

**OKLAHOMA ORDNANCE WORKS AUTHORITY
(A Public Trust)**

Financial Statements
and
Independent Auditor's Report

For the Fiscal Years Ended April 30, 2023 and 2022

OKLAHOMA ORDINANCE WORKS AUTHORITY (A Public Trust)

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Independent Auditor's Report

To the Board of Trustees of the
Oklahoma Ordnance Works Authority
Pryor Creek, Oklahoma

Opinion

We have audited the accompanying financial statements of the business-type activities of OKLAHOMA ORDNANCE WORKS AUTHORITY (hereafter also referred to as the "Authority"), a public trust created under the laws of the State of Oklahoma, as of and for the fiscal years ended April 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Authority'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 business-type activities of Oklahoma Ordnance Works Authority as of April 30, 2023 and 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States of America. 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 Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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 Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, 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.

Independent Auditor's Report – (Continued)

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 Oklahoma Ordnance Works 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 Oklahoma Ordnance Works 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 required supplementary information, including the management's discussion and analysis, as listed in the table of contents 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 Government 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 Information

Management is responsible for the other information in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work permed, we conclude that an uncorrected misstatement of the other information exists, we are required to describe it in our report.

Independent Auditor's Report – (Continued)

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2023 on our consideration of Oklahoma Ordnance Works Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Oklahoma Ordnance Works Authority's internal control over financial reporting and compliance.

Hood & Associates CPAs, P.C.

Hood and Associates Certified Public Accountants, P.C.
Tulsa, Oklahoma
October 20, 2023



OKLAHOMA ORDINANCE WORKS AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of OKLAHOMA ORDINANCE WORKS AUTHORITY's (the "Authority," an Oklahoma Public Trust) annual financial report presents our discussion and analysis of the Authority's financial performance for the fiscal year ended April 30, 2023. Please read this discussion and analysis in conjunction with the Independent Auditor's Report and the Authority's basic financial statements and footnotes, which follow this section.

OVERVIEW OF THE AUTHORITY'S BASIC FINANCIAL STATEMENTS

The Authority's annual financial report consists of four parts; (1) Management's discussion and analysis (this section), (2) Basic financial statements (3) Accompanying notes to the basic financial statements and, when applicable, (4) Required supplementary information ("RSI"). The basic financial statements are provided to the Auditor of the State of Oklahoma, as the Authority is structured as a Public Trust whose ultimate beneficiary is the State of Oklahoma. The remainder of this overview section of management's discussion and analysis explains the structure and contents of the Authority's basic financial statements.

Basic Financial Statements

The Authority is considered a proprietary enterprise fund for purposes of governmental fund classification. As such, the Authority's financial statements are presented in a format which is similar to the format of that of a private, for-profit business entity.

Required Financial Statements:

- Statements of Net Position
- Statements of Revenues, Expenses and Changes in Net Position
- Statements of Cash Flows

Accounting Basis and Measurement Focus:

- Accrual accounting and economic resource management focus

Type of Asset and Liability Information:

- All assets and liabilities, both financial and capital, and short-term and long-term

Type of Inflow/Outflow Information:

- All revenues ("inflows") received, and expenses ("outflows") incurred during the fiscal year, regardless of when cash is actually received or paid

Notes to the Basic Financial Statements

The footnotes that accompany the basic financial statements of the Authority provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The footnotes follow the basic financial statements in the accompanying financial report of the Authority.

OKLAHOMA ORDNANCE WORKS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - (Continued)

FINANCIAL AND OPERATIONAL HIGHLIGHTS

The following comparative condensed financial statements provide a brief overview of the Oklahoma Ordnance Works Authority's financial and operating results over the past three fiscal years:

Comparative Condensed Statements of Net Position

	April 30, 2023	April 30, 2022	April 30, 2021	\$ Change FY 2023 over 2022	Percent Change
<u>Assets:</u>					
Current assets	\$ 15,578,944	\$ 34,021,553	\$ 45,908,333	\$ (18,442,609)	-54%
Investments in marketable securities	84,407,625	78,579,925	84,242,121	5,827,700	7%
Property and equipment, net	99,960,069	88,680,831	76,542,229	11,279,238	13%
Other non-current assets	118,244	1,776,207	54,139	(1,657,963)	NM
Total assets	200,064,882	203,058,516	206,746,822	(2,993,634)	-1%
<u>Liabilities:</u>					
Current liabilities	593,474	646,904	654,326	(53,430)	-8%
Long-term liabilities	1,180,258	165,038	1,030,236	1,015,220	NM
Total liabilities	1,773,732	811,942	1,684,562	961,790	118%
<u>Deferred Outflows and Inflows:</u>					
Deferred outflows of resources	1,169,456	133,393	517,754	1,036,063	NM
Deferred inflows of resources	107,768	1,937,749	51,468	(1,829,981)	NM
<u>Net Position:</u>					
Net position, unrestricted and restricted	\$ 199,471,082	\$ 200,607,256	\$ 205,526,546	\$ (1,136,174)	1%

Comparative Condensed Statements of Revenues, Expenses and Changes in Net Position

	Fiscal Year Ended April 30, 2023	Fiscal Year Ended April 30, 2022	Fiscal Year Ended April 30, 2021	\$ Change FY 2023 over 2022	Percent Change
<u>Revenues:</u>					
Total operating revenues	\$ 18,450,121	\$ 16,247,413	\$ 15,508,434	\$ 2,202,708	14%
<u>Expenses:</u>					
Operating expenses	8,284,306	6,703,244	6,279,245	1,581,062	24%
General and administrative expenses	6,928,646	5,371,666	4,760,463	1,556,980	29%
Total expenses	15,212,952	12,074,910	11,039,708	3,138,042	26%
Income from operations	3,237,169	4,172,503	4,468,726	(935,334)	-22%
<u>Other income/(loss), non-operating:</u>					
Interest income	2,696,344	1,603,157	2,199,160	1,093,187	68%
Gain or (loss), disposals of assets	1,729,962	865,882	1,590,389	864,080	100%
Grant awards, federal, state or other	329,585	1,492,322		(1,162,737)	-78%
OPERS Plan pension/OPEB adjustment	146,067	481,661	25,112	(335,594)	-70%
Unrealized gain/(loss) on investments	(2,530,836)	(7,841,777)	(1,630,675)	5,310,941	-68%
Total other income/(loss), non-operating	2,371,122	(3,398,755)	2,183,986	5,769,877	-170%
<u>Other expenses, non-operating:</u>					
Depreciation expense	6,605,813	5,695,038	4,999,338	910,775	16%
OPERS Plan pension/OPEB adjustment			303,878	-	
Total other expenses, non-operating	6,605,813	5,695,038	5,303,216	910,775	16%
Changes in net position	\$ (997,522)	\$ (4,921,290)	\$ 1,349,496	\$ 3,923,768	-80%

* The acronym "NM" indicates that the percentage change calculation is not meaningful.

OKLAHOMA ORDNANCE WORKS AUTHORITY **MANAGEMENT'S DISCUSSION AND ANALYSIS - (Continued)**

FINANCIAL ANALYSIS OF OKLAHOMA ORDNANCE WORKS AUTHORITY

Asset and Debt Administration

At the end of April 30, 2023, the balance of total "current assets" was \$15,578,944, a decrease of \$18,442,609 from the previous fiscal year. Included within current assets at April 30, 2023, was the Authority's operating cash position of \$8,936,659 and the Authority's certificate of deposit position of \$4,588,891. Both categories of liquid assets decreased due to a repositioning of assets to investments in marketable securities and also due to disbursements for infrastructure improvements. For the fiscal year ended April 30, 2023, the total balance of the Authority's investments in marketable securities increased to a total of \$84,407,625. Included within the overall increase in the total value of the Authority's holdings in investments in marketable securities was a current year unrealized loss in the fair market value of the Authority's investment holdings federal government agency bonds, US treasury obligations and corporate bonds in the amount of \$(2,530,836) for the fiscal year ended April 30, 2023. The cause of the unrealized loss in investment value was largely due to an ongoing increase in interest rates during the Authority's fiscal year, with further interest rate increases being potentially indicated in the future by the U.S. Federal Reserve. The Authority's stated investment policy is to hold all investments to their full maturity date(s) and as such, unrealized losses are viewed as being only temporary decreases in capital. The Authority has historically focused on primarily purchasing long duration federal government agency (primarily GNMA) bonds. However, in recent years, the Authority's management has pivoted to a more diversified portfolio of fixed-income securities which includes allocations to U.S. treasury obligations and corporate bonds, with shorter durations. The Authority's historical concentration in federal government agency (primarily GNMA) bonds focused on long-term bonds with higher levels of projected pre-payments of principal. Even though the Authority's GNMA bond purchases tended to have durations of twenty or more years, the Authority's focus on principal pre-payments was an attempt to, in effect, keep durations on investment holdings as short as possible while obtaining higher rates of interest. However, in recent years since the end of the Covid pandemic, increases in interest rates have significantly slowed mortgage pre-payments on GNMA bonds, has increased the anticipated duration of the GNMA bonds held within the investment portfolio. Overall, total assets decreased by \$(2,993,634) or (1.5)%, to an April 30, 2023, total of \$200,064,882.

As in the previous year, the Authority's total current liabilities at April 30, 2023, were minimal in comparison to total current assets. Total current liabilities, consisting of accounts payable and various accrued liabilities at April 30, 2023 were \$593,474 as compared to a balance of \$646,904 at April 30, 2022.

The Authority's only long-term liabilities are related to "net pension liability" adjustments which are mandated by ("US GAAP") and *Government Auditing Standards* issued by the Governmental Accounting Standards Board ("GASB"). The Authority is a participating employer in the Oklahoma Public Employee's Retirement System ("OPERS") and is therefore required to reflect a portion of the overall plan's net pension liability on its own financial statements. At the end of the April 30, 2023 fiscal year, the Authority's allocation of the net pension liability was \$1,062,014. In the previous fiscal year ended April 30, 2022, the OPERS retirement plan actually had a net surplus, so the Authority's portion of the surplus was an asset which totaled \$1,611,169.

