

Stilwell Area  
Development Authority

*Annual Financial & Audit Report*

*Year Ended June 30, 2014*



STILWELL AREA DEVELOPMENT AUTHORITY  
ANNUAL FINANCIAL REPORT  
For the Fiscal Year Ended June 30, 2014

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# MICHAEL W. GREEN

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## INDEPENDENT AUDITOR'S REPORT

The Board of Trustees  
Stilwell Area Development Authority  
Stilwell, Oklahoma

I have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Stilwell Area Development Authority, a component unit of the City of Stilwell, Oklahoma, as of and for the year ended June 30, 2014, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### ***Opinion***

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities, each major fund, and the aggregate remaining fund information of the Stilwell Area Development Authority as of June 30, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis-of-Matter***

As discussed in note 10 in the notes to the financial statements, there was a prior period adjustment included in the financial statements for the correction of an error in previous financial statements. The auditor's opinion is not modified with respect to this prior period adjustment.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, I have also issued my report dated December 8, 2014, on my consideration of Stilwell Area Development Authority's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Stilwell Area Development Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to be 'MG' with a large loop and a horizontal line extending to the left.

Michael Green  
Certified Public Accountant

December 8, 2014

STILWELL AREA DEVELOPMENT AUTHORITY  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014

As Management of the Stilwell Area Development Authority (the Authority), we offer readers of the Authority's financial statement this narrative overview and analysis of the financial activities of the Authority for the year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with the Authorities financial statements.

**Financial Highlights**

\*The Assets of the Authority exceeded its liabilities at the close of the current year by \$12,951,094.

\*The Authority's net assets decreased from \$15,999,828 to \$12,951,094.

\*The Authority's cash and cash equivalents were \$651,030, representing a decrease of \$62,565.

**Overview of the Financial Statements**

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.

**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. Proprietary funds are reported in the fund financial statements and generally report services for which the Authority charges customers a fee. There are two kinds of proprietary funds: enterprise funds and internal service funds. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements.

Proprietary fund statements are Statement of Net Assets, a Statement of Revenues, Expenses and Changes in fund Net Assets and a Cash Flow Statement that is prepared using the direct method. The Statement of Net Assets includes all of the Authority's assets and liabilities and 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 Assets. 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

**Required Financial Statements, continued**

successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness. The third required 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 reports cash receipts, cash payment, 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.

GAAP requires state and local governments to use the enterprise fund type to account for "business-type activities" – activities similar to those found in the private sector. The purpose of the enterprise fund is to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through users charges.

An enterprise fund establishes a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Under enterprise accounting, the revenues and expenditures of the service are segregated into a separate fund with its own financial statements. Revenues are recognized when earned and expenses are recognized when incurred, under a full accrual basis of accounting. An enterprise fund provides management with information to measure performance, analyze the impact of financial decisions and to determine the cost of providing a service.

At year-end, the performance of an enterprise fund is measured in terms of positive and negative operations. An operating surplus is the result of revenue collected in excess of estimates and translates into retained earnings that are maintained in the fund.

STILWELL AREA DEVELOPMENT AUTHORITY  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014

**Net Assets**

The Authority's net assets decreased \$3,048,734 for the year ended June 30, 2014. The following table provides a summary of net assets.

	2012-2013 Total Proprietary Funds	2013-2014 Total Proprietary Funds
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	713,595	651,030
Restricted-Cash	1,915,682	1,820,813
Receivables-utility billings	948,402	855,960
Inventory	530,223	529,655
Restrict-Investment	1,898,219	1,898,219
Total Current Assets:	<u>6,006,121</u>	<u>5,755,677</u>
Non-current assets:		
Fixed assets & equipment	26,964,160	23,462,386
Accumulated depreciation	(12,323,035)	(12,213,674)
Total Non-current assets:	<u>14,641,125</u>	<u>11,248,712</u>
Total assets	<u>20,647,246</u>	<u>17,004,389</u>
<b>LIABILITIES AND FUND BALANCES</b>		
Current liabilities:		
Accounts payable & accruals	157,524	55,814
Current portion of LTD	435,471	471,909
Accrued compensated absences	155,493	160,452
Customer deposits	232,621	249,839
Total Current Liabilities:	<u>981,109</u>	<u>938,014</u>
Non-current liabilities		
Non-current portion of LTD	3,545,597	3,115,281
Total Non-current liabilities:	<u>3,545,597</u>	<u>3,115,281</u>
Total liabilities	<u>4,526,706</u>	<u>4,053,295</u>
<b>Net Assets</b>		
Investment in Capital Assets net of Debt	14,539,085	7,661,522
Restricted for Customer Deposits	120,711	-
Restricted for Debt Service	(3,086,404)	3,587,190
Restricted for Line Extension & Repairs	4,426,436	1,702,382
Total Fund Equity	<u>15,999,828</u>	<u>12,951,094</u>

