

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

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

June 30, 2021

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

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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, 2021, 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, 2021, 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 March 15, 2022 on 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.

Edmond, Oklahoma
March 15, 2022



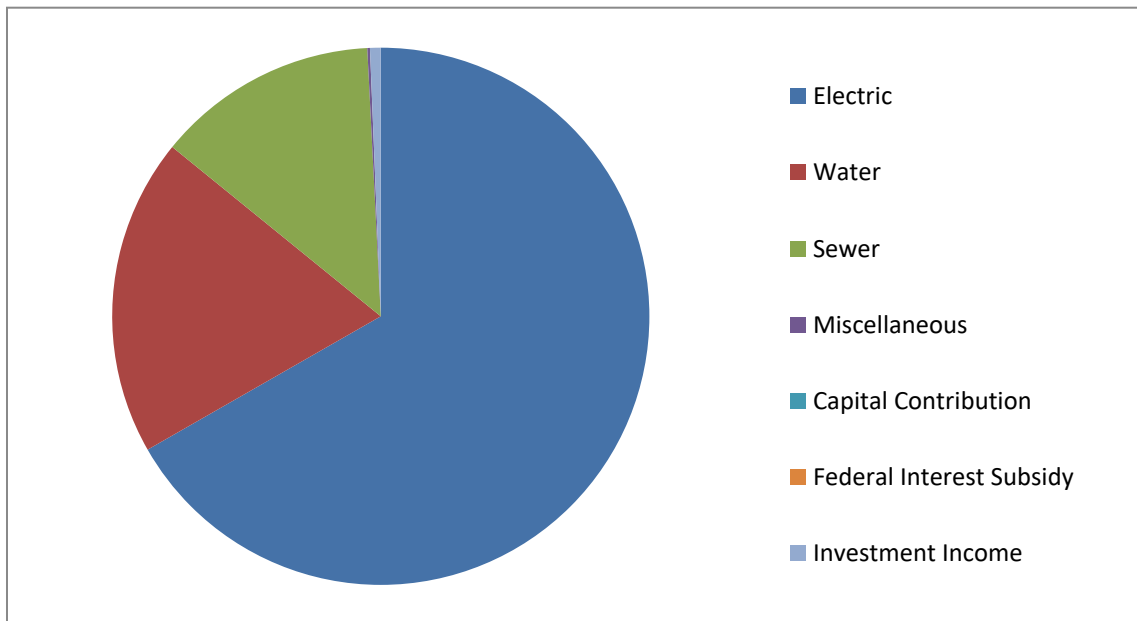
MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2021. Please read it in conjunction with the Authority’s basic financial statements.

Financial Highlights

At June 30, 2021 the Authority’s net assets total \$41.4 million. Of this, \$14.6 million is considered unrestricted.

The following chart provides a graphical breakdown of revenues by category for the fiscal year ending June 30, 2021.



In the fiscal year ended June 30, 2021, the Authority’s expenses exceeded revenues creating an increase in net assets after net transfers out of \$976,415.

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.

