Beginning of Year, as previously reported	15,884,228
Prior period adjustments (See Note 11)	(389,175)
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Net Position, Beginning of Year, as restated	15,495,053
Net Position, End of Year	\$ 18,660,976
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Muskogee City-County Port Authority

Statement of Cash Flow

June 30, 2022

Operating Activities	
Cash received from customers	\$ 1,085,158
Cash paid to suppliers	(1,018,433)
Cash paid for salaries, employee benefits and taxes	(1,161,355)
Net Cash used in Operating Activities	(1,094,630)
Noncapital Financing Activities	
Intergovernmental grants	67,672
Net Cash from Noncapital Financing Activities	67,672
Capital and Related Financing Activities	
Principal and interest received on leases	905,858
Intergovernmental grants	2,360,764
Insurance proceeds	300,000
Acquisition of capital assets	(1,159,547)
Proceeds from sale of capital assets	3,198,868
Principal payments on long-term debt	(402,917)
Interest paid	(34,584)
Net Cash from Capital and Related Financing Activities	5,168,442
Investing Activities	
Interest received on investments	15,917
Net Cash from Investing Activities	15,917
Net Change in Cash and Cash Equivalents	4,157,401
Cash and Cash Equivalents, Beginning of Year	2,077,656
Cash and Cash Equivalents, End of Year	\$ 6,235,057
Cash and Cash Equivalents is comprised of the following:	
Cash and cash equivalents	\$ 3,128,598
Assigned cash	3,106,459
	\$ 6,235,057

Muskogee City-County Port Authority

Statement of Cash Flow

June 30, 2022

Reconciliation of Operating Loss to Net

Cash used in Operating Activities

Operating loss	\$ (603,299)
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Adjustments to reconcile operating loss to net cash used in operating activities	
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Depreciation	374,427
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Changes in assets and liabilities

Accounts receivable	(165,741)
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Prepaid expenses	191
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Accounts payable and accrued expenses	(1,785)
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Deferred inflows of resources	(698,423)
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Total adjustments	(491,331)
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Net Cash used in Operating Activities	\$ (1,094,630)
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Supplemental Information – Noncash Activity

Capital asset additions included in accounts payable	\$ 415,506
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Muskogee City-County Port Authority
Statement of Fiduciary Net Position – Fiduciary Fund
June 30, 2022

Assets

Investments

Cash and cash equivalents	<u>\$ 194,343</u>
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Total Investments	<u>194,343</u>
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Total Net Position restricted for 401(a) plan	<u><u>\$ 194,343</u></u>
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Muskogee City-County Port Authority
Statement of Changes in Fiduciary Net Position – Fiduciary Fund
June 30, 2022

Additions:	
Employer contributions	\$ 328,851
Investment income:	
Dividends and interest	17,993
Realized losses	(13,752)
Unrealized losses	(6)
Other	(1,726)
	<hr/>
Total additions	331,360
	<hr/>
Deductions:	
Benefits paid and rollovers	946,034
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Total deductions	946,034
	<hr/>
Net Change in fiduciary net position	(614,674)
	<hr/>
Net Position restricted for 401(a) plan, Beginning of Year	809,017
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Net Position restricted for 401(a) plan, End of Year	\$ 194,343
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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 operating revenues for the year ended June 30, 2022, came from three customers. Approximately 61% of the Port Authority's accounts receivable as of June 30, 2022, is from one customer.

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, 2022. With the creation of the 457(b) plan in March 2021, the PSP stopped receiving contributions and funds were rolled into the new plan or paid out to the participants based on elections made by the participants. Distributions were made to participants on June 30, 2022. As of June 30, 2022, not all the rollovers to the 457(b) plan had been processed, therefore the fiduciary funds retained funds at year end. Remaining rollovers were completed by July 31, 2022.

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. Assigned 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.

Investments

Investments are stated at fair value, based upon quoted market prices.

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. There is no provision for doubtful accounts or bad debts as there has been no historical evidence of significant problems arising from accounts receivable collection. Accounts receivable are short-term, non-interest bearing, and uncollateralized and are considered past due after 30 days.

Lease Receivables and Related Deferred Inflow of Resources

The Port 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 2022.

Unearned Revenue

Unearned revenue represents payments and/or revenue received by 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, 2022, 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, 2022, capital grants were for expenditures incurred in connection with the Rail Access Project, Port Infrastructure, Levee Project, Port Roads Project, and Smith Ferry Road 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.

Non-operating revenues

FEMA Flood loss recovery represents claims reimbursed from Federal Emergency Management Agency related to extensive damages incurred as a result of catastrophic flooding on the Arkansas River during May and June 2019.

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 Standards

During 2022, the Port Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, retroactive to the year ended June 30, 2021. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The implementation established long-term lease receivables and related deferred inflows of resources for the Port Authority's long-term lease agreements with its tenants.