The purchase of Fixed Assets and Equipment contributed to the decrease in Cash and Cash Equivalents and Restricted Cash. Effective July 1, 2014, the SADA Board voted to suspend the transfer of 4% of Electric, Water and Sewer Revenues in to the Depreciation Reserve Fund in order to achieve a balanced budget for next Fiscal Year. This suspension will more than likely cause Restricted Cash to decrease as Capital Projects are funded from this Reserve.

Fixed Assets decreased due primarily to the removal of the Sports Complex/Park Assets from the Authority's books to the City of Stilwell.

STILWELL AREA DEVELOPMENT AUTHORITY  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014

**REVENUES, EXPENSES AND CHANGES IN FUND BALANCE**

	2012-2013	2013-2014
	<u>Total Proprietary Funds</u>	<u>Total Proprietary Funds</u>
Operating revenues:		
Charges for electricity	6,466,336	6,209,696
Charges for water	1,078,460	1,067,073
Charges for sewer	500,000	497,545
Other revenues	63,290	69,775
Total Operating revenues	<u>1,641,750</u>	<u>7,844,088</u>
Operating expenses:		
Personal services cost	2,463,334	1,574,561
Power cost	4,571,195	4,293,223
Materials & supplies	346,499	476,474
Other costs	722,997	483,514
Bad debts	17,327	25,448
Depreciation	1,133,815	596,552
Total operating expenses	<u>9,255,167</u>	<u>7,449,772</u>
Operating Income (loss)	<u>(7,613,417)</u>	<u>394,316</u>
Non-operating revenues (expenses):		
Interest revenue	52,336	39,816
Interest expense	(148,495)	(123,942)
Utility lease	234,403	(244,488)
Transfer of Park Expenses	-	(59,618)
Total non-operating revenues (expenses)	<u>138,244</u>	<u>(388,232)</u>
Income (loss) before contributions and transfers	(1,487,242)	6,084
Change in net assets		
Total net assets--beginning	17,487,070	15,999,828
Prior Period Adjustment		(3,054,818)
Total net assets--ending	<u>15,999,828</u>	<u>12,951,094</u>

**SUMMARY OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE**

Overall, Total Revenue decreased by almost \$263,000 compared to last year. This is primarily attributable to Electric Revenues. This reduction in Electric Revenues has a direct correlation to the decrease in Power Cost expense, which compared to last year decreased by \$277,972. On July 1, 2013, Grand River Dam Authority (GRDA) shifted 10 mills from the Power Cost Adjustment (PCA) surcharge to the base energy component of the rates.

Personal Services Cost decreased by \$888,763, as a result of the pay down of \$750,000 in unfunded liabilities to Oklahoma Municipal Retirement Fund (OMRF) last fiscal year.

Depreciation expense decreased by \$537,263. This is primarily due to a policy change in the estimated depreciable lives of SADA's fixed assets. The SADA Board voted to extend the estimated useful life for a number of types of assets for the purpose of calculating depreciation.

A Prior Period Adjustment, in the amount of \$3,054,818, was due to the removal of the Sports Complex/Park assets \$3,760,732 less accumulated depreciation \$705,913.