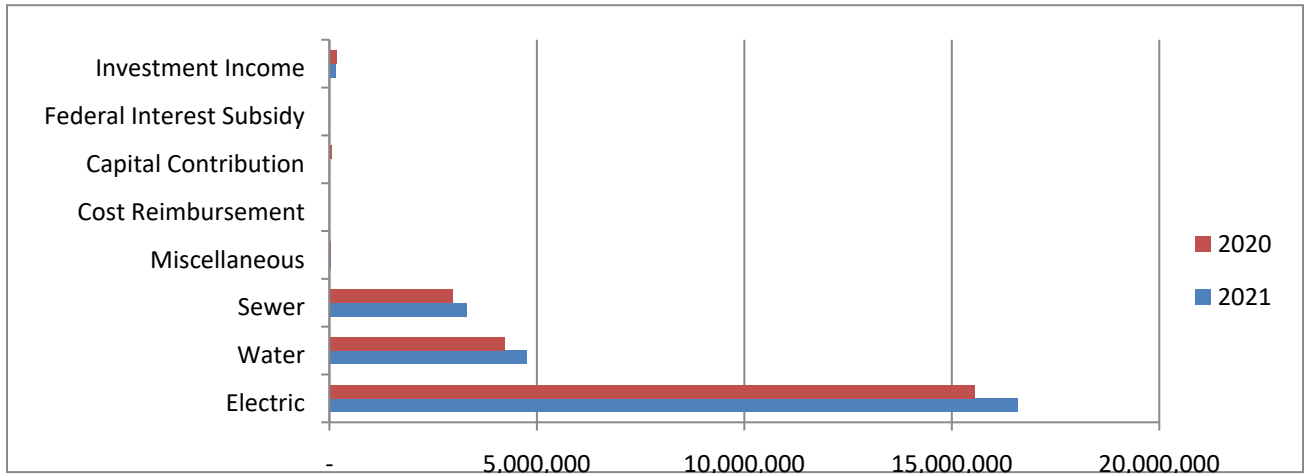
The third statement, the statement of cash flows, presents detailed information about the cash activity during the year. The statement is divided into five parts. The first part presents operating cash flows and shows the net cash provided by the operating activities of the Authority. The second section 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

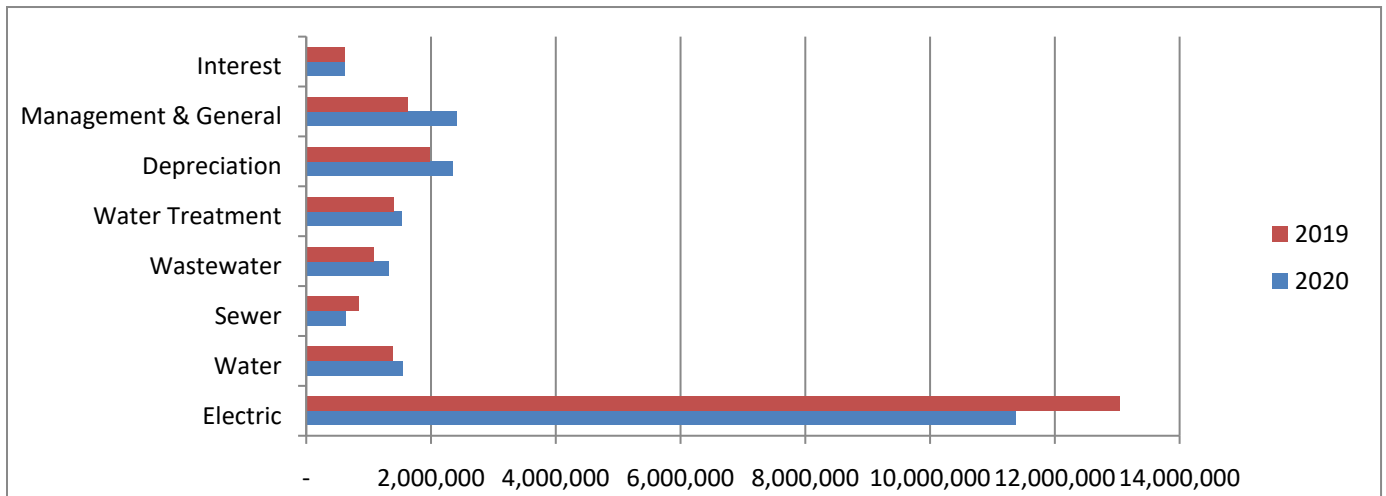
Statement of Position, End of Year

	June 30	
	2021	2020
Current Assets	\$ 21,088,663	\$ 17,992,266
Noncurrent Assets	45,271,071	45,171,714
Total Assets	<u>66,359,734</u>	<u>63,163,980</u>
Current Liabilities	4,829,695	4,767,849
Noncurrent Liabilities	20,086,079	17,928,586
Total Liabilities	<u>24,915,774</u>	<u>22,696,435</u>
Net Position		
Investment in Capital Assets	24,421,310	26,660,969
Restricted for Debt Service	2,460,276	2,645,489
Unrestricted	14,562,374	11,161,087
Total Net Position	<u>\$ 41,443,960</u>	<u>\$ 40,467,545</u>

