

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)

FINANCIAL REPORT
June 30, 2022

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
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June 30, 2022

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RSM US LLP

Independent Auditor's Report

Board of Trustees
Tulsa Metropolitan Utility Authority

Opinions

We have audited the financial statements of the business-type activities and each major fund of the Tulsa Metropolitan Utility Authority (the Authority), a component unit of the City of Tulsa, Oklahoma, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2022 and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority 's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority 's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and pension and other postemployment benefit information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the 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 GAAS, 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.

RSM US LLP

Kansas City, Missouri
December 22, 2022

**TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2022**

As management of the Tulsa Metropolitan Utility Authority (the “Authority”), a component unit of the City of Tulsa, Oklahoma (the “City”), we offer readers of the Authority’s financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended June 30, 2022. We encourage readers to consider the information presented here in conjunction with the Authority’s financial statements, which begin on page 10. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources at the close of the current year by \$1,437,598. Of this amount, \$190,295 is unrestricted and may be used to meet the Authority’s ongoing obligations.
- The Authority’s net position increased \$60,135 to \$1,437,598 at June 30, 2022.
- The Authority’s cash and cash equivalents were \$331,430, representing an increase of \$19,831.

Overview of the Financial Statements

The Authority, a legally separate public trust, is reported by the City as a discretely presented component unit in the City’s Annual Comprehensive Financial Report. The primary function of the Authority is to provide for water delivery and wastewater utility systems.

This discussion and analysis is intended to serve as an introduction to the Authority’s audit report. The audit report consists of two parts: management’s discussion and analysis, and the financial statements. The financial statements also include notes that explain in more detail some of the information in the financial statements.

**TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
June 30, 2022**

Required Financial Statements

The Authority uses fund accounting in its financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority has one fund type, proprietary, and reports two enterprise funds. Enterprise funds are used to report the functions presented as business-type activities.

These statements offer short-term and long-term financial information about its activities. The Statement of Net Position includes all of the Authority's assets and deferred outflows of resources and liabilities and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for assessing the liquidity and financial flexibility of the Authority. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the financial success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness. The third financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. This statement allows financial statement users to assess whether the Authority's current cash flows are sufficient to pay its obligations. The statement reports cash receipts, cash payments, and changes in cash resulting from operating, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the period.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
MANAGEMENT’S DISCUSSION AND ANALYSIS, Continued
June 30, 2022

Net Position

The Authority’s net position increased \$60,135 for the year ended June 30, 2022. The following table provides a summary of net position.

SUMMARY OF NET POSITION

| | 2022 | 2021 (as restated) |
|---|---------------------|-------------------------------------|
| Current assets, unrestricted | \$ 271,359 | \$ 284,999 |
| Restricted assets | 99,921 | 85,977 |
| Capital assets, net | 1,515,044 | 1,449,237 |
| Other assets | 39,147 | 38,510 |
| Total assets | 1,925,471 | 1,858,723 |
| Total deferred outflows of resources | 14,701 | 14,087 |
| Current liabilities | 81,569 | 84,084 |
| Noncurrent liabilities | 414,761 | 386,862 |
| Total liabilities | 496,330 | 470,946 |
| Total deferred inflows of resources | 6,244 | 24,401 |
| Net investment in capital assets | 1,232,233 | 1,153,457 |
| Restricted | 15,070 | 15,398 |
| Unrestricted | 190,295 | 208,608 |
| Total net position | \$ 1,437,598 | \$ 1,377,463 |

Total assets increased \$66,748. Current assets decreased \$13,640, primarily due to a decrease of \$10,730 in cash and cash equivalents attributable to a decline in the fair value of investments held in the City’s pooled portfolio as well as a decrease in other receivables of \$2,271 related to federal grant accrual. The increase in restricted assets of \$13,944 is primarily attributable to increases in debt proceeds of \$12,356 and escrow deposits of \$1,139. The \$65,807 increase in capital assets is consistent with the improvement and expansion of both utility systems and is necessary to provide adequate services to our customers and to assure compliance with all applicable laws and regulations. Total deferred outflows of resources increased \$614 primarily due to an increase in deferred outflows of pension related resources of \$1,214 offset by decrease in deferred charge on refunding of \$381. Total liabilities increased \$25,384 due primarily to increases in net pension liability of \$23,132, promissory notes payable of \$14,277 related to increased debt proceeds offset by decreases in revenue bonds payable of \$4,415 and accounts payable and accrued liabilities of \$4,279 due to timing. Total deferred inflows of resources decreased \$18,157 primarily due to decreases in pension related items of \$18,126.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
June 30, 2022

SUMMARY OF CHANGES IN NET POSITION

| | <u>2022</u> | <u>2021</u> <u>(not restated)</u> |
|---|---------------------|--------------------------------------|
| Operating revenue | \$ 260,266 | \$ 251,453 |
| Nonoperating revenue | 1,254 | 2,500 |
| Investment income | - | 1,478 |
| Total revenues | <u>261,520</u> | <u>255,431</u> |
| Depreciation expense | 45,028 | 43,819 |
| Other operating expense | 124,087 | 118,023 |
| Nonoperating expense | 34,820 | 26,010 |
| Total expenses | <u>203,935</u> | <u>187,852</u> |
| Income before contributions | 57,585 | 67,579 |
| Capital contributions | 5,526 | 8,294 |
| Capital contributions (to) from City of Tulsa | (2,976) | 19 |
| Total capital contributions | <u>2,550</u> | <u>8,313</u> |
| Change in net position | 60,135 | 75,892 |
| Net position, beginning of year | <u>1,377,463</u> | <u>1,301,571</u> |
| Net position, end of year | <u>\$ 1,437,598</u> | <u>\$ 1,377,463</u> |

Total revenues increased \$6,089, due primarily to increase in operating revenue of \$8,813 resulting from increased wastewater rates and water usage offset by decrease in noncapital federal grants of \$1,218 as well as investment losses experienced during the year. Other operating expenses increased \$6,064 due to increase in personnel services of \$4,103 as well as increase in materials and supplies of \$1,007 due to increased vendor costs for fuel and water treatment chemicals. Nonoperating expenses increased \$8,810, due primarily to net investment losses of \$9,516 mostly attributable to a decline in the fair value of on investments held in the City's pooled portfolio offset by decreases in new bond issuance costs of \$428 and interest and amortization expense of \$309. Capital contributions decreased \$5,763 primarily related to decreases in contributed water and wastewater lines of \$2,768 and the transfer of the Brake and Wheel Center with a historic value of \$2,574 to City of Tulsa. As a result of these changes, net position increased \$60,135 during the year.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
MANAGEMENT’S DISCUSSION AND ANALYSIS, Continued
June 30, 2022

Capital Assets

The Authority’s investment in capital assets as of June 30, 2022 and 2021 was \$1,515,044 and \$1,449,237, respectively (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, equipment, water storage lease, and right to use assets related to leased land, building and equipment. The Authority paid \$113,100 and \$95,356 during 2022 and 2021, respectively, related to the acquisition and purchase of capital assets.

| | <u>2022</u> | <u>2021</u> (as restated) |
|--|---------------------|------------------------------|
| Land | \$ 38,177 | \$ 38,177 |
| Water storage lease | 9,593 | 9,593 |
| Buildings | 51,507 | 53,443 |
| Equipment | 89,631 | 84,566 |
| Land improvements, water and sewer lines | 2,164,156 | 2,054,908 |
| Right-to-use land | 52 | 52 |
| Right-to-use building | 164 | - |
| Right-to-use equipment | 327 | 327 |
| | <u>2,353,607</u> | <u>2,241,066</u> |
| Less accumulated depreciation/amortization | (905,739) | (863,936) |
| Construction-in-progress | 67,176 | 72,107 |
| | <u>\$ 1,515,044</u> | <u>\$ 1,449,237</u> |

Debt

At June 30, 2022 and 2021, the Authority had outstanding general obligation bonded debt of \$3,546 and \$5,308, respectively. These bonds are required to be fully paid within 25 years from the date of issue and are backed by the full faith and credit of the City. The City’s Charter requires that not less than 50% of the annual principal and interest requirements on general obligation bonds issued for waterworks and wastewater be funded by water and wastewater revenues, respectively.

| | <u>2022</u> | <u>2021</u> |
|--------------------------|-------------------|-------------------|
| General obligation bonds | \$ 3,546 | \$ 5,308 |
| Revenue bonds | 190,460 | 194,875 |
| Promissory notes | 163,996 | 149,719 |
| | <u>\$ 358,002</u> | <u>\$ 349,902</u> |

During 2022, the Authority issued new debt to fund improvements to the water and wastewater systems. The Authority’s debt increased \$8,100 or 2% during 2022. As an issuer of bonds, the Authority is subject to numerous covenants contained within the bond indentures. The Authority is in full compliance with all of these covenants.

**TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
June 30, 2022**

Funds

The Authority has two funds, the Water Fund and the Sewer Fund. At June 30, 2022, the Water Fund net position of \$717,431 reflected an increase of \$21,169. At June 30, 2022, the Sewer Fund net position of \$720,167 reflected an increase of \$38,966.

Economic factors and next year's budgets and rates

At the national level, unemployment decreased to 3.6 percent at June 30, 2022. Unemployment in the City of Tulsa was 3.5 percent at the end of fiscal year 2022 compared to 3.9 percent at the end of fiscal year 2021. The Authority continues to have consistent accounts receivable collections.

