

Stilwell Area
Development Authority

Annual Financial & Audit Report

Year Ended June 30, 2011

Stilwell
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Utilities

STILWELL AREA DEVELOPMENT AUTHORITY
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2011

Table of Contents

Independent Auditor's Report.....	Page 1
Management's Discussion and Analysis (unaudited).....	Page 3
Proprietary Fund Financial Statements	
Statement of Net Assets.....	Page 11
Statement of Revenues, Expenses, and Changes, in Fund Balance.....	Page 12
Statement of Cash Flow.....	Page 13
Notes to Financial Statements.....	Page 15
Internal Control and Compliance Reports	
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on An Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	Page 22

MICHAEL W. GREEN
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**INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS**

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, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my 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, 2011, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated November 3, 2011 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* and should be read in conjunction with this report in considering the results of my audit.

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Green", written in a cursive style.

Michael Green
Certified Public Accountant

November 3, 2011

STILWELL AREA DEVELOPMENT AUTHORITY
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2011

The following is a narrative overview and analysis of the financial activities of the Stilwell Area Development Authority for the fiscal years ended June 30, 2011. This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements.

FUND ACCOUNTING

Under governmental GAAP there are eight different fund types, which are categorized into three different activities: governmental, **proprietary** (i.e. business type), and fiduciary.

The Stilwell Area Development Authority has only 1 kind of fund:

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. These are 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 statements 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. These statements should also report capital contributions, contributions to permanent and term endowments, special and extraordinary items, and transfers separately at the bottom of the statement to arrive at the all-inclusive change in fund net assets.

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.

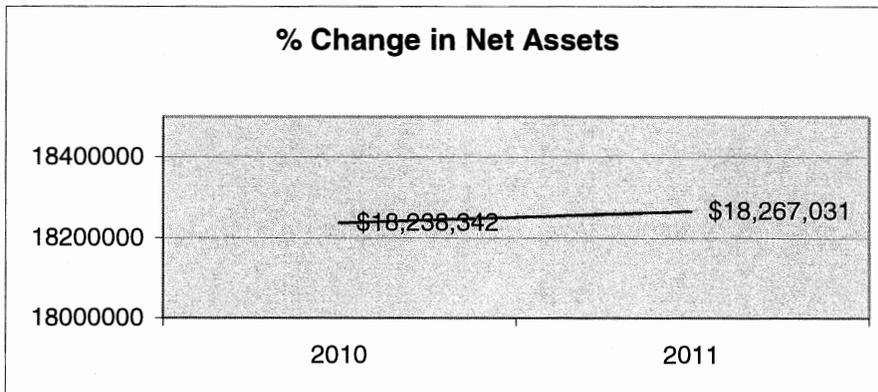
STILWELL AREA DEVELOPMENT AUTHORITY
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2011

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. Financial transactions are reported using standards similar to private sector accounting. 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.

Financial Analysis of the Authority as a Whole

The Authority's net assets at fiscal year-end June 30, 2011 are \$18,267,031. This is a \$28,689.00 increase over last year's net assets of \$18,238,342. The following table provides a summary of the Authority's net assets at June 30:



STILWELL AREA DEVELOPMENT AUTHORITY
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2011

