

**CITY OF NOWATA
NOWATA COUNTY, OKLAHOMA**

ANNUAL FINANCIAL STATEMENTS
AND ACCOMPANYING
INDEPENDENT AUDITOR'S REPORTS

FOR THE FISCAL YEAR ENDED
JUNE 30, 2022

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City of Nowata
Nowata County, Oklahoma
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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Nowata, Oklahoma

Opinion

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Nowata, Oklahoma, "the City", as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Nowata, as of June 30, 2022, and the changes in its financial position and, where applicable, cash flows for the year then ended in accordance with the modified cash basis of accounting.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the City, 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 opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting, 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 City'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 generally accepted auditing standards 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 generally accepted auditing standards 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 City'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 City'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.

Basis of Accounting

We draw attention to Note I of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

The combining statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules are 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 December 5, 2022, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 City's internal control over financial reporting and compliance.

 David Chan CPA PLLC

December 5, 2022

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

To the Honorable Mayor and City Council
City of Nowata, Oklahoma

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information the City of Nowata, Oklahoma “the City” as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements as listed in the table of contents.

Report on Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

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 City’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 weakness or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses. (2022-01, 2022-02, 2022-03)

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and questioned costs. (2022-02)

City of Nowata, State of Oklahoma, Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "David Clanin CPA PLLC". The signature is written in a cursive, flowing style.

David Clanin, CPA PLLC
December 5, 2022

City of Nowata, Oklahoma
Schedule of Findings and Questioned Costs
June 30, 2022

Finding 2022-01 Internal Controls over Financial Reporting (Repeat Finding)

CONDITION:

Internal controls were ineffective to detect material misstatements whether due to error or fraud. Material adjusting journal entries were required by the auditor to create a fully adjusted trial balance

CRITERIA:

Internal controls should be designed to properly record and reconcile financial transactions. Furthermore, a properly designed system of internal controls would contain monitoring activities to ensure compliance with internal controls over financial reporting.

CAUSE OF CONDITION:

The City's system of internal controls was not properly designed or placed in service.

EFFECT OF CONDITION:

The City's financial records required material journal entries to be in accordance with the modified cash basis of accounting.

RECOMMENDATION:

The City should develop and place in service a system of internal controls to effectively record, reconcile and monitor financial transactions.

MANAGEMENT'S RESPONSE:

The City is actively looking for a new software suite that is designed for fund-based municipalities. We are looking for one software that can be utilized in all areas instead of our current situation of using multiple systems. Management will also review and update internal controls and put the updated internal control policy into place.

City of Nowata, Oklahoma
Schedule of Findings and Questioned Costs
June 30, 2022

Finding 2022-02 Bank Accounts Were Not Accurately Reconciled (Repeat Finding)

CONDITION:

The City's bank reconciliations for material bank accounts did not tie to the trial balance or general ledger. The Municipal Authority account was off by approximately \$40,000 and the City Operating Account was off by approximately \$13,000.

CRITERIA:

Bank accounts must be reconciled on a monthly basis and should agree to underlying accounting records.

CAUSE OF CONDITION:

It is assumed that transactions were recorded to accounting periods subsequent to reconciliations being performed.

EFFECT OF CONDITION:

The City's unadjusted cash balances were not properly stated.

RECOMMENDATION:

Bank accounts should be reconciled monthly in a timely basis and should be reviewed by the City Council. Once completed, accounting periods should be closed so no transactions are erroneously recorded.

MANAGEMENT RESPONSE:

I will learn how to close the accounting period in QuickBooks after reconciliations are completed. The City will continue to look for fund-based municipal accounting software that will be able to show all of our funds in one company file instead of multiple company files. Reconciliations will be provided to council at regular scheduled meeting

City of Nowata, Oklahoma
Schedule of Findings and Questioned Costs
June 30, 2022

Finding 2022-03 Internal Controls over Cash Disbursements

CONDITION:

There is inadequate documentation of the approval of expenditures and cash disbursements.

CRITERIA:

Approval of expenditures and cash disbursements should be well documented so there is evidence the expenditures were approved by the governing body.