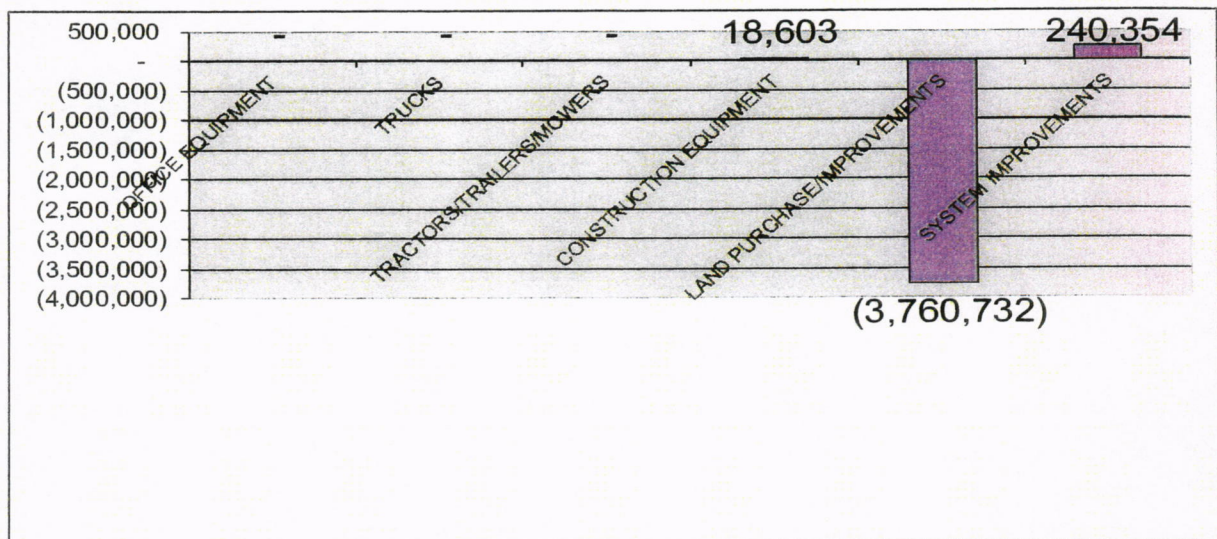
STILWELL AREA DEVELOPMENT AUTHORITY  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014

**Capital Assets**

The investment in capital assets as of June 30<sup>th</sup> decreased from \$26,964,160 to \$23,462,387.00.

**ASSET LISTING REPORT  
CHANGE IN FIXED ASSET AND EQUIPMENT**

	<b>FY 2012-2013</b>	<b>FY 2013-2014</b>	<b>INCREASE (DECREASE)</b>
OFFICE EQUIPMENT	232,528	232,528	-
TRUCKS	1,496,806	1,496,806	-
TRACTORS/TRAILERS/MOWERS	769,599	769,599	-
CONSTRUCTION EQUIPMENT	543,806	562,409	18,603
LAND PURCHASE/IMPROVEMENTS	5,202,585	1,441,853	(3,760,732)
SYSTEM IMPROVEMENTS	18,718,837	18,959,191	240,354
<b>TOTAL</b>	<b>26,964,161</b>	<b>23,462,386</b>	<b>(3,501,775)</b>



The most significant decreases to Fixed Assets and Equipment in 2013-2014 was to Land Purchase and Improvements. The SADA Board voted to remove all assets related to the Sports Complex/Park from SADA books. The amount of assets removed totaled \$3,760,732. During the year, the Authority spent \$258,957 related to the acquisition and purchase of capital assets.

Water Treatment Plant Upgrades \$85,592; Wastewater Treatment Plant Upgrades \$87,348; Electric System Upgrades \$86,016.

Overall, Fixed Assets and Capital Improvements decreased \$3,501,745.

STILWELL AREA DEVELOPMENT AUTHORITY  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014

**Debt**

At June 30, the Authority had outstanding debt in the amount of \$3,587,190.

**SADA DEBT BALANCE**

	Interest Rate	ORIGINAL AMOUNT	6/30/14 DEBT	PAYOFF DATE
OWRB Sewer Plant Rebuild-FIXED RATE	3.27%	4,000,000	1,509,292	02/15/2021
OWRB Water Plant Rebuild	4.04%	2,760,000	1,400,000	03/15/2022
*OWRB *1996 Retention Basin	1.51%	1,000,000	563,550	07/18/2023
BOC 1999 MACK DUMP TRUCK	3.75%	32,750	2,378.07	10/15/2014
BOC 2009 F550 BUCKET TRUCK	3.75%	81,188	8,819.60	12/15/2014
BOC 2010 NEW HOLLAND BACKHOE	3.75%	41,053	12,422.01	11/15/2015
BOC (2) 2012 FORD F150 4X4 PICKUPS	3.15%	57,222	34,728.08	05/15/2017
BOC 2013 FORD F350	2.008%	67,956	56,000.87	07/15/2018
<b>TOTAL</b>		<b>8,040,168</b>	<b>3,587,190</b>	

\*\*\*interest rate changes every 6 months

**Economic factors and next year's budget and rates**

During the Fiscal Year 2013-2014, the Board of the Stilwell Area Development Authority (Authority) ordered two (2) independent rate studies. Each study independently concluded that SADA's current water and sewer rates were inadequate and that an increase in the rate for each service was needed.