Revenues, Expenses and Changes in Net Position

At April 30, 2023, the Authority's total operating revenues were \$18,450,121, which represents an increase of \$2,202,708 or 14% over the previous fiscal year. Total operating revenues for the fiscal year ended April 30, 2023 are higher in most categories of operating revenues, particularly water sales, building rentals and waste treatment income. Airport income increased over the previous fiscal year, however when non-operating grants are included, income pertaining to the airport as a whole decreased over the previous fiscal year due to non-regular operating income of non-recurring federal government grants for certain projects for the Authority's airport. In terms of non-operating revenues, interest income on investments in marketable securities increased substantially from the previous fiscal year due to higher interest rates on purchases of new investments in U.S. treasury obligations and corporate bonds.

OKLAHOMA ORDNANCE WORKS AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - (Continued)

FINANCIAL ANALYSIS OF OKLAHOMA ORDNANCE WORKS AUTHORITY

Revenues, Expenses and Changes in Net Position – (Continued)

As discussed previously, also included in the Authority's total revenues from all sources, both operating and non-operating, is an adjustment for the current year decline in value of \$(2,530,836) in the fair market valuation of the Authority's investments. All the Authority's investments are fixed income securities that are held to maturity, with market values that are primarily impacted by changes in interest rates. Despite the Authority's financial management's stated intent to hold investments to full maturity, the Authority is required to mark all investments to their fair market values for financial reporting purposes. As per *Accounting principles generally accepted in the United States of America* ("US GAAP") and *Government Auditing Standards* issued by the Governmental Accounting Standards Board ("GASB") investments in marketable securities are adjusted on an annual basis to their individual respective fair market values in order to fairly present the current market value of investments. As such, total annual revenues are impacted by fluctuations in the market value of investments. Hypothetically, if the market valuation adjustment were removed, the Authority would have recognized a total change in net position of \$1,533,314 as compared to the actual change in net position of \$(997,522) for the fiscal year ended April 30, 2023.

At April 30, 2023, total direct operating expenses were \$8,284,306, an increase of \$1,581,062 or 24% over the previous fiscal year. The primary expense categories that contributed to the increase in total operating expenses were chemicals, general maintenance, payroll costs and raw water costs. Chemical costs increased substantially due to ongoing inflation in materials costs, as did several other expense account categories. The general maintenance expense category increased substantially due to a major demolition project of a dilapidated building on the park's premises, to make way for future growth and development.

In terms of general and administrative expenses, the total for these expenses was \$6,928,646, which represented an increase of \$1,556,980 over the previous fiscal year. The Authority's general and administrative expenses saw increases in most categories, with administrative salaries and wages, advertising and marketing, professional fees, insurance and other general administrative expenses showing increases. The primary driver of most of the increases in costs was the ongoing inflationary environment. Inflation-based adjustments had significant impact on salaries and insurance costs. Advertising and marketing continued to be an area of focus for the Authority, to aggressively market the benefits of the park to prospective new park tenants. Other general and administrative expenses increased primarily due to an increase in investment management fees on the Authority's diversified position of fixed-income securities.

Overall, the Authority's total change in net position for the fiscal year ended April 30, 2023 was a loss of \$(997,522). The total net position as of April 30, 2023 decreased over the prior year, to a total of \$199,471,082 for fiscal year ended April 30, 2023 as compared to net position of \$200,607,256 for fiscal year ended April 30, 2022 which represents a decrease of \$(1,136,174) or approximately (.6)%.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

The Authority's "management's discussion and analysis" has been designed to provide its readers with a general overview of the Authority's finances and objectives. If you have any questions about this report or need additional information, please contact:

OKLAHOMA ORDNANCE WORKS AUTHORITY
DbA, MID AMERICA INDUSTRIAL PARK
Attention: Ms. Stephanie Hammock, Director of Finance
P.O. Box 945
Pryor Creek, Oklahoma 74362

OKLAHOMA ORDNANCE WORKS AUTHORITY
(A Public Trust)

Statements of Net Position
April 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents (Notes A and B)	\$ 8,936,659	\$ 25,610,343
Certificates of deposit (Notes A and B)	4,588,891	6,195,550
Accounts receivable, net of allowance for doubtful accounts (Note A)	1,226,523	1,080,181
Grant funds receivable, federal awards (Note G)	484,000	780,938
Accrued interest income receivable	212,003	215,596
Inventory, chemicals (Note A)	128,741	136,208
Prepaid expenses and other current assets	2,127	2,737
Total current assets	<u>15,578,944</u>	<u>34,021,553</u>
Non-current assets:		
Investments in marketable securities (Notes A and B):		
Investments in marketable securities, federal government agency bonds	57,771,461	68,999,500
Investments in marketable securities, U.S. treasury obligations	15,741,785	
Investments in marketable securities, corporate bonds	10,894,379	9,580,425
Total investments in marketable securities, at fair market value	<u>84,407,625</u>	<u>78,579,925</u>
Property, plant and equipment, at historical acquisition cost (Notes A and C):		
Industrial park facilities, net of accumulated depreciation	53,994,839	50,925,622
Water plant facilities, net of accumulated depreciation	10,711,026	11,333,831
Waste treatment facilities, net of accumulated depreciation	7,839,285	9,092,686
Construction in progress, non-depreciable	27,414,919	17,328,692
Total property, plant and equipment, net of accumulated depreciation	<u>99,960,069</u>	<u>88,680,831</u>
Other non-current assets:		
Net pension asset/benefit - restricted (Note I)		1,611,169
Net post-employment benefits ("OPEB") asset/benefit (Note I)	118,244	165,038
Total assets	<u>200,064,882</u>	<u>203,058,516</u>
<u>Deferred Outflows of Resources</u>		
Deferred outflows, pension plan (Note I)	1,114,718	118,720
Deferred outflows, post-employment benefits (Note I)	54,738	14,673
Total deferred outflows of resources	<u>1,169,456</u>	<u>133,393</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	76,801	147,982
Accrued liabilities (Note D)	516,673	498,922
Total current liabilities	<u>593,474</u>	<u>646,904</u>
Non-current liabilities:		
Net pension liability (Note I)	1,062,014	
Total liabilities	<u>1,655,488</u>	<u>646,904</u>
<u>Deferred Inflows of Resources</u>		
Deferred inflows, pension plan (Note I)	48,692	1,837,259
Deferred inflows, post-employment benefits (Note I)	59,076	100,490
Total deferred inflows of resources	<u>107,768</u>	<u>1,937,749</u>
<u>Net Position</u>		
Net position (Note E):		
Net position, unrestricted	99,511,013	110,315,256
Net position, invested in capital assets	99,960,069	88,680,831
Net position, restricted for pension benefits		1,611,169
Total net position	<u>\$ 199,471,082</u>	<u>\$ 200,607,256</u>

The accompanying notes are an integral part of these financial statements.

OKLAHOMA ORDINANCE WORKS AUTHORITY
(A Public Trust)

Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended April 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Revenues, operating:		
Water sales	\$ 11,499,525	\$ 9,941,082
Building rentals and other rental income (Note F)	3,757,049	3,405,731
Waste treatment income	2,801,654	2,605,398
Airport income (Note G)	181,201	118,760
Miscellaneous income	210,692	176,442
Total operating revenues	18,450,121	16,247,413
Expenses:		
Operating expenses, direct:		
Chemicals	2,119,012	1,474,426
General maintenance	1,617,384	1,198,825
Wages, payroll taxes and employee benefits	1,506,820	1,338,418
Power	1,503,883	1,493,123
Laboratory, permits and testing	670,523	582,782
Buildings and grounds; Airport, Expo Center and Russell Hunt Lodge	311,699	236,453
Utilities, heat and lights	257,502	235,097
Water	256,235	88,559
Housekeeping and security	25,652	33,327
Other operating expenses	15,596	22,234
Total operating expenses, direct	8,284,306	6,703,244
General and administrative expenses:		
Administrative salaries, payroll taxes and employee benefits	2,857,670	2,434,072
Advertising and marketing	954,654	609,596
Insurance	906,815	524,410
Professional fees, other	617,209	644,583
Professional fees, legal	477,661	503,584
Professional fees, engineering	248,999	20,103
STEM	216,902	197,791
Workforce development	143,122	128,648
Telephone and communications	101,628	96,132
Continuing education and training center	92,371	103,391
Office supplies and software	68,914	46,652
Travel, meals and entertainment	32,347	21,669
Other general and administrative expenses	210,354	41,035
Total general and administrative expenses	6,928,646	5,371,666
Income from operations	3,237,169	4,172,503
Other income, non-operating:		
Interest income	2,696,344	1,603,157
Gain or (loss) on sales of assets	1,729,962	865,882
Grant awards, federal, state or other (Note G)	329,585	1,492,322
OPERS Plan pension/OPEB adjustment, income	146,067	481,661
Unrealized gain or (loss), fair market value of investments	(2,530,836)	(7,841,777)
Total other income, non-operating	2,371,122	(3,398,755)
Other expenses, non-operating:		
Depreciation expense	6,605,813	5,695,038
OPERS Plan pension/OPEB adjustment, expense	-	-
Total other expenses, non-operating	6,605,813	5,695,038
Changes in net position	(997,522)	(4,921,290)
Net position, beginning of fiscal year, as previously reported	200,607,256	204,937,565
Prior period adjustments (Note A)	(138,652)	590,981
Net position, beginning of fiscal year, as restated	200,468,604	205,528,546
Net position, end of fiscal year	\$ 199,471,082	\$ 200,607,256

The accompanying notes are an integral part of these financial statements.