**Statement of Net Assets Proprietary Funds
For the Year Ended June 30, 2011**

	2009-2010 Total Proprietary Funds	2010-2011 Total Proprietary Funds
ASSETS		
Current Assets:		
Cash and cash equivalents	1,928,780	1,791,386
Receivables-utility billings	900,230	1,164,911
Receivables-other	587	588
Due from other funds	100,000	100,000
Inventory	511,662	540,605
Restrict-Cash rsvd debt serv	420,429	441,691
Restrict-Cash held in trust	298,215	298,219
Restrict-Cash rsvd replace/ext	4,109,307	4,026,908
Restrict-Cash/Invest-meter dep	224,183	221,354
Total Current Assets:	8,493,393	8,585,662
Non-current assets:		
Fixed assets & equipment	24,712,728	25,926,524
Accumulated depreciation	(9,193,136)	(10,079,901)
Total Non-current assets:	15,519,592	15,846,623
Total assets	24,012,985	24,432,285
LIABILITIES AND FUND BALANCES		
Current liabilities:		
Accounts payable & accruals	60,353	81,717
Due to other Funds	100,000	-
Current portion of LTD	368,927	520,628
Accrued compensated absences	204,374	200,450
Customer deposits	224,183	221,354
Total Current Liabilities:	957,837	1,024,149
Non-current liabilities		
Non-current portion of LTD	4,816,806	5,141,105
Total Non-current liabilities:	4,816,806	5,141,105
Total liabilities	5,774,643	6,165,254
Net Assets		
Investment in Capital Assets net of Debt	15,417,145	14,827,842
Restricted for CUSTOMER DEPOSITS	113,224	116,632
Restricted for DEBT SERVICE	(4,220,190)	(2,935,625)
Restricted for LINE EXT & REPAIRS	6,928,163	6,258,182
Total Fund Equity	18,238,342	18,267,031

SUMMARY OF NET ASSETS

ANALYSIS OF BALANCES & TRANSACTIONS OF INDIVIDUAL FUNDS

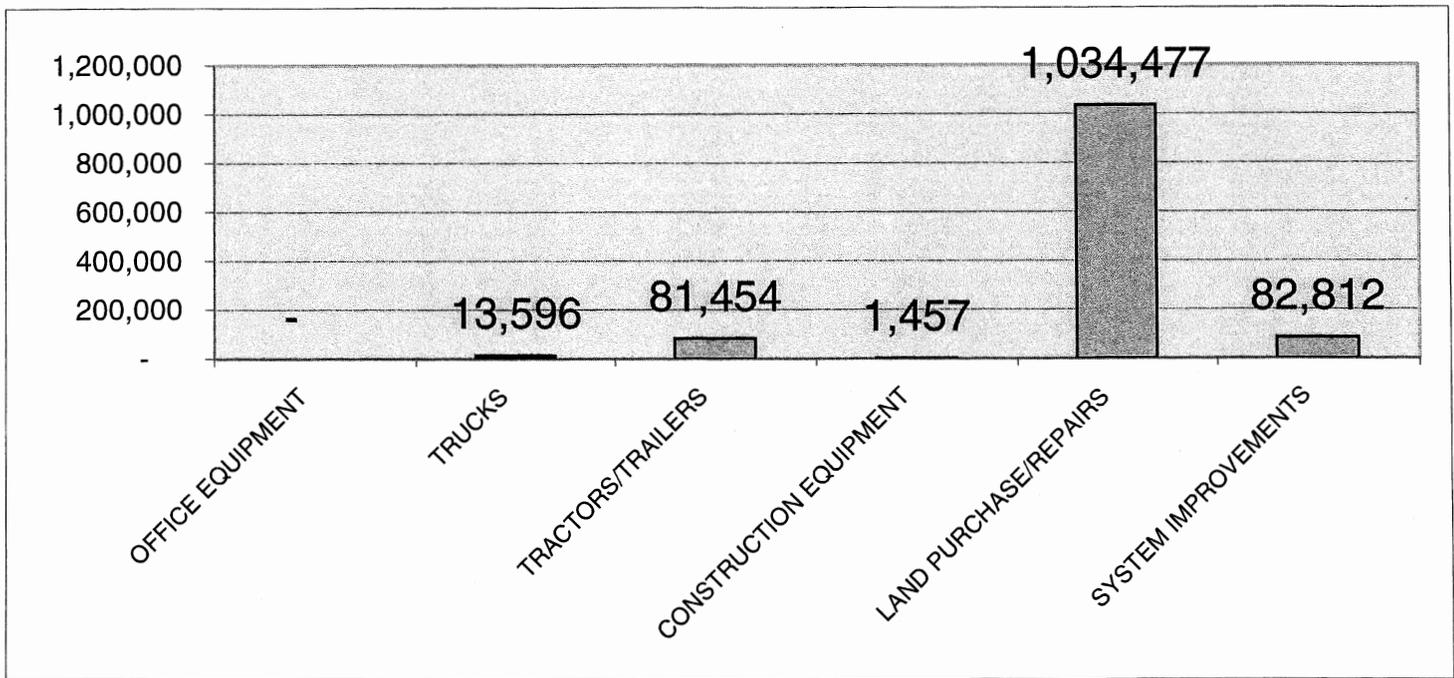
Cash and cash equivalents along with Cash reserved for replacement and extensions both decreased by \$137,394 due to the construction of the Community Park and Sports Complex.