CAUSE OF CONDITION:

The City authorizes expenditures by approving the consent agenda at council meetings however documentation is not maintained to support the actual items that were approved.

EFFECT OF CONDITION:

Documentation to support approval is not adequate.

RECOMMENDATION:

Support should be maintained to identify expenditures that are approved by consent agenda. This could include attaching a disbursement ledger (check register) to the consent agenda and meeting minutes and members of the governing body placing signature(s) on the consent agenda and supporting disbursement ledger.

MANAGEMENT RESPONSE:

Management will start keeping a copy of the check registers with agenda to show what expenditures were approved in the meeting. Items falling under management authority limit will fall under the consent agenda and a ledger provided. Any item over the authorized limit will be listed separately under consent the consent agenda or under an action item separately.

City of Nowata, Oklahoma
Statement of Net Position – Modified Cash Basis
June 30, 2022

ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 589,732	\$ 1,114,374	\$ 1,704,106
Total Current Assets	589,732	1,114,374	1,704,106
Noncurrent Assets:			
Cash and Investments	-	117,522	117,522
Capital Assets:			
Property, Plant and Equipment, net	2,180,364	3,148,839	5,329,203
Total Noncurrent Assets	2,180,364	3,266,361	5,446,725
TOTAL ASSETS	2,770,096	4,380,735	7,150,831
LIABILITIES			
Current Liabilities:			
Current Portion of Bonds Payable	-	105,000	105,000
Current Portion of Notes Payable	-	-	-
Total Current Liabilities	-	105,000	105,000
Noncurrent Liabilities:			
Payable from Restricted Assets:			
Meter Deposits Payable	-	58,761	58,761
Notes Payable	-	-	-
Bonds Payable	-	2,300,000	2,300,000
Total Noncurrent Liabilities	-	2,358,761	2,358,761
TOTAL LIABILITIES	-	2,463,761	2,463,761
NET POSITION			
Net Investment in Capital Assets	2,180,364	743,839	2,924,203
Restricted	88,000	104,259	192,259
Unrestricted	501,732	1,068,876	1,570,608
TOTAL NET POSITION	\$ 2,770,096	\$ 1,916,974	\$ 4,687,070

The accompanying Notes to the Financial Statements are an integral part of this statement

City of Nowata, Oklahoma
Statement of Activities – Modified Cash Basis
June 30, 2022

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Personal	\$ 214,371	\$ -	\$ -	\$ -	\$ (214,371)	\$ -	\$ (214,371)
Maintenance and Operations	899,674	17,482	-	640,855	(241,337)	-	(241,337)
Total Public Safety and Judiciary	1,114,045	17,482	-	640,855	(455,708)	-	(455,708)
Public Safety and Judiciary:							
Fire	459,347	9,818	4,763	-	(444,766)	-	(444,766)
Police	602,537	45,091	-	-	(557,446)	-	(557,446)
Animal Control	67,424	-	-	-	(67,424)	-	(67,424)
Total Public Safety and Judiciary	1,129,308	54,909	4,763	-	(1,069,636)	-	(1,069,636)
Street and Alley	96,939	-	-	-	(96,939)	-	(96,939)
Parks and Recreation	37,669	-	-	-	(37,669)	-	(37,669)
Cemetery	100,347	55,363	-	-	(44,984)	-	(44,984)
Total Governmental Activities	2,478,308	72,391	4,763	640,855	(1,622,283)	-	(1,622,283)
Business-Type Activities:							
Utilities	1,730,147	2,247,973	-	-	-	517,826	517,826
Medical	518,845	663,977	-	-	-	145,132	145,132
Economic Development	14,490	219,953	-	-	-	205,463	205,463
	2,263,482	3,131,903	-	-	-	868,421	868,421
Total	2,492,798	292,344	4,763	640,855	(1,622,283)	868,421	(753,862)
General Revenues:							
Taxes:							
Sales and Use Taxes					1,152,236	219,953	1,372,189
Franchise Tax					104,937	-	104,937
Motor Vehicle Collections					14,099	-	14,099
Alcoholic Beverage Tax					103,975	-	103,975
Tobacco Tax					9,177	-	9,177
Interest Income (Expense)					492	(112,985)	(112,493)
Donations					6,775	-	6,775
Miscellaneous Income (Expense)					71,186	-	71,186
Transfers					626,696	(626,696)	-
Total General Revenues and Transfers					2,089,573	(519,728)	1,569,845
Change in Net Position					467,290	348,693	815,983
Net Position, Beginning of Year					2,302,806	1,568,281	3,871,087
Net Position, End of Year					\$ 2,770,096	\$ 1,916,974	\$ 4,687,070