OKLAHOMA ORDNANCE WORKS AUTHORITY
(A Public Trust)

Statements of Cash Flows

For the Fiscal Years Ended April 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<u>Cash flows from operating activities:</u>		
Cash received from industrial park customers and grant awards	\$ 18,641,054	\$ 17,707,735
Cash paid to suppliers and employees	(15,104,116)	(12,400,878)
Interest income	2,696,344	1,603,157
	<u>6,233,282</u>	<u>6,910,014</u>
<u>Cash flows from investing activities:</u>		
Proceeds from sales of assets	1,729,962	865,272
Proceeds from redemptions, net of purchases of certificates of deposit	1,606,659	1,054,324
Proceeds from redemptions, net of (purchases) of investments	(8,358,537)	(2,179,581)
(Purchases) of property, plant and equipment and construction in progress	(17,885,050)	(17,833,031)
	<u>(22,906,966)</u>	<u>(18,093,016)</u>
Net cash provided by or (used in) investing activities	<u>(22,906,966)</u>	<u>(18,093,016)</u>
Net increase or (decrease) in cash and cash equivalents	(16,673,684)	(11,183,002)
Cash and cash equivalents, beginning of fiscal year	<u>25,610,343</u>	<u>36,793,345</u>
Cash and cash equivalents, end of fiscal year	<u>\$ 8,936,659</u>	<u>\$ 25,610,343</u>
Reconciliation of changes in net position to net cash provided by operating activities:		
Changes in net position, net of non-cash items *	<u>\$ 1,387,247</u>	<u>\$ 2,438,826</u>
Adjustments to reconcile changes in net position to net cash provided by or (used in) operating activities:		
Depreciation expense	6,605,813	5,695,038
(Gain) or loss on sales of assets	(1,729,962)	(865,882)
<u>Changes in assets and liabilities:</u>		
(Increase) or decrease in accounts receivable	(146,342)	(202,686)
(Increase) or decrease in grant funds receivable, federal awards	158,286	(121,318)
(Increase) or decrease in accrued interest income receivable	3,593	14,737
(Increase) or decrease in inventory, chemicals	7,467	(41,892)
(Increase) or decrease in prepaid expenses and other current assets	610	613
Increase or (decrease) in accounts payable	(71,181)	(92,349)
Increase or (decrease) in accrued liabilities	17,751	84,927
	<u>4,846,035</u>	<u>4,471,188</u>
Total adjustments and changes in assets and liabilities	<u>4,846,035</u>	<u>4,471,188</u>
Net cash provided by or (used in) operating activities	<u>\$ 6,233,282</u>	<u>\$ 6,910,014</u>

* Non-cash items consist of: (1) Unrealized (loss) on investments of \$(2,530,836) and \$(7,841,777), (2) OPERS net pension (asset)/liability and OPEB (asset)/liability adjustments of \$481,661 and \$146,067, respectively for the fiscal years ended April 30, 2023 and 2022.

The accompanying notes are an integral part of these financial statements.

OKLAHOMA ORDNANCE WORKS AUTHORITY (A Public Trust)

Notes to the Basic Financial Statements As of and For the Fiscal Years Ended April 30, 2023 and 2022

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Origin of the Authority and Nature of Activities

OKLAHOMA ORDNANCE WORKS AUTHORITY (hereafter also referred to as the "Authority") was established to stimulate the economy of northeast Oklahoma by attracting additional industrial investments and employment to the Mid-America Industrial Park located near Pryor, Oklahoma. The Authority's revenues are derived from the operation of a water plant, waste treatment plant, the sale or lease of the Authority's buildings or land and interest income earned on the Authority's investment holdings, and, at certain times, loans made to industrial park tenants. The Authority's customers consist of municipalities, rural water districts and industries located in northeastern Oklahoma. Sales to these customers are made on account. The Authority is not subject to federal or state income taxes and is organized as a Public Trust whose ultimate beneficiary is the State of Oklahoma. The State of Oklahoma considers the Authority to be a related organization.

Basis of Accounting and Financial Statement Presentation

The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority is considered to be a proprietary enterprise fund for purposes of governmental fund classification. Such funds are used to account for a government's activities that are similar to those of the private sector. As a result, the basic financial statements of the Authority are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with U.S. GAAP as applied to governmental units. This basis of accounting requires that revenue be recognized when earned and expenses be recognized when incurred, regardless of actual receipt or payment of cash.

Revenues and expenses are classified as operating or non-operating according to the following criteria: Operating revenues include activities that have the characteristics of an exchange transaction (i.e., transactions where essentially equal value is exchanged). Non-operating revenues include activities that have the characteristics of non-exchange transactions such as investment income which is defined as non-operating revenue by GASB Statement No. 9, *"Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Government Entities that use Proprietary Fund Accounting"* and GASB Statement No. 34, *"Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments"*. Operating expenses include activities that have the characteristics of an exchange transaction. Non-operating expenses include activities that have the characteristics of non-exchange transactions not meeting the above definition for operating expenses.

Cash and Cash Equivalents

For purposes of the accompanying financial statements, cash and cash equivalents consist of all highly liquid bank depository account holdings available for current use with original maturities of three (3) months or less, when initially purchased. Cash and cash equivalents consist of checking and money market accounts which are carried at historical acquisition cost that approximates fair market value.

Certificates of Deposit

Certificates of deposit owned by the Authority have durations in excess of three months when initially purchased. Certificates of deposit are carried at their respective fair market values, which approximate their historical acquisition costs plus accrued interest, if applicable.

Accounts Receivable

Accounts receivable due from park tenants are related to water sales and rental income and are recorded when invoices are issued. Accounts receivable due from park tenants are presented in the accompanying "Statements of Net Position" net of an allowance for doubtful accounts, if applicable. The allowance for doubtful accounts is estimated based on the Authority's historic collection experience(s) with various customers. At April 30, 2023 and 2022, management of the Authority did not believe that an allowance for doubtful accounts was necessary.

OKLAHOMA ORDNANCE WORKS AUTHORITY
(A Public Trust)

Notes to the Basic Financial Statements
As of and For the Fiscal Years Ended April 30, 2023 and 2022

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued):

Inventory

The Authority records inventory of chemical products and materials at their respective historical acquisition costs using the first-in, first-out method.

Investments in Marketable Securities

The Authority's investment policy statement allows for investments in various fixed income securities, which are carried at fair market value based upon published market quotations. While these securities have traditionally been held to maturity by the Authority, they are subject to significant fluctuations in fair market value during the holding period(s) due to long-term maturities of the respective fixed income securities that are purchased by the Authority. In a rising interest rate environment, it is likely that fixed income securities with long-term maturities will sustain significant unrealized losses until their respective full maturity dates.

Property and Equipment, Net of Accumulated Depreciation

Property and equipment are recorded at historical acquisition cost, net of accumulated depreciation. Depreciation of property and equipment is determined by using the straight-line method, calculated over the estimated useful lives of the respective classes of assets, which currently range from five (5) to forty (40) years. The Authority's practice is to consider capitalization for individual property and equipment items with values of \$1,000 or greater. Lesser amounts are expensed. Routine repairs and maintenance costs for property and equipment are expensed as incurred. Construction in progress represents costs accumulated for various construction projects that were not yet completed at the end of the Authority's fiscal year.

Management of the Authority reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by a comparison of the carrying amount of an asset to undiscounted expected cash flows. Future events could cause the Authority to conclude that impairment indicators exist and that long-lived assets may be impaired.

Donated Property

The Authority is eligible to participate in federal and state grant programs. Property donated to the Authority under such programs is carried at estimated fair value when donated. Property acquired with grant proceeds is recorded at cost and is depreciated in the same manner as property acquired with the Authority's funds.

Income Tax

By Oklahoma state statute, the Authority is exempt from Federal and Oklahoma state income taxes. Accordingly, no provision for income taxes has been made within the accompanying financial statements.

The Authority accounts for uncertain tax positions in accordance with the provisions of FASB ASC 740, *Income Taxes*. FASB ASC 740 prescribes a recognition threshold and measurement process for financial statement recognition of uncertain tax positions taken or expected to be taken in a tax return. Using the guidance of FASB ASC 740, income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return only when it is determined that the income tax position will "more likely than not" be sustained upon examination by the taxing authorities. As of April 30, 2023, and 2022, the Authority believes that all tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Authority's financial statements. Accordingly, the Authority has not recorded any reserves or related accruals for uncertain income tax positions at April 30, 2023 and 2022, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates that were used.

**OKLAHOMA ORDNANCE WORKS AUTHORITY
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**Notes to the Basic Financial Statements
As of and For the Fiscal Years Ended April 30, 2023 and 2022**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued):

Advertising and Marketing Costs

The Authority' annual operating budget provides for funds to market the industrial park to prospective park tenants and the Authority expenses advertising costs in the period they are incurred. Total advertising and marketing costs were \$954,654 and \$609,596 for fiscal years ended April 30, 2023 and 2022, respectively.

Prior Period Adjustment

A prior period adjustment was made to net position to reduce the accrued total of grant funds receivable by \$138,652, for the corrected total of expenses to be reimbursement by the Federal Aviation Administration.

Date of Management's Review and Subsequent Events

Management of the Authority has evaluated subsequent events through October 20, 2023, which is the date that the financial statements were available for issuance. Management did not note any subsequent events that required recognition or disclosure in the accompanying financial statements and footnotes.

NOTE B - BANK DEPOSITS AND INVESTMENTS:

Bank Deposits - Carrying Amounts

All bank deposits are held with financial institutions and are included in the accompanying "Statements of Net Position" as cash and cash equivalents and certificates of deposit. The carrying amounts of these deposits totaled \$13,745,860 and \$31,804,692 for the fiscal years ended April 30, 2023, and 2022, respectively. The financial institutions' balances for these deposits totaled \$14,251,671 and \$33,176,898 for the fiscal years ended April 30, 2023 and 2022, respectively. Any differences between the carrying amounts and the financial institution balances are due to outstanding checks and/or outstanding deposits.