Utility Billing Receivables were up by \$264,681 due to a rate increase from GRDA.

STILWELL AREA DEVELOPMENT AUTHORITY
 ANNUAL FINANCIAL REPORT
 For the Fiscal Year Ended June 30, 2011

ASSET LISTING REPORT
CHANGE IN FIXED ASSET AND EQUIPMENT
2010-2011

	<u>FY</u> <u>2009-2010</u>	<u>FY</u> <u>2010-2011</u>	<u>INCREASE</u> <u>(DECREASE)</u>
OFFICE EQUIPMENT	173,527	173,527	-
TRUCKS	1,301,872	1,315,468	13,596
TRACTORS/TRAILERS	592,125	673,579	81,454
CONSTRUCTION EQUIPMENT	499,433	500,890	1,457
LAND PURCHASE/REPAIRS	3,958,950	4,993,427	1,034,477
SYSTEM IMPROVEMENTS	18,186,821	18,269,633	82,812
TOTAL	24,712,728	25,926,524	1,213,796



SIGNIFICANT CAPITAL ASSET & LONG TERM DEBT ACTIVITY

The most significant increases to Fixed Assets and Equipment were to Land Purchase and Repairs. The Authority has completed the construction of the Community Park and Sports Complex on land purchased in previous years. The total of construction cost for the park for this fiscal year totaled \$993,635.48.

Tractors and Trailers increased by \$81,454 with the purchase of a 2010 New Holland Backhoe .

Overall the increase to Fixed Assets and Capital Improvements were \$1,213,796.

STILWELL AREA DEVELOPMENT AUTHORITY
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2011

**Revenues, Expenses & Changes in Fund Equity
For the Fiscal Year Ended June 30, 2011**

	2009-2010	2010-2011
	<u>Total Proprietary Funds</u>	<u>Total Proprietary Funds</u>
Operating revenues:		
Charges for water & sewer	1,527,120	1,562,266
Charges for electricity	5,769,069	6,239,532
Billing services	85,410	86,671
Other revenues	503,792	638,419
Total Operating revenues	<u>7,885,391</u>	<u>8,526,888</u>
Operating expenses:		
Personal services cost	1,574,330	1,567,794
Power cost	3,913,493	4,336,716
Materials & supplies	429,087	456,274
Other costs	644,098	744,169
Utility lease	220,043	237,018
Bad debts	27,408	19,935
Depreciation	832,304	1,030,041
Total operating expenses	<u>7,640,763</u>	<u>8,391,947</u>
Operating Income (loss)	244,628	134,941
Non-operating revenues (expenses):		
Interest revenue	254,020	110,757
Grant revenue	-	-
Interest expense	(181,797)	(205,556)
Fiscal charges & fees	(19,038)	(11,453)
Total non-operating revenues (expenses)	<u>53,185</u>	<u>(106,252)</u>
Income (loss) before contributions and transfers	297,812	28,689
Change in net assets		
Total net assets--beginning	<u>17,940,529</u>	<u>18,238,342</u>
Total net assets--ending	<u><u>18,238,342</u></u>	<u><u>18,267,031</u></u>