The accompanying Notes to the Financial Statements are an integral part of this statement

City of Nowata, Oklahoma
Balance Sheet – Governmental Funds – Modified Cash Basis
June 30, 2022

	General Fund	Special Revenue Funds	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 501,732	\$ 88,000	\$ 589,732
TOTAL ASSETS	\$ 501,732	\$ 88,000	\$ 589,732
 LIABILITIES AND FUND EQUITY			
Fund Equity:			
Cash Fund Balance, Restricted	\$ -	\$ 88,000	\$ 88,000
Cash Fund Balance, Assigned	457,382	-	457,382
Cash Fund Balance, Unassigned	44,350	-	44,350
TOTAL LIABILITIES AND FUND EQUITY	\$ 501,732	\$ 88,000	\$ 589,732

The accompanying Notes to the Financial Statements are an integral part of this statement

City of Nowata, Oklahoma
Reconciliation of Governmental Fund and Government – Wide
Statement of Net Position – Modified Cash Basis
June 30, 2022

Total Governmental Funds Balance	\$ 589,732
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds. The cost of the assets is \$6,636,873 and the accumulated depreciation is \$4,456,509 for a net book value of \$2,180,364	<u>2,180,364</u>
Net Position of Governmental Activities	<u>\$ 2,770,096</u>

The accompanying Notes to the Financial Statements are an integral part of this statement

City of Nowata, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
– Modified Cash Basis
For the Year Ended June 30, 2022

	General Fund	Special Revenue Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 1,279,487	-	1,279,487
Franchise Taxes	104,937	-	104,937
Fines & Forfeitures	45,091	-	45,091
Interest	342	150	492
Donations	6,775	-	6,775
Grants	640,855	4,763	645,618
Charges for Services	56,530	15,861	72,391
Miscellaneous	60,917	10,269	71,186
Total Revenues	<u>2,194,934</u>	<u>31,043</u>	<u>2,225,977</u>
Expenditures			
Current:			
Personal	1,075,613	-	1,075,613
Maintenance and Operations	1,133,929	21,618	1,155,547
Capital Outlay	284,898	-	284,898
Debt Service	25,115	21,855	46,970
Total Expenditures	<u>2,519,555</u>	<u>43,473</u>	<u>2,563,028</u>
Excess (deficiency) of revenues over expenditures	(324,621)	(12,430)	(337,051)
Other Financing Sources (uses)			
Transfers In/(Out)	<u>626,696</u>	<u>-</u>	<u>626,696</u>
Net Change in Fund Balance	302,075	(12,430)	289,645
Fund Balance - Beginning	<u>199,657</u>	<u>100,430</u>	<u>300,087</u>
Fund Balance - Ending	<u>\$ 501,732</u>	<u>88,000</u>	<u>589,732</u>

The accompanying Notes to the Financial Statements are an integral part of this statement

City of Nowata, Oklahoma
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balances to the Government – Wide Statement of Activities
– Modified Cash Basis
For the Year Ended June 30, 2022

Net Change in Fund Balances - Governmental Funds	\$	289,645
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Amounts reported for governmental activities in the Statement of Activities are different because:

In the governmental funds, capital outlays are reported as expenditures while in the government-wide statement of activities, depreciation expense is reported to allocate those expenditures over the life of the assets.

Depreciation expense	\$ (154,123)	
Capital outlay	<u>284,798</u>	
		<u>130,675</u>

Payments on long-term debt obligations are included in debt service payments in the governmental funds. The principal portion of these payments is reported as a reduction of liabilities in the government-wide statements, while the interest portion of these lease payments is an expenditure.