In January 2020, GASB issued Statement No. 92, *Omnibus 2020* (GASB 92). GASB 92 enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions. GASB 92 was adopted for the reporting period ending June 30, 2022 and did not have a significant effect on the Port Authority's financial statements.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, was issued in June 2020. GASB 97 requires that, for purposes of determining whether a primary government is financially accountable for a potential component unit (except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or other employee benefit plan), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically performs. Appointment of a voting majority is a criterion in existing standards used to determine whether a legally separate entity should be incorporated into the government's financial statements. The component unit determination provisions of GASB 97 were effective in fiscal year 2021. The remaining provisions of GASB 97 were adopted for the reporting period ending June 30, 2022 and did not have a significant effect on the Port Authority's 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, 2022.

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	<u>6,131,545</u>
Total bank balances	<u>\$ 6,381,545</u>
Total book balances	<u>\$ 6,235,057</u>

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.

As of June 30, 2022, the assets of the Fiduciary fund are all categorized as Level 1 fair value measurement.

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, 2022, lease related revenues (not including short-term leases) are recognized as follows:

Base rental revenue	\$ 639,214
Guaranteed throughput	59,209
Interest	<u>340,024</u>
Total	<u><u>\$ 1,038,447</u></u>

Additionally, \$161,877 was recognized for the year ended June 30, 2022, for variable throughput and railroad fees.

Muskogee City-County Port Authority

Notes to Financial Statements

June 30, 2022

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,	Principal	Interest	Total
2023	\$ 602,901	\$ 302,957	\$ 905,858
2024	438,074	275,284	713,358
2025	261,849	259,008	520,857
2026	276,436	244,421	520,857
2027	258,187	229,178	487,365
2028 - 2032	888,995	977,406	1,866,401
2033 - 2037	315,116	795,712	1,110,828
2038 - 2042	326,400	710,380	1,036,780
2043 - 2047	440,264	596,516	1,036,780
2048 - 2052	593,851	442,929	1,036,780
2053 - 2057	801,015	235,765	1,036,780
2057 - 2061	190,985	62,473	253,458
2052 - 2066	121,195	28,805	150,000
2067 - 2069	31,391	1,110	32,501
	<u>\$ 5,546,659</u>	<u>\$ 5,161,944</u>	<u>\$ 10,708,603</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.

Muskogee City-County Port Authority

Notes to Financial Statements

June 30, 2022

Note 4 - Capital Assets

Activity in capital assets for the year ended June 30, 2021, was as follows:

	June 30, 2021 As Restated	Increases	Decreases	June 30, 2022
Real estate and land improvement	\$ 3,931,981	\$ 173,780	\$ (1,030,000)	\$ 3,075,761
Construction in progress (not depreciated)	1,061,660	1,336,418	-	2,398,078
Total non-depreciable assets	4,993,641	1,510,198	(1,030,000)	5,473,839
Port	6,866,851	42,363	-	6,909,214
Buildings	1,727,809	-	-	1,727,809
Railway and Rail Equipment	2,016,404	8,500	-	2,024,904
Vehicles & General Maintenance Equipment	311,114	-	(24,224)	286,890
Three Forks Harbor and Marina	5,067,750	-	-	5,067,750
River Center and Office Equipment	1,217,732	13,992	-	1,231,724
Industrial Development	11,211	-	-	11,211
Total depreciable assets	17,218,871	64,855	(24,224)	17,259,502
Less accumulated depreciation for				
Port	(2,193,240)	(125,738)	-	(2,318,978)
Buildings	(1,013,624)	(41,962)	-	(1,055,586)
Railway and Rail Equipment	(1,311,801)	(47,448)	-	(1,359,249)
Vehicles & General Maintenance Equipment	(205,626)	(22,167)	24,224	(203,569)
Three Forks Harbor and Marina	(1,076,234)	(104,399)	-	(1,180,633)
River Center and Office Equipment	(61,113)	(32,265)	-	(93,378)
Industrial Development	(9,194)	(448)	-	(9,642)
Total accumulated depreciation	(5,870,832)	(374,427)	24,224	(6,221,035)
Total capital assets, net	\$ 16,341,680	\$ 1,200,626	\$ (1,030,000)	\$ 16,512,306

Construction in progress consists of expenditures incurred in connection with projects undertaken and incomplete at June 30, 2022. These include the Rail Access Project, Port Infrastructure, Levee Project, Port Roads Project, and Smith Ferry Road Project.

Note 5 - Long-term Liabilities

At June 30, 2022, 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, 2022. The note is secured by revenues generated by the Port Authority

\$ 500,898

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 3.0% as of June 30, 2022.