Bank Deposits - Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its deposits or investments that are held in the possession of an outside party. The Authority's investment policy requires collateralization of all demand deposit accounts and certificates of deposit. The Authority also minimizes custodial credit risk by pre-qualifying the custodial or depository institutions, brokers/dealers, intermediaries and advisors with which the Authority will do business. The Authority's demand deposits, and certificates of deposit held at financial institutions are currently insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per institution. At April 30, 2023 and 2022, the Authority held deposits which were in excess of FDIC insurance limits with various financial institutions. The Authority has obtained collateral agreements for certain of these deposits whereby the excess deposits are collateralized by securities held by the pledging financial institutions. However, at April 30, 2023, a total of \$6,945,240 of cash and cash equivalents, awaiting reinvestment, was held in two brokerage money market accounts. The brokerage money market accounts are not covered by FDIC insurance, are un-collateralized and are therefore exposed to custodial credit risk. The primary underlying investments of the brokerage money market accounts are indicated by the investment companies as consisting of U.S. treasury securities, which are backed by the "full faith and credit" of the U.S. government.

Investments

At the Authority's fiscal year end of April 30, 2023, the Authority's investments in marketable securities were as follows:

	<u>Fair Value</u>	<u>Cost</u>	<u>Credit Quality</u>	<u>Weighted Average Date to Maturity</u>
Federal agency bonds/GNMA	\$ 57,771,461	\$ 65,700,513	"Full faith and credit of the U.S. government"	20 Years
US Treasury obligations	15,741,785	15,574,646	"Full faith and credit of the U.S. government"	1 to 2 Years
Corporate bonds	<u>10,894,379</u>	<u>11,081,445</u>	Investment grade, not less than BBB+ rated	3 Years
Total investments	<u>\$ 84,407,625</u>	<u>\$ 92,356,604</u>		

**OKLAHOMA ORDINANCE WORKS AUTHORITY
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**Notes to the Basic Financial Statements
As of and For the Fiscal Years Ended April 30, 2023 and 2022**

NOTE B - BANK DEPOSITS AND INVESTMENTS - (Continued):

Investments - Investment Policy Statement

The Authority has adopted a formal investment policy statement. The primary objective of the Authority's investment policy statement is safety of principal and as such, the Authority is limited to holding investments with some form of U.S. Government guarantee for at least 90% of its overall portfolio and/or investment grade corporate bonds with a credit rating of at least BBB+ for no more than 10% of its overall portfolio. Under the terms of the Authority's investment policy statement, the standard of care to be used shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Additionally, the Authority's stated investment objective is to hold all investments to full maturity, thus minimizing the effect of temporary market fluctuations.

Investments - Risks and Uncertainties

The Authority maintains a significant portion of its total assets in fixed income securities. Investment securities are exposed to various risks, such as interest rate, market fluctuation and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect investments and the amounts reported in the accompanying "Statements of Net Position."

Investments - Issuer Credit Risk and Credit Quality

Issuer credit risk is the risk that an issuer or other counterparty to an investment will default and not fulfill its obligations. In order to address issuer credit risk and overall credit quality of investments, the Authority has a formal, written investment policy statement that defines which securities are suitable for investment. The Authority is guided by the terms of its investment policy statement and invests primarily (at least 90% of its portfolio) in securities which are backed by the full faith and credit and/or implicit guarantee of the U.S. government or investment grade corporate bonds (no more than 10% of its portfolio) with a credit rating of at least BBB+. As such, the Authority has attempted to reduce issuer credit risk to a reasonably low level.

Investments - Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority's stated investment objective is to hold all investments to maturity and as such, the Authority believes that fair value gains or losses should be only of a temporary, unrealized nature. However, over the short to intermediate term, the value of the Authority's portfolio of investments is directly affected by interest rate fluctuations and *significant unrealized losses may occur due to the long-term durations of these investments*, as noted below. A hypothetical example of how an investment in fixed-income marketable securities would be impacted by an increase in interest rates is as follows:

	Impact on Fair Value of Basis		
HYPOTHETICAL EXAMPLE:	<u>Point ("Bps") Increase of - Estimated:</u>		
U.S. Treasury obligation:	<u>100 Bps</u>	<u>200 Bps</u>	<u>300 Bps</u>
\$1,000,000 Treasury bond, 4% Yield	\$971,993	\$944,919	\$918,742

The example above only assumes changes in interest rates of exactly one hundred (100), two hundred (200) and three hundred (300) basis points. The length of time to maturity or "duration," as noted below, would directly affect the above example as would bid/ask spreads, both of which are not factored into this example.

Investments - Duration Risk and Duration to Maturity

The Authority's investments in bonds are long-term bonds, most of which are up to thirty years in duration, when initially purchased. However, the investments in GNMA bonds have the potential for early redemption due to pre-payment of the underlying mortgages and management of the Authority has historically relied on pre-payments of GNMA bond investments as a means to re-invest at current interest rates. However, this puts the Authority at risk, in that in a rising interest rate environment these longer term GNMA/mortgage-backed securities may not experience similar historical rates of repayments as homeowners may decide to remain in their homes longer and would also not have any incentive to refinance the underlying mortgages.

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**Notes to the Basic Financial Statements
As of and For the Fiscal Years Ended April 30, 2023 and 2022**

NOTE B - BANK DEPOSITS AND INVESTMENTS - (Continued):

Investments - Duration Risk and Duration to Maturity – (Continued)

It should be noted that while the Authority's stated investment objective is to hold all investments to full maturity, if the Authority were forced to redeem fixed income securities prior to redemption, losses could be recognized due to the long-term nature of maturities in the GNMA bonds that it holds. In the case of the Authority's investments in GNMA bonds, valuations are impacted by interest rate fluctuations and by factors other than interest rates including relatively thin trading volumes and wide spreads of "bid" vs. "ask" prices.

Investments - Concentration of Investment Issuer Credit Risk

The Authority's investments in marketable securities are diversified to some degree to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer or specific class of specific class of securities. However, the Authority has a significant concentration in GNMA bonds.

Investments – Fair Value Measurements

Prior to fiscal 1999, the Authority recorded its investments at amortized cost, recording amortization of discount or premium monthly. During fiscal 1999, the Authority adopted GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires governmental entities to report certain investments at fair market value. Accordingly, the investments in marketable securities held by the Authority are recorded at fair market value in the accompanying "Statements of Net Position" and consisted of the following at April 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Investments, registered in the Authority's name and held by brokerage firms	\$ 84,396,079	\$ 78,562,159
Investments, registered, and held in certificate form by the Authority	<u>11,546</u>	<u>17,766</u>
Total investments in marketable securities	<u>\$ 84,407,625</u>	<u>\$ 78,579,925</u>

Investments – Fair Value Hierarchy

The Financial Accounting Standards Board's Accounting Standards Codification ("ASC") 820, "Fair Value Measurements", defines fair value under accounting principles generally accepted in the United States of America, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. This standard defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price), in the principal or most advantageous market for the asset or liability, in an orderly transaction value hierarchy, which requires an entity to maximize the use of observable inputs when measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities ("Level 1") and the lowest priority to unobservable inputs ("Level 3"). The three levels of the fair value hierarchy under ASC 820 are described as follows:

"Level 1" Fair Value Measurements

Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date. All of the Authority's investments could be considered to be "Level 1" investments.

"Level 2" Fair Value Measurements

Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies.

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Notes to the Basic Financial Statements
As of and For the Fiscal Years Ended April 30, 2023 and 2022

NOTE B - BANK DEPOSITS AND INVESTMENTS - (Continued):

"Level 3" Fair Value Measurements

Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The preceding methods described may produce fair value calculations that may not be indicative of net realizable value or reflective of future fair values. While the Authority's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair market value measurement at the reporting date.

NOTE C – PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION:

Property, plant and equipment and the related depreciable lives thereof, net of accumulated depreciation, for the fiscal years ended April 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Property, plant and equipment, at historical acquisition cost:		
<u>Industrial park facilities:</u>		
Buildings	\$ 54,777,035	\$ 49,508,178
Undeveloped land (non-depreciable)	9,241,840	8,408,071
Airport property and improvements	8,630,073	8,590,013
Streets and other improvements	7,503,332	7,236,911
Machinery and equipment	2,038,462	2,027,626
STEM	1,137,533	1,075,443
Automobiles, trucks, and tractors	646,368	625,835
Computer equipment	597,768	582,807
Furniture and fixtures	406,334	406,334
Industrial park facilities, land (non-depreciable)	71,390	71,390
Accumulated depreciation	<u>(31,055,296)</u>	<u>(27,606,986)</u>
Total industrial park facilities, net of accumulated depreciation	<u>53,994,839</u>	<u>50,925,622</u>
<u>Water plant and related facilities:</u>		
Equipment	21,669,053	21,669,053
Distribution system	15,697,813	14,501,978
Building and facilities	5,719,828	5,670,837
Water plant land (non-depreciable)	31,421	31,421
Accumulated depreciation	<u>(32,407,089)</u>	<u>(30,539,458)</u>
Total water plant facilities, net of accumulated depreciation	<u>10,711,026</u>	<u>11,333,831</u>
<u>Waste treatment facilities:</u>		
Waste treatment plant and collection system	25,354,465	25,317,992
Landfill	46,161	46,161
Accumulated depreciation	<u>(17,561,341)</u>	<u>(16,271,467)</u>
Total waste treatment facilities, net of accumulated depreciation	<u>7,839,285</u>	<u>9,092,686</u>
<u>Other property and equipment, non-depreciable:</u>		
Construction in progress (non-depreciable)	<u>27,414,919</u>	<u>17,328,692</u>
Property, plant and equipment, net of accumulated depreciation	<u>\$ 99,960,069</u>	<u>\$ 88,680,831</u>

**OKLAHOMA ORDINANCE WORKS AUTHORITY
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Notes to the Basic Financial Statements

As of and For the Fiscal Years Ended April 30, 2023 and 2022

NOTE D - COMPENSATED ABSENCES:

The Authority's policy is to permit employees to accumulate earned but unused paid time off or accrued leave. Liabilities are recorded for unused accrued leave that the Authority will pay in the form of compensation upon each employee's termination or retirement. The Authority allows employees to carry forward unused paid time off to the next calendar year based on their position and continuous years of service with the Authority. For employees with zero to five (5) years of continuous service, the maximum allowable carry forward amount to the next calendar year is thirty (30) days, or two hundred and forty (240) hours. For employees with five (5) years or more of continuous service, the maximum allowable carry forward amount to the next calendar year is thirty (30) days, or two hundred and forty (240) hours. For those employees with thirty (30) or more years of continuous service and certain executive staff employees, the maximum allowable carry forward is ninety (90) days, or seven hundred and twenty (720) hours. At April 30, 2023 and 2022, total accrued leave was \$191,056 and \$141,708, respectively, which is included within the caption "accrued liabilities" on the accompanying "Statements of Net Position".