Principal payments on Long Term Debt	<u>46,970</u>	<u>46,970</u>
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Change in Net Position of Governmental Activities	\$	<u><u>467,290</u></u>
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The accompanying Notes to the Financial Statements are an integral part of this statement

City of Nowata, Oklahoma
Statement of Net Position – Proprietary Fund – Modified Cash Basis
June 30, 2022

	<u>Municipal Authority</u>	<u>Emergency Medical Authority</u>	<u>Economic Development Authority</u>	<u>Total Enterprise Fund</u>
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	\$ 446,114	198,344	469,916	1,114,374
Due from Other Funds	-	-	-	-
Total Current Assets	<u>446,114</u>	<u>198,344</u>	<u>469,916</u>	<u>1,114,374</u>
Non-Current Assets:				
Restricted Assets:				
Restricted Cash and Investments	117,522	-	-	117,522
Capital Assets:				
Property and Equipment, net	2,815,637	153,253	179,949	3,148,839
Total NonCurrent Assets	<u>2,933,159</u>	<u>153,253</u>	<u>179,949</u>	<u>3,266,361</u>
 TOTAL ASSETS	 <u>3,379,273</u>	 <u>351,597</u>	 <u>649,865</u>	 <u>4,380,735</u>
 LIABILITIES:				
Current Liabilities:				
Current Portion of Bonds Payable	105,000	-	-	105,000
Total Current Liabilities	<u>105,000</u>	<u>-</u>	<u>-</u>	<u>105,000</u>
Noncurrent Liabilities				
Meter Deposits Payable	58,761	-	-	58,761
Bonds Payable	2,300,000	-	-	2,300,000
Total Noncurrent Liabilities	<u>2,358,761</u>	<u>-</u>	<u>-</u>	<u>2,358,761</u>
TOTAL LIABILITIES	<u>2,463,761</u>	<u>-</u>	<u>-</u>	<u>2,463,761</u>
 NET POSITION				
Net Investment in Capital Assets	410,637	153,253	179,949	743,839
Restricted	159,949	-	-	159,949
Unrestricted	344,926	198,344	469,916	1,013,186
TOTAL NET POSITION	<u>\$ 915,512</u>	<u>351,597</u>	<u>649,865</u>	<u>1,916,974</u>

The accompanying Notes to the Financial Statements are an integral part of this statement

City of Nowata, Oklahoma
Statement of Revenues, Expenses and Changes in Fund Balance – Proprietary Fund – Modified Cash Basis
For the Year Ended June 30, 2022

	Municipal Authority	Emergency Medical Authority	Development Authority	Total Enterprise Funds
Operating Revenues				
Water	\$ 1,179,876	-	-	1,179,876
Sewer	519,163	-	-	519,163
Sanitation	560,009	-	-	560,009
Use Tax	-	-	219,953	219,953
Other Revenues	208,878	663,977	-	872,855
Total Operating Revenues	<u>2,467,926</u>	<u>663,977</u>	<u>219,953</u>	<u>3,351,856</u>
Operating Expenses				
Personal Services	655,170	406,942	-	1,062,112
Operating Expenses	905,982	87,794	2,145	995,921
Depreciation	168,995	24,109	12,345	205,449
Total Operating Expenses	<u>1,730,147</u>	<u>518,845</u>	<u>14,490</u>	<u>2,263,482</u>
Operating Income (Loss)	<u>737,779</u>	<u>145,132</u>	<u>205,463</u>	<u>1,088,374</u>
Non-Operating Revenues (Expenses)				
Interest Income	1,136	-	127	1,263
Interest Expense	(114,248)	-	-	(114,248)
Transfers	(611,503)	9,425	(24,618)	(626,696)
Total Non-Operating Revenues (Expenses)	<u>(724,615)</u>	<u>9,425</u>	<u>(24,491)</u>	<u>(739,681)</u>
Change in Net Position	13,164	154,557	180,972	348,693
Net Position, Beginning of Year	<u>902,348</u>	<u>197,040</u>	<u>468,893</u>	<u>1,568,281</u>
Net Position, End of Year	<u>\$ 915,512</u>	<u>351,597</u>	<u>649,865</u>	<u>1,916,974</u>

The accompanying Notes to the Financial Statements are an integral part of this statement