The Authority's appointed officials considered many factors when setting the fees that will be charged for water and sewer services in 2023. The Authority approved no rate increase in water fees and a 7 percent rate increase in sewer fees beginning in October 2022. The fee increases are to fund operations, maintenance, debt service, and capital improvements.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Controller, 175 E. Second Street, Suite 1570, Tulsa, Oklahoma 74103.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
STATEMENTS OF NET POSITION
June 30, 2022

(In thousands of dollars)

| <u>ASSETS</u> | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Business-type Activities Total</u> |
|---|-----------------------|-----------------------|---|
| Current assets: | | | |
| Cash and cash equivalents | \$ 127,860 | \$ 103,649 | \$ 231,509 |
| Cash and cash equivalents, restricted | 20,001 | 10,358 | 30,359 |
| Accounts receivable: | | | |
| Utility services receivable, net | 16,375 | 16,067 | 32,442 |
| Other receivables | 398 | 189 | 587 |
| Property tax receivable | - | 520 | 520 |
| Current portion of lease receivable | 94 | 1 | 95 |
| Prepaid expenses | 141 | 77 | 218 |
| Inventories | 5,688 | 300 | 5,988 |
| Total current assets | <u>170,557</u> | <u>131,161</u> | <u>301,718</u> |
| Noncurrent assets: | | | |
| Cash and cash equivalents, restricted | 16,753 | 52,809 | 69,562 |
| Interest receivable | 10 | 30 | 40 |
| Lease receivable | 696 | 31 | 727 |
| Equity interest in joint venture | - | 38,380 | 38,380 |
| Nondepreciable capital assets | 56,875 | 58,071 | 114,946 |
| Depreciable capital assets, net | 624,199 | 775,899 | 1,400,098 |
| Total noncurrent assets | <u>698,533</u> | <u>925,220</u> | <u>1,623,753</u> |
| Total assets | <u>\$ 869,090</u> | <u>\$ 1,056,381</u> | <u>\$ 1,925,471</u> |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | | | |
| Deferred charge on refunding | 900 | 89 | 989 |
| Pension related items | 6,854 | 6,328 | 13,182 |
| Other postemployment benefits related items | 278 | 252 | 530 |
| Total deferred outflows of resources | <u>\$ 8,032</u> | <u>\$ 6,669</u> | <u>\$ 14,701</u> |

(Continued)

The accompanying notes are an integral part of the financial statements

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
STATEMENTS OF NET POSITION, Continued
June 30, 2022

(In thousands of dollars)

| <u>LIABILITIES</u> | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Business-type Activities Total</u> |
|---|-----------------------|-----------------------|---|
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | \$ 14,953 | \$ 15,275 | \$ 30,228 |
| Current portion of compensated absences | 1,597 | 1,380 | 2,977 |
| Current portion of lease liability | 326 | 75 | 401 |
| Deposits subject to refund | 12,871 | 641 | 13,512 |
| Current portion of general obligation debt | - | 1,007 | 1,007 |
| Current portion of promissory notes | - | 13,394 | 13,394 |
| Current portion of revenue bonds | 11,430 | 8,620 | 20,050 |
| Total current liabilities | <u>41,177</u> | <u>40,392</u> | <u>81,569</u> |
| Noncurrent liabilities: | | | |
| General obligation debt | - | 2,539 | 2,539 |
| Promissory notes | - | 150,602 | 150,602 |
| Revenue bonds | 68,600 | 101,810 | 170,410 |
| Unamortized bond premium | 2,388 | 6,650 | 9,038 |
| Compensated absences | 1,052 | 910 | 1,962 |
| Lease liability | 2,406 | 115 | 2,521 |
| Total OPEB liability | 1,102 | 963 | 2,065 |
| Net pension liability | 39,913 | 35,711 | 75,624 |
| Total noncurrent liabilities | <u>115,461</u> | <u>299,300</u> | <u>414,761</u> |
| Total liabilities | <u>\$ 156,638</u> | <u>\$ 339,692</u> | <u>\$ 496,330</u> |
| <u>DEFERRED INFLOWS OF RESOURCES</u> | | | |
| Leases | 748 | 32 | 780 |
| Deferred gain on refunding | - | 812 | 812 |
| Pension related items | 2,055 | 1,599 | 3,654 |
| Other postemployment benefits related items | 250 | 228 | 478 |
| Property tax revenue | - | 520 | 520 |
| Total deferred inflows of resources | <u>\$ 3,053</u> | <u>\$ 3,191</u> | <u>\$ 6,244</u> |
| <u>NET POSITION</u> | | | |
| Net investment in capital assets | 603,707 | 628,526 | 1,232,233 |
| Restricted for debt service | 6,320 | 8,750 | 15,070 |
| Unrestricted | 107,404 | 82,891 | 190,295 |
| Total net position | <u>\$ 717,431</u> | <u>\$ 720,167</u> | <u>\$ 1,437,598</u> |

The accompanying notes are an integral part of the financial statements

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended June 30, 2022

(In thousands of dollars)

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Business-type Activities Total</u> |
|--|-----------------------|-----------------------|---|
| Operating revenues: | | | |
| Water and sewer services | \$ 126,785 | \$ 133,481 | \$ 260,266 |
| Operating expenses: | | | |
| Personnel services | 32,724 | 29,624 | 62,348 |
| Materials and supplies | 9,166 | 3,746 | 12,912 |
| Other services and charges | 25,127 | 23,700 | 48,827 |
| Depreciation and amortization | 21,320 | 23,708 | 45,028 |
| Total operating expenses | <u>88,337</u> | <u>80,778</u> | <u>169,115</u> |
| Operating income | <u>38,448</u> | <u>52,703</u> | <u>91,151</u> |
| Nonoperating revenues (expenses): | | | |
| Investment loss | (5,622) | (3,894) | (9,516) |
| Interest and amortization expense | (2,457) | (6,360) | (8,817) |
| Interest revenue on lease receivable | 13 | - | 13 |
| Bond issuance costs | - | (149) | (149) |
| Ad valorem taxes | - | 545 | 545 |
| Federal grants noncapital | 20 | 3 | 23 |
| Payments in lieu of taxes to City of Tulsa | (8,390) | (7,948) | (16,338) |
| Other, net | 292 | 381 | 673 |
| Net nonoperating expenses | <u>(16,144)</u> | <u>(17,422)</u> | <u>(33,566)</u> |
| Income before capital contributions | <u>22,304</u> | <u>35,281</u> | <u>57,585</u> |
| Capital contributions | 1,838 | 3,688 | 5,526 |
| Capital contributions to City of Tulsa | <u>(2,973)</u> | <u>(3)</u> | <u>(2,976)</u> |
| Total capital contributions | <u>(1,135)</u> | <u>3,685</u> | <u>2,550</u> |
| Change in net position | 21,169 | 38,966 | 60,135 |
| Net position, beginning of year | <u>696,262</u> | <u>681,201</u> | <u>1,377,463</u> |
| Net position, end of year | <u>\$ 717,431</u> | <u>\$ 720,167</u> | <u>\$ 1,437,598</u> |

The accompanying notes are an integral part of the financial statements

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
STATEMENTS OF CASH FLOWS
Year Ended June 30, 2022

(In thousands of dollars)

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Business-type Activities Total</u> |
|---|-----------------------|-----------------------|---|
| Cash flows from operating activities: | | | |
| Received from customers, including cash deposits | \$ 127,857 | \$ 135,890 | \$ 263,747 |
| Payments to suppliers for goods and services | (37,206) | (25,899) | (63,105) |
| Payments to personnel for services | (31,010) | (27,777) | (58,787) |
| Net cash provided by operating activities | <u>59,641</u> | <u>82,214</u> | <u>141,855</u> |
| Cash flows from non-capital and related financing activities: | | | |
| Payments in lieu of taxes to the primary government | (8,390) | (7,948) | (16,338) |
| Operating grant received | 20 | 2,042 | 2,062 |
| Net cash used by non-capital and related financing activities | <u>(8,370)</u> | <u>(5,906)</u> | <u>(14,276)</u> |
| Cash flows from capital and related financing activities: | | | |
| Acquisition and construction of capital assets | (46,140) | (66,960) | (113,100) |
| Investment in joint venture | - | (1,913) | (1,913) |
| Proceeds from sale of capital assets | 401 | 389 | 790 |
| Principal paid on long-term debt | (11,417) | (22,822) | (34,239) |
| Interest paid on long-term debt | (2,982) | (7,743) | (10,725) |
| Payment of bond issuance costs | - | (149) | (149) |
| Proceeds from long-term debt issuance | - | 41,999 | 41,999 |
| Premium received on debt issuance | - | 188 | 188 |
| Payment to primary government | (390) | - | (390) |
| Lease receipts | 23 | - | 23 |
| Capital contributions | 150 | - | 150 |
| Ad valorem taxes received for debt service | - | 545 | 545 |
| Net cash used by capital and related financing activities | <u>\$ (60,355)</u> | <u>\$ (56,466)</u> | <u>\$ (116,821)</u> |

(Continued)

The accompanying notes are an integral part of the financial statements

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
STATEMENTS OF CASH FLOWS, Continued
Year Ended June 30, 2022

(In thousands of dollars)

