

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

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

June 30, 2020

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

<u>TABLE OF CONTENTS</u>	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
REQUIRED SUPPLEMENTARY INFORMATION:	
Management's Discussion and Analysis	3
BASIC FINANCIAL STATEMENTS:	
Statement of Net Position	9
Statement of Revenue, Expenses, and Changes in Net Position	10
Statement of Cash Flows	11
Notes to Financial Statements	12
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	20



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Tahlequah Public Works Authority and City Light & Water ("the Authority"), a component unit of the City of Tahlequah, Oklahoma, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated on March 19, 2021, our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Arledge & Associates, P.C.

March 19, 2021

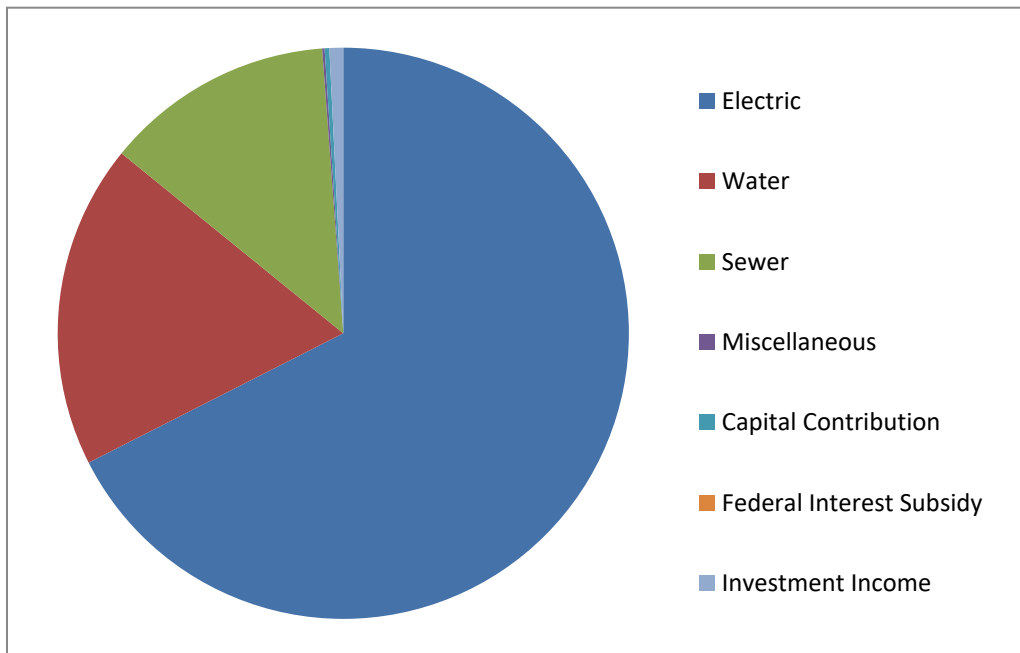
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial performance of the Tahlequah Public Works Authority and City Light & Water (“the Authority”), a component unit of the City of Tahlequah, Oklahoma, provides an overview of the Authority’s financial activities for the fiscal year ended June 30, 2020. Please read it in conjunction with the Authority’s basic financial statements.

Financial Highlights

At June 30, 2020 the Authority’s net assets total \$40.7 million. Of this, \$11.2 million is considered unrestricted.

The following chart provides a graphical breakdown of revenues by category for the fiscal year ending June 30, 2020.



In the fiscal year ended June 30, 2020, the Authority’s expenses exceeded revenues creating a decrease in net assets after net transfers out of \$138,864.