City of Nowata, Oklahoma
Statement of Cash Flows – Proprietary Fund – Modified Cash Basis
For the Year Ended June 30, 2022

	<u>Municipal Authority</u>	<u>Medical Authority</u>	<u>Development Authority</u>	<u>Total Enterprise Funds</u>
Cash Flows from Operating Activities				
Cash Inflows:				
Payments Received from Customers	\$ 2,467,926	\$ 663,977	\$ 219,953	\$ 3,351,856
Total Cash Provided	<u>2,467,926</u>	<u>663,977</u>	<u>219,953</u>	<u>3,351,856</u>
Cash Outflows:				
Payments for Salaries and Benefits	(655,170)	(415,543)	-	(1,070,713)
Payments for Goods and Services	(912,704)	(87,794)	-	(1,000,498)
Total Cash Used	<u>(1,567,874)</u>	<u>(503,337)</u>	<u>-</u>	<u>(2,071,211)</u>
Net Cash Provided (Used) by Operating Activities	<u>900,052</u>	<u>160,640</u>	<u>219,953</u>	<u>1,280,645</u>
Cash Flows from Noncapital Financing Activities				
Purchase of Capital Assets	(261,727)	-	-	
Transfers to/from Other Funds	(630,098)	9,425	(24,618)	(645,291)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(891,825)</u>	<u>9,425</u>	<u>(24,618)</u>	<u>(645,291)</u>
Cash Flows from Capital and Related Financing Activities				
Principal Paid on Long-Term Debt	(105,000)	-	-	(105,000)
Interest Paid on Long-Term Debt	(114,248)	-	-	(114,248)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(219,248)</u>	<u>-</u>	<u>-</u>	<u>(219,248)</u>
Cash Flows from Investing Activities				
Interest Received	1,143	-	128	1,271
	<u>1,143</u>	<u>-</u>	<u>128</u>	<u>1,271</u>
Net Cash Inflow (Outflow) from All Activities	(209,878)	170,065	195,463	155,650
Cash and Cash Equivalents, Beginning of Year	655,992	28,279	274,453	958,724
Cash and Cash Equivalents, End of Year	<u>\$ 446,114</u>	<u>\$ 198,344</u>	<u>\$ 469,916</u>	<u>\$ 1,114,374</u>

City of Nowata, Oklahoma
Statement of Cash Flows – Proprietary Fund – Modified Cash Basis
For the Year Ended June 30, 2022

	<u>Municipal Authority</u>	<u>Medical Authority</u>	<u>Development Authority</u>	<u>Total Enterprise Funds</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating Income (Loss)	\$ 737,779	\$ 145,132	\$ 205,463	\$ 1,088,374
Adjustments to Reconcile Operating Income to Net Cash Provided By (Used For) Operating Activities:				
Depreciation	168,995	24,109	12,345	\$ 205,449
Changes in Assets and Liabilities	(6,722)	(8,601)	2,145	\$ (13,178)
Net Cash Provided (Used) by Operating Activities	<u>\$ 900,052</u>	<u>\$ 160,640</u>	<u>\$ 219,953</u>	<u>\$ 1,280,645</u>

City of Nowata, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2022

I. Summary of Significant Accounting Policies

The following notes to the financial statements are an integral part of the City's financial statements.

The City's financial statements are prepared on the modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets, and liabilities resulting from cash transactions, adjusted for modifications that have substantial support in generally accepted accounting principles.

A. Reporting Entity

For financial reporting purposes, the City includes all component units that are controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the City, obligation of the City to finance any deficit which may occur, or receipt of significant subsidies from the City.

Due to restrictions of the State Constitution relating to the issuance of municipal debt, the City created a public trust to finance City services with revenue bonds or other non-general obligation financing. Financing services provided by the public trust are solely for the benefit of the City. The public trust created to provide financing services is blended into the City's primary government although retaining separate legal identity.

B. Description of Government Wide Financial Statements

The government-wide financial statements (i.e., statement of net position and statement of activities) report information on activities of the primary government and its component units. Government activities, which normally are supported by taxes and intergovernmental revenues, and other non-exchange transaction are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support.