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Business-type Activities Total</u> |
|---|-----------------------|-----------------------|---|
| Cash flows from investing activities: | | | |
| Interest received on investments | \$ (5,971) | \$ (4,089) | \$ (10,060) |
| Sale or maturity of investments | 7,532 | 11,601 | 19,133 |
| Net cash provided by investing activities | <u>1,561</u> | <u>7,512</u> | <u>9,073</u> |
| Net (decrease) increase in cash and cash equivalents | (7,523) | 27,354 | 19,831 |
| Cash and cash equivalents, beginning of year | <u>172,137</u> | <u>139,462</u> | <u>311,599</u> |
| Cash and cash equivalents, end of year | <u>\$ 164,614</u> | <u>\$ 166,816</u> | <u>\$ 331,430</u> |
| Reconciliation of cash and cash equivalents to the Statement of Net Position: | | | |
| Current unrestricted cash and cash equivalents | \$ 127,860 | \$ 103,649 | \$ 231,509 |
| Current restricted cash and cash equivalents | 20,001 | 10,358 | 30,359 |
| Noncurrent restricted cash and cash equivalents | <u>16,753</u> | <u>52,809</u> | <u>69,562</u> |
| | <u>\$ 164,614</u> | <u>\$ 166,816</u> | <u>\$ 331,430</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | | |
| Operating income | \$ 38,448 | \$ 52,703 | \$ 91,151 |
| Adjustments: | | | |
| Depreciation | 21,320 | 23,708 | 45,028 |
| Change in accounts receivable | (6) | 2,378 | 2,372 |
| Change in prepaids | - | 15 | 15 |
| Change in inventories | (3,376) | (112) | (3,488) |
| Change in joint venture | - | 953 | 953 |
| Change in deferred outflows pension | (695) | (519) | (1,214) |
| Change in deferred outflows OPEB | 107 | 113 | 220 |
| Change in accounts payable and other accrued liabilities | 555 | 850 | 1,405 |
| Change in total OPEB liability | (469) | (438) | (907) |
| Change in deposits subject to refund | 1,139 | - | 1,139 |
| Change in net pension liability | 12,083 | 11,049 | 23,132 |
| Change in deferred inflows lease | (62) | 32 | (30) |
| Change in deferred inflows pension | (9,508) | (8,618) | (18,126) |
| Change in deferred inflows OPEB | <u>105</u> | <u>100</u> | <u>205</u> |
| Net cash provided by operating activities | <u>\$ 59,641</u> | <u>\$ 82,214</u> | <u>\$ 141,855</u> |
| Noncash capital and related financing activities: | | | |
| Contributions from area developers | \$ 1,838 | \$ 3,688 | \$ 5,526 |
| Additions included in accounts payable and retainage | <u>\$ 9,871</u> | <u>\$ 9,966</u> | <u>\$ 19,837</u> |

The accompanying notes are an integral part of the financial statements

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2022

1. NATURE OF BUSINESS, REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS AND REPORTING ENTITY – The Tulsa Metropolitan Utility Authority (the “Authority”) was created under the provisions of the Oklahoma Public Trust Act. The Trustees of the Authority consist of the Mayor of the City of Tulsa (the “City”) and six other members appointed by the Mayor and confirmed by the City Council. The City is the sole beneficiary of the Trust. The Authority meets the requirements for, and is included in, the City’s Annual Comprehensive Financial Report as a discretely presented component unit.

On February 1, 1984, the Authority leased from the City its existing and subsequently acquired water treatment and distribution systems (Water System) along with the rights to the gross revenues generated by the System. The terms of the agreement provide for the lease of the Water System for a term of 50 years or until all bonds and indebtedness collateralized by and payable from revenues is retired.

Under the terms of the lease, the City collects the Water System’s operating revenues. The Water System is operated by City personnel and the City also pays the operating expenses and maintenance costs, and makes additions, replacements and improvements necessary to keep the Water System in proper working order on behalf of the Authority.

The Authority is to utilize gross revenues to reimburse the City for the cost of operating and maintaining the Water System. Also, the Authority will issue bonds to finance improvements to the Water System and set rates, fees and charges to users of the Water System.

On July 1, 1989, the Authority entered into a Wastewater System Lease Agreement and Operation and Maintenance Contract with the City. The terms of the agreement provide for the lease of the City's revenue producing sanitary sewer and wastewater treatment, collection, transportation, processing, and disposal systems and facilities, along with the transfer of related liabilities, for a term of 50 years or until such time as all bonds and indebtedness collateralized by and payable from revenues from the wastewater system are retired.

All operating costs, including personnel, are provided by the City and reimbursed by the Authority. For financial reporting purposes, personnel and other operating costs are reported as costs incurred directly by the Authority. Accordingly, the Authority reports these costs in its financial statements and makes appropriate disclosures in the notes to the financial statements. The Authority has no employees. All references to “employees” are references to City employees who perform operation and maintenance work under the terms of the lease agreement. Payments to and amounts owed to employees are part of the payments the Authority makes to the City pursuant to the terms of the lease agreements.

The Authority accounts for and reports using separate funds for water and sewer utility fees and other revenue dedicated to the Authority.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2022

1. NATURE OF BUSINESS, REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES, continued

BASIS OF ACCOUNTING AND PRESENTATION – The financial statements of the Authority are prepared in accordance with generally accepted accounting principles (“GAAP”) as applied to business-type activities of governmental units. The Governmental Accounting Standards Board (“GASB”) is the standard-setting body for governmental accounting and financial reporting.

The financial statements of the Authority are prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows/outflows from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Voluntary nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Investment income, bond interest expense and related costs, and voluntary nonexchange transactions are included in nonoperating revenues and expenses.

GAAP requires the Authority to present in its financial statements, inclusive of the notes to the financial statements, the economic substance of its operations and the assets under lease.

CASH AND CASH EQUIVALENTS – Cash and cash equivalents reported on the statement of net position include both the amounts held within the City’s pooled portfolio and other cash and cash equivalents. Cash and cash equivalents also consist of money market accounts which are reported at amortized cost.

The Authority’s cash and cash equivalents included in the City’s pooled portfolio are recorded at the net asset value of their position in the City’s pooled portfolio. The Authority is allocated interest monthly based on their average daily position in the City’s pooled portfolio. Changes in fair value of the City’s pooled portfolio are allocated annually based on the Authority’s position as of June 30.

For purposes of reporting cash flows, the Authority considers all highly liquid debt instruments with an original maturity of three months or less when purchased, and amounts held in the City’s portfolio pool, to be cash equivalents.

The amounts held in the City’s pooled portfolio are considered liquid as they are available to be withdrawn on demand, with no redemption restrictions.

INVESTMENTS – the Authority may invest in fixed income obligations of the U.S. Government, its agencies, or instrumentalities. The investments of the Authority are reported at fair value.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2022

1. NATURE OF BUSINESS, REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES, continued

FAIR VALUE MEASUREMENTS – Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available; for others, it might not be available. However, the objective of a fair value measurement in both cases is the same—that is, to determine the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. Fair value is an exit price at the measurement date from the perspective of a market participant that controls the asset or is obligated for the liability. The Authority categorizes its assets and liabilities measured at fair value within the hierarchy established by generally accepted accounting principles. Assets and liabilities valued at fair value are categorized based on inputs to valuation techniques as follows:

Level 1 input – Quoted prices for identical assets or liabilities in an active market that an entity has the ability to access.

Level 2 input – Quoted prices for similar assets or liabilities in active markets and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 input – Inputs that are unobservable for the asset or liability which are typically based upon the Authority's own assumptions as there is little, if any, related market activity.

Hierarchy – The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

Inputs – If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

PREPAID EXPENSES – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

INVENTORIES – Inventories are stated at cost (first-in, first-out), which is not in excess of market.

RESTRICTED ASSETS – Certain assets of the Authority are restricted under the terms of its bond indentures or state statutes.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2022

1. NATURE OF BUSINESS, REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES, continued

UTILITY SERVICES RECEIVABLE – This balance consists of amounts due from customers within and around the Tulsa metropolitan area for utility service. Unbilled revenue is accrued and included in utility services receivable for services that were provided, but not billed at year end. Utility services receivable included \$8,335 and \$7,486 of accrued unbilled revenue for the Water fund and Sewer fund, respectively, as of June 30, 2022. The Authority recorded an allowance for uncollectible accounts of \$763 and \$566 for Water fund and Sewer fund, respectively, as of June 30, 2022.

LEASE RECEIVABLE - The Authority, as a lessor, recognizes a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. The lease receivable is measured at the present value of the lease payment expected to be received during the lease term. The deferred inflow of resources should be measured as the value of the lease receivable in addition to any payments received at or before the commencement of the lease term that related to future periods

CAPITAL ASSETS – Capital assets purchased or acquired at an initial cost of \$5 or more and having a useful life of more than one year are carried at historical cost. Contributed assets are recorded at acquisition value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Interest cost incurred during the construction phase of capital assets of the enterprise activities is recognized as an expense in the period in which the cost is incurred.

DEPRECIATION – Capital assets placed in service are depreciated on the straight-line basis over the following estimated useful lives:

| | |
|------------------------|----------------|
| Land improvements | 30 years |
| Buildings | 50 years |
| Water and sewer lines | 33 - 100 years |
| Equipment | 3 - 20 years |
| Right-to-use land | 3 years |
| Right-to -use building | 2 years |
| Right-to-use equipment | 3-6 years |

Capital assets sold or disposed have their cost and accumulated depreciation removed from the Authority's records. The related gain or loss is recorded in the period of sale or disposal.

CAPITAL CONTRIBUTIONS – Capital contributions include payments made by developers for the construction of water and sewer lines, grants, and amounts contributed by City sales tax funds. Amounts contributed to the Authority from City sales tax funds are reported as capital contributions as these funds are spent on capital.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2022

1. NATURE OF BUSINESS, REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES, continued

COMPENSATED ABSENCES – Vacation and sick leave is granted to all employees. Vacation time earned varies from 14 to 26 days depending upon years of service. The maximum amount of vacation time that may be accumulated is twice the amount which may be earned in one calendar year. Accumulated vacation leave vests and the Authority is obligated to make payment upon termination or retirement. Accumulated sick leave is not paid out to employees upon separation, if separation occurs before retirement eligibility. Upon retirement an employee is eligible to receive a lump sum payout of one hour for every three hours earned and unused if the employee has at least 960 hours. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive separation payments and other employees who are expected to become eligible in the future to receive such payments upon separation are included. The amount of unpaid vacation and sick leave is charged to expense during the period earned if probable of payout, and a corresponding liability is established.

POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS – Postemployment benefits other than pensions (OPEB) are part of an exchange of salaries and benefits for employee services rendered. Of the total benefits offered by employers to attract and retain qualified employees, some benefits, including salaries and active-employee healthcare, are taken while the employees are in active service, whereas other benefits, including postemployment healthcare, are taken after the employees' services have ended. Nevertheless, the benefits constitute compensation for employee services. A liability for OPEB is recognized when earned by employees. Additional information regarding these liabilities is included in Note 7.

UNAMORTIZED DISCOUNTS AND PREMIUMS – Original issue discounts and premiums on the Authority's revenue bonds are amortized over the lives of the bonds using the effective interest method.