Operating revenues for the fiscal years ended June 30, 2021 and 2020:



Operating expenses for the fiscal years ended June 30, 2021 and 2020 (not restated due to unavailable information for depreciation expense):



Operating Results for the Year Ended

	June 30	
	2021	2020
Operating Revenues	\$ 24,720,588	\$ 22,786,583
Less Operating Expenses	21,866,372	21,091,549
Net Operating Revenue	2,854,216	1,695,034
Net Nonoperating Expenses	(708,853)	(434,366)
Net Transfers In (Out)	(1,168,948)	(1,399,532)
Increase (Decrease) in Net Assets	976,415	(138,864)
Net Position, Beginning of Year, restated	40,467,545	40,606,409
Net Position, End of Year	\$ 41,443,960	\$ 40,467,545

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 2021 and 2020.

Cash Flows for the Year Ended

	June 30	
	2021	2020
Cash Provided (Used) by:		
Operating Activities	\$ 4,407,104	\$ 3,880,527
Noncapital Financing Activities	(1,168,948)	(1,460,532)
Capital and Related Financing Activities	(734,789)	(2,989,049)
Investing Activities	160,090	239,652
Net Increase (Decrease) in Cash	2,663,457	(329,402)
Cash, Beginning of Year	14,373,139	14,702,541
Cash, End of Year	\$ 17,036,596	\$ 14,373,139

Description of Capital Assets and Long-Term Debt Activity

At June 30, 2021 the Authority had \$45.2 million invested in capital assets, net of accumulated depreciation of \$45.8 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, 2021 and 2020.

	June 30	
	2021	2020
Non-depreciable:		
Land	\$ 387,912	\$ 365,882
Construction-in-progress	8,431,202	6,426,524
Total Non-depreciable Assets at Historical Cost	<u>8,819,114</u>	<u>6,792,406</u>
Depreciable:		
Buildings and Improvements	4,171,257	4,171,257
Machinery and Equipment	7,633,575	7,484,616
Utility Property	70,434,002	70,434,002
Total Depreciable Assets at Historical Cost	82,238,834	82,089,875
Less Accumulated Depreciation	<u>(45,786,877)</u>	<u>(43,710,567)</u>
Net Depreciable Assets	<u>36,451,957</u>	<u>38,379,308</u>
Capital Assets, Net	<u>\$ 45,271,071</u>	<u>\$ 45,171,714</u>

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, 2021 and 2020.

	June 30	
	2021	2020
Revenue Bonds - Series 2019 Taxable	\$ 12,094,000	\$ 12,674,000
2011 Drinking Water SRF	312,462	463,388
2018 Drinking Water SRF	6,833,936	5,073,627
2019 Clean Water SRF	1,549,458	174,250
Capital Leases	59,905	125,480
	<u>\$ 20,849,761</u>	<u>\$ 18,510,745</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

Fiscal year 2021 budget basis financials reflect that we were 100.3 percent in line with our budgeted revenues. Our budgeted revenue was \$24,912,426 and our actual budgetary revenue was \$24,976,220. Our budgeted expenses were 87.1 percent. Expenditures were budgeted at \$26,770,650 and our year-end budgetary expenditures were \$23,318,573. We budgeted some expenditures in the Wastewater and Administrative Departments that did not happen. Through the first 7 months of 2021-2022, our year-to-year comparison reflects an increase in our revenues and expenditures. The apparent bulk of the increase is in the electric revenue and the electric current purchase. The Electric Revenue is up 18 percent and the Electric Current Purchased is up 19 percent on a year-to-year comparison.