SUMMARY OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE

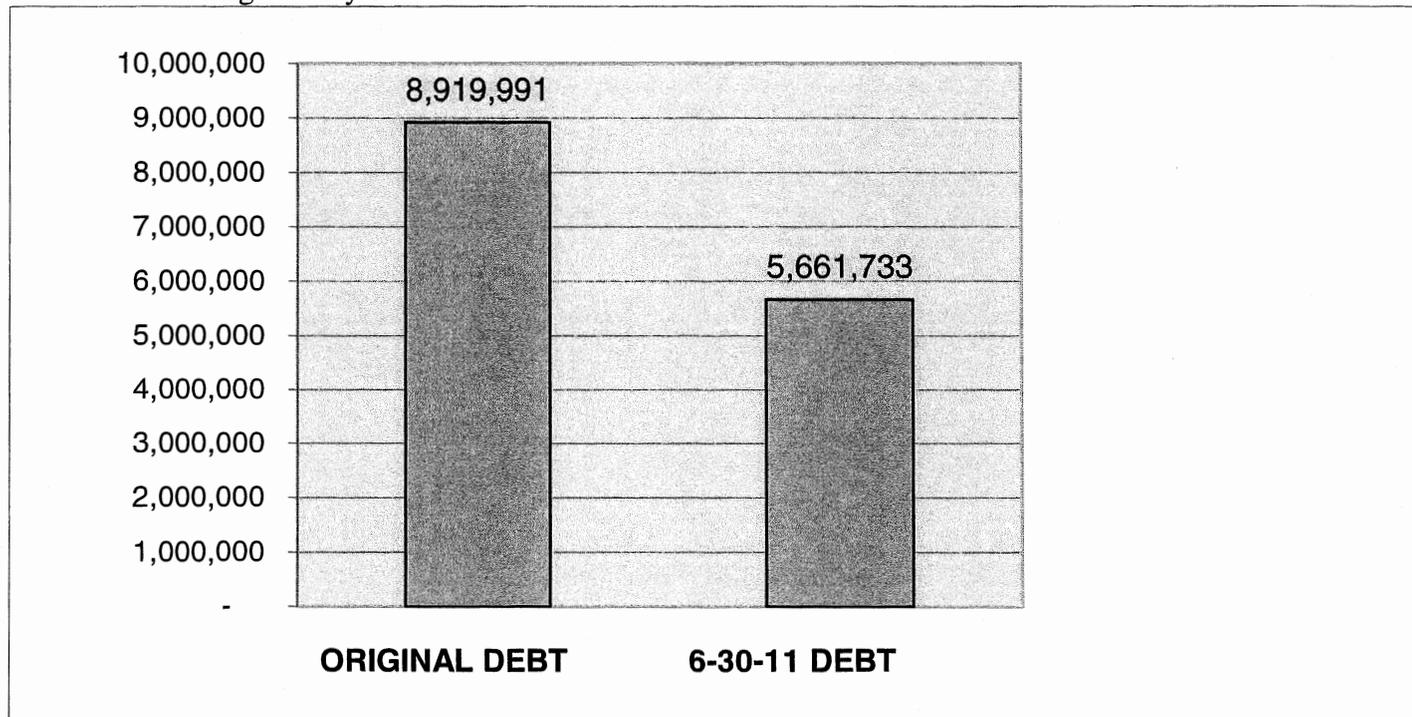
Overall, the net effect to the fund balance was a positive \$28,689 increase.

STILWELL AREA DEVELOPMENT AUTHORITY
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2011

SADA DEBT BALANCE
as of June 30, 2011

		Interest Rate	ORIGINAL AMOUNT	6/30/11 DEBT	PAYOFF DATE
OWRB	Sewer Plant Rebuild-FIXED RATE	3.27%	4,000,000	2,144,552	02/15/2021
OWRB	Water Plant Rebuild	4.34%	2,760,000	1,820,000	03/15/2022
*OWRB	*1996 Retention Basin	1.37%	1,000,000	678,400	07/18/2023
BOC	1999 MACK DUMP TRUCK	3.75%	32,750	22,496.35	10/15/2014
BOC	2009 F550 BUCKET TRUCK	3.75%	81,188	58,401.68	12/15/2014
BOC	PARK/SPORTS COMPLEX	4.50%	1,005,000	901,237.31	08/15/2015
BOC	2010 NEW HOLLAND BACKHOE	3.75%	41,053	36,646.09	11/15/2015
			8,919,991	5,661,733	
TOTAL			8,919,991	5,661,733	

***interest rate changes every 6 months



STILWELL AREA DEVELOPMENT AUTHORITY
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2011

Known Facts and Conditions: Following is a brief presentation of the management and staff discussion and analysis in regards to the possible financial impacts of the Stilwell Area Development Authority, SADA, for the fiscal year 2011.