The government-wide financial statements are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and change therein, and only recognizes revenues, expenses, assets, and liabilities resulting from cash transactions, adjusted for modifications that have substantial support in generally accepted accounting principles.

City of Nowata, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2022

I. Summary of Significant Accounting Policies (continued)

B. Description of Government Wide Financial Statements (continued)

Only cash (and cash equivalents) and items that involve the receipt or disbursement of cash (or cash equivalents) during the period are recognized, except for the following modifications:

- (1) Interfund receivables and payables that arise from transactions and events involving cash or cash equivalents are recognized.
- (2) Assets that normally convert to cash or cash equivalents (e.g., certificates of deposit, marketable investments, and receivables resulting from loans) that arise from transactions and events involving cash or cash equivalents are recognized; and
- (3) Liabilities for cash (or cash equivalents) held on behalf of others, held in escrow, or received in advance of being earned or meeting eligibility requirement are recognized.

As a result of the use of this modified cash basis of accounting, certain transactions are not recorded in the financial statements. For example, accounts receivable and revenue for billed or provided services that have not been collected in cash are not accrued as revenue or receivables.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government's enterprise fund. Separate financial statements are provided from government funds and proprietary funds.

The government-wide financial statements are presented on the modified cash basis of accounting. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Basis of Presentation – Fund Financial Statements

The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are two categories of funds: governmental and proprietary.

Governmental Funds – used to account for the City's general activities. Governmental fund types use the flow of current financial resources measurement focus and the modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenue, and expenditures/expenses when they result from cash transactions. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

City of Nowata, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2022

I. Summary of Significant Accounting Policies (continued)

D. Basis of Presentation – Fund Financial Statements (continued)

Fund Accounting

As a result of the use of this modified cash basis of accounting, certain assets and their related revenue and certain liabilities and their related expenses are not recorded in these financial statements.

The following are City’s major funds:

- General Fund – Accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- Special Revenue Funds – Account for operating funds for which revenues were derived from specific taxes, grants or other earmarked revenue sources.
- Enterprise Funds (Proprietary Funds) – Used for operations: (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the cost (expenses, including depreciation) of providing the goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

E. Assets, Liabilities and Balance

Cash and Cash Equivalents

For the purpose of the Statement of Net Position – Modified Cash Basis, “cash, including time deposits” includes all demand, savings accounts, and certificates of deposit of the City. For the purposes of the proprietary fund Statement of Cash Flows – Modified Cash Basis, “cash and cash equivalents” includes all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Capital Assets

The accounting treatment over property, plant and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. The City of Nowata currently has no capitalization policy.

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets’ estimated useful lives using the straight-line method of depreciation.

The range of estimated useful lives by type of asset is as follows:

Buildings	5-50 years
Streets	20-50 years
Machinery and Equipment	3-30 years
Vehicles	3-7 years
Improvements	20-50 years

City of Nowata, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2022

I. Summary of Significant Accounting Policies (continued)

E. Assets, Liabilities and Balance (continued)

Capital Assets (continued)

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Equity Classifications

Net Position/Fund Balance

In the government-wide financial statement, net assets represent the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, 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 limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation.

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints places on the use of resources for specific purposed versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e., fund balance associated with assets that are not in spendable form, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

Amounts in the *spendable* fund balance category are further classified as *restricted*, *committed*, *assigned* or *unassigned*, as appropriate.

City of Nowata, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2022

I. Summary of Significant Accounting Policies (continued)

E. Assets, Liabilities and Balance (continued)

Equity Classifications (continued)

Net Position/Fund Balance (continued)

Restricted fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors, or laws and regulations of other governments; or by law through constitutional provision or enabling legislation.

Committed fund balance represents amounts that are usable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes by taking action similar to that which imposed the commitment. The City's Board of Trustees is the highest level of decision-making authority of the City.

Assigned fund balance represents amounts that are *intended* to be used for specific purposes but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds *other than the general fund*, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

Resource Use Policy

It is in the City's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the City considers the restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the City's policy that when an expenditure/expense is incurred for purposes for which committed, assigned or unassigned resources, including fund balances, are available, the City considers committed, amounts to be spent first, followed by assigned amounts, and lastly, unassigned amounts.