We expect that trend to continue throughout the rest of our Fiscal Year. The price increase is being driven by the increase in price of natural gas. The Grand River Dam Authority purchases Natural Gas to produce electricity from the combined cycle unit 3. Coal fired generation has been in higher demand as well. GRDA's Power Cost Adjustment (PCA) has been steadily increasing from month to month so far this year. While the GRDA Unit 3 has been offline due to a fire, GRDA has been purchasing power from the SPP Pool. This purchase power expense has caused our wholesale rates to increase.

One of the concerns we have going forward is the cost of winter storm Uri. The winter storm wreaked havoc on the electric distribution systems across the Midwest. Oklahoma and Texas were hit particularly hard. The GRDA will institute a cost recovery formula that will affect the TPWA and other GRDA customers. We anticipate that the incurred cost to TPWA will be around \$30,000 per month for 120 months. This cost will have to be passed on to our customers in a rate recovery calculation in the form of the PCA.

Economic Outlook

We mentioned the work on the Teehee facility came to a halt as the contractor failed to perform last year. That project was rebid and Cook Construction has done an admirable job of getting this project on track. The work on the Teehee Water Plant should be completed in FY 2022.

The Wastewater Treatment Facility is also in construction. The Flow Equalization Basin should be completed in FY 2022. A new headworks system and new controls are also in progress currently.

We continue to plan for upcoming retirement in key positions within the organization. Our preparation for retirements has paid off. I anticipate that we will advertise for an Assistant General Manager in the Spring of 2022. This will ensure a smooth transition for our team going forward.

The Economic Factors driving 2022 are strong. The Cherokee Nation has received CARES money. The Nation has recently announced a new hospital facility to replace the current facility which is 37 years old. The Cherokee Nation will continue to be a driving force for years to come. Additionally, we continue to see new housing construction, new restaurants, and a high demand for hotels.

The one concern we have is the availability of materials. We are beginning to see long lead times on all materials from meters, meter cans, PVC pipe, and transformers. We are also hearing about material shortages in the home construction business as well. 2022 will be a challenging year and will require all of our managers to stay focused on the customer. At the end of the day, that is what our business is all about.

TPWA Is a Public Trust and is subject to the Governmental Tort Claims Act. As of the time of this writing, we do not have any claims pending.

Tahlequah Public Works Authority and City Light & Water
Statement of Net Position
June 30, 2021

	<u>Public Works Authority</u>	<u>City Light & Water</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 7,521,404	\$ -	\$ 7,521,404
Restricted Assets:			
Cash and cash equivalents	9,534,278	-	9,534,278
Inventory	1,362,021	-	1,362,021
Accounts receivable (net of allowance)	2,377,378	-	2,377,378
Other assets	293,582	-	293,582
Total current assets	<u>21,088,663</u>	<u>-</u>	<u>21,088,663</u>
Noncurrent Assets:			
Capital assets, net	<u>45,271,071</u>	<u>-</u>	<u>45,271,071</u>
Total noncurrent assets	<u>45,271,071</u>	<u>-</u>	<u>45,271,071</u>
Total Assets	<u>66,359,734</u>	<u>-</u>	<u>66,359,734</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	1,775,820	19,086	1,794,906
Accrued expenses	270,015	-	270,015
Capital leases, current portion	59,905	-	59,905
Notes payable, current portion	343,659	-	343,659
Revenue bonds payable, current portion	596,000	-	596,000
Meter deposit liability	1,765,210	-	1,765,210
Total current liabilities	<u>4,810,609</u>	<u>19,086</u>	<u>4,829,695</u>
Noncurrent Liabilities:			
Compensated absences	235,882	-	235,882
Revenue bonds payable	11,498,000	-	11,498,000
Notes payable	8,352,197	-	8,352,197
Total noncurrent liabilities	<u>20,086,079</u>	<u>-</u>	<u>20,086,079</u>
Total Liabilities	<u>24,896,688</u>	<u>19,086</u>	<u>24,915,774</u>
NET POSITION			
Invested in capital assets, net of related debt	24,421,310	-	24,421,310
Restricted for debt service	2,460,276	-	2,460,276
Unrestricted	14,581,460	(19,086)	14,562,374
Total Net Position	<u>\$ 41,463,046</u>	<u>\$ (19,086)</u>	<u>\$ 41,443,960</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, 2021