Managements Discussion and Analysis of Known Facts and Conditions

The following discussion and analysis of the Stilwell Area Development Authority, aka SADA or the "Authority", financial performance provides a high level overview of the Authority's financial activities for the Fiscal Year ended June 30, 2011.

The Authority's Net Assets and Statements of Revenues, Expenses, and Changes in Net Assets provide an indication of the Authority's health.

It is important to point out possible financial impacts, which may affect the Authority in FY 2012. As you may recall, we borrowed \$1,000,000 dollars to help finance the park project. While doing so increased our long-term debt, we were able to negotiate a favorable low interest financial agreement with the Bank of Commerce, which helped to reduce our monthly payment. As was mentioned last year, it will not affect our monthly operating position as we had been making a similar monthly payment in the past for the Ozarks Electric line purchase.

We expect that income from interest will be weak as we have lower interest rates combined with less cash on hand. We have less cash on hand, because we cashed in some of our CD's to build the park and sports complex. It is important to point this out because in the past we earned approximately \$200,000 dollars in interest income per year. In FY 2010, we earned approximately \$150,000 in interest income while last year we only earned \$77,000 dollars in interest income.

GRDA, our power provider faces many new guidelines and requirements from FERC and NERC, which may affect the cost of electricity. Overall, we still believe that our long-term contract with GRDA will benefit us for years to come. GRDA will have a significant portion of their long-term debt paid off in 2014. At that time, we believe that GRDA will once again be the leader in the state with low cost, reliable electricity.

An important note from FY 2011 was the announcement by one of our largest customers to invest and expand the operation in Stilwell. This expansion gives us more confidence in going forward and helps us to plan for future growth.

From time to time the Authority is involved in tort claims and legal issues. We have two tort claims pending but do not anticipate that they would adversely affect our financial statues. This status is ongoing and we will need to monitor these claims as we move through the legal process.

This report intends to provide our customers, bondholders and other interested parties with a high level overview of SADA's financial position results from FY 2011 and a brief forecast of what we anticipate for FY 2012. This concludes the summary of the management and staff discussion and analysis of Fiscal Year 2011.

Stilwell Area Development Authority
Statement of Net Assets
Proprietary Funds
For the Year Ended June 30, 2011
Business-type Activities-Enterprise Funds