Using This Annual Report

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

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

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

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

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

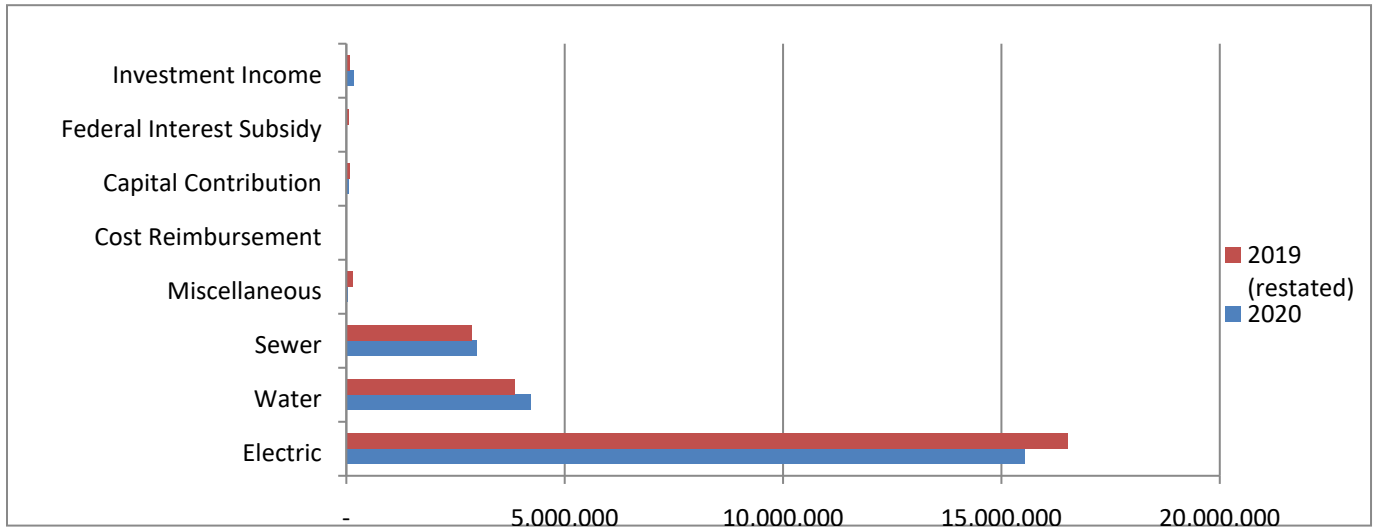
Financial Overview

Statement of Position, End of Year

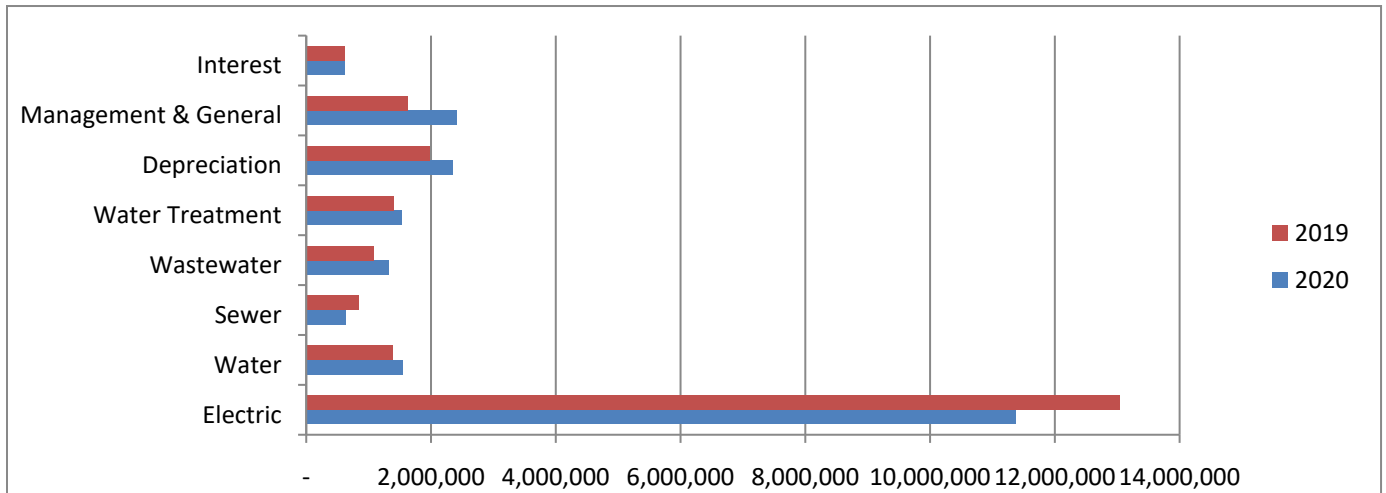
	June 30	
	2020	2019 *
Current Assets	\$ 17,992,266	\$ 18,462,024
Noncurrent Assets	45,171,714	43,551,380
Total Assets	<u>63,163,980</u>	<u>62,013,404</u>
Current Liabilities	4,767,849	7,011,036
Noncurrent Liabilities	17,928,586	14,395,959
Total Liabilities	<u>22,696,435</u>	<u>21,406,995</u>
Net Position		
Investment in Capital Assets	26,660,969	27,286,570
Restricted for Debt Service	2,645,489	4,825,152
Unrestricted	11,161,087	8,494,687
Total Net Position	<u>\$ 40,467,545</u>	<u>\$ 40,606,409</u>