	<u>Public</u> <u>Works Authority</u>	<u>City</u> <u>Light & Water</u>	<u>Total</u>
OPERATING REVENUES			
Electric revenue	\$ 16,603,004	\$ -	\$ 16,603,004
Water revenue	4,758,167	-	4,758,167
Sewer charges	3,319,930	-	3,319,930
Miscellaneous	39,487	-	39,487
Total operating revenues	<u>24,720,588</u>	<u>-</u>	<u>24,720,588</u>
OPERATING EXPENSES			
Electric service	12,104,853	-	12,104,853
Water service	1,308,428	-	1,308,428
Sewer service	614,375	-	614,375
Wastewater treatment	1,322,039	-	1,322,039
Water treatment	1,685,413	-	1,685,413
Depreciation of fixed assets	2,105,505	-	2,105,505
Management and general	2,683,843	41,916	2,725,759
Total operating expenses	<u>21,824,456</u>	<u>41,916</u>	<u>21,866,372</u>
Net operating gain(loss)	<u>2,896,132</u>	<u>(41,916)</u>	<u>2,854,216</u>
NONOPERATING REVENUES (EXPENSES)			
Interest subsidy from federal government	-	-	-
Investment income	158,879	1,211	160,090
Interest expense and related fees	(868,943)	-	(868,943)
Total nonoperating revenue (expenses)	<u>(710,064)</u>	<u>1,211</u>	<u>(708,853)</u>
Income before contributions and transfers	2,186,068	(40,705)	2,145,363
Capital contributions	-	-	-
Transfers in	-	-	-
Transfers between TPWA & CL&W	(1,186,257)	1,186,257	-
Transfers out	<u>-</u>	<u>(1,168,948)</u>	<u>(1,168,948)</u>
Increase (decrease) in net position	999,811	(23,396)	976,415
Net position at beginning of year	<u>40,463,235</u>	<u>4,310</u>	<u>40,467,545</u>
Net position at end of year	<u>\$ 41,463,046</u>	<u>\$ (19,086)</u>	<u>\$ 41,443,960</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, 2021