NET POSITION – Net position of the Authority represents the difference between assets and liabilities and deferred inflows/outflows. Net investment in capital assets, consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Net investment in capital assets as of June 30, 2022 excludes unspent bond proceeds of \$16,753 and \$51,707 for Water and Sewer, respectively. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or, laws or regulations of other governments. When an expense is incurred for purposes for which both restricted and unrestricted resources are available, the Authority first applies restricted resources. Unrestricted net position is the difference between assets, liabilities and deferred inflows/outflows of resources that do not meet the definition of net investment in capital assets or restricted.

PROPERTY TAX REVENUE – Oklahoma statutes require that the City make a property tax levy for a sinking fund (Debt Service Fund) which shall, with cash and investments in the fund, be sufficient to pay all general obligation bonded indebtedness, interest and one-third of all outstanding judgments coming due in the following fiscal year.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2022

1. NATURE OF BUSINESS, REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES, continued

PROPERTY TAX REVENUE continued – The sinking fund requirements are submitted by the City to the County Excise Board to determine the property tax levy. This submission is made by August 27th of each year. The County Assessor is required to file a tax roll report on or before October 1st each year with the County Treasurer indicating the net assessed valuation for all real and public service property.

The Oklahoma Tax Commission determines property assessed valuations. The assessment ratio in Tulsa County currently averages 11% of market value.

Property tax is levied each October 1st on the assessed valuation of non-exempt real property located in the City as of the preceding January 1st, the lien date. Property taxes are due on November 1st following the levy date, although they may be paid in two equal installments (if the first installment is paid prior to January 1st, the second installment is not delinquent until April 1st). Property taxes are collected by the County Treasurers of Tulsa, Wagoner and Osage Counties, Oklahoma, and are remitted to the City. Property tax receivables are recorded on the lien date, although the related Authority revenue is reported as a deferred inflow of resources and will not be recognized until the year for which it is levied.

USE OF ESTIMATES – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Actual results could differ from those estimates.

INCOME TAXES – With regards to federal income taxes, the Authority is nontaxable as a political subdivision under Section 115(1) of the Internal Revenue Code.

DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES – The Authority records deferred outflows or inflows of resources for the consumption or acquisition of net position that is applicable to a future reporting period and will not be reported as an outflow (expense) or inflow (revenue) until then. The financial statements reflect deferred outflows and inflows of resources recorded for unamortized losses and gains on refunding of debt, deferred outflows and inflows of resources related to pensions and other post-employment benefits, and deferred inflows of resources related to property tax revenue and leases.

DEFERRED CHARGES/GAINS ON REFUNDING – Deferred charges/gains on refunding represents the difference in the reacquisition price and the net carrying amount of the old debt. These charges are presented as a deferred outflow/inflow of resources, amortized using the effective interest method, and recognized as a component of interest expense over the life of the old or new debt, whichever is shorter.

PENSION PLAN – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees' Retirement Plan (MERP) and additions to/deductions from MERP's fiduciary net position have been determined on the same basis as they are reported by MERP. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2022

1. NATURE OF BUSINESS, REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES, continued

LEASES

Lessee – The Authority is a lessee for noncancellable leases. The Authority recognizes a lease liability and an intangible right-to-use lease asset (lease asset). At the commencement of a lease, the Authority initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease asset is amortized on a straight-line basis over its useful life, unless the underlying asset is nondepreciable.

Key estimates and judgments related to leases include how the Authority determines (1) the discount rate it uses to discount the expected lease payment to present value, (2) lease term, and (3) lease payments.

- The Authority uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Authority generally uses its estimated incremental borrowing rate as the discount rate for the leases.
- The lease term includes the noncancellable period of the lease. Lease payments include the measurement of the lease liability are composed of the fixed payments and purchase option price that the Authority is reasonably certain to exercise.

The Authority monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

Lessor – The Authority is a lessor for noncancellable leases. The Authority recognizes a lease receivable and deferred inflow of resources on the statement of net position. At the commencement of a lease, the Authority initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of the lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments related to leases include how the Authority determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The Authority uses its estimated incremental borrowing rate as the discount rate for the leases or a rate based on the economic characteristics of the transaction.
- The lease term includes the noncancellable period of the lease. Lease receipts include in the measurement of the lease receivable are composed of the fixed payments from the lessee.

The Authority monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2022

2. CASH DEPOSITS AND INVESTMENTS

CASH AND CASH EQUIVALENTS – Cash deposits of the Authority, not held in trust accounts, are held within the City’s pooled portfolio. The City’s pooled portfolio consists primarily of time deposits and other securities guaranteed by the United States Government or its agencies. At June 30, 2022, the Authority held \$236,758 in the City’s pooled portfolio, which represented 20.3% of the City’s pooled portfolio.

The City’s pooled portfolio is collateralized by securities held by the City or its agent in the City’s name as of June 30, 2022.

Please refer to the City’s Annual Comprehensive Financial Report for additional disclosures related to the City’s pooled portfolio, including required disclosures of risks and fair value measurements. A copy of the City’s Annual Comprehensive Financial Report may be obtained at www.cityoftulsa.org.

In addition to assets held in the City’s pooled portfolio, the Authority has assets it holds directly. The Authority has money market accounts reported as cash equivalents on the statement of net position of \$94,672 as of June 30, 2022. The money market funds are comprised of treasury securities, agency securities, cash and cash equivalents and collateralized repos based on the bond indentures.

INVESTMENTS – At June 30, 2022, the Authority did not have any investments

Interest Rate Risk – Interest rate risk is the risk that a change in interest rates will adversely affect the value of an investment. For restricted funds, bond requirements limit the type and maturity length of investments that can be acquired.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Authority utilizes the City of Tulsa investment policy and bond indenture restrictions on authorized investments to limit its exposure to credit risks.

Custodial Credit Risk – For deposits with financial institutions, custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. For investments, custodial credit risk is the risk that, in the event of failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

The Authority’s deposit policy for custodial credit risk requires compliance with provisions of state law and that demand deposits be collateralized by at least 110% of the amount that is not federally insured. The Authority's investments in U.S. Treasury Securities at June 30, 2022 are registered securities held by the Authority or by its agent in the Authority's name. At June 30, 2022, none of the Authority’s deposits, including money market accounts of \$94,672 were exposed to custodial credit risk.

Concentration of Credit Risk – The Authority utilizes the City of Tulsa investment policy to determine the amount that may be invested in any one issuer.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2022

3. RESTRICTIONS ON ASSET USE

Unspent debt proceeds, as well as resources set aside for their repayment, are classified as restricted assets on the statements of net position because their use is limited by applicable bond covenants and they are maintained in separate bank accounts. The City levies ad valorem taxes for the retirement of 50% of general obligation bonds issued for the wastewater disposal system. A reserve for bond retirement is established at the City. Customer deposits held in the City's pooled portfolio are also classified as restricted assets as they are limited for customer refunds.

A summary of the purpose for which these assets are restricted as of June 30, is as follows:

| | <u>2022</u> |
|--|------------------|
| General Obligation Bonds: | |
| Sinking funds | <u>\$ 1,102</u> |
| Deposits subject to refund: | |
| Escrow deposits | <u>13,512</u> |
| Sewer Debt: | |
| Debt service fund | 9,717 |
| Construction fund | 35,144 |
| Reserve fund | <u>16,563</u> |
| Debt service, reserves, construction funds | <u>61,424</u> |
| Water Debt: | |
| Debt service fund | 7,129 |
| Construction fund | 2,803 |
| Reserve fund | <u>13,951</u> |
| Debt service, reserves, construction funds | <u>23,883</u> |
| Total restricted assets | <u>\$ 99,921</u> |

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2022

4. CAPITAL ASSETS

The changes in capital assets during the year ended June 30, 2022 are summarized as follows:

| | Beginning Balance (as restated) | Increases | Transfers/ Decreases | Ending Balance |
|--|--|------------------|---------------------------------|---------------------------|
| Nondepreciable assets: | | | | |
| Land | \$ 38,177 | \$ - | \$ - | \$ 38,177 |
| Water rights | 9,593 | - | - | 9,593 |
| Construction-in-progress | 72,107 | 97,614 | (102,545) | 67,176 |
| Total nondepreciable capital assets | <u>119,877</u> | <u>97,614</u> | <u>(102,545)</u> | <u>114,946</u> |
| Capital assets being depreciated/amortized: | | | | |
| Land improvements, water and sewer lines | 2,054,908 | 9,116 | 100,132 | 2,164,156 |
| Buildings | 53,443 | 1,090 | (3,026) | 51,507 |
| Equipment | 84,566 | 5,554 | (489) | 89,631 |
| Right-to-use land | 52 | - | - | 52 |
| Right-to-use building | - | 164 | - | 164 |
| Right-to-use equipment | 327 | - | - | 327 |
| Total capital assets being depreciated/amortized | <u>2,193,296</u> | <u>15,924</u> | <u>96,617</u> | <u>2,305,837</u> |
| Accumulated depreciation/amortization: | | | | |
| Land improvements, water and sewer lines | (771,668) | (38,601) | - | (810,269) |
| Buildings | (36,875) | (660) | 1,009 | (36,526) |
| Equipment | (55,393) | (5,661) | 2,216 | (58,838) |
| Right-to-use land | - | (26) | - | (26) |
| Right-to-use equipment | - | (80) | - | (80) |
| | <u>(863,936)</u> | <u>(45,028)</u> | <u>3,225</u> | <u>(905,739)</u> |
| Capital assets being depreciated/amortized, net | <u>1,329,360</u> | <u>(29,104)</u> | <u>99,842</u> | <u>1,400,098</u> |
| Capital assets, net | <u>\$ 1,449,237</u> | <u>\$ 68,510</u> | <u>\$ (2,703)</u> | <u>\$ 1,515,044</u> |

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2022

5. JOINT VENTURE

The Authority is a participant in a joint venture, the Regional Metropolitan Utility Authority (“RMUA”). RMUA was created to operate a sewage treatment facility. The Authority contributes approximately one-half of RMUA’s operating and capital budget and operates a facility for RMUA. The City appoints two of the ten trustees with the four other participating cities appointing two trustees each. Services are provided approximately 50% each to the City and the City of Broken Arrow, Oklahoma. In accordance with the Trust Agreement, the Authority is entitled, on both an interim and final basis, to its pro-rata interest based on its contributions to RMUA.