During the past several years, the Authority has experienced a decrease in revenues. This decrease is mostly due to decreased interest income and a slight decrease in demand for our services. Both of these decreases are consistent with the national economy as the interest rates paid on insured or guaranteed investments have plummeted and consumers have curbed spending.

On July 10, 2014, the Authority received notice from its primary lender, Oklahoma Water Resources Board (OWRB), that its net revenues from water and sewer operations for Fiscal Year 2012-2013 were insufficient to meet the debt coverage ratio specified in the loan covenants. OWRB's loan requires that the schedule of rates will provide Net Revenues of at least 125% of the amount required for the annual debt service. Significantly, OWRB's formula does not include depreciation when calculating Net Revenues. OWRB advised the Authority that it needed additional revenue in order to meet the debt coverage requirements. OWRB noted that other possible remedies included providing additional collateral, adjusting the rates or reducing expenses. OWRB subsequently advised that the Authority met its debt coverage requirements in fiscal years 2011 and 2012, but not in 2013. The Authority has been working with OWRB to resolve this deficiency in meeting the terms of the loan covenant. However, it is beyond question that water and sewer rates must be more closely matched with the actual cost of service.

STILWELL AREA DEVELOPMENT AUTHORITY  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014

**Request 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 Chief Financial Officer, P.O. Box 1512, Stilwell, Oklahoma 74960.

Stilwell Area Development Authority  
Statement of Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2014  
Business-type Activities-Enterprise Funds

**ASSETS**

Current Assets

Cash and cash equivalents	\$ 651,030
Restricted Cash	1,820,813
Receivables-utility billings	855,960
Restricted Investments	1,898,219
Inventories	529,655
Total Current assets:	<u>5,755,677</u>

Noncurrent assets:

Fixed assets & equipment	23,462,386
Accumulated depreciation	<u>(12,213,674)</u>
Total Noncurrent assets:	<u>11,248,712</u>
Total assets	<u>17,004,389</u>

**LIABILITIES AND FUND BALANCES**

Current Liabilities

Accounts payable & accruals	55,814
Current portion of LTD	471,909
Accrued compensated absences	160,452
Customer deposits	249,839
Total Current liabilities:	<u>938,014</u>

Noncurrent liabilities:

Non current portion of LTD	<u>3,115,281</u>
Total Noncurrent liabilities:	<u>3,115,281</u>
Total liabilities	<u>4,053,295</u>

**NET ASSETS**

Investment in Capital Assets Net of Debt	7,661,522
Restricted for Debt Service	3,587,190
Restricted for Line Extension & Repairs	1,702,382
TOTAL NET ASSETS	<u>\$ 12,951,094</u>

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

Stilwell Area Development Authority  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2014  
Business-type Activities-Enterprise Funds