	<u>Public</u> <u>Works Authority</u>	<u>City</u> <u>Light & Water</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 24,716,303	\$ -	\$ 24,716,303
Payments to suppliers	(14,814,905)	(18,416)	(14,833,321)
Payments to employees	(5,452,378)	(23,500)	(5,475,878)
Net cash provided by (used in) operating activities	<u>4,449,020</u>	<u>(41,916)</u>	<u>4,407,104</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from City of Tahlequah	-	-	-
Transfers between TPWA & CL&W	(1,186,257)	1,186,257	-
Transfers to City of Tahlequah	-	(1,168,948)	(1,168,948)
Net cash provided by (used in) noncapital financing activities	<u>(1,186,257)</u>	<u>17,309</u>	<u>(1,168,948)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital grants received	-	-	-
Purchases of capital assets	(2,204,862)	-	(2,204,862)
Proceeds from capital debt	3,140,517	-	3,140,517
Principal paid on capital debt	(801,501)	-	(801,501)
Interest and fees on capital debt, net of subsidy	(868,943)	-	(868,943)
Net cash (used in) capital and related financing activities	<u>(734,789)</u>	<u>-</u>	<u>(734,789)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of investments	-	-	-
Interest	158,879	1,211	160,090
Net cash provided by investing activities	<u>158,879</u>	<u>1,211</u>	<u>160,090</u>
Net increase (decrease) in cash and cash equivalents	2,686,853	(23,396)	2,663,457
Balance - beginning of year	14,368,829	4,310	14,373,139
Balance - end of year	<u>\$ 17,055,682</u>	<u>\$ (19,086)</u>	<u>\$ 17,036,596</u>
RECONCILIATION TO STATEMENT OF NET ASSETS			
Cash and cash equivalents	7,521,404	-	7,521,404
Restricted cash and cash equivalents	9,534,278	-	9,534,278
	<u>\$ 17,055,682</u>	<u>\$ -</u>	<u>\$ 17,055,682</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ 2,896,132	\$ (41,916)	\$ 2,854,216
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	2,105,505	-	2,105,505
Loss on disposal of capital assets	-		
Change in assets and liabilities			
Accounts receivable	(86,828)	-	(86,828)
Inventory	(33,444)	-	(33,444)
Prepaid insurance	(9,844)	-	(9,844)
Accounts payable	(677,081)	-	(677,081)
Accrued expenses	155,349	-	155,349
Deposits	82,543	-	82,543
Compensated absences	16,688		
Net cash provided by (used in) operating activities	<u>\$ 4,449,020</u>	<u>\$ (41,916)</u>	<u>\$ 4,390,416</u>

See accompanying notes to the basic financial statements.

**TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER**
Notes to Basic Financial Statements
June 30, 2021

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.

Inventories – Inventory is generally stated at the lower of cost and net realizable value on the first-in, first-out method.

**TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER
Notes to Basic Financial Statements
June 30, 2021**

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

B. BASIS OF PRESENTATION (Cont'd)

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, 2021**

2. DEPOSIT AND INVESTMENT RISKS

The Authority held the following deposits and investments at June 30, 2021:

Type	
Demand Deposits	\$ 11,163,621
Time Deposits	5,849,248
Money Market Accounts	42,813
Total Deposits and Investments	\$ 17,055,682
 Reconciliation to Statement of Net Position:	
Cash and Cash Equivalents	\$ 7,521,404
Restricted Cash and Cash Equivalents	9,534,278
	\$ 17,055,682

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 \$2,856,535 at June 30, 2021.

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, 2021:

- Money Market Funds of \$42,813 are valued using quoted market prices (Level 1 inputs).

The money market funds had a Moody's credit rating of Aaa at June 30, 2021.

**TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER
Notes to Basic Financial Statements
June 30, 2021**

3. CAPITAL ASSETS

A summary of property, plant, and equipment activity for fiscal 2021 follows:

	<u>Balance at June 30, 2020</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2021</u>
Non-depreciable:				
Land	\$ 365,882	\$ 22,030	\$ -	\$ 387,912
Construction-in-progress	6,426,524	2,004,678	-	8,431,202
Total Non-depreciable Assets at Historical Cost	<u>6,792,406</u>	<u>2,026,708</u>	<u>-</u>	<u>8,819,114</u>
Depreciable:				
Buildings and Improvements	4,171,257	-	-	4,171,257
Machinery and Equipment	7,484,616	178,154	(29,195)	7,633,575
Utility Property	70,434,002	-	-	70,434,002
Total Depreciable Assets at Historical Cost	82,089,875	178,154	(29,195)	82,238,834
Less Accumulated Depreciation	<u>(43,710,567)</u>	<u>(2,105,505)</u>	<u>29,195</u>	<u>(45,786,877)</u>
Net Depreciable Assets	<u>38,379,308</u>	<u>(1,927,351)</u>	<u>-</u>	<u>36,451,957</u>
Capital Assets, Net	<u>\$ 45,171,714</u>	<u>\$ 99,357</u>	<u>\$ -</u>	<u>\$ 45,271,071</u>