F. Revenues, Expenditures and Expenses

Sales Tax

The City presently levies a sales tax on taxable sales within the City. The sales tax is collected by the Oklahoma Tax Commission and remitted to the City in the month following receipt by the Tax Commission. The Tax Commission receives the sales tax approximately one month after collection by vendors. The sales tax is recorded entirely in the General Fund.

Use Tax

The City levies a use-tax on personal property purchased outside the City limits but stored, used or consumed within the City. The use tax is collected by the Oklahoma Tax Commission and remitted to the City in the month following receipt by the Tax Commission, which is one month after the tax is received from the vendors. The use taxes are allocated entirely to the General Fund.

City of Nowata, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2022

I. Summary of Significant Accounting Policies (continued)

F. Revenues, Expenditures and Expenses (continued)

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

- Governmental Funds – By Character: Current (further classified by function), Debt Service, Capital Outlay
- Proprietary Funds – By Operating and Non-Operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers

Permanent re-allocations of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities – Modified Cash Basis, all interfund transfers between individual governmental funds have been eliminated.

II. Stewardship, Compliance and Accountability

By its nature as a local government unit, the City and its component unit are subject to various federal, state, and local laws and contractual regulations. An analysis of the City’s compliance with significant laws and regulations and demonstration of its stewardship over City resources follows.

A. Fund Accounting Requirements

The City complies with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the City include the following:

<u>Fund</u>	<u>Required By</u>
Nowata Municipal Authority	Trust Indenture
Nowata Development Authority	Trust Indenture

B. Deposit and Investments Laws and Regulations

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations or surety bonds. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee. As reflected in note III A., all deposits were fully insured or collateralized.

Public trusts created under O.S. Title 60 are not subject to the above noted investment limitations and are primarily governed by any restrictions in their trust or bond indentures. For the year ended June 30, 2022, the City and its public trusts complied, in all material respects, with these investment restrictions.

City of Nowata, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2022

II. Stewardship, Compliance and Accountability (continued)

C. Revenue Restrictions

The City has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Gasoline Excise Tax	Street and Alley Purposes
Commercial Vehicle Tax	Street and Alley Purposes
Utility Revenue	Debt Service and Utility Operations

D. Fund Equity Restrictions

Deficit Prohibition

Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund. The City complied with this statute in all material respects for the year ended June 30, 2022.

III. Detailed Notes on Transaction Classes/Accounts

A. Cash and Investments

Authorized Investments

City policy for eligible investments is governed by State statutes which, in general, allow the City to invest in obligations of the United States and insured or collateralized Certificate of Deposits. Investment income is recorded in the fund in which it is earned.

Custodial Credit Risk – Deposit: Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's cash deposits, including interest-bearing certificates of deposit, are maintained in financial institutions. The City does not have a deposit policy for custodial credit risk. As of June 30, 2022, the City and Public Works were fully collateralized.

City of Nowata, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2022

III. Detailed Notes on Transaction Classes/Accounts (continued)

B. Capital Assets

Capital asset activity for the year was as follows:

	Balance June 30, 2021	Additions	Disposals	Balance June 30, 2022
Governmental Activities:				
Non-depreciable assets:				
Land	\$ 25,093	\$ -	\$ -	\$ 25,093
Depreciable assets:				
Buildings	1,746,474	284,798	-	2,031,272
Machinery, Furniture and Equipment	3,629,845	-	-	3,629,845
Infrastructure and Improvements	950,663	-	-	950,663
Total Depreciable assets	6,326,982	284,798	-	6,611,780
Total Capital Assets	6,352,075	284,798	-	6,636,873
Total Accum Depreciation	(4,302,386)	(154,123)	-	(4,456,509)
Net Capital Assets	\$ 2,049,689	\$ 130,675	\$ -	\$ 2,180,364
Business-Type Activities:				
Non-depreciable assets:				
Land	\$ 24,150	\$ -	\$ -	\$ 24,150
Depreciable assets:				
Buildings	442,993	-	-	442,993
Machinery, Furniture and Equipment	1,894,035	-	-	1,894,035
Infrastructure and Improvements	8,617,091	261,727	-	8,878,818
Total Depreciable assets	10,954,119	261,727	-	11,215,846
Total Capital Assets	10,978,269	261,727	-	11,239,996
Total Accum Depreciation	(7,885,708)	(205,449)	-	(8,091,157)
Net Capital Assets	\$ 3,092,561	\$ 56,278	\$ -	\$ 3,148,839

City of Nowata, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2022

III. Detailed Notes on Transaction Classes/Accounts (continued)

B. Capital Assets (continued)

Depreciation expense charged to governmental activities was \$188,032.