* 2019 column has been restated

Operating revenues for the fiscal years ended June 30, 2020 and 2019:



Operating expenses for the fiscal years ended June 30, 2019 and 2019 (not restated due to unavailable information for depreciation expense):



Operating Results for the Year Ended

	June 30	
	2020	2019 *
Operating Revenues	\$ 22,786,583	\$ 23,329,083
Less Operating Expenses	21,091,549	21,933,630
Net Operating Revenue	1,695,034	1,395,453
Net Nonoperating Expenses	(434,366)	(241,451)
Net Transfers In (Out)	(1,399,532)	683,407
Increase (Decrease) in Net Assets	(138,864)	1,837,409
Net Position, Beginning of Year, restated	40,606,409	40,448,117
Net Position, End of Year	\$ 40,467,545	\$ 42,285,526

* 2019 column not restated due to unavailable information for depreciation expense.

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

Below is a condensed look at the statement of cash flows for fiscal 2020 and 2019.

Cash Flows for the Year Ended

	June 30	
	2020	2019 *
Cash Provided (Used) by:		
Operating Activities	\$ 3,880,527	\$ 4,142,894
Noncapital Financing Activities	(1,460,532)	683,407
Capital and Related Financing Activities	(2,989,049)	(3,502,455)
Investing Activities	239,652	381,869
Net Increase (Decrease) in Cash	(329,402)	1,705,715
Cash, Beginning of Year	14,702,541	12,996,826
Cash, End of Year	\$ 14,373,139	\$ 14,702,541

* 2019 column has been restated

Description of Capital Assets and Long-Term Debt Activity

At June 30, 2020 the Authority had \$45.2 million invested in capital assets, net of accumulated depreciation of \$43.7 million. Net depreciation charges totaled \$2.3 million for the year ended June 30, 2020. Details of these assets are shown below for the years ended June 30, 2020 and 2019.

Capital Assets at Year-End

	June 30	
	2020	2019 *
Non-depreciable:		
Land	\$ 365,882	\$ 365,882
Construction-in-progress	6,426,523	2,839,466
Total Non-depreciable Assets at Historical Cost	<u>6,792,405</u>	<u>3,205,348</u>
Depreciable:		
Buildings and Improvements	4,171,257	4,171,257
Machinery and Equipment	7,484,616	7,319,285
Utility Property	70,434,002	70,422,019
Total Depreciable Assets at Historical Cost	82,089,875	81,912,561
Less Accumulated Depreciation	<u>(43,710,566)</u>	<u>(41,566,529)</u>
Net Depreciable Assets	<u>38,379,309</u>	<u>40,346,032</u>
Capital Assets, Net	<u>\$ 45,171,714</u>	<u>\$ 43,551,380</u>

* 2019 column has been restated

At June 30, 2020, the Authority had \$18.5 million in debt outstanding. The table below summarizes the outstanding debt by type for the years ended June 30, 2020 and 2019.

Outstanding Debt, at Year-End

	June 30	
	2020	2019
Revenue Bonds - COT, net of discount	\$ -	\$ 1,930,194
Revenue Bonds - Series 2019 Taxable	12,674,000	
2010 Drinking Water SRF	-	13,042,153
2011 Drinking Water SRF	463,388	609,732
2018 Drinking Water SRF	5,073,627	1,116,855
2019 Clean Water SRF	174,250	-
Capital Leases	125,480	237,052
	<u>\$ 18,510,745</u>	<u>\$ 16,935,986</u>

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

Economic Factors and Next Year's Outlook

FY 2020 was negatively impacted by Covid -19 near the end of the year. It is far too early to predict how this global pandemic may affect our financial performance in FY 2021. We do know that small businesses and school systems will be negatively impacted. Through the first 4 months of FY 2020 our year to year comparison reflects a \$500,000 decline in net income with \$250,000 decline in total revenue through the end of October.