	ADMINISTRATION	BILLING AND COLLECTION	WATER AND SEWER CONSTRUCTION	ELECTRIC	WATER	SEWER	Total Proprietary Funds
Operating Revenues:							
Electric Sales				6,209,696			6,209,696
Water Sales					1,067,073		1,067,073
Sewer Sales						497,545	497,545
Tap Fee Collections					1,575	1,575	3,150
Penalty				33,438	6,002	3,430	42,870
Re-Connect Fee				7,344			7,344
Transfer Fee				972	972		1,944
Water Line Maintenance					1,914		1,914
Miscellaneous Income	5,934			1,987			7,921
Sale of Surplus Property	2,337						2,337
Interest Income							-
Returned Check Fees				570			570
Amp Deferred Revenue				1,345	241	138	1,724
Reserved Fund Balance C/O							-
Total Operating	8,271	-	-	6,255,352	1,077,777	502,688	7,844,088
Operating Expenses:							
Personal services cost	243,084	233,945	260,973	424,300	196,684	215,575	1,574,561
Power cost				4,293,223			4,293,223
Materials & supplies	14,618	19,569	87,870	112,877	168,697	72,843	476,474
Other costs	145,384	13,041	24,093	18,446	110,485	172,065	483,514
Bad debts	19,796				5,652		25,448
Depreciation	38,636			170,537	154,146	233,233	596,552
Admin Allocation	(409,389)	(266,555)		533,996	94,632	47,316	-
Allocate Construction			(373,800)		186,900	186,900	-
Total operating expenses	52,129	-	(864)	5,553,379	917,196	927,932	7,449,772
Operating Income (loss)	(43,858)	-	864	701,973	160,581	(425,244)	394,316
Nonoperating revenues (expenses):							
Interest revenue	39,816						39,816
Interest expense	279		(864)	(2,998)	(67,514)	(52,845)	(123,942)
City Transfers				(244,488)			(244,488)
Transfer of Park Expenses				(59,618)			(59,618)
Fiscal charges & fees							-
Total nonoperating revenue (expenses)	40,095	-	(864)	(307,104)	(67,514)	(52,845)	(388,232)
Income (loss) before contributions and transfers	(3,763)			394,869	93,067	(478,089)	6,084
Changes in net assets	(3,763)			394,869	93,067	(478,089)	6,084
Total net assets--beginning	15,999,828						15,999,828
Prior Period Adjustment	(3,054,818)						(3,054,818)
Total net assets--ending	12,941,247	-	-	394,869	93,067	(478,089)	12,951,094

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

Stilwell Area Development Authority  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2014  
Business-type Activities-Enterprise Funds

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$ 7,936,530
Payments to suppliers & others	(6,085,714)
Payments to employees	<u>(1,569,603)</u>
Net cash provided by operating activities	281,213

**CASH FLOWS FROM NONCAPITAL  
FINANCING ACTIVITIES**

**CASH FLOWS FROM CAPITAL AND  
RELATED FINANCING ACTIVITIES**

Purchase of capital assets	(258,957)
Principal paid on capital debt	(393,878)
City Transfer	(244,488)
Interest and fees paid	<u>(123,942)</u>
Net cash used by financing activities	<u>(1,021,265)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Change in restricted assets	(25,842)
Changes in meter deposit accounts	17,218
Deletion from SADA Books of Park Assets	3,760,731
Transfer out of Park Expenses	(59,618)
Interest revenue	<u>39,816</u>
Net cash provided by investing activities	<u>3,732,305</u>

Net change in cash & cash equivalents 2,992,253

Prior Period Adjustment (3,054,818)

Beginning balance 713,595

Ending balance \$ 651,030

**RECONCILIATION OF OPERATING INCOME  
(LOSS) TO NET CASH PROVIDED (USED) BY  
OPERATING ACTIVITIES**

Operating income	\$ 394,316
Depreciation	596,552
Depreciation-Accumulated Depreciation for transferred assets	(705,913)
Change in:	
Receivables	92,442
Inventory	568
Accounts payable & accruals	<u>(96,752)</u>

Net cash provided by operating activities \$ 281,213

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

STILWELL AREA DEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES

The Stilwell Area Development Authority is a trust created July 18, 1962 under the provisions of Title 60, Oklahoma Statutes 1951, Sections 176 to 180, inclusive, the Oklahoma Trust Act and other applicable statutes of the State of Oklahoma. The trust agreement transferred all rights and privileges of the water and sewer systems of the City of Stilwell to the Authority for the life of the trust. In 2000 the trust agreement was amended and the electric system of the City of Stilwell was also transferred to the Authority. References to prior year balances in the financial statements reflect the inclusion of the electric system.

The trust complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the trust the option of electing to apply FASB pronouncements issued after November 30, 1989. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

In determining the financial reporting entity, the trust complies with the provisions of GASB Statement No. 14, "The Financial Reporting Entity,". The Stilwell Area Development Authority is considered a component unit of the City of Stilwell, Oklahoma.

*Blended Component Units*

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the trusts or the component unit provides services entirely to the trust. There are no component units.

*Discretely Presented Component Units*

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending.