	STILWELL ADA FUND	DEBT SERVICE FUND	DEBT RESERVE FUND	DEPRECIATION RESERVE FUND	EXTENSION & IMPROVEMENT FUND	METER DEPOSIT FUND	Total Proprietary Funds
ASSETS							
Current Assets							
Cash and cash equivalents	\$ 1,774,979	-	-	-	-	16,407	1,791,386
Receivables-utility billings	1,164,911	-	-	-	-	-	1,164,911
Receivables-other	363	-	-	-	-	225	588
Due from other Funds	-	-	-	-	-	100,000	100,000
Inventory	540,605	-	-	-	-	-	540,605
Restrict-Cash rsvd debt service	-	441,691	-	-	-	-	441,691
Restrict-Cash held in trust	-	-	298,219	-	-	-	298,219
Restrict-Cash rsvd replace/ext	925,576	-	-	3,101,332	-	-	4,026,908
Restrict-Cash/Invest-meter dep	-	-	-	-	-	221,354	221,354
Total Current assets:	4,406,434	441,691	298,219	3,101,332	-	337,986	8,585,662
Noncurrent assets:							
Fixed assets & equipment	25,926,524	-	-	-	-	-	25,926,524
Accumulated depreciation	(10,079,901)	-	-	-	-	-	(10,079,901)
Total Noncurrent assets:	15,846,623	-	-	-	-	-	15,846,623
Total assets	20,253,057	441,691	298,219	3,101,332	-	337,986	24,432,285
LIABILITIES AND FUND BALANCES							
Current Liabilities							
Accounts payable & accruals	30,353	51,364	-	-	-	-	81,717
Due to other Funds	-	-	-	-	-	-	-
Current portion of LTD	159,763	360,865	-	-	-	-	520,628
Accrued compensated absences	200,450	-	-	-	-	-	200,450
Customer deposits	-	-	-	-	-	221,354	221,354
Total Current liabilities:	390,566	412,229	-	-	-	221,354	1,024,149
Noncurrent liabilities:							
Non current portion of LTD	859,018	4,282,087	-	-	-	-	5,141,105
Total Noncurrent liabilities:	859,018	4,282,087	-	-	-	-	5,141,105
Total liabilities	1,249,584	4,694,316	-	-	-	221,354	6,165,254
NET ASSETS							
Investment in Capital Assets Net of Debt	14,827,842	-	-	-	-	-	14,827,842
Restricted for Customer Deposits	-	-	-	-	-	116,632	116,632
Restricted for Debt Service	1,018,781	(4,252,625)	298,219	-	-	-	(2,935,625)
Restricted for Line Extension & Repairs	3,156,850	-	-	3,101,332	-	-	6,258,182
TOTAL NET ASSETS	\$ 19,003,473	(4,252,625)	298,219	3,101,332	-	116,632	18,267,031

Stilwell Area Development Authority
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2011
Business-type Activities-Enterprise Funds

	STILWELL ADA FUND	DEBT SERVICE FUND	DEBT RESERVE FUND	DEPRECIATION RESERVE FUND	EXTENSION & IMPROVEMENT FUND	METER DEPOSIT FUND	Total Proprietary Funds
Operating Revenues:							
Charges for water & sewer	\$ 1,562,266	-	-	-	-	-	1,562,266
Charges for electricity	6,239,532	-	-	-	-	-	6,239,532
Billing services	86,671	-	-	-	-	-	86,671
Other revenues	637,874	-	-	-	-	545	638,419
Total Operating	8,526,343	-	-	-	-	545	8,526,888
Operating Expenses:							
Personal services cost	1,567,794	-	-	-	-	-	1,567,794
Power cost	4,336,716	-	-	-	-	-	4,336,716
Materials & supplies	456,274	-	-	-	-	-	456,274
Other costs	744,169	-	-	-	-	-	744,169
Utility lease	237,018	-	-	-	-	-	237,018
Bad debts	19,935	-	-	-	-	-	19,935
Depreciation	1,030,041	-	-	-	-	-	1,030,041
Total operating expenses	8,391,947	-	-	-	-	-	8,391,947
Operating Income (loss)	134,396	-	-	-	-	545	134,941
Nonoperating revenues (expenses):							
Interest revenue	77,170	3,210	4	27,483	-	2,890	110,757
Interest expense	(41,952)	(160,438)	-	-	(3,166)	-	(205,556)
Fiscal charges & fees	-	(11,426)	-	-	-	(27)	(11,453)
Total nonoperating revenue (expenses)	35,218	(168,654)	4	27,483	(3,166)	2,863	(106,252)
Income (loss) before contributions and transfers	169,614	(168,654)	4	27,483	(3,166)	3,408	28,689
Transfers	(923,634)	536,880	-	290,118	96,636	-	-
Changes in net assets	(754,020)	368,226	4	317,601	93,470	3,408	28,689
Total net assets--beginning	19,757,493	(4,620,851)	298,215	2,783,731	(93,470)	113,224	18,238,342
Total net assets--ending	\$ 19,003,473	(4,252,625)	298,219	3,101,332	-	116,632	18,267,031

Stilwell Area Development Authority
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2011
Business-type Activities-Enterprise Funds