Some of the things we discussed in FY 2019 are well underway or completed. For example, the Tenkiller Water Treatment Plant has been completed and we have doubled the capacity to 3 million gallons per day (MGD).

The work on the Teehee facility came to a halt as the contractor failed to perform. We are working with the bonding company and we have secured a new contractor and are working to get this project back on track. Cook Construction was the best and lowest bidder, and we have worked with this company before with good results.

TPWA hired a rate analyst to study our electric rates and revenues in 2020. We combined the results of this study with our own internal analysis to determine how much of a rate increase TPWA needed. The board voted to adjust the rates in the fall of 2020. We will monitor the financial impact of the rates over the upcoming months. Additionally, we included another rate adjustment for the next two years to get our rates more aligned with the financial needs of the organization.

Economic Outlook

The systems improvement for our Teehee Water Treatment and our Wastewater Treatment facilities are currently under construction. We anticipate these projects will run through 2021 and be finalized in FY 2022. We discussed the potential increase in costs associated with the Teehee water plant last year. So far, it appears the increase could be as high as \$600,000. The bonding company is aware of the increase in costs and they are prepared to cover the increase.

Our preparation for retirements has paid off. The members of our team who retired have been replaced by competent qualified, prepared members of our staff. The early planning has been very beneficial to the continued smooth operations and we will continue to prepare other team members for future retirements.

TPWA Is a Public Trust and is subject to the Governmental Tort Claims Act. We were involved in a lengthy and ongoing easement dispute. We are glad to announce that we have come to a resolution to this suit and we expect to close this out in this Fiscal Year. We will do the work in house in moving a water line which minimizes our cost to settle this lawsuit. As of the time of this writing, we do not have any other claims pending.

Tahlequah Public Works Authority and City Light & Water
Statement of Net Position
June 30, 2020

	<u>Public Works Authority</u>	<u>City Light & Water</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	5,280,219	4,310	5,284,529
Restricted Assets:			
Cash and cash equivalents	9,088,610	-	9,088,610
Investments	-	-	-
Inventory	1,328,577	-	1,328,577
Accounts receivable (net of allowance)	2,290,550	-	2,290,550
Total current assets	<u>17,987,956</u>	<u>4,310</u>	<u>17,992,266</u>
Noncurrent Assets:			
Capital assets, net	45,171,714	-	45,171,714
Total noncurrent assets	<u>45,171,714</u>	<u>-</u>	<u>45,171,714</u>
Total Assets	<u>63,159,670</u>	<u>4,310</u>	<u>63,163,980</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	2,169,163	-	2,169,163
Accrued expenses	114,666	-	114,666
Capital leases, current portion	65,426	-	65,426
Notes payable, current portion	155,927	-	155,927
Revenue bonds payable, current portion	580,000	-	580,000
Meter deposit liability	1,682,667	-	1,682,667
Total current liabilities	<u>4,767,849</u>	<u>-</u>	<u>4,767,849</u>
Noncurrent Liabilities:			
Compensated absences	219,194	-	219,194
Capital leases	60,054	-	60,054
Revenue bonds payable	12,094,000	-	12,094,000
Notes payable	5,555,338	-	5,555,338
Total noncurrent liabilities	<u>17,928,586</u>	<u>-</u>	<u>17,928,586</u>
Total Liabilities	<u>22,696,435</u>	<u>-</u>	<u>22,696,435</u>
NET POSITION			
Invested in capital assets, net of related debt	26,660,969	-	26,660,969
Restricted for debt service	2,645,489	-	2,645,489
Unrestricted	11,156,777	4,310	11,161,087
Total Net Position	<u>40,463,235</u>	<u>4,310</u>	<u>40,467,545</u>

See accompanying notes to the basic financial statements.