The Authority’s equity interest was \$38,380 as of June 30, 2022. The Authority’s other services and charges have been increased to reflect the change in equity interest by \$953 for the year ended June 30, 2022. The Authority contributed \$1,623 to RMUA for capital improvements during the year ended June 30, 2022.

Request for an audited financial report or additional information concerning RMUA should be addressed to the Office of the Controller, 175 E. Second Street, Suite 1570, Tulsa, Oklahoma 74103, or online at www.cityoftulsa.org.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2022

6. MUNICIPAL EMPLOYEES' PENSION PLAN

Plan description – Employees are provided with pensions through MERP – a cost-sharing multiple-employer defined benefit pension plan administered by the City. The Authority is not defined as an employer in the MERP plan document, but as described in Note 1, payroll and associated costs of City employees performing functions on behalf of the Authority, are reported in the financial statements of the Authority. MERP benefits are established by City ordinance to plan members and beneficiaries. MERP's financial statements and required supplementary information are included in the City's Annual Comprehensive Financial Report (ACFR). The report may be obtained by writing to the City of Tulsa Controller, 175 E. 2nd Street, Suite 1570, Tulsa, Oklahoma 74103, or online at www.cityoftulsa.org.

Benefits provided – MERP provides retirement, disability, and death benefits. Retirement benefits are determined based on the employee's highest 30 months of pensionable wages during the last five years of service and a multiplier based on the years of service. Employees entering the plan prior to July 1, 2018 are eligible for full retirement at age 65, and at least 5 years of service, or when the years of service plus the employee's age equals or exceeds 80. Reduced benefits are available after age 55 and 5 years of service (Early retirement). Benefits for Early retirement are reduced 2.5 percent per year prior to age 65. Employees entering the plan on or after July 1, 2018 are eligible for full retirement at age 65, and at least 5 years of service, or when the years of service plus the employee's age equals or exceeds 90. Reduced benefits are available after age 60 and 5 years of service (Early Retirement). Benefits for Early retirement are reduced 6.0 percent per year prior to age 65. Five years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as normal retirement. Death benefits for vested participants are, at the spouse's election, a refund of contribution plus interest or a life annuity of 50 percent of the member's accrued benefit determined based on final average earnings and service as of the date of death.

Contributions – The Contributions are set by City ordinance. In 2022, employees contributed 7.5 percent of their pensionable wages. The Authority was charged 16.5 percent of pensionable wages for the year ended June 30, 2022 for employees whose payroll costs were charged to the Authority. Actual charges to the Authority for pension plan contributions were \$6,276 for the year ended June 30, 2022.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2022 the Authority reported \$75,624 for its proportionate charged share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2022. Standard update procedures were used to roll forward the total pension liability to June 30, 2022. The Authority's charged proportion of the net pension liability was based on the Authority's share of charged contributions to the pension plan relative to the contributions of all participating employers. At June 30, 2022 the Authority's proportion was 28.1346 percent.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2022

6. MUNICIPAL EMPLOYEES' PENSION PLAN, continued

For the year ended June 30, 2022, the Authority recognized pension expense of \$10,608. At June 30, 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | | |
|--|---------------------------------------|-----------------------|---|
| | Water Fund | Sewer Fund | Business-type Activities Total |
| Net difference between projected and actual plan earnings on pension plan investments | \$ 2,693 | \$ 2,408 | \$ 5,101 |
| Changes of assumptions | 2,683 | 2,401 | 5,084 |
| Differences between expected and actual plan experience | 897 | 803 | 1,700 |
| Changes in proportion and differences between the Authority's charges and proportionate share of charges | 581 | 716 | 1,297 |
| Total | \$ 6,854 | \$ 6,328 | \$ 13,182 |

| | Deferred Inflows of Resources | | |
|--|--------------------------------------|-----------------------|---|
| | Water Fund | Sewer Fund | Business-type Activities Total |
| Changes of assumptions | \$ 1,068 | \$ 955 | \$ 2,023 |
| Differences between expected and actual plan experience | 53 | 48 | 101 |
| Changes in proportion and differences between the Authority's charges and proportionate share of charges | 934 | 596 | 1,530 |
| Total | \$ 2,055 | \$ 1,599 | \$ 3,654 |

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6. MUNICIPAL EMPLOYEES' PENSION PLAN, continued

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense (gain) as follows:

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Business-type Activities Total</u> |
|----------------------------|-----------------------|-----------------------|---|
| Year ended June 30: | | | |
| 2023 | \$ 1,853 | \$ 1,886 | \$ 3,739 |
| 2024 | 1,123 | 1,129 | 2,252 |
| 2025 | (853) | (694) | (1,547) |
| 2026 | 2,676 | 2,408 | 5,084 |
| | <u>\$ 4,799</u> | <u>\$ 4,729</u> | <u>\$ 9,528</u> |

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of January 1, 2022, using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 2.5 percent |
| Salary increases | 3.50 to 9.50 percent, including inflation |
| Investment rate of return | 6.75 percent compounded annually, net of investment expense and including inflation |

Mortality rates were based on PubG-2010 mortality table. Mortality was projected generationally using Scale MP-2021.

The actuarial assumptions used in the January 1, 2022 valuation were based on the results of an actuarial experience study for the five-year period ending December 31, 2020.

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

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|-----------------------|------------------------------|---|
| Fixed income | 20% | 2.75% |
| Domestic equity | 36% | 6.00% |
| International equity | 24% | 4.50% |
| Real estate | 12% | 5.25% |
| Commodities an Timber | 7% | 4.50% |
| Cash | 1% | 0.50% |
| | <u>100%</u> | |

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6. MUNICIPAL EMPLOYEES' PENSION PLAN, continued

Discount rate - The discount rate used to measure the total pension liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the participating employers will be made as specified in the MERP funding policy. Beginning January 1, 2021 to June 30, 2022, the employer contribution rate was 16.50 percent of payroll. Beginning July 1, 2022 and all future years, it is assumed that the employer contribution rate will be 17.65 percent of payroll. Based on those assumptions, the MERP's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability.

Sensitivity of the Authority's proportionate share of the net pension liability to changes in the discount rate - The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 6.75 percent, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75 percent) or 1-percentage-point higher (7.75 percent) than the current rate.

| | 1% Decrease (5.75%) | Current Discount Rate (6.75%) | 1% Increase (7.75%) |
|---|--------------------------------|--|--------------------------------|
| Authority's proportionate share of the net pension liability | \$ 102,660 | \$ 75,624 | \$ 52,997 |

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the City of Tulsa's ACFR; which can be located at www.cityoftulsa.org.

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7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

General Information about the OPEB Plan

Plan Description – Retired employees and their dependents are provided with postemployment health care benefits through the City of Tulsa Postretirement Medical Plan (the “Plan”), a multiple-employer defined benefit health care plan. The Authority is not an employer, but as described in Note 1, payroll and associated costs of City employees performing functions on behalf of the Authority, are reported in the financial statements of the Authority. The benefits, coverage levels, employee contributions, and employer contributions are governed by the City through its personnel and union contracts and are funded on a pay-as-you-go basis. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. The Plan does not issue a stand-alone financial report.

Benefits Provided – All health care benefits are provided through the City’s fully insured health plan. The benefit levels are the same as those offered to active employees. Benefits include general inpatient and outpatient medical services and prescriptions. General employees are eligible for membership in the Plan if they retire from the City on or after age 55 with 5 years of service or with age and service totaling 80 points. Coverage ceases upon eligibility of the member (retiree or dependent) for Medicare. Coverage for dependents can continue upon the death of the retiree. Spouses of employees eligible for benefits and who die in active service can receive coverage.

Contributions – Contribution rates are established by the City. Retiree plan participants pay the entire amount of the premium charged by the insurer for coverage thus the City does not directly contribute to the Plan. Retiree and active employee participants are included in the same cost pool used to determine rates set by the insurer. An implicit subsidy results from this method of rate setting.

OPEB Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2022, the Authority reported a liability of \$2,065 for its proportionate charged share of the total OPEB liability. The total OPEB liability was measured as of June 30, 2022, and was determined by an actuarial valuation as of June 30, 2022. Standard update procedures were used to roll forward the total OPEB liability to June 30, 2022. The Authority’s charged proportion of the total OPEB liability was based on the Authority’s share of active employee participants relative to the active employees of all participating employers. At June 30, 2022, the Authority’s proportion was 36.1434 percent.

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7. OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

For the year ended June 30, 2022, the Authority recognized OPEB expense of \$361. At June 30, 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | | |
|--|---------------------------------------|-----------------------|---|
| | Water Fund | Sewer Fund | Business-type Activities Total |
| Changes of assumptions | \$ 82 | \$ 71 | \$ 153 |
| Differences between expected and actual plan experience | 173 | 151 | 324 |
| Changes in proportion and differences between the Authority's charges and proportionate share of charges | 23 | 30 | 53 |
| Total | \$ 278 | \$ 252 | \$ 530 |

| | Deferred Inflows of Resources | | |
|--|--------------------------------------|-----------------------|---|
| | Water Fund | Sewer Fund | Business-type Activities Total |
| Changes of assumptions | \$ 123 | \$ 108 | \$ 231 |
| Differences between expected and actual plan experience | 118 | 103 | 221 |
| Changes in proportion and differences between the Authority's charges and proportionate share of charges | 9 | 17 | 26 |
| Total | \$ 250 | \$ 228 | \$ 478 |

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7. OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

Amount reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the Authority's OPEB expense over the average remaining service lives of Plan participants (actives and retirees) as follows:

| | Water Fund | Sewer Fund | Business-type Activities Total |
|----------------------------|-----------------------|-----------------------|---|
| Year ended June 30: | | | |
| 2023 | \$ 34 | \$ 33 | \$ 67 |
| 2024 | 24 | 22 | 46 |
| 2025 | 33 | 31 | 64 |
| 2026 | (36) | (34) | (70) |
| 2027 | (27) | (28) | (55) |
| | <u>\$ 28</u> | <u>\$ 24</u> | <u>\$ 52</u> |

Actuarial assumptions – The total OPEB liability was determined by an actuarial valuation as of June 30, 2022, using the following actuarial assumptions, applied to all periods included in the measurement.

| | |
|----------------------------|--|
| Inflation | 3.0 % |
| Salary increases | 4.0% to 11.75%, including 3.0% inflation and 1.0% productivity |
| Healthcare cost trend rate | 7.5% for 2022, decreasing by 0.5 % annually to an ultimate rate of 4.5% |

Thirty-five percent of future retirees with coverage are assumed to elect healthcare coverage.