Basis of Presentation

*Government-wide Financial Statements:*

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Since the trust is engaged only in business type activities it is not required to present government-wide statements.

STILWELL AREA DEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

*Fund Financial Statements:*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the trust or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the trust are described below:

Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The trust believes that all of its funds are in this category since they all relate to or provide for the business type activity.

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus and Basis of Accounting

*Measurement Focus*

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities would be presented using the economic resources measurement focus as defined in item b. below.

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In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

*Basis of Accounting*

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities would be presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds would be presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

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Cash and Cash Equivalents

The Authority considers all cash on hand, demand deposits and highly liquid investments, with an original maturity of three months, or less, to be cash or cash equivalents.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds".

Long-Term Liabilities

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets.

Compensated Absences

Unused sick leave may be accumulated by an employee up to a maximum of 720 hours, however, should an employee quit or be terminated, payment of earned sick leave is limited to 240 hours. Per GASB 16, these accruals have been made in current year.

Inventories

Inventories consist of materials and supplies and are stated at cost.

Property and Equipment

The Authority values its fixed assets at historical cost or estimated historical cost if actual historical cost is not available. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Accumulated depreciation is reported on the balance sheets. Depreciation has been provided on the straight-line method over the estimated useful.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

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NOTE 2: CASH AND INVESTMENTS

Cash and investments include all deposits held by financial institutions - money market accounts, savings accounts and certificates of deposit. At year-end, the bank balance of the Authority's deposits was \$4,370,062. All funds were either covered by federal depository insurance or collateralized by securities pledged to the Authority by various depository banks.

The Authority is statutorily limited to investing public funds in obligations of the United States Government or the State of Oklahoma, certificates of deposit, insured checking and savings accounts and insured savings certificates. Custodians of those funds are required to secure collateral for amounts in excess of the amount insured by the Federal Deposit Insurance Corporation or Federal Savings & Loan Insurance Corporation. This collateral must be in the form of United State or state and local government obligations or a surety bond.

Deposits - The Authority's cash deposits at June 30, 2014 are categorized to give an indication of the level of risk assumed by the Authority at year end as follows:

- (A) Insured or collateralized with securities held by the Authority or by its agent in the Authority's name.
- (B) Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- (C) Uncollateralized.

Category				
	(A)	(B)	(C)	Balance
Cash	\$651,030	\$3,719,032		\$4,370,062

NOTE 3: RESTRICTED ASSETS & RESERVED FUND BALANCES

The majority of restricted assets of the Authority consist of cash on deposit in banks.

Fund balances are reserved for restricted cash, debt retirement, extension and replacement funds and for customer meter deposits.

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NOTE 4: CAPITAL ASSETS

Major classifications of property and equipment and their respective depreciable lives are listed below.

		Beginning <i>Balance</i>	Additions	Deletions	Ending <i>Balance</i>
Prop & equip. with life of less than	20yr	\$ 5,430,230	159,169	(24,354)	5,565,045
Prop. & equip. with life of more than	20yr	21,533,930	99,788	(3,736,377)	17,897,341
Total		<u>\$ 26,964,160</u>	<u>258,957</u>	<u>(3,760,731)</u>	<u>23,462,386</u>

NOTE 5: LONG-TERM DEBT

On February 1, 1996 the Stilwell Area Development Authority signed an agreement to borrow \$1,000,000.00 from the Oklahoma Water Resources Board for the purpose of replacing and adding water lines, conducting a sewer system evaluation study, rehabilitating wastewater collection system, constructing water storage facilities and constructing a flow equalization basin. Principal balance on the loan was \$563,550 at June 30, 2014. The note bore an initial interest rate of 4.622%. On March 1, 1996 and periodically thereafter until final maturity the rate will be subject to adjustment. The rate will be calculated upon the rate of interest on the Board's State Loan Program Revenue Bonds, Series 1994A plus applicable program costs. Current rate is 1.56%.

On October 26, 1999 the Stilwell Area Development Authority signed an agreement to borrow up to \$4,000,000.00 from the Oklahoma Water Resources Board for the purpose of making sanitary sewer system improvements benefiting the City of Stilwell, Oklahoma. Principal payments commenced upon completion of the project. Principal balance on the loan was \$1,509,292 at June 30, 2014. The note bore an initial interest rate not to exceed 4.25% per annum plus an administrative fee of 0.5% per annum. Current rate is 3.27%.