Tahlequah Public Works Authority and City Light & Water
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2020

	<u>Public</u> <u>Works Authority</u>	<u>City</u> <u>Light & Water</u>	<u>Total</u>
OPERATING REVENUES			
Electric revenue	15,547,590	-	15,547,590
Water revenue	4,221,566	-	4,221,566
Sewer charges	2,986,195	-	2,986,195
Miscellaneous	31,232	-	31,232
Total operating revenues	<u>22,786,583</u>	<u>-</u>	<u>22,786,583</u>
OPERATING EXPENSES			
Electric service	11,347,232	-	11,347,232
Water service	1,540,431	-	1,540,431
Sewer service	634,916	-	634,916
Wastewater treatment	1,318,945	-	1,318,945
Water treatment	1,530,621	-	1,530,621
Depreciation of fixed assets	2,344,669	-	2,344,669
Management and general	2,307,992	66,743	2,374,735
Total operating expenses	<u>21,024,806</u>	<u>66,743</u>	<u>21,091,549</u>
Net operating gain(loss)	<u>1,761,777</u>	<u>(66,743)</u>	<u>1,695,034</u>
NONOPERATING REVENUES (EXPENSES)			
Interest subsidy from federal government	-	-	-
Investment income	177,578	1,805	179,383
Interest expense and related fees	(613,749)	-	(613,749)
Total nonoperating revenue (expenses)	<u>(436,171)</u>	<u>1,805</u>	<u>(434,366)</u>
Income before contributions and transfers	1,325,606	(64,938)	1,260,668
Capital contributions	61,000	-	61,000
Transfers in	(510,399)	-	(510,399)
Transfers between TPWA & CL&W	(1,015,972)	1,015,972	-
Transfers out	-	(950,133)	(950,133)
Increase (decrease) in net position	(139,765)	901	(138,864)
Net position at beginning of year, restated	<u>40,603,000</u>	<u>3,409</u>	<u>40,606,409</u>
Net position at end of year	<u><u>40,463,235</u></u>	<u><u>4,310</u></u>	<u><u>40,467,545</u></u>

See accompanying notes to the basic financial statements.

Tahlequah Public Works Authority and City Light & Water
Statement of Cash Flows
For the Year Ended June 30, 2020

	Public Works Authority	City Light & Water	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 22,685,231	\$ -	\$ 22,685,231
Payments to suppliers	(18,589,399)	(42,743)	(18,632,142)
Payments to employees	(148,562)	(24,000)	(172,562)
Net cash provided by (used in) operating activities	<u>3,947,270</u>	<u>(66,743)</u>	<u>3,880,527</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from City of Tahlequah	(510,399)	-	(510,399)
Transfers between TPWA & CL&W	(1,015,972)	1,015,972	-
Transfers to City of Tahlequah	-	(950,133)	(950,133)
Net cash provided by (used in) noncapital financing activities	<u>(1,526,371)</u>	<u>65,839</u>	<u>(1,460,532)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital grants received	61,000	-	61,000
Purchases of capital assets	(4,011,059)	-	(4,011,059)
Proceeds from capital debt	16,981,023	-	16,981,023
Principal paid on capital debt	(15,411,069)	-	(15,411,069)
Interest and fees on capital debt, net of subsidy	(608,944)	-	(608,944)
Net cash (used in) capital and related financing activities	<u>(2,989,049)</u>	<u>-</u>	<u>(2,989,049)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of investments	60,269	-	60,269
Interest	177,578	1,805	179,383
Net cash provided by investing activities	<u>237,847</u>	<u>1,805</u>	<u>239,652</u>
Net increase (decrease) in cash and cash equivalents	(330,303)	901	(329,402)
Balance - beginning of year, restated	14,699,132	3,409	14,702,541
Balance - end of year	<u>\$ 14,368,829</u>	<u>\$ 4,310</u>	<u>\$ 14,373,139</u>
RECONCILIATION TO STATEMENT OF NET ASSETS			
Cash and cash equivalents	5,280,219	4,310	5,284,529
Restricted cash and cash equivalents	9,088,610	-	9,088,610
	<u>\$ 14,368,829</u>	<u>\$ 4,310</u>	<u>\$ 14,373,139</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 1,761,777	\$ (66,743)	\$ 1,695,034
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	2,344,669	-	2,344,669
Loss on disposal of capital assets	46,056	-	46,056
Change in assets and liabilities:			
Accounts receivable	(167,127)	-	(167,127)
Inventory	(31,879)	-	(31,879)
Prepaid insurance	279,093	-	279,093
Accounts payable	(202,532)	-	(202,532)
Accrued expenses	(148,562)	-	(148,562)
Deposits	65,775	-	65,775
Compensated absences	-	-	-
Net cash provided by (used in) operating activities	<u>\$ 3,947,270</u>	<u>\$ (66,743)</u>	<u>\$ 3,834,471</u>

See accompanying notes to the basic financial statements.

**TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER
Notes to Basic Financial Statements
June 30, 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

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

B. BASIS OF PRESENTATION

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

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

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

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

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

**TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER
Notes to Basic Financial Statements
June 30, 2020**

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

B. BASIS OF PRESENTATION (Cont'd)

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

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

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

Accounts Receivable – Management considers all receivables as of June 30, 2020 to be revenues earned at year-end and not yet received. They are reported net of allowances for uncollectible accounts.

Deferred Outflow/Inflows of Resources

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

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

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

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

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

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

**TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER
Notes to Basic Financial Statements
June 30, 2020**

2. DEPOSIT AND INVESTMENT RISKS

The Authority held the following deposits and investments at June 30, 2020:

<u>Type</u>		
Demand Deposits	\$	8,555,390
Time Deposits		5,776,120
Money Market Accounts		<u>41,629</u>
Total Deposits and Investments	\$	<u><u>14,373,139</u></u>
Reconciliation to Statement of Net Position:		
Cash and Cash Equivalents	\$	5,284,529
Restricted Cash and Cash Equivalents		<u>9,088,610</u>
	\$	<u><u>14,373,139</u></u>

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned or the Authority will not be able to recover collateral securities that are in the possession of an outside party. The Authority was exposed to custodial credit risk of \$4,144,893 at June 30, 2020.

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

The Authority has the following recurring fair value measurements as of June 30, 2020:

- Money Market Funds of \$41,629 are valued using quoted market prices (Level 1 inputs).

The money market funds had a Moody's credit rating of Aaa at June 30, 2020.

**TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER
Notes to Basic Financial Statements
June 30, 2020**

3. CAPITAL ASSETS

A summary of property, plant, and equipment activity for fiscal 2020 follows:

	(Restated) Balance at June 30, 2019	Additions	Deletions	Transfers	Balance at June 30, 2020
Non-depreciable:					
Land	\$ 365,882	\$ -	\$ -	\$ -	\$ 365,882
Construction-in-progress	2,839,466	3,599,040	-	(11,983)	6,426,523
Total Non-depreciable Assets at Historical Cost	<u>3,205,348</u>	<u>3,599,040</u>	<u>-</u>	<u>(11,983)</u>	<u>6,792,405</u>
Depreciable:					
Buildings and Improvements	4,171,257	-	-	-	4,171,257
Machinery and Equipment	7,319,285	412,019	(246,688)	-	7,484,616
Utility Property	70,422,019	-	-	11,983	70,434,002
Total Depreciable Assets at Historical Cost	81,912,561	412,019	(246,688)	11,983	82,089,875
Less Accumulated Depreciation	<u>(41,566,529)</u>	<u>(2,344,669)</u>	<u>200,632</u>	<u>-</u>	<u>(43,710,566)</u>
Net Depreciable Assets	<u>40,346,032</u>	<u>(1,932,650)</u>	<u>(46,056)</u>	<u>11,983</u>	<u>38,379,309</u>
Capital Assets, Net	<u>\$ 43,551,380</u>	<u>\$ 1,666,390</u>	<u>\$ (46,056)</u>	<u>\$ -</u>	<u>\$ 45,171,714</u>

**TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER
Notes to Basic Financial Statements
June 30, 2020**

4. LONG TERM LIABILITIES

As of June 30, 2020, long-term debt payable consisted of the following:

Notes Payable:

2018 Series Drinking Water SRF Promissory Note to the Oklahoma Water Resources Board, original issue amount \$8,200,000, secured by utility revenues, interest rate of 2.65% and administrative fee of 0.5%, final maturity of September 15, 2050 (\$3,126,373 not drawn as of June 30, 2020). \$ 5,073,627

2011 Series Drinking Water SRF Promissory Note to the Oklahoma Water Resources Board, original issue amount \$1,680,000, secured by utility revenues, interest rate of 1.78% and administrative fee of 0.5%, final maturity of March 15, 2023 463,388