Mortality rates for retirees were based on SOA Pub-2010 General Headcount Weighted Mortality Table fully generational using Scale MP-2021. Surviving spouses mortality were based on SOA Pub-2010 Contingent Survivor Headcount Weighted Mortality Table fully generational using Scale MP-2021.

The actuarial assumptions used were based on an actuarial experience study for the five-year period ending December 31, 2015, with the exception of the healthcare election rate which was based on an experience study from June 30, 2010 through June 30, 2016.

Discount Rate – The OPEB Plan is financed on a pay-as-you-go basis, thus a long-term rate of return was not used. The discount rate used to measure the total OPEB liability was 4.09 as of June 30, 2022. The source of the discount rate used was the S&P Municipal Bond 20-Year High Grade Rate Index.

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7. OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued

Sensitivity of the Authority’s proportionate share of the total OPEB liability to changes in the discount rate – The following presents the Authority’s proportionate share of the total OPEB liability calculated using the discount rate of 4.09 percent, as well as what the Authority’s proportionate share of the total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.09 percent) or 1-percentage-point higher (5.09 percent) than the current rate.

| | <u>1% Decrease (3.09%)</u> | <u>Current Discount Rate (4.09%)</u> | <u>1% Increase (5.09%)</u> |
|--|--------------------------------|--|--------------------------------|
| Authority’s proportionate share of the total OPEB liability | \$ 2,238 | \$ 2,065 | \$ 1,908 |

Sensitivity of the Authority’s proportionate share of the total OPEB liability to changes in the healthcare cost trend rate – The following presents the Authority’s proportionate share of the total OPEB liability calculated using the healthcare cost trend rate of 7.5 percent decreasing to 4.5 percent, as well as what the Authority’s proportionate share of the total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

| | <u>1% Decrease (6.5% decreasing to 3.5%)</u> | <u>Current Rate (7.5% decreasing to 4.5%)</u> | <u>1% Increase (8.5% decreasing to 5.5%)</u> |
|--|--|---|--|
| Authority’s proportionate share of the total OPEB liability | \$ 1,862 | \$ 2,065 | \$ 2,302 |

8. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters. The City purchases commercial insurance for general liability and property damage as well as employee health and dental. The Authority is covered in the City’s insurance policies and premium costs are passed on to the Authority through indirect cost allocation. The Authority is responsible for deductibles relating to specific claims pertaining to the Authority. There have been no significant reductions in insurance coverage during the year and there were no settlement amounts in excess of the insurance coverage in the current year or in the three prior years. The Authority also participates in the City’s workers’ compensation self-insurance program. The City retains all risk of loss for workers’ compensation claims.

TULSA METROPOLITAN UTILITY AUTHORITY
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9. NONCURRENT LIABILITIES

REVENUE BONDS – Revenue bonds outstanding consist of debt issued by the Authority. The debt does not constitute debt of the City and is payable solely from resources of the Authority. Revenue bonds are collateralized primarily by the trust estates and revenues derived from the operations of the Authority.

Various bond indentures, loan agreements, and pledge and security agreements contain limitations and restrictions of debt service reserves and flow of monies through various restricted accounts (see additional information in Note 3). The Authority has pledged future water revenues, net of operating expenses and sewer revenues, net of operating expenses and net of amounts pledged for promissory note debt service to repay \$80,030 and \$110,430 of outstanding Utility Revenue Bonds, respectively. The Utility Revenue Bonds are payable through 2042. Annual principal and interest payments on the bonds required 23 percent of net revenues, as defined above. The total principal and interest remaining to be paid on the bonds is \$225,165. Principal and interest paid for the current year and water and sewer net revenues as described above for the current year were \$24,612 and \$108,084, respectively. The Authority utility revenue bonds are subject to acceleration if the Authority defaults.

On April 1, 2022 the Authority issued the Utility Revenue Bonds Series 2022A in the amount of \$14,600. The bonds mature in 2042 and require annual principal payments and semiannual interest payments at a rate of 3.0-3.125%. Proceeds will be used to fund improvements to the wastewater utility system.

Utility Revenue Bond payable activity for the year ended June 30, 2022 is as follows:

| Series | Issue Amount | Maturity Date | Interest Rate | Beginning Balance | Additions | Reductions | Ending Balance | Within One Year |
|-----------------------------|---------------------|----------------------|----------------------|--------------------------|------------------|--------------------|-----------------------|------------------------|
| Water: | | | | | | | | |
| Refunding Series 2013 | \$ 61,280 | 2025 | 2.50-3.00% | \$ 25,540 | \$ - | \$ (4,720) | \$ 20,820 | \$ 4,900 |
| Series 2014 | 17,825 | 2034 | 3.00-3.50% | 13,760 | - | (715) | 13,045 | 735 |
| Refunding Series 2015 | 9,940 | 2027 | 2.00-3.00% | 4,880 | - | (770) | 4,110 | 795 |
| Series 2016A | 16,565 | 2031 | 3.00-3.25% | 11,950 | - | (965) | 10,985 | 980 |
| Refunding Series 2017A | 27,765 | 2030 | 3.00-3.125% | 20,285 | - | (1,915) | 18,370 | 1,940 |
| Refunding Series 2019A | 18,705 | 2027 | 5.00% | 14,740 | - | (2,040) | 12,700 | 2,080 |
| | | | | <u>91,155</u> | <u>-</u> | <u>(11,125)</u> | <u>80,030</u> | <u>11,430</u> |
| Sewer: | | | | | | | | |
| Series 2016B | 10,885 | 2036 | 2.00-3.50% | 8,735 | - | (450) | 8,285 | 460 |
| Refunding Series 2016C | 34,810 | 2025 | 5.00% | 21,475 | - | (3,455) | 18,020 | 3,515 |
| Series 2018A | 11,850 | 2038 | 3.125-3.250% | 10,555 | - | (450) | 10,105 | 460 |
| Series 2019B | 12,430 | 2039 | 3.00% | 11,490 | - | (480) | 11,010 | 490 |
| Series 2020A | 26,695 | 2031 | 1.0-2.0% | 26,695 | - | (2,040) | 24,655 | 2,065 |
| Series 2020B | 24,770 | 2040 | 1.0-2.0% | 24,770 | - | (1,015) | 23,755 | 1,025 |
| Series 2022A | 14,600 | 2042 | 3.00-3.125% | - | 14,600 | - | 14,600 | 605 |
| | | | | <u>103,720</u> | <u>14,600</u> | <u>(7,890)</u> | <u>110,430</u> | <u>8,620</u> |
| Total utility revenue bonds | | | | <u>\$ 194,875</u> | <u>\$ 14,600</u> | <u>\$ (19,015)</u> | <u>\$ 190,460</u> | <u>\$ 20,050</u> |

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9. NONCURRENT LIABILITIES, continued

The changes in other long-term liabilities for the year ended June 30, 2022 are summarized as follows:

| Other long-term liabilities | Beginning Balance (as restated) | Additions | Reductions | Ending Balance | Due Within One Year |
|------------------------------------|--|------------------|-------------------|---------------------------|------------------------------------|
| Water storage lease | \$ 2,720 | \$ - | \$ (236) | \$ 2,484 | \$ 242 |
| Lease liability | 379 | 164 | (105) | 438 | 159 |
| Total OPEB liability | 2,972 | - | (907) | 2,065 | - |
| Compensated absences | 4,687 | 2,705 | (2,453) | 4,939 | 2,977 |
| Net pension liability | 52,492 | 23,132 | - | 75,624 | - |
| Total other long-term liabilities | <u>\$ 63,250</u> | <u>\$ 26,001</u> | <u>\$ (3,701)</u> | <u>\$ 85,550</u> | <u>\$ 3,378</u> |

PROMISSORY NOTES – The Authority borrows from the Oklahoma Water Resources Board through two types of program loans: the State Financial Assistance Program (FAP) Loans and the Clean Water State Revolving Fund (SRF) Loan Program. FAP loan proceeds are received at closing and SRF loan proceeds are received on a reimbursement basis.

The Authority’s outstanding promissory notes with the Oklahoma Water Resources Board are collateralized by a first lien and security interest in the Authority’s wastewater treatment system and the revenues derived from the entire system and generally require semi-annual principal and interest payments. The Authority promissory notes are subject to acceleration if the Authority defaults.

The Authority has pledged future sewer revenue, net of operating expenses to repay \$163,996 of promissory notes. The promissory notes are payable through 2041. Annual principal and interest payments on the promissory notes required 25 percent of net revenues. The total principal and interest remaining to be paid on the promissory notes is \$197,339. Principal and interest paid for the current year and sewer net revenues for the current year were \$18,031 and \$71,968, respectively.

The promissory notes contain certain covenants. The covenants require that net revenues of the wastewater system, as defined by the debt agreement, provide for minimums of 100% of the maximum debt service on all notes and 125% of the maximum debt service on senior notes. FAP loans are considered senior obligations.