NOTE E - NET POSITION:

The Authority's "net position" at April 30, 2023 and 2022 totaled \$199,471,082 and \$200,607,256, respectively. The various net position captions included within the accompanying "Statement of Net Position" are further described and classified as follows:

Net Position, Unrestricted

Consist of operating funds over which the Board of Trustees retains full control to use in achieving any of its authorized purposes. While these funds are considered to be unrestricted for future use, the Authority has a formal "capital improvements budget" related to anticipated future projects and expansion within the industrial park for which a significant amount of these funds has been set aside. See further explanation within the following footnote under the caption "capital improvements budget."

Net Position, Invested in Capital Assets

Consist of the Authority's total historical investment in property and equipment assets within the industrial park ("capital assets"). The net position invested in capital assets is recorded at the historical acquisition cost of property, plant and equipment, net of accumulated depreciation.

Net Position, Restricted

Consist of operating funds on which external restrictions have been imposed that limit the purposes for which such funds can be used. The Authority is legally or contractually obligated to spend these funds in accordance with the restriction imposed by third parties. Under GASB requirements, a restriction of net assets only exists under either of the following conditions: a restriction externally imposed by a creditor, grantor or contributor, or a restriction imposed by law through enabling legislation. When an expense is incurred that can be paid using restricted or unrestricted resources, the Authority's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. None of the Authority's net position is considered to be restricted at this time.

Capital Improvements Budget

A significant amount of the balance listed under the caption of "net position, unrestricted" will be needed to finance future capital improvements within the industrial park. Under the Authority's five-year capital budget plan, management of the Authority estimates that a total of \$100,264,059 will be needed to complete scheduled capital improvement projects for upcoming fiscal years ending April 30, 2024 through 2028 as per Management's internal projections at April 30, 2023. The estimated costs for the scheduled capital improvement projects under the five-year plan are broken down by functional areas as follows; Water and waste treatment plant - \$46,713,609, Park expansion and development - \$39,270,000, Roads - \$11,005,000, Operational - \$1,715,450 and Buildings - \$1,560,000. Certain portions of the capital budget for functional areas such as water and waste and buildings are potentially recoverable. Following is a listing of anticipated annual capital improvements projects for the five fiscal years ending after April 30, 2023; 2024 - \$38,759,909, 2025 - \$36,847,500, 2026 - \$17,395,900, 2027 - \$2,660,750 and 2028 - \$4,600,000.

**OKLAHOMA ORDINANCE WORKS AUTHORITY
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**Notes to the Basic Financial Statements
As of and For the Fiscal Years Ended April 30, 2023 and 2022**

NOTE F - BUILDING RENTAL INCOME AND OTHER RENTAL INCOME:

For the fiscal years ended April 30, 2023 and 2022, the Authority recognized building rental and other rental income of \$3,757,049 and \$3,405,731, respectively. Following is a listing of anticipated future minimum rental income payments receivable under the non-cancelable operating leases in effect for the five fiscal years ending after April 30, 2023; 2024 - \$2,832,672, 2025 - \$2,601,655, 2026 - \$2,548,374, 2027 - \$1,781,231 and 2028 - \$1,742,899. As such, total future minimum payments receivable under the non-cancelable operating leases for fiscal years ending April 30, 2024 to 2028 are anticipated to be at least \$5,390,433. A significant amount of building rental and other operating lessor income is also earned by the Authority on lease agreements which are on a month-to-month basis with various industrial park tenants. For industrial park tenants with month-to-month rental agreements, the current total monthly rental income is \$91,297 and the total anticipated annual income related to month-to-month rental agreements is \$1,095,564.

Included within the building rentals and operating lease totals listed above are below-market lease agreements that the Authority has entered into with various educational institutions operated by the state of Oklahoma. The building rental payments due from the educational institutions are set at nominal annual amounts (ranging from \$1 per year to \$10 per year) in order to encourage investments in the education and training of current and potential future employees of industrial park tenants.

NOTE G - EXPENDITURES OF FEDERAL AWARDS, AIRPORT IMPROVEMENT PROGRAM:

During the fiscal years ended April 30, 2023 and 2022, the Authority received certain grant funds from the Federal Aviation Administration ("FAA") for use on infrastructure projects for the Authority's airport under the FAA's "Airport Improvement Program. The U.S. Office of Management and Budget Uniform Guidance (formerly "OMB" Circular A-133) and *Government Auditing Standards* require audits of annual expenditures of federal awards in excess of \$750,000 in a single fiscal year period. The Authority's expenditures of federal awards did not exceed \$750,000 for the fiscal year ended April 30, 2023, so a Single Audit was not required, whereas expenditures of federal awards exceeded \$750,000 for the previous fiscal year ended April 30, 2022 and a Single Audit was required. Total funds received by the Authority related to federal grant awards for the Airport Improvement Program were \$158,286 and \$1,180,022 for the fiscal years ended April 30, 2023 and 2022, respectively. The Authority is currently awaiting receipt of an additional \$484,000 in federal grant awards for previous expenditures incurred.

NOTE H - NON-RECOURSE DEBT:

In the past, the Authority assisted some of its tenants in obtaining long-term financing through the issuance of industrial revenue bonds. Long-term debt incurred by the Authority is repaid from tenant leases which are payable in amounts equal to the long-term debt service requirements. These long-term financing arrangements are not general obligations of the Authority, and it is the opinion of management and its legal counsel that, in the case of default by the borrower(s), the Authority has no responsibility for repayment of such financing arrangements. In accordance with the *American Institute of Certified Public Accountants Audit Guide, Audits of State and Local Governmental Units*, the non-recourse debt financing and the related lease receivables, interest income and interest expense have been excluded from the financial statements. Following is a summary of non-recourse debt at April 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Ralston Purina facility financing - \$1,725,000, 6.5% Series 1996 bonds payable on September 1, 2026, solely from Ralston Purina plant rental revenues	<u>\$ 1,725,000</u>	<u>\$ 1,725,000</u>
Total non-recourse debt, not required to be included within the "Statements of Net Position" of the Authority	<u>\$ 1,725,000</u>	<u>\$ 1,725,000</u>

**OKLAHOMA ORDINANCE WORKS AUTHORITY
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**Notes to the Basic Financial Statements
As of and For the Fiscal Years Ended April 30, 2023 and 2022**

NOTE I - RETIREMENT PLANS:

The Authority's employees were eligible to participate in three retirement plans during the fiscal years ended April 30, 2023 and 2022. The plans currently available to the Authority's personnel include one defined benefit pension plan and two defined contribution plans. The defined benefit pension plan is available through the Oklahoma Public Employees Retirement System. The defined contribution plans include an Internal Revenue Code Section 457 Plan and the Oklahoma State Employees Deferred Compensation Plan/OPERS "Pathfinder" Plan. A summary of significant data for each of the retirement plans is as follows:

Oklahoma Public Employees Retirement Plan ("OPERS")

General Information about the Oklahoma Public Employees Retirement Plan and Plan Description

The Authority is a participant in the State of Oklahoma Public Employees Retirement Plan (hereafter also referred to as "OPERS") which is a cost-sharing multiple-employer defined benefit pension plan, administered by the Oklahoma Public Employees Retirement System, which is a component unit of the State of Oklahoma. The Authority implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* - an amendment of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* - an amendment of GASB Statement No. 68, effective January 1, 2015. At that time, the opening net position of fiscal year ended April 30, 2016 was restated. The table below shows the pension plan data as reported in the Authority's basic financial statements for the fiscal years ended April 30, 2023 and 2022:

<u>As of and for the Fiscal Years Ended:</u>	<u>April 30, 2023</u>	<u>April 30, 2022</u>
Deferred Outflows of Resources	\$ 1,114,718	\$ 118,720
Deferred Inflows of Resources	\$ 48,692	\$ 1,837,259
Net Pension (Asset) or Liability	\$ 1,062,014	\$ (1,611,169)

For purposes of measuring the net pension liability, deferred outflows and inflows of resources, and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of OPERS and additions to/deductions from OPERS and fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

OPERS was established by the State of Oklahoma in accordance with the Oklahoma state statutes and provides retirement, disability and death benefits to its beneficiaries, primarily state, county and local government agency employees. The benefits provided are established and may be amended by the legislature of the State of Oklahoma. Title 74 of the Oklahoma Statutes, Sections 901 through 943, as amended, assigns the authority for management and operation of OPERS to the OPERS Board of Trustees.

Effective November 1, 2015, the Oklahoma Legislature enacted legislation requiring a defined contribution system be established by OPERS for most state employees first employed by a participating State employer on or after November 1, 2015 and ceasing the acceptance of any new participants to the defined benefit retirement plan. Therefore, employees whose first date of employment with the Authority (or other participating state agency) is on or before November 1, 2015 are eligible to participate in OPERS. Those employees of the Authority (or other participating state agency) whose first date of employment is after November 1, 2015, are covered by the Oklahoma State Defined Contribution System ("Pathfinder").

OPERS issues a publicly available financial report that includes financial statements and required supplementary information for OPERS. That annual report may be obtained online at www.opers.ok.gov, by writing to Oklahoma Public Employees Retirement System, P.O. Box 53007, Oklahoma City, Oklahoma 73152-3007, or by calling (800) 733-9008.

Vesting

OPERS requires eight years of credited service (including six full years of full-time equivalent employment) to be eligible to vest.