2019 Series Clean Water SRF Promissory Note to the Oklahoma Water Resources Board, original issue amount \$6,750,000, secured by utility revenues, interest rate of 1.57% and administrative fee of 0.5%, final maturity of September 15, 2049 (\$6,575,750 not drawn as of June 30, 2020). 174,250

\$ 5,711,265

Current portion \$ 155,927

Noncurrent portion 5,555,338

Total notes payable \$ 5,711,265

Revenue Bonds:

Utility System Revenue Note, Taxable Series 2019, original issue amount of \$12,850,000, secured by utility revenues, interest rate of 2.65%, final maturity October 1, 2037. \$ 12,674,000

Current portion \$ 580,000

Noncurrent portion 12,094,000

Total notes payable \$ 12,674,000

**TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER
Notes to Basic Financial Statements
June 30, 2020**

4. LONG TERM LIABILITIES (Cont'd)

Capital Leases:

\$83,828 capital lease obligation for the purchase of a truck, matures July 2020 with stated interest of 1.8%	\$ 1,460
\$311,841 capital lease obligation for the purchase of a vacuum truck, matures May 2022 with stated interest of 2.39%	<u>124,020</u>
Total capital leases payable	<u>\$ 125,480</u>
Current portion	\$ 65,426
Noncurrent portion	<u>60,054</u>
Total capital leases payable	<u>\$ 125,480</u>

Changes in Long-Term Debt:

The following is a summary of changes in long-term debt for the year ended June 30, 2020:

	<u>Balance</u> <u>June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2020</u>	<u>Amount Due</u> <u>in One Year</u>
Notes Payable	\$ 14,768,740	\$ 4,131,023	\$ (13,188,498)	\$ 5,711,265	\$ 155,927
Revenue Bonds	1,935,000	12,850,000	(2,111,000)	12,674,000	580,000
Capital Leases	<u>237,051</u>	<u>-</u>	<u>(111,571)</u>	<u>125,480</u>	<u>65,426</u>
	<u>\$ 16,940,791</u>	<u>\$ 16,981,023</u>	<u>\$ (15,411,069)</u>	<u>\$ 18,510,745</u>	<u>\$ 801,353</u>

Debt Service Requirements to Maturity:

The annual debt service requirements to maturity for long-term debt as of June 30, 2020 are as follows:

<u>Year Ending June 30,</u>	<u>Notes Payable</u>		<u>Revenue Bonds Payable</u>		<u>Capital Leases Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 155,927	\$ 170,334	\$ 580,000	\$ 332,045	\$ 65,426	\$ 4,211
2022	169,436	166,537	596,000	316,569	60,054	2,267
2023	183,026	163,146	612,000	300,668	-	-
2024	333,229	157,728	628,000	284,345	-	-
2025	215,970	149,911	644,000	267,597	-	-
2026-2030	1,105,381	648,110	3,478,000	1,071,665	-	-
2031-2035	1,295,236	459,460	3,958,000	582,625	-	-
2036-2040	1,517,281	238,406	2,178,000	87,275	-	-
2041-2044	<u>735,780</u>	<u>25,172</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 5,711,265</u>	<u>\$ 2,178,804</u>	<u>\$ 12,674,000</u>	<u>\$ 3,242,789</u>	<u>\$ 125,480</u>	<u>\$ 6,478</u>

**TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER
Notes to Basic Financial Statements
June 30, 2020**

5. RETIREMENT PROGRAMS

Effective February 28, 2005 the Authority changed its Defined Contribution Plan to a 401(A) Non-standardized Profit Sharing Plan. Under the new plan employees become eligible immediately upon employment. Employer contributions are at the sole discretion of the Authority and are allocated using a Nonintegrated (pro rata) formula. Any employee forfeitures are used to reduce any employer contributions. Employees become 100% vested after three years of service. No employee contributions are allowed under this plan. During fiscal year 2020, the Authority contributed \$379,005 to the Profit Sharing Plan.

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

6. OTHER POSTEMPLOYMENT BENEFITS

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

7. RISK MANAGEMENT

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

**TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER
Notes to Basic Financial Statements
June 30, 2020**

8. COMMITMENTS AND CONTINGENCIES

During the ordinary course of business, the Authority may be subjected to various lawsuits and civil action claims. There were no pending lawsuits or claims against the Authority at June 30, 2020 that management believes would result in a material loss in the event of an adverse outcome.