Promissory notes issued and outstanding under the SRF program were \$214,957 and \$118,156, respectively, as of June 30, 2022. The Authority had \$15,103 available to be drawn as of June 30, 2022. Promissory notes outstanding under the FAP program were \$45,840 as of June 30, 2022.

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9. NONCURRENT LIABILITIES, continued

Promissory note payable activity for the year ended June 30, 2022 is as follows:

| <u>Promissory Notes and Maturity Dates</u> | <u>Loan Type</u> | <u>Issue Amount</u> | <u>Interest Rate</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--|----------------------|-------------------------|--------------------------|------------------------------|------------------|--------------------|---------------------------|------------------------------------|
| Sewer: | | | | | | | | |
| Series 2002D - 2021 | SRF | \$ 6,813 | 0.50% | \$ 175 | \$ - | \$ (175) | \$ - | \$ - |
| Series 2004B - 2023 | SRF | 1,560 | 0.50% | 200 | - | (80) | 120 | 80 |
| Series 2005B - 2027 | SRF | 7,900 | 3.10% | 2,985 | - | (421) | 2,564 | 434 |
| Series 2005C - 2025 | SRF | 1,203 | 0.50% | 271 | - | (60) | 211 | 60 |
| Series 2006A - 2027 | SRF | 3,130 | 3.10% | 1,153 | - | (163) | 990 | 168 |
| Series 2006C - 2029 | SRF | 17,825 | 3.10% | 8,431 | - | (880) | 7,551 | 908 |
| Series 2007A - 2026 | SRF | 5,131 | 0.50% | 1,447 | - | (263) | 1,184 | 263 |
| Series 2009A - 2032 | SRF | 11,320 | 3.22% | 5,678 | 244 | (566) | 5,356 | 566 |
| Series 2010A - 2032 | SRF | 27,757 | 2.89% | 15,959 | - | (1,388) | 14,571 | 1,388 |
| Series 2011A - 2033 | SRF | 23,480 | 3.11% | 13,757 | 605 | (1,174) | 13,188 | 1,174 |
| Series 2011C - 2034 | SRF | 16,700 | 2.55% | 10,987 | - | (721) | 10,266 | 740 |
| Series 2012A - 2034 | SRF | 4,347 | 2.43% | 2,550 | 308 | (217) | 2,641 | 217 |
| Series 2012B - 2032 | FAP | 11,355 | 2.75-3.25% | 7,415 | - | (525) | 6,890 | 540 |
| Series 2013A - 2035 | SRF | 9,850 | 2.24% | 5,327 | 1,850 | (518) | 6,659 | 518 |
| Series 2013B - 2033 | FAP | 27,605 | 5.145% | 20,095 | - | (1,145) | 18,950 | 1,200 |
| Series 2014A - 2035 | SRF | 2,910 | 2.58% | 2,085 | - | (145) | 1,940 | 146 |
| Series 2014B - 2033 | FAP | 10,180 | 3.145-4.06% | 7,350 | - | (465) | 6,885 | 480 |
| Series 2014C - 2034 | FAP | 17,735 | 4.145-5.145% | 13,845 | - | (730) | 13,115 | 760 |
| Series 2015A - 2038 | SRF | 28,330 | 2.46% | 14,891 | 6,077 | (1,417) | 19,551 | 1,417 |
| Series 2017A - 2040 | SRF | 21,725 | 2.26% | 13,603 | 4,540 | (1,086) | 17,057 | 1,086 |
| Series 2018A - 2041 | SRF | 14,350 | 2.53% | 1,215 | 11,329 | (718) | 11,826 | 718 |
| Series 2019A - 2041 | SRF | 10,626 | 2.32% | 300 | 2,447 | (266) | 2,481 | 531 |
| | | | | <u>\$ 149,719</u> | <u>\$ 27,400</u> | <u>\$ (13,123)</u> | <u>\$ 163,996</u> | <u>\$ 13,394</u> |

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9. NONCURRENT LIABILITIES, continued

GENERAL LONG-TERM DEBT – General long-term debt of the Authority consists of general obligation bonds approved by the voters and issued by the City for water and wastewater capital assets. These bonds are required to be fully paid within 25 years from the date of issue and are backed by the full faith and credit of the City. The City’s Charter requires not less than 50% of the annual principal and interest requirements on general obligation bonds issued for waterworks and wastewater be funded by water and wastewater revenues, respectively. General obligation bond activity during 2022 was as follows:

| Bonds and Maturity Dates | Issue Amount | Interest Rate | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|-------------------------------------|-------------------------|--------------------------|------------------------------|------------------|-------------------|---------------------------|------------------------------------|
| Series 2013A- 2025 | 8,534 | 2.50% | \$ 2,461 | \$ - | \$ (653) | \$ 1,808 | \$ 634 |
| Series 2014A- 2026 | 430 | 3.00% | 176 | - | (38) | 138 | 37 |
| Series 2015A- 2027 | 4,222 | 2.00-2.50% | 1,943 | - | (343) | 1,600 | 336 |
| Series 2017A- 2021 | 2,155 | 5.00% | 728 | - | (728) | - | - |
| | | | <u>\$ 5,308</u> | <u>\$ -</u> | <u>\$ (1,762)</u> | <u>\$ 3,546</u> | <u>\$ 1,007</u> |

PRINCIPAL AND INTEREST PAYMENTS IN SUBSEQUENT YEARS – Scheduled maturities of principal and interest in subsequent years are as follows:

| | Revenue Bonds | | Promissory Notes | | General Obligation Bonds | |
|-----------|----------------------|------------------|-------------------------|------------------|---------------------------------|-----------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2023 | \$ 20,050 | \$ 5,451 | \$ 13,394 | \$ 4,991 | \$ 1,007 | \$ 84 |
| 2024 | 20,505 | 4,829 | 13,539 | 4,597 | 980 | 60 |
| 2025 | 21,065 | 4,184 | 13,680 | 4,187 | 911 | 37 |
| 2026 | 24,960 | 3,417 | 13,851 | 3,761 | 344 | 16 |
| 2027 | 14,340 | 2,805 | 13,746 | 3,336 | 304 | 8 |
| 2028-2032 | 50,130 | 9,155 | 63,214 | 10,558 | - | - |
| 2033-2037 | 24,025 | 3,881 | 30,745 | 1,875 | - | - |
| 2038-2042 | 15,385 | 983 | 1,827 | 38 | - | - |
| | <u>\$ 190,460</u> | <u>\$ 34,705</u> | <u>\$ 163,996</u> | <u>\$ 33,343</u> | <u>\$ 3,546</u> | <u>\$ 205</u> |

As disclosed in this note, 26 percent of Water Fund net revenue was required for debt service on water revenue bonds for the year ended June 30, 2022, and 40 percent of Sewer Fund net revenue was required for debt service on sewer revenue bonds and promissory notes for the year ended June 30, 2022.

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9. NONCURRENT LIABILITIES, continued

LEASE LIABILITY – On December 2, 1984, the Authority entered a contract with the Department of the Army of the United States of America to utilize storage of the Oologah Lake as a source of a municipal and industrial water supply. Interest rates for the contract were determined by the Secretary of the Treasury. For the initial development stage, the interest rate is 2.5 percent, and for the ultimate development stage, it is 3.225 percent. There is an outlet works and four storage spaces referenced in the contract. Payment terms are annual. The outlet work and storage space one matured in 2012 and had an interest rate of 2.5 percent. The maturity date and interest rate for the remaining three storage spaces are 2031 and 3.225 percent, respectively. The contract includes annual operation and maintenance expenses. Upon expiration of the lease, with continued payment of annual operating costs, and costs allocated for reconstruction, rehabilitation or replacement of the outlet works, the Authority has a permanent right to use of the water supply storage space. The lease payments are subject to a consumer price index adjustment.

The minimum lease payments under the lease are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Operating Expense</u> | <u>Total</u> |
|-----------|------------------|-----------------|------------------------------|-----------------|
| 2023 | \$ 242 | \$ 80 | \$ 402 | \$ 724 |
| 2024 | 250 | 72 | 402 | 724 |
| 2025 | 258 | 64 | 402 | 724 |
| 2026 | 267 | 56 | 402 | 725 |
| 2027 | 275 | 47 | 402 | 724 |
| 2028-2031 | 1,192 | 98 | 1,607 | 2,897 |
| | <u>\$ 2,484</u> | <u>\$ 417</u> | <u>\$ 3,617</u> | <u>\$ 6,518</u> |

The Authority has also entered into various lease agreements in order to acquire a building, land and equipment. The terms and conditions for these leases vary. Some leases are fixed, periodic payments over the lease term, which extend through 2027. At June 30, 2022, the Authority has recognized a right to use asset of \$437 and lease liability of \$438 related to these leases. During the fiscal year, the Authority recorded \$106 in amortization expense and \$6 in interest expense for the right to use assets.

The schedule below shows future annual minimum payments for these leases:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------|------------------|-----------------|---------------|
| 2023 | \$ 159 | \$ 8 | \$ 167 |
| 2024 | 136 | 5 | 141 |
| 2025 | 103 | 2 | 105 |
| 2026 | 30 | - | 30 |
| 2027 | 10 | - | 10 |
| | <u>\$ 438</u> | <u>\$ 15</u> | <u>\$ 453</u> |

TULSA METROPOLITAN UTILITY AUTHORITY
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10. LEASES

Authority as Lessor

The Authority leases its capital assets, mostly the land space located at Lake Eucha and other locations, to tenants under various lease agreements. During the fiscal year, the Authority recognized \$63 in lease revenue and \$13 in interest income related to these leases. At June 30, 2022, the Authority has a lease receivable for lease payments of \$822 and an associated deferred inflow of \$780.