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**Notes to the Basic Financial Statements
As of and For the Fiscal Years Ended April 30, 2023 and 2022**

NOTE I - RETIREMENT PLANS – (Continued):

Benefits Provided

Employees who became a participant in the OPERS Plan before November 1, 2011, can begin receiving full, unreduced retirement benefits at the age of sixty-two with six full years of full-time equivalent employment; or when the sum of the member's age and years of service equals eighty when membership began before July 1, 1992; or when the sum of the member's age and years of service equals ninety when membership began on or after July 1, 1992. Employees who became a participant in the OPERS Plan on or after November 1, 2011, can begin receiving full, unreduced retirement benefits at the age of sixty-five with six full years of full-time equivalent employment; or when the member is at least sixty years of age, and the sum of the member's age and years of service equals ninety. Employees may retire at age sixty (fifty-five when membership began before November 1, 2011) and receive reduced benefits with at least ten years of participating service. Members who choose early retirement will receive a permanent actuarial reduction in benefits based on the age at retirement. The benefit on or after normal retirement, payable for life, is 2% of final average compensation, multiplied by years of credited service. For members who have elected the "Step-up option," a 2.5% multiplier is applied to the "stepped-up" full years.

Contributions

OPERS Plan participants and the Authority are required to contribute to the OPERS Plan at rate(s) set by state statute. The contribution rates for each member category of the OPERS Plan are established and may be amended by the Oklahoma Legislature, based on actuarial calculations which are performed to determine the adequacy of such contribution rates. The current employer retirement contribution rate for participating state agencies for the fiscal year ended April 30, 2023 is unchanged from the previous fiscal year ended April 30, 2022 at 16.5% of salary. Employees who participate in the OPERS Plan make contributions of 3.5% of salary or 6.41% of salary if enrolled in the "step-up" plan election. Under the "step-up" plan election, OPERS Plan participants have the option to elect to increase the benefit computation factor for all future service from 2.0% to 2.5%. The election is irrevocable, binding for all future employment under OPERS, and applies only to full years of service. Those who make the election pay the standard contribution rate plus an additional contribution rate, 2.91%, which is actuarially determined. The "step-up" plan election is available for all state, county, and local government employees, except for elected officials and hazardous duty members.

Liabilities and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension Plan

At April 30, 2023, based on the OPERS Plan's "schedule of employer allocations", the Authority's proportionate share of the "net pension (asset) or liability" of the OPERS Plan was calculated as being a net pension liability of \$1,062,014. The "net pension (asset) or liability" was measured as of the OPERS Plan's fiscal year end of June 30, 2022. The OPERS Plan's fiscal year end of June 30, 2022 is hereafter referred to as "the measurement date". The total pension liability used to calculate net pension liability was determined by an actuarial valuation of the OPERS Plan as of July 1, 2022. The Authority's respective proportion of the OPERS Plan's net pension liability was based on the Authority's share of contributions to the OPERS Plan relative to the contributions of all participating employers. At the measurement date, the Authority's proportion percentage was .12634531%, based on the OPERS Plan's stated, "employer allocation percentage". Based on the measurement date calculations, for the Authority's fiscal year ended April 30, 2023, the Authority's financial statements are required under GASB Statement No. 68 to report deferred outflows of resources and deferred inflows of resources related to pensions. As of the Authority's fiscal year end of April 30, 2023, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS Pension Plan Measurement Date – June 30, 2022:</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 48,692
Changes in assumptions	-	-
Net differences between projected and actual earnings on pension plan investments	<u>1,114,718</u>	<u>-</u>
Totals:	<u>\$ 1,114,718</u>	<u>\$ 48,692</u>

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**Notes to the Basic Financial Statements
As of and For the Fiscal Years Ended April 30, 2023 and 2022**

NOTE I - RETIREMENT PLANS – (Continued):

Actuarial Assumptions

As per the Oklahoma Public Employees Retirement Plan, the total pension liability in the July 1, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date:	July 1, 2022
Measurement date of net pension liability:	June 30, 2022
Actuarial cost method:	Entry age
Asset valuation method for contributions:	Five-year moving average of expected and actual market values
Asset valuation method for assets under GASB 68:	Fair value of assets
Investment expected rate of return:	6.5% for 2022 and 2021
Discount rate:	6.5% for 2022 and 2021
Payroll growth/salary increases:	3.25% per year for 2022 and 2021
Assumed inflation rate:	2.5% for 2022 and 2021
Mortality rates:	Pub-2010 Below Media, General Membership Active/Retiree Healthy Mortality Table with base rates projected to 2030 using Scale MP-2019. Male rates set back one year, and female rates set forward two years.
Post-retirement adjustments:	No annual post-retirement benefit increases

The actuarial assumptions used in the July 1, 2021 valuation are based on the results of the most recent actuarial experience study, which covered the three-year period ending June 30, 2019. The experience study report is dated May 13, 2020.

Long Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a lognormal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as used in the June 30, 2019 experience study, are summarized in the following table:

<u>Asset Class:</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Large Cap Equity	34.0%	4.7%
U.S. Small Cap Equity	6.0%	5.8%
International Developed Equity	23.0%	6.5%
Emerging Market Equity	5.0%	8.5%
Core Fixed Income	25.0%	.5%
Long Term Treasuries	3.5%	0.0%
U.S. TIPS	3.5%	.3%
Totals	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 6.5% net of investment expenses for 2022 and 2021. The projection of cash flows used to determine the discount rate assumed that contributions from System members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected benefit payments of current System members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits payments to determine the total pension liability. The discount rate determined does not use a municipal bond rate.

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**Notes to the Basic Financial Statements
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NOTE I - RETIREMENT PLANS – (Continued):

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of both the Authority's calculated amounts using the discount rate of 6.5%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.5%) or 1-percentage-point higher (7.5%) than the current rate:

<u>At April 30, 2023</u>	<u>1% Decrease to Discount Rate (5.5%)</u>	<u>Current Discount Rate (6.5%)</u>	<u>1% Increase to Discount Rate (7.5%)</u>
Proportionate share of the net pension liability/(asset)	\$ 898,627	\$ 1,062,014	\$ 1,225,401

Pension Plan Fiduciary Net Position

Detailed information about the Oklahoma Public Employees Retirement Plan, the Plan's June 30, 2022 Annual Comprehensive Financial Report, the Plan's actuarial valuation and fiduciary net position is available in separately issued financial statements available at <https://www.opers.ok.gov/financial/reports.shtml>.

Oklahoma Ordinance Works Authority Deferred Compensation Plan

The Authority also offers a deferred compensation plan (hereafter referred to as "the 457 Plan") created in accordance with Internal Revenue Code Section 457. The 457 Plan, available to certain employees of the Authority, permits them to defer a portion of their salary to future years, subject to current limits imposed by the Internal Revenue Code. Under an amendment and restatement of the 457 Plan dated February 23, 2016, those employees of the Authority whose first date of employment is on or before November 1, 2015 and have no prior participation in the OPERS Plan are eligible to participate in the 457 Plan. Those employees who do not meet these criteria must participate in the Oklahoma Public Employees Retirement Defined Contribution Plan ("Pathfinder"). The compensation deferred is available to employees upon termination, retirement, death, or unforeseeable emergency. All assets and income of the deferred compensation plan are held in trust for the exclusive benefit of the participants. During October of 2000, the Authority also adopted an Internal Revenue Code Section 401(a) plan. This plan became effective in January of 2001 and was further amended in 2013. Under this plan, the Authority matches employee contributions to the 457 plan as follows; (1) a \$2 employer match for each \$1 contributed to the 457 Plan until the participant's aggregate contribution since the beginning of the of the 457 Plan year equals \$1,200, (2) then, \$1.50 for each \$1 thereafter contributed during the remainder of the year to the 457 Plan until the participant's aggregate contribution since the beginning of the 457 Plan year equals \$3,200, (3) then, \$.50 for each \$1 thereafter contributed during the remainder to the year to the 457 Plan until the participant's aggregate contribution since the beginning of the 457 Plan year equals the maximum annual contribution limits, pursuant to Section 415(d) of the Internal Revenue Code. As per Internal Revenue Code regulations for 457 Plans, certain employees of the Authority may contribute a maximum of \$20,500 to the 457 Plan for the 2021 calendar year, plus a maximum of \$6,500 in "catch up" contributions for those employees who are age fifty (50) or older.

Oklahoma Public Employees Retirement System Defined Contribution Plan ("Pathfinder")

Effective November 1, 2015, Oklahoma Legislature enacted legislation requiring a Defined Contribution System be established by OPERS for most state employees first employed by a participating State employer on or after November 1, 2015. Employees of the Authority who first become employees after November 1, 2015 and have no prior participation in OPERS must participate in the mandatory Defined Contribution Plan ("Pathfinder") created in accordance with Internal Revenue Code Section 401(a) and 457(b) and chapter 40 of Title 590 of the Oklahoma Statutes. The Defined Contribution Plan is known as "Pathfinder." Pathfinder and its related Trust(s) are intended to meet the requirements of the Internal Revenue Code and are administered by OPERS. The Board of Trustees of OPERS may amend Pathfinder and its related Trust but no amendment shall authorize or permit any part of the Trust for Pathfinder to be used or diverted to purposes other than for the exclusive benefit of the Pathfinder participants and their beneficiaries. Contribution rates are established by Oklahoma Statute and may be amended by the Oklahoma Legislature. For the Pathfinder plan, employees must make mandatory employee contributions of 4.5% of pre-tax salary to the 401(a) plan and may make additional voluntary contributions to the 457(b) Plan, subject to the

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**Notes to the Basic Financial Statements
As of and For the Fiscal Years Ended April 30, 2023 and 2022**

NOTE I - RETIREMENT PLANS – (Continued):

Oklahoma Public Employees Retirement System Defined Contribution Plan (“Pathfinder”)

maximum deferral limit allowed under the Code. Employees are vested 100% for all employee contributions. The Authority must make mandatory contributions of 6% of the employee’s pre-tax salary and 7% if the employee elects to participate in the 457(b) plan. Employees become vested for the employer contributions based on an established vesting schedule. The amount of the Authority’s contributions for Pathfinder for the fiscal years ended April 30, 2023 and 2022, were \$68,500 and \$41,331, respectively.