C. Bonds Payable

On March 1, 2007, the Nowata Municipal Authority issued Revenue Bonds in the amount of \$3,555,000 to refund existing indebtedness and provide for capital improvements. The bonds are secured by net operating revenue of the utility systems.

Maturities are as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	105,000.00	109,497.50	214,497.50
2024	110,000.00	104,510.00	214,510.00
2025	115,000.00	99,285.00	214,285.00
2026	120,000.00	93,822.50	213,822.50
2027	125,000.00	88,122.50	213,122.50
2028-2032	720,000.00	350,205.00	1,070,205.00
2033-2037	1,110,000.00	174,492.50	1,284,492.50
Thereafter	-	-	-
Totals	<u>\$ 2,405,000.00</u>	<u>\$ 1,019,935.00</u>	<u>\$ 3,424,935.00</u>

City of Nowata, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2022

IV. Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; or acts of God. The City purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials' liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

B. Contingent Liabilities

The governing board of the City is not aware of any pending or threatened legal actions against it. However, any such actions would probably be covered by insurance.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

C. Subsequent Events

Management has evaluated subsequent events through the date of the auditor's report, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

OTHER SUPPLEMENTAL INFORMATION

City of Nowata, Oklahoma
Combining Balance Sheet – Special Revenue Funds – Modified Cash Basis
For the Year Ended June 30, 2022

	Special Revenue Funds				Total Special Revenue Funds
	Cemetery Fund	Police Special Fund	Fireman's Special Fund	Other	
ASSETS					
Cash and Cash Equivalents	\$ 26,060	1,544	55,479	4,917	88,000
LIABILITIES AND FUND BALANCE					
Fund Balance:					
Total Fund Balance	\$ 26,060	1,544	55,479	4,917	88,000
Total Liabilities and Fund Balance	<u>\$ 26,060</u>	<u>1,544</u>	<u>55,479</u>	<u>4,917</u>	<u>88,000</u>

City of Nowata, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
– Special Revenue Funds – Modified Cash Basis
For the Year Ended June 30, 2022

	Cemetary	Police Special	Fireman's Special	Other	Total Special Revenue Funds
Revenues:					
Taxes	-	-	-	-	-
Fines & Forfeitures	-	-	-	-	-
Interest	25	-	120	5	150
Donations	-	-	-	-	-
Grants	-	-	4,763	-	4,763
Charges for Services	6,043	-	9,818	-	15,861
Miscellaneous	-	9,449	-	820	10,269
Total Revenues	<u>6,068</u>	<u>9,449</u>	<u>14,701</u>	<u>825</u>	<u>31,043</u>
Expenditures					
Current:					
Personal Services	-	-	-	-	-
Maintenance and Operations	-	21,618	-	-	21,618
Capital Outlay	-	-	-	-	-
Debt Service	-	-	21,855	-	21,855
Total Expenditures	<u>-</u>	<u>21,618</u>	<u>21,855</u>	<u>-</u>	<u>43,473</u>
Excess (deficiency) of revenues over expenditures	<u>6,068</u>	<u>(12,169)</u>	<u>(7,154)</u>	<u>825</u>	<u>(12,430)</u>
Other Financing Sources (uses)					
Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	6,068	(12,169)	(7,154)	825	(12,430)
Fund Balance - Beginning	<u>19,992</u>	<u>13,713</u>	<u>62,633</u>	<u>4,092</u>	<u>100,430</u>
Fund Balance - Ending	<u><u>26,060</u></u>	<u><u>1,544</u></u>	<u><u>55,479</u></u>	<u><u>4,917</u></u>	<u><u>88,000</u></u>