The note is secured by revenues generated by the Port Authority

391,694

Total long-term debt

892,592

Less current portion

(104,166)

Long-term debt, less current portion

\$ 788,426

Muskogee City-County Port Authority

Notes to Financial Statements

June 30, 2022

At June 30, 2022, 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, 2022):

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 104,166	\$ 19,932
2024	108,793	17,434
2025	111,349	14,877
2026	113,966	12,260
2027	116,645	9,582
2028-2032	303,602	18,356
2033-2037	34,071	391
Total	<u>\$ 892,592</u>	<u>\$ 92,832</u>

The Port Authority entered into a loan agreement with the City of Muskogee Foundation on May 12, 2020, for \$2,500,000. The proceeds were to be used for the USDOT BUILD Project expenses and flood damage repairs. The loan charged interest at the rate of "Prime Interest Rate" as defined and published in the Wall Street Journal, less .25% basis points adjusted annually. Security for the note was the grants, cost shares from partners and insurance proceeds as repayments. The loan was to be repaid in a single principal payment plus any accrued and unpaid interest. The Port Authority did not draw on the note. The loan matured on May 13, 2022.

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.

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 is \$5.7 million as of June 30, 2022.

Muskogee City-County Port Authority

Notes to Financial Statements

June 30, 2022

The long-term liability balances and activity for the year ended June 30, 2022, were as follows:

	June 30, 2021	Additions	Reductions	June 30, 2022	Amount Due Within One Year
Notes payable	\$ 1,295,509	\$ -	\$ 402,917	\$ 892,592	\$ 104,166
Total long-term liabilities	\$ 1,295,509	\$ -	\$ 402,917	\$ 892,592	\$ 104,166

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, 2022. 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.

Note 9 - Related Party

A member of the board of directors holds an officer position with a bank that holds funds for the Port Authority. The board member also acts as the Port Authority's account sponsor for funds held at that institution.

Note 10 - Accounting Pronouncements*Future Changes in Accounting Pronouncements*

GASB has issued several statements which have not yet been implemented by the Port Authority.

GASB Statement No. 91, *Conduit Debt Obligations* was issued in May 2019. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. GASB 91 will be implemented by the Port Authority in fiscal year 2023 and the impact has not yet been determined.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96). GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The Port Authority will adopt GASB 96 in fiscal year 2023. The Port Authority has not determined the impact of GASB 96 on the financial statements.

Note 11 - Correction of Errors

Net Position as of July 1, 2021, has been restated as follows for the below items. These adjustments were necessary to properly state capital assets. As a result of the restatement of capital assets, the Change in Net Position for the year ended June 30, 2021 would decrease by approximately \$70,000.

Beginning Net Position - as Originally Presented	\$ 15,884,228
Correction of errors:	
Effect of capitalizing property that was improperly expensed in prior years	220,466
Entry to correct accumulated depreciation that was improperly recorded in prior year	(609,641)
	<u>(389,175)</u>
Beginning Net Position - as Restated	<u>\$ 15,495,053</u>

Other Report
June 30, 2022

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 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 Muskogee City-County Port Authority (the Port Authority), as of and for the year then ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Muskogee City-County Port Authority's basic financial statements and have issued our report thereon dated January 24, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Muskogee City-County Port Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Muskogee City-County Port Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Muskogee City-County Port Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2022-01 and 2022-02, to be material weaknesses.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Muskogee City-County Port Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

The Port Authority's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the Port Authority's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The Port 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma
January 24, 2023

**2022-001 Multiple Audit Adjustments
Material Weakness**

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.

Condition: The Organization's financial reporting control system in place for FY2022 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 a prior period adjustment.

The following items were noted:

- Grant Revenue and related deferred revenues
- Property accounts
- Reimbursable Receivable accounts
- Accounts Payable

Cause: There was a lack of control procedures in place to ensure proper presentation in accordance with GAAP. It should be noted that the number of necessary audit adjustments did decrease from the number of audit adjustments for the FY2021 financial statement audit.

Effect: Material adjustments by the auditors were necessary to correctly present the financial statements.

Recommendation:

The Organization 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. Journal entries made within the system should also be reviewed by management. We recommend the use of external contractors if such controls cannot be implemented internally.

Views of Responsible

Officials: Management agrees with the finding.

**2022-002 Lack of Reconciliation of Financial Statement Accounts
Material Weakness**

Criteria: The development and implementation of a year-end financial reporting control system, including proper identification and reconciliation of financial statement accounts, is the responsibility of the Organization's management.

Condition: We noted lack of reconciliations and/or review of reconciliations for most accounts.

Cause: There was a lack of policies and procedures to ensure all required controls for multiple financial statement areas.

Effect: Material adjustments by the auditors were necessary to correctly present the financial statements.

Recommendation:
The Organization should implement a system to reconcile such accounts to the general ledger and ensure proper accounting records are retained to support those amounts, including but not limited to bank statements, prepaid listing, investment statements, payroll and benefit reports, debt amortization schedules, capital lease schedules, compensated absences schedules, and accrued liability schedules.

Views of Responsible

Officials: Management agrees with the finding.