Additionally, in order to reduce the liabilities of the OPERS defined benefit plan, the Authority is required to contribute the difference between the established 16.5% defined benefit employer contribution rate and the amount required to match the participating employees’ contribution in the defined contribution plan. For the previous fiscal year ended April 30, 2022, the Authority had \$58,426 of contributions to meet the additional contribution requirements of the Pathfinder plan. For the current fiscal year ended April 30, 2023, the Authority had \$100,804 of contributions to meet the additional contribution requirements of the Pathfinder plan.

NOTE J – OTHER POST-EMPLOYMENT BENEFITS:

Summary of Significant Accounting Policies for Post-employment Benefits Other than Pensions (“OPEB”)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the Authority’s share of the net OPEB liability of the Oklahoma Public Employees Retirement System (“OPERS”) and additions to/deductions from the net OPEB liability have been determined on the same basis as they are reported by the OPERS plan.

General Information about the OPEB Plan

The Authority is a participant in the Oklahoma Public Employees Retirement System (hereafter also referred to as “OPERS”) which is a cost-sharing multiple-employer defined benefit plan, administered by the Oklahoma Public Employees Retirement System, which is a component unit of the State of Oklahoma. OPERS was established by the State of Oklahoma in accordance with the Oklahoma state statutes and provides post-employment health insurance benefits, as well as retirement, disability and death benefits to its beneficiaries, primarily state, county and local government agency employees. The benefits provided are established and may be amended by the legislature of the State of Oklahoma. Title 74 of the Oklahoma Statutes, Sections 901 through 943, as amended, assigns the authority for management and operation of OPERS to the OPERS Board of Trustees.

OPERS issues a publicly available financial report that includes financial statements and required supplementary information for OPERS. That annual report may be obtained online at www.opers.ok.gov, by writing to Oklahoma Public Employees Retirement System, P.O. Box 53007, Oklahoma City, Oklahoma 73152-3007, or by calling (800) 733-9008.

OPEB Liabilities, OPEB Expense, Deferred Outflows/Inflows of Resources Related to OPEB

The Authority implemented GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for post-employment benefits other than pensions (“OPEB”). The implementation of this Statement required recognition within the financial statements, the Authority’s portion of “net post-employment benefits liability,” related to participation in the Oklahoma Public Employees Retirement System. The table below shows the OPEB data as reported in the basic financial statements of the Authority for the fiscal years ended April 30, 2023 and 2022:

<u>For the Fiscal Years Ended:</u>	<u>April 30, 2023</u>	<u>April 30, 2022</u>
Deferred Outflows of Resources	\$ 54,738	\$ 14,673
Deferred Inflows of Resources	\$ 59,076	\$ 100,490
Net Post-Employment Benefits (“OPEB”) (Asset)/Liability	\$ (118,244)	\$ (165,038)

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**Notes to the Basic Financial Statements
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NOTE J – OTHER POST-EMPLOYMENT BENEFITS – (Continued):

OPEB Liabilities, OPEB Expense, Deferred Outflows/Inflows of Resources Related to OPEB

For purposes of measuring the net post-employment benefits liability, deferred outflows and inflows of resources, and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position of OPERS and additions to/deductions from OPERS and fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Liabilities and Deferred Outflows/Inflows of Resources Related to OPERS OPEB Plan

At April 30, 2023, based on an OPERS “schedule of employer allocations”, OPERS reported that the Authority’s proportionate share of the “net OPEB (asset)/liability” of the OPERS Plan was \$(118,244). The “net OPEB (asset)/liability” was measured as of OPERS’ fiscal year end of June 30, 2022. The OPERS fiscal year end of June 30, 2022 is hereafter referred to as “the measurement date”. The total OPEB liability used to calculate net OPEB liability was determined by an actuarial valuation of the OPERS Plan as of July 1, 2022. The Authority’s respective proportion of the OPERS Plan’s net OPEB liability was based on the Authority’s share of contributions to the OPERS Plan relative to the contributions of all participating employers. At the measurement date, the Authority’s proportion percentage was .12634531%, based on OPERS stated “employer allocation percentage”. Based on the measurement date calculations, for the Authority’s fiscal year ended April 30, 2023, the Authority’s financial statements are required under GASB Statement No. 75 to report deferred outflows of resources and deferred inflows of resources related to OPEB.

As of the Authority’s fiscal year end of April 30, 2023, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>OPERS’ OPEB Plan Measurement Date – June 30, 2022:</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$	\$ 59,076
Changes in assumptions	9,984	
Net differences between projected and actual earnings on OPEB plan investments	<u>44,754</u>	<u>-</u>
Totals:	<u>\$ 54,738</u>	<u>\$ 59,076</u>

Actuarial Assumptions

As per the Oklahoma Public Employees Retirement System, the total OPEB liability in the July 1, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date:	July 1, 2022
Measurement date of net pension liability:	June 30, 2022
Actuarial cost method:	Entry age
Asset valuation method for contributions:	Five-year moving average of expected and actual market values
Asset valuation method for assets under GASB 68:	Fair value of assets
Investment expected rate of return:	6.5% for 2022 and 2021
Discount rate:	6.5% for 2022 and 2021
Payroll growth/salary increases:	3.25% per year for 2022 and 2021
Assumed inflation rate:	2.5% for 2022 and 2021
Mortality rates:	Pub-2010 Below Media, General Membership Active/Retiree Healthy Mortality Table with base rates projected to 2030 using Scale MP-2019. Male rates are set back one year, and female rates are set forward two years.
Post-retirement adjustments:	No annual post-retirement benefit increases

The actuarial assumptions used in the July 1, 2022 valuation are based on the results of the most recent actuarial experience study, which covered the three-year period ending June 30, 2019. The experience study report is dated May 13, 2020.

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**Notes to the Basic Financial Statements
As of and For the Fiscal Years Ended April 30, 2023 and 2022**

NOTE J – OTHER POST-EMPLOYMENT BENEFITS – (Continued):

Long Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as used in the June 30, 2019 experience study, are summarized in the following table:

<u>Asset Class:</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Large Cap Equity	34.0%	4.7%
U.S. Small Cap Equity	6.0%	5.8%
International Developed Equity	23.0%	6.5%
Emerging Market Equity	5.0%	8.5%
Core Fixed Income	25.0%	.5%
Long Term Treasuries	3.5%	0.0%
U.S. TIPS	<u>3.5%</u>	.3%
Totals	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total OPEB liability was 6.5% of net investment expenses for 2022 and 2021. The projection of cash flows used to determine the discount rate assumed that contributions from System members and the employers will be made at the current contribution rate as set out in Oklahoma state statute. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future OPEB benefit payments of current System members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determined does not use a municipal bond rate.

Sensitivity of the Authority's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net pension liability of both the Authority's calculated amounts using the discount rate of 6.5%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.5%) or 1-percentage-point higher (7.5%) than the current rate:

<u>At April 30, 2023</u>	<u>1% Decrease to Discount Rate (5.5%)</u>	<u>Current Discount Rate (6.5%)</u>	<u>1% Increase to Discount Rate (7.5%)</u>
Proportionate share of the net OPEB liability/(asset)	\$ (100,053)	\$ (118,244)	\$ (136,436)

Pension Plan Fiduciary Net Position

Detailed information about the Oklahoma Public Employees Retirement System, the System's June 30, 2022 Annual Comprehensive Financial Report, the Plan's actuarial valuation and fiduciary net position is available in separately issued financial statements available at <https://www.opers.ok.gov/financial/reports.shtml>.

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**Notes to the Basic Financial Statements
As of and For the Fiscal Years Ended April 30, 2023 and 2022**

NOTE K - COMMITMENTS AND CONTINGENCIES:

In the normal course of business, the Authority makes and receives commitments for purchases of power, water, chemicals and other materials and supplies inventory. In addition, in the normal course of business the Authority enters into agreements which commit the Authority to provide varying amounts of water and waste treatment services to its customers. Management of the Authority does not believe that the honoring of these commitments will have any material, adverse effect on the Authority.

The Authority has been operating under a revised wastewater discharge permit, OPDES permit #OK0034568, with the Oklahoma Department of Environmental Quality ("ODEQ") for the Authority's wastewater treatment plant. The Authority's renewed permit was effective on March 1, 2019 and it expires on February 29, 2024. The renewed permit allows for 697 pounds of waste treatment discharge per day into the Grand Neosho River from June 1 to October 30 each year and allows for the volume limits allowed by the Authority's old permit, 1,584 pounds of waste treatment discharge into the Grand Neosho River, during the remainder of the year.

NOTE L – ADOPTION OF ACCOUNTING PRONOUNCEMENTS:

Recently Adopted Accounting Pronouncements

During the year, the Authority adopted the following accounting standards: GASB Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of the financial statements of governments 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 the leasing activities of governments. The requirements of this Statement are effective for fiscal years ending after June 15, 2021. This statement did not have an impact on the Authority's financial statements.

Future Accounting Pronouncements

The following accounting standards will be adopted as applicable in future periods: GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. In May 2020, GASB issued Statement No. 96, which provides accounting and financial reporting guidance for the governmental end users of subscription-based information technology arrangements (SBITAs) GASB 96 defines a SBITA, establishes right-to-use assets and corresponding liabilities, and provides capitalization criteria and the not disclosures required for SBITAs. The Authority will adopt GASB 96 for the upcoming April 30, 2024 fiscal year. The Authority does not expect GASB 96 to have a significant impact on the financial statements.