On March 12, 2002 the Stilwell Area Development Authority signed an agreement to borrow \$2,760,000.00 from the Oklahoma Water Resources Board for the purpose of making improvements to the water treatment plant. Principal payments commenced on September 15, 2002. Principal balance on the loan was \$1,400,000 at June 30, 2014. The note bears interest at an average rate of 4.04%.

On October 19, 2009, the Stilwell Area Development Authority entered into a lease purchase agreement with the Bank of Commerce in the amount of \$32,750.00 for the purpose of purchasing a 1999 Mack Truck. Principal balance of the lease purchase at June 30, 2014 was \$2,378. The agreement bears an interest rate of 3.75%.

On December 15, 2009, the Stilwell Area Development Authority entered into a lease purchase agreement with the Bank of Commerce in the amount of \$81,187.53 for the purpose of purchasing a 2009 Ford Truck. Principal balance of the lease purchase at June 30, 2014 was \$8,819. The agreement bears an interest rate of 3.75%.

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On November 17, 2010, the Stilwell Area Development Authority entered into a lease purchase agreement with the Bank of Commerce in the amount of \$41,053.00 for the purpose of purchasing a 2010 New Holland Backhoe. Principal balance of the lease purchase at June 30, 2014 was \$12,422. The agreement bears an interest rate of 3.75%.

On July 15, 2013, the Stilwell Area Development Authority signed an agreement to borrow \$67,955.91 from the Bank of Commerce for the purpose of purchasing a 2013 Ford F350 Bucket Truck. Security for this note is a Certificate of Deposit on file with the Bank of Commerce. Principal balance of the agreement at June 30, 2014 was \$56,001.00. The agreement bears an interest rate of 2.008%.

On May 30, 2012, the Stilwell Area Development Authority entered into a lease purchase agreement with the Bank of Commerce in the amount of \$57,222.00 for the purpose of purchasing (2) 2012 Ford F-150 Crew Cab 4x4 Pickups. Principal balance of the lease purchase at June 30 2014 was \$ 34,728. The agreement bears an interest rate of 3.15%.

Current maturities of principal for each of the next five years and in aggregate, under the indebtedness mentioned above, is as follows:

	<u>Principal</u>	<u>Interest</u>
June 30,		
2015	\$471,909	\$113,397
2016	473,784	97,980
2017	487,527	82,363
2018	495,456	66,130
2019	501,901	49,587

Maturing after 2019	\$1,156,613
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Note 6: INTERFUND TRANSACTIONS AND BALANCES

Operating Transfers

	Transfers in	Transfers out
Transfers Out to City of Stilwell		\$244,448
Transfers for City Park		\$59,618

STILWELL AREA DEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 7: EMPLOYEE RETIREMENT PLAN

The Area Development Authority (ADA), along with the City of Stilwell, participates in an agent multiple-employer plan, administered by the Oklahoma Municipal Retirement Fund. Employees are eligible to participate after one full year of service commencing on the designated anniversary date of August 1. The 2012-13 plan requires a 4.50% contribution by the employee and a 12.80% contribution by the ADA. The ADA's contributions for each employee are fully vested after 5 years of continuous service. Any forfeiture of accounts are used to reduce the ADA's future contribution due. The contribution rate is actuarially measured each plan year as the amount necessary to fund the plan on a long term basis using the actuarial cost methods and assumptions adopted for the plan. Total annual pension cost was \$92,446. The schedule of funding progress of the Pension Fund as of January 1, 2014 (latest actuarial report) is as follows:

Actuarial Valuation Date	Actuarial value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as % of Covered Payroll
1/1/2004	\$1,524,755.00	\$2,670,867.00	\$1,146,112.00	84.10%	\$2,061,737.00	55.60%
1/1/2005	1,868,838.00	3,564,626.00	1,695,788.00	52.40%	2,051,941.00	82.60%
1/1/2006	2,161,080.00	3,869,806.00	1,708,726.00	55.80%	2,114,101.00	80.80%
1/1/2007	2,537,172.00	4,281,276.00	1,744,104.00	59.30%	2,250,910.00	77.50%
1/1/2008	2,955,064.00	4,722,182.00	1,767,118.00	62.60%	2,289,332.00	77.20%
1/1/2009	3,047,554.00	5,863,604.00	2,816,050.00	52.00%	2,552,347.00	110.30%
1/1/2010	3,454,239.00	6,295,431.00	2,841,192.00	54.90%	2,604,326.00	109.10%
1/1/2011	3,927,858.00	6,802,610.00	2,874,752.00	57.70%	2,583,637.00	111.30%
1/1/2012	4,380,578.00	7,223,890.00	2,843,312.00	60.60%	2,255,650.00	126.10%
1/1/2013	4,792,191.00	7,723,973.00	2,931,782.00	62.00%	2,365,524.00	123.90%

A financial report for the retirement plan may be obtained from the Oklahoma Municipal Retirement Fund by calling 888-394-6673.

NOTE 8: CLAIMS AND JUDGEMENTS

From time to time the Authority participates in federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to non-compliance with grant program regulations, the Authority may be required to reimburse the grantor government. No provision is made in the financial statements for these possible contingencies.

STILWELL AREA DEVELOPMENT AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

NOTE 9: SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of the auditor's report, which is the date the financial statements were available to be issued.

NOTE 10: PRIOR PERIOD ADJUSTMENTS

Prior Period Adjustments are used to correct errors in previously issued financial statements and are shown on the statement of revenues, expenses, and changes in fund balance as an adjustment to net assets.

The prior year financial statements of the Stilwell Area Development Authority has recorded the assets of the city park in its financial statements. The reason for this is that the Authority had agreed with the City of Stilwell to help pay for and construct the city park. The park assets were built, using Stilwell Area Development Authority funds, on property owned by the Stilwell Improvement Authority, a blended component unit of the City of Stilwell, which is under the governance of the Stilwell City Council. At the conclusion of the construction the assets should have been shown as transferred to the City of Stilwell.

The total park assets of \$3,760,730.96 were recorded on the books of Stilwell Area Development Authority starting in June 2011 through December 2012. Depreciation expense was recorded during this time as well as through June 2013. The total amount of depreciation recorded during this time was \$789,671. The adjustment amount \$3,760,730.96 net of related accumulated depreciation of \$789,671 was \$3,054,818, which is recorded on the statement of revenues, expenses, and changes in fund balances.

NOTE 11: ALLOCATION OF INDIRECT COSTS

Indirect cost of the Authority are accumulated in cost centers until such time as they are allocated. The Authority currently has three cost centers that are allocated to the service cost centers. The Indirect cost centers are Administration, Billing and Collection, and Water and Sewer Construction.

The Administration function and Billing and Collection are currently allocated to the Electric, Water, and Sewer services based on a percentage of revenue each department has at the end of the month and reconciled at the end of the year.

The Water and Sewer construction cost center is allocated between the Water and Sewer services based on labor reports. Currently the water and sewer is being allocated 50/50 between Water and Sewer.

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

Board of Trustees  
Stilwell Area Development Authority  
Stilwell, Oklahoma

I have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Stilwell Area Development Authority, a component unit of the City of Stilwell, as of and for the year ended June 30, 2014, which collectively comprise the Authority's basic financial statements and have issued my report thereon dated December 8, 2014. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Stilwell Area Development Authority's (the Organization) internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, I do not express an opinion on the effectiveness of the Organization's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. (2014-1)


A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies. (2014-1).

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Stilwell Area Development Authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items. (2014-1)

### **Purpose of this Report**

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



Michael Green, CPA  
December 8, 2014

STILWELL AREA DEVELOPMENT AUTHORITY  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2014

**Finding 2014-1:**

The Authority is not in compliance with the covenants of the OWRB loan agreements. In accordance with the covenants of these loans, the Authority is required to maintain rates or charges for the services of the system sufficient to provide funds which, together with other revenues pledged, will provide net revenues available for debt service equal to at least 125% of the maximum annual amount required for debt service. This was not accomplished.

This is also an internal control issue since there was no control in place to determine that compliance requirements were met.

**Management Response**

Management is in the process of a rate study and a review of the loan covenants in order to remedy the above compliance issue. In regards to the internal control matter, there is currently a policy manual which addresses the issue and the policies will be adhered to in the future.