Minimum future rentals on these leases are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|------------------|-----------------|---------------|
| 2023 | \$ 95 | \$ 16 | \$ 111 |
| 2024 | 60 | 14 | 74 |
| 2025 | 66 | 13 | 79 |
| 2026 | 68 | 12 | 80 |
| 2027 | 72 | 11 | 83 |
| 2028-2031 | 277 | 33 | 310 |
| 2033-2037 | 69 | 17 | 86 |
| 2038-2042 | 67 | 8 | 75 |
| 2043-2047 | 2 | 4 | 6 |
| 2048-2052 | 2 | 4 | 6 |
| 2053-2057 | 2 | 4 | 6 |
| 2058-2062 | 2 | 4 | 6 |
| 2063-2067 | 3 | 3 | 6 |
| 2068-2072 | 3 | 3 | 6 |
| 2073-2077 | 3 | 3 | 6 |
| 2078-2082 | 3 | 3 | 6 |
| 2083-2087 | 4 | 2 | 6 |
| 2088-2092 | 4 | 2 | 6 |
| 2093-2097 | 4 | 2 | 6 |
| 2098-2102 | 5 | 1 | 6 |
| 2103-2107 | 5 | 1 | 6 |
| 2108-2112 | 6 | - | 6 |
| | <u>\$ 822</u> | <u>\$ 160</u> | <u>\$ 982</u> |

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11. RELATED PARTY TRANSACTIONS

During the year ended June 30, 2022, the Authority conducted the following transactions with related entities:

| | <u>2022</u> |
|--|------------------|
| Indirect cost paid to the City of Tulsa | <u>\$ 5,889</u> |
| Payment in lieu of taxes to the City of Tulsa | <u>\$ 16,338</u> |
| Capital contributions to the City of Tulsa | <u>\$ 2,976</u> |
| Charges for utility services paid by the City of Tulsa | <u>\$ 1,647</u> |
| Charges for maintenance of equipment paid to the City of Tulsa | <u>\$ 4,195</u> |

The Authority recorded accounts payable in the amount of \$29 related to capital contributions due to RMUA at June 30, 2022.

12. COMMITMENTS

As of June 30, 2022, the Authority had open commitments for construction projects of approximately \$67,557.

13. SUBSEQUENT EVENTS

Utility Revenue Bonds - On December 7, 2022, the Authority authorized the issuance of an amount not to exceed \$36,000 of Utility Revenue Bonds. The proceeds of the bonds will be used to construct a fertilizer production facility at the Haikey Creek Wastewater Treatment Plant.

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14. RESTATEMENT

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the informational needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of this statement are effective for reporting periods beginning after December 15, 2021, as postponed by Statement No 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*.

The Authority adopted the standard as of July 1, 2021, and accordingly the 2022 financial statements have been restated as summarized below:

| Water Fund: | 2021 Previously Presented | Restatement | 2021 Restated |
|--|--|--------------------|--------------------------|
| Lease receivable, current | \$ - | \$ 54 | \$ 54 |
| Lease receivable, noncurrent | - | 755 | 755 |
| Depreciable capital assets | 591,086 | 226 | 591,312 |
| Lease liability, current | 235 | 57 | 292 |
| Lease liability, noncurrent | 2,485 | 169 | 2,654 |
| Deferred inflows of resources - leases | - | 809 | 809 |
| Total net position | 696,262 | - | 696,262 |

| Sewer Fund: | 2021 Previously Presented | Restatement | 2021 Restated |
|--|--|--------------------|--------------------------|
| Lease receivable, current | \$ - | \$ - | \$ - |
| Lease receivable, noncurrent | - | - | - |
| Depreciable capital assets | 737,895 | 153 | 738,048 |
| Lease liability, current | - | 48 | 48 |
| Lease liability, noncurrent | - | 105 | 105 |
| Deferred inflows of resources - leases | - | - | - |
| Total net position | 681,201 | - | 681,201 |

| Business-type Activities Total: | 2021 Previously Presented | Restatement | 2021 Restated |
|--|--|--------------------|--------------------------|
| Lease receivable, current | \$ - | \$ 54 | \$ 54 |
| Lease receivable, noncurrent | - | 755 | 755 |
| Depreciable capital assets | 1,328,981 | 379 | 1,329,360 |
| Lease liability, current | 235 | 105 | 340 |
| Lease liability, noncurrent | 2,485 | 274 | 2,759 |
| Deferred inflows of resources - leases | - | 809 | 809 |
| Total net position | 1,377,463 | - | 1,377,463 |

TULSA METROPOLITAN UTILITY AUTHORITY
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REQUIRED SUPPLEMENTARY INFORMATION (In thousands of dollars)
June 30, 2022

Municipal Employees' Retirement Plan
Schedule of the Authority's Proportionate Share – For the current and prior years

| Year | Authority's proportion of net pension liability | Authority's proportionate share of net pension liability | Authority's covered payroll | Authority's proportionate share of net pension liability as a percentage of its covered payroll | Plan fiduciary net position as a percentage of total pension liability |
|-------------|--|---|------------------------------------|--|---|
| 2022 | 28.13% | \$ 75,624 | \$ 38,036 | 198.82% | 66.62% |
| 2021 | 29.03% | 52,492 | 37,908 | 138.47% | 76.92% |
| 2020 | 27.91% | 70,894 | 36,568 | 193.87% | 65.22% |
| 2019 | 27.80% | 65,292 | 34,531 | 189.08% | 66.91% |
| 2018 | 27.94% | 54,849 | 33,368 | 164.38% | 70.61% |
| 2017 | 28.53% | 56,361 | 33,235 | 169.58% | 69.39% |
| 2016 | 28.03% | 60,625 | 32,905 | 184.24% | 65.62% |
| 2015 | 28.17% | 35,290 | 29,197 | 120.87% | 77.13% |
| 2014 | 27.53% | 30,761 | 30,525 | 100.77% | 79.29% |

The amounts presented were determined as of year end.

* Information prior to 2014 is not available.

** Authority's proportionate share of the net pension liability and its covered payroll are for employees whose payroll costs were charged to the Authority.

Changes of assumptions: In 2016, amounts reported as changes of assumptions resulted primarily from changes in the mortality table and discount rate from 7.75% to 7.50%. In 2019 the inflation rate decreased from 3.00% to 2.50%, salary increases changed from 4.00%-11.75% to 3.50%-11.25%, and investment rate of return (and discount rate) decreased from 7.50% to 7.00%. In 2021, salary increases changed from 3.50%-11.25% to 3.50%-9.50% and investment rate of return (and discount rate) decreased from 7.00% to 6.75%, and the mortality table changed to the Pub-2010 General Employee.

Municipal Employees' Retirement Plan
Schedule of the Authority's Payments

| Year | Required Contribution | Actual Contributions | Contribution Deficiency (Excess) | City's Covered Payroll funded by Authority payments | Contributions as a percentage of Covered Payroll |
|-------------|------------------------------|-----------------------------|---|--|---|
| 2022 | \$ 6,276 | \$ 6,276 | - | \$ 38,036 | 16.50% |
| 2021 | 6,065 | 6,065 | - | 37,908 | 16.00% |
| 2020 | 5,668 | 5,668 | - | 36,568 | 15.50% |
| 2019 | 5,352 | 5,352 | - | 34,531 | 15.50% |
| 2018 | 5,172 | 5,172 | - | 33,368 | 15.50% |
| 2017 | 3,822 | 3,822 | - | 33,235 | 11.50% |
| 2016 | 3,741 | 3,741 | - | 32,530 | 11.50% |
| 2015 | 3,572 | 3,572 | - | 31,064 | 11.50% |
| 2014 | 3,056 | 3,056 | - | 30,564 | 10.00% |
| 2013 | 3,073 | 3,073 | - | 30,732 | 10.00% |

TULSA METROPOLITAN UTILITY AUTHORITY
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REQUIRED SUPPLEMENTARY INFORMATION (In thousands of dollars)
June 30, 2022

Postemployment Benefits Other than Pensions Plan
Schedule of Proportionate Share - For the current and prior years

| Year | Authority's proportion of total OPEB liability | Authority's proportionate share of total OPEB liability | Authority's covered payroll | Authority's proportionate share of total OPEB liability as a percentage of its covered payroll | Plan fiduciary net position as a percentage of total OPEB liability |
|-------------|---|--|------------------------------------|---|--|
| 2022 | 36.14% | \$ 2,065 | \$ 40,501 | 5.1% | 0.00% |
| 2021 | 36.18% | 2,972 | 38,511 | 7.7% | 0.00% |
| 2020 | 36.19% | 2,997 | 40,027 | 7.5% | 0.00% |
| 2019 | 34.73% | 2,130 | 37,152 | 5.7% | 0.00% |
| 2018 | 35.25% | 2,225 | 36,610 | 6.1% | 0.00% |
| 2017 | 35.67% | 2,010 | 37,133 | 5.4% | 0.00% |
| 2016 | 35.68% | 2,147 | 36,061 | 6.0% | 0.00% |

* Information prior to 2016 is not available.

** Authority's proportionate share of total OPEB liability and its covered payroll are for employees whose payroll costs were charged to the Authority.

Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

| | |
|------|-------|
| 2022 | 4.09% |
| 2021 | 2.19% |
| 2020 | 2.66% |
| 2019 | 3.51% |
| 2018 | 3.87% |
| 2017 | 3.56% |
| 2016 | 4.00% |

Postemployment Benefits Other than Pensions Plan
Schedule of the Authority's Contributions

| Year | Required Contribution | Actual Contributions | Contribution Deficiency (Excess) | City's Covered Payroll funded by Authority payments | Contributions as a percentage of Covered Payroll |
|-------------|------------------------------|-----------------------------|---|--|---|
| 2022 | \$ 122 | \$ 122 | \$ - | \$ 40,501 | 0.30% |
| 2021 | 178 | 178 | - | 38,511 | 0.46% |
| 2020 | 121 | 121 | - | 40,027 | 0.30% |
| 2019 | 161 | 161 | - | 37,152 | 0.43% |
| 2018 | 71 | 71 | - | 36,610 | 0.19% |
| 2017 | 440 | 440 | - | 37,133 | 1.18% |
| 2016 | 284 | 284 | - | 36,061 | 0.79% |

* Information prior to 2016 is not available.