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Supplemental Schedules of Revenues, Expenses and
Changes in Net Position - by Division
For the Fiscal Years Ended April 30, 2023 and 2022

Administration (Includes Maintenance and Workforce Development)

	<u>2023</u>	<u>2022</u>
Revenues, operating:		
Building rentals and other rental income	\$ 3,757,049	\$ 3,405,731
Airport income (Note G)	181,201	118,760
Miscellaneous income	210,692	176,442
Total operating revenues	<u>4,148,942</u>	<u>3,700,933</u>
Expenses:		
Operating expenses, direct:		
General maintenance	588,075	100,973
Wages, payroll taxes and employee benefits	401,095	362,690
Utilities, heat and lights	209,817	197,343
Buildings and grounds; Airport	139,708	91,621
Buildings and grounds; Expo Center	88,417	92,707
Buildings and grounds; Other	71,945	46,904
Housekeeping and security	25,652	33,327
Laboratory, permits and testing	2,754	1,411
Buildings and grounds; Russell Hunt Lodge	2,602	5,221
Water	569	450
Other operating expenses	12,942	16,887
Total operating expenses, direct	<u>1,543,576</u>	<u>949,534</u>
General and administrative expenses:		
Advertising and marketing	954,654	609,596
Administrative salaries, payroll taxes and employee benefits	892,576	784,958
Insurance	613,007	354,501
Professional fees, other	513,274	640,949
Professional fees, legal	477,661	502,769
Professional fees, engineering	247,716	1,200
STEM	216,902	197,791
Workforce development	143,122	128,648
Continuing education and training center	88,700	96,211
Telephone and internet	66,651	63,276
Office supplies and software	63,005	41,778
Travel, meals and entertainment	20,582	16,668
Other general and administrative expenses	205,388	37,700
Total general and administrative expenses	<u>4,503,238</u>	<u>3,476,045</u>
Income or (loss) from operations	<u>(1,897,872)</u>	<u>(724,646)</u>
Other income, non-operating:		
Interest income	2,696,344	1,603,157
Gain or (loss) on sales of assets	1,729,962	865,882
Grant awards, federal, state or other (Note G)	329,585	1,492,322
OPERS Plan pension/OPEB adjustment, income	146,067	481,661
Unrealized gain or (loss) in fair value of investments in marketable securities	(2,530,836)	(7,841,777)
Other expenses, non-operating:		
Depreciation expense	3,448,308	2,635,677
OPERS Plan pension/OPEB adjustment, expense	-	-
Changes in net position	<u>\$ (2,975,058)</u>	<u>\$ (6,759,078)</u>

The accompanying notes are an integral part of these financial statements.

OKLAHOMA ORDNANCE WORKS AUTHORITY
(A Public Trust)

Supplemental Schedules of Revenues, Expenses and
Changes in Net Assets - by Division
For the Fiscal Years Ended April 30, 2023 and 2022

Water Plant and Waste Treatment Plant - Operations

	<u>2023</u>	<u>2022</u>
Revenues, operating:		
Water and waste treatment sales	\$ <u>14,301,179</u>	\$ <u>12,546,480</u>
Expenses:		
Operating expenses, direct:		
Chemicals	2,119,012	1,474,426
Power	1,503,883	1,493,123
Wages, payroll taxes and employee benefits	1,105,725	975,728
General maintenance	1,029,309	1,097,852
Laboratory, permits and testing	667,769	581,371
Water	255,666	88,109
Utilities, heat and lights	47,685	37,754
Buildings and grounds	9,027	-
Other operating expenses	<u>2,654</u>	<u>5,347</u>
Total operating expenses, direct	<u>6,740,730</u>	<u>5,753,710</u>
General and administrative expenses:		
Administrative salaries, payroll taxes and employee benefits	1,965,094	1,649,114
Insurance	293,808	169,909
Professional fees, other	103,935	3,634
Telephone and internet	34,977	32,856
Travel, meals and entertainment	11,765	5,001
Office supplies and software	5,909	4,874
Continuing education and training	3,671	7,180
Professional fees, engineering	1,283	18,903
Professional fees, legal	-	815
Other general and administrative expenses	<u>4,966</u>	<u>3,335</u>
Total general and administrative expenses	<u>2,425,408</u>	<u>1,895,621</u>
Income or (loss) from operations	<u>5,135,041</u>	<u>4,897,149</u>
Other income, non-operating:		
Gain or (loss) on disposals of assets	-	-
Other expenses, non-operating:		
Depreciation expense	<u>3,157,505</u>	<u>3,059,361</u>
Changes in net position	<u>\$ 1,977,536</u>	<u>\$ 1,837,788</u>

The accompanying notes are an integral part of these financial statements.

OKLAHOMA ORDINANCE WORKS AUTHORITY
(A Public Trust)

Supplemental Schedules - Oklahoma Public Employees' Retirement Plan - (Unaudited)
For the Fiscal Years Ended April 30, 2023 and 2022

Schedule of Proportionate Share of the Net Pension (Asset) or Liability - (Unaudited)

Oklahoma Ordinance Works <u>Fiscal Year Ending:</u>	Proportion of the Net Pension <u>(Asset)/Liability</u>	Proportionate Share of the Net Pension <u>(Asset)/Liability</u>	Covered <u>Payroll</u>	Proportionate Share of the Net Pension (Asset)/ Liability as a % of <u>Covered Payroll</u>
April 30, 2023	0.12634531%	\$ 1,062,014	\$ 1,688,971	62.88%
April 30, 2022	0.12004290%	\$ (1,611,169)	\$ 1,698,313	-94.87%
April 30, 2021	0.11547613%	\$ 1,030,236	\$ 1,840,269	55.98%
April 30, 2020	0.11800712%	\$ 157,171	\$ 1,940,422	8.10%
April 30, 2019	0.12304536%	\$ 226,467	\$ 1,973,596	11.47%
April 30, 2018	0.12304536%	\$ 656,261	\$ 1,950,965	33.64%
April 30, 2017	0.11265250%	\$ 405,193	\$ 2,034,795	19.91%
April 30, 2016	0.10647974%	\$ 383,063	\$ 1,955,306	19.59%

Schedule of Employer Contributions - (Unaudited)

Oklahoma Ordinance Works <u>Fiscal Year Ending:</u>	Contractually Required <u>Contributions</u>	Contributions in Relation to the Contractually Required <u>Contribution</u>	Contribution Deficiency or <u>(Excess)</u>	Covered <u>Payroll</u>	Contributions as a % of Covered <u>Payroll</u>
April 30, 2023	\$ 278,680	\$ 278,680	\$ -	\$ 1,688,971	16.50%
April 30, 2022	\$ 280,222	\$ 280,222	\$ -	\$ 1,698,313	16.50%
April 30, 2021	\$ 303,645	\$ 303,645	\$ -	\$ 1,840,269	16.50%
April 30, 2020	\$ 320,170	\$ 320,170	\$ -	\$ 1,940,422	16.50%
April 30, 2019	\$ 325,643	\$ 325,643	\$ -	\$ 1,973,596	16.50%
April 30, 2018	\$ 321,909	\$ 321,909	\$ -	\$ 1,950,965	16.50%
April 30, 2017	\$ 335,741	\$ 335,741	\$ -	\$ 2,034,795	16.50%
April 30, 2016	\$ 322,625	\$ 322,625	\$ -	\$ 1,955,306	16.50%

Notes to the Schedules:

Net Pension Liability

Net pension liability is the liability of the Oklahoma Public Employees' Retirement Plan. Under GASB Statement No. 68, the Authority is required to reflect a proportionate share of net pension liability within its financial statements.

Presentation of Pension Data

The amounts determined for each fiscal year of the Authority listed above were determined by the Oklahoma Public Employees Retirement Plan as of the Plan's most recent audited June 30 fiscal year-end; June 30, 2022.

The Authority is required to present the last ten fiscal years of data; however, until a full ten-year trend of data is compiled, GASB Statement No. 68 allows the presentation for those years for which information is available.

Changes in Benefit Terms

There were no changes of benefit terms for any participating employer in the Oklahoma Public Employees' Retirement Plan.

The accompanying notes are an integral part of these financial statements.

**OKLAHOMA ORDINANCE WORKS AUTHORITY
(A Public Trust)**

Supplemental Schedules - Oklahoma Public Employees' Retirement/OPEB - (Unaudited)
For the Fiscal Years Ended April 30, 2023 and 2022

Schedule of Total OPEB (Asset) or Liability

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Net other post-employment benefits ("OPEB") (asset)/liability balances at beginning of year:	\$ (165,038)	\$ (54,139)	\$ (45,875)	\$ (15,026)
Total OPEB expense or (income offset)	(34,685)	(25,082)	(25,112)	(24,729)
Change in deferred outflows of resources	40,065	14,673	20,452	(4,062)
Changes in deferred inflows of resources	41,414	(100,490)	(3,604)	(2,058)
Net change in OPEB (asset)/liability	<u>46,794</u>	<u>(110,899)</u>	<u>(8,264)</u>	<u>(30,849)</u>
Total post-employment benefits ("OPEB") (asset)/liability, at end of year	<u>\$ (118,244)</u>	<u>\$ (165,038)</u>	<u>\$ (54,139)</u>	<u>\$ (45,875)</u>

Schedule of Changes in Total OPEB Liability and Related Ratios

Covered employee payroll	\$ 1,688,971	\$ 1,698,313	\$ 1,840,269	\$ 1,940,422
Total OPEB (asset)/liability as a percentage of covered employee payroll	-7.00%	-9.72%	-2.94%	-2.36%

Notes to the Schedules:

Net OPEB Liability

OPEB liability is the liability of the Oklahoma Public Employees Retirement System. Under GASB Statement No. 75, the Authority is required to reflect a proportionate share of OPEB liability within its financial statements.

Presentation of OPEB Data

The amounts determined for each fiscal year were determined by the Oklahoma Public Employees Retirement System as of the retirement system's most recent audited financial statements for the fiscal year ended June 30, 2022.

The Authority is required to present the last ten fiscal years of data; however, until a full ten-year trend of data is compiled, information for only those years for which it is available are shown.

Changes in Benefit Terms

There were no changes of benefit terms for any participating employer in the Oklahoma Public Employees' Retirement Plan.

The accompanying notes are an integral part of these financial statements.



Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees of the
Oklahoma Ordnance Works Authority
Pryor Creek, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of OKLAHOMA ORDNANCE WORKS AUTHORITY ("the Authority"), a public trust created under the laws of the State of Oklahoma, as of and for the fiscal years ended April 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise OKLAHOMA ORDNANCE WORKS AUTHORITY's basic financial statements, and have issued our report thereon dated October 20, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Authority's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority'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. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance 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 Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hood & Associates CPAs, P.C.

Hood and Associates Certified Public Accountants, P.C.
Tulsa, Oklahoma
October 20, 2023