**TAHLEQUAH PUBLIC WORKS AUTHORITY
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Notes to Basic Financial Statements
June 30, 2021**

4. LONG TERM LIABILITIES

As of June 30, 2021, 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).	\$ 6,833,936
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	312,462
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).	<u>1,549,458</u>
	<u>\$ 8,695,856</u>
Current portion	\$ 343,659
Noncurrent portion	8,352,197
Total notes payable	<u>\$ 8,695,856</u>

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.	\$ 12,094,000
Current portion	\$ 596,000
Noncurrent portion	11,498,000
Total notes payable	<u>\$ 12,094,000</u>

**TAHLEQUAH PUBLIC WORKS AUTHORITY
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Notes to Basic Financial Statements
June 30, 2021

4. LONG TERM LIABILITIES (Cont'd)

Capital Leases:

\$311,841 capital lease obligation for the purchase of a vacuum truck, matures May 2022 with stated interest of 2.39%	<u>\$ 59,905</u>
Total capital leases payable	<u>\$ 59,905</u>
Current portion	\$ 59,905
Noncurrent portion	<u>0</u>
Total capital leases payable	<u>\$ 59,905</u>

Changes in Long-Term Debt:

The following is a summary of changes in long-term debt for the year ended June 30, 2021:

	<u>Balance June 30, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2021</u>	<u>Amount Due in One Year</u>	<u>Noncurrent</u>
Notes Payable	\$ 5,711,265	\$ 3,140,517	\$ (155,926)	\$ 8,695,856	\$ 343,659	8,352,197
Revenue Bonds	12,674,000	-	(580,000)	12,094,000	596,000	11,498,000
Capital Leases	125,480	-	(65,575)	59,905	59,905	-
	<u>\$ 18,510,745</u>	<u>\$ 3,140,517</u>	<u>\$ (801,501)</u>	<u>\$ 20,849,761</u>	<u>\$ 999,564</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>
2022	\$ 343,659	\$ 253,811	\$ 596,000	\$ 316,569	\$ 59,905	\$ 2,267
2023	352,367	245,103	612,000	300,668	-	-
2024	200,207	236,164	628,000	284,345	-	-
2025	206,048	230,323	644,000	267,597	-	-
2026	212,063	224,308	660,000	250,724	-	-
2027-2031	1,157,025	1,024,832	3,569,000	978,602	-	-
2032-2036	1,336,796	845,061	4,062,000	477,049	-	-
2037-2041	1,545,179	636,678	1,323,000	35,190	-	-
2042-2046	1,786,805	395,052	-	-	-	-
2047-2051	1,555,705	116,310	-	-	-	-
	<u>\$ 8,695,856</u>	<u>\$ 4,207,641</u>	<u>\$ 12,094,000</u>	<u>\$ 2,910,744</u>	<u>\$ 59,905</u>	<u>\$ 2,267</u>

**TAHLEQUAH PUBLIC WORKS AUTHORITY
and CITY LIGHT & POWER
Notes to Basic Financial Statements
June 30, 2021**

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 2021, the Authority contributed \$386,483 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, 2021, 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, 2021**

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, 2021 that management believes would result in a material loss in the event of an adverse outcome.

9. SUBSEQUENT EVENTS

Management reviewed activity through March 15, 2022, for subsequent events which may be material to the fiscal 2021 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, 2021, 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 15, 2022.

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 as items 2021-001, 2021-002, and 2021-003 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Authority's Response to Findings

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

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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Arledge & Associates, P.C.

Edmond, Oklahoma
March 15, 2022



TAHLEQUAH PUBLIC WORKS AUTHORITY

SCHEDULE OF FINDINGS

Year ended June 30, 2021

Findings Required to be Reported by *Government Auditing Standards*

A. Internal Controls over Financial Reporting

Finding: 2021-001 – 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, 2021 financial statements required significant adjustments.