9. PRIOR PERIOD ADJUSTMENTS

During the year, the Authority identified the following adjustments to properly state the beginning balances as of July 1, 2019:

	Public Works Authority						
	Cash	Accounts Receivable	Prepaid Expenses	Capital Assets, net	Accounts Payable	Compensated Absences	Net Position
Beginning balances, as previously reported as of June 30, 2019	\$ 14,852,888	\$ 3,189,592	\$ -	\$ 43,461,561	\$ 1,266,433	\$ 496,352	\$ 42,282,117
Adjustments to correct unbilled accounts receivable and allowance for doubtful accounts	-	(1,066,169)	-	-	-	-	(1,066,169)
Correct capital assets and related depreciation for items capitalized in incorrect period and incorrect depreciation amounts	(153,756)	-	-	89,819	1,105,262	-	(1,169,199)
Write off accrued sick leave balances	-	-	-	-	-	(277,158)	277,158
Establish prepaid expenses for insurance payments	-	-	279,093	-	-	-	279,093
Beginning balances, as restated, as of June 30, 2019	<u>\$ 14,699,132</u>	<u>\$ 2,123,423</u>	<u>\$ 279,093</u>	<u>\$ 43,551,380</u>	<u>\$ 2,371,695</u>	<u>\$ 219,194</u>	<u>\$ 40,603,000</u>

10. SUBSEQUENT EVENTS

Management reviewed activity through March 19, 2021, for subsequent events which may be material to the fiscal 2020 financial statements.

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



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Tahlequah Public Works Authority and City Light & Water (“the Authority”), a component unit of the City of Tahlequah, Oklahoma, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated March 19, 2021.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2020-001.

Authority's Response to Findings

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

Purpose of this Report

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

Arledge & Associates, P.C.

March 19, 2021

TAHLEQUAH PUBLIC WORKS AUTHORITY

SCHEDULE OF FINDINGS

Year ended June 30, 2020

Findings Required to be Reported by *Government Auditing Standards*

A. Internal Controls over Financial Reporting

Finding: 2020-001 – Proper Design and Implementation of the Financial Reporting Close Process

Criteria: The Authority should maintain a system of internal controls that ensures financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) in a timely manner.

Condition: The Authority’s June 30, 2020 financial statements required significant adjustments.

Cause and Effect: During the year ended June 30, 2020, the Authority did not maintain appropriate oversight of internal controls to prevent erroneous financial reporting. The Authority had several restatements that impacted beginning balances as well as adjusting entries applicable to the current year. Errors were primarily related to unbilled accounts receivable, accumulated depreciation and fixed assets, cash, and internal transfers.

Recommendation: Management should evaluate internal controls related to financial reporting to ensure that timely and accurate financial reports are prepared to support decision-making as well as review of budget and current financial position. Procedures for recording and reconciling long term debt, capital assets, including construction in progress, and cash balances should be a focus for review.

Management Response and Corrective Action Plan: The Authority acknowledges that a weakness exists in our controls of recording and reviewing capital assets between the subledger and the general ledger. The Authority also recognizes that the weakness stems from a combination of communication issues within our software and our staff in confirming the capital assets and the proper procedures for capturing the capital assets as well as ensuring the proper depreciation of certain assets.

The Authority has identified members of the staff which will periodically inspect the capital assets register and the depreciation assets as well.

Findings Required to be Reported by *Government Auditing Standards (Con’t)*

B. Compliance Findings

No matters were reported

TAHLEQUAH PUBLIC WORKS AUTHORITY

SCHEDULE OF PRIOR YEAR FINDINGS

Year ended June 30, 2020

Findings Required to be Reported in Accordance with *Government Auditing Standards*:

Finding 2019-001 Capital Assets

A. Internal Control

<u>Finding</u>	<u>Status</u>	<u>Corrective Action Plan or Other Explanation</u>
The Authority was not accurately recording and reviewing capital assets between the subledger and general ledger.	Not corrected	The Authority has identified members of the staff which will periodically inspect the capital assets register and the depreciation assets as well.

B. Compliance Findings

No matters were reported