Cause and Effect: During the year ended June 30, 2021, the Authority did not maintain appropriate oversight of internal controls to prevent erroneous financial reporting. The Authority had several adjusting entries applicable to the current year. Errors were primarily related to debt, construction in progress, cash, and accounts payable.

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 current financial position. Procedures for recording and reconciling long-term debt, capital assets, including construction in progress, accrued expenses, and cash balances should be a focus for review.

Management Response and Corrective Action Plan: TPWA has engaged the services of an outside firm to assist with proper entries related to the finding. While we are aware of the weakness of the capital assets register, this will not be an overnight fix. Our team has identified the system errors and is working with Caselle to capture the entries in the proper place within the accounting system. As far as the budget is concerned, TPWA reviews its budget at the bare minimum monthly and uses the budget as a live working document throughout the entire fiscal year. We feel strongly about our review and monitoring of the budget. The constant review of the budget is the main reason we achieved 100.3% of the budgeted revenue for Fiscal Year 2021.

Finding: 2021-002 – Regular Reconciliation of Accounts on the Balance Sheet

Criteria: The Authority should perform reconciliations on accounts with significant activity on a regular basis.

Condition: The Authority’s sub-ledger details for several account balances did not reconcile to the amounts recorded in the trial balance.

Cause and Effect: During the year ended June 30, 2021, the Authority did not prepare reconciliations for several account balances related to cash, accounts payable, construction in progress, and debt. These reconciliations were also not prepared during interim dates. This caused significant entries to these accounts and resulted in us elevating risk related to the cash disbursement cycle as cash reconciliations were not being done timely and not all journal entries were posted for some accounts.

TAHLEQUAH PUBLIC WORKS AUTHORITY

SCHEDULE OF FINDINGS

Year ended June 30, 2021

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

Recommendation: Management should perform reconciliations on all cash accounts and accounts payable monthly. Construction in progress and debt reconciliations should be done at least bi-annually.

Management Response and Corrective Action Plan: : Tahlequah Public Works Authority has engaged the assistance of an outside accounting firm, as well as additional staff to insure the prevention of these errors. The additional staff as well as the outside firm will provide the further assistance necessary to report timely and accurate financial records.

Finding: 2021-003 – Accurate Tracking of Construction in Progress Related to OWRB Debt

Criteria: The Authority should track construction in progress related to Oklahoma Water Resources Board “the OWRB” projects separately to ensure proper drawdowns and tracking of construction progress for large projects.

Condition: The Authority’s June 30, 2021 construction in progress had significant errors related to drawdowns for the OWRB debt. Drawdowns from debt were recorded as additions to construction in progress.

Cause and Effect: During the year ended June 30, 2021, the Authority did not have accurate records in relation to construction projects for the water treatment plant and the wastewater treatment plant. Debt drawdowns were recorded as debits to construction in progress instead of being credited to debt. Capital asset purchases were recorded in debt. Due to these issues, several errors were discovered and debt balances and construction in progress balances required significant corrections during the year.

Recommendation: Management should ensure that drawdowns of debt from OWRB are recorded as credits to debt and track projects for construction in progress accurately. Reconciliations should be performed regularly to reconcile drawdowns of debt and construction in progress accounts.

Management Response and Corrective Action Plan: : Tahlequah Public Works Authority has engaged the assistance of an outside accounting firm, as well as additional staff to insure the prevention of these errors. The additional staff as well as the outside firm will provide the further assistance necessary to report timely and accurate financial records.

B. Compliance Findings

No matters were reported

TAHLEQUAH PUBLIC WORKS AUTHORITY

SCHEDULE OF PRIOR YEAR FINDINGS

Year ended June 30, 2021

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

A. Internal Control

Finding 2020-001

<u>Finding</u>	<u>Status</u>	<u>Corrective Action Plan or Other Explanation</u>
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.	Partially corrected (Repeat Finding)	The Authority has engaged an outside consultant to assist with the year-end close process.

Finding 2019-001 Capital Assets

<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