	STILWELL ADA FUND	DEBT SERVICE FUND	DEBT RESERVE FUND	DEPRECIATION RESERVE FUND	EXTENSION & IMPROVEMENT FUND	METER DEPOSIT FUND	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from customers	\$ 8,261,666	-	-	-	-	545	8,262,211
Payments to suppliers & others	(5,801,591)	-	-	-	-	-	(5,801,591)
Payments to employees	(1,571,718)	-	-	-	-	-	(1,571,718)
Payments to other funds	(100,000)	-	-	-	-	-	(100,000)
Net cash provided by operating activities	788,357	-	-	-	-	545	788,902
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transfers between funds	(923,634)	536,880	-	290,118	96,636	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Purchase of capital assets	(1,357,076)	-	-	-	-	-	(1,357,076)
Principal paid on capital debt	138,214	14,701	-	-	(93,470)	-	59,445
Increase in Capital debt	778,120	(361,565)	-	-	(3,166)	(28)	416,555
Interest and fees paid	(41,952)	(171,964)	-	-	-	-	(217,110)
Net cash used by financing activities	(1,406,328)	18,052	-	290,118	-	(28)	(1,098,186)
CASH FLOWS FROM INVESTING ACTIVITIES							
Change in restricted assets	400,000	(21,262)	(4)	(317,601)	-	-	61,133
Changes in meter deposit accounts	-	-	-	-	-	-	-
Interest revenue	77,170	3,210	4	27,483	-	2,890	110,757
Net cash provided by investing activities	477,170	(18,052)	-	(290,118)	-	2,890	171,890
Net change in cash & cash equivalents	(140,801)	-	-	-	-	3,407	(137,394)
Beginning balance	1,915,780	-	-	-	-	13,000	1,928,780
Ending balance	\$ 1,774,979	-	-	-	-	16,407	1,791,386

Stilwell Area Development Authority
Statement of Cash Flows - Continued
Proprietary Funds
For the Year Ended June 30, 2011
Business-type Activities-Enterprise Funds

	STILWELL ADA FUND	DEBT SERVICE FUND	DEBT RESERVE FUND	DEPRECIATION RESERVE FUND	EXTENSION & IMPROVEMENT FUND	METER DEPOSIT FUND	Total Proprietary Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES							
Operating income	\$ 134,396	-	-	-	-	545	134,941
Depreciation	1,030,041	-	-	-	-	-	1,030,041
Change in:							
Receivables	(264,677)	-	-	-	-	-	(264,677)
Inventory	(28,943)	-	-	-	-	-	(28,943)
Due to /from other funds	(100,000)	-	-	-	-	-	(100,000)
Accounts payable & accruals	17,540	-	-	-	-	-	17,540
Net cash provided by operating activities	\$ 788,357	-	-	-	-	545	788,902

STILWELL AREA DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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.

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.

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.

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.

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 balance of the

Authority's deposits were \$6,779,558. 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, 2011 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			Balance
	(A)	(B)	(C)	
Cash	\$798,215	\$5,981,343		\$6,779,558

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.

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 Balance
Prop & equip. with life of less than	20yr	\$ 3,672,862	1,331,644	151,089	4,853,417
Prop. & equip. with life of more than	20yr	21,039,866	33,241		21,073,107
Total		\$ 20,434,247	1,364,885	151,089	25,926,524

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 \$679,050 at June 30, 2011. 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 1.37%.

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 \$2,144,602 at June 30, 2011. 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 3.77%.

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 \$1,820,000 at June 30, 2011. The note bears interest at an average rate of 4.34%.

On February 18, 2003 the Stilwell Area Development Authority signed an agreement to borrow \$100,000.00 from the USDA for the purpose of sewer line expansion. Principal balance of the loan at June 30, 2010 was \$93,624. Interest rate was 4.5%. This note was paid off during the year.

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, 2011 was \$ 22,496. 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, 2011, was \$ 58,402. The agreement bears an interest rate of 3.75%.

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, 2011 was \$ 36,646. The agreement bears an interest rate of 3.75%.

On August 10, 2010, the Stilwell Area Development Authority signed an agreement to borrow \$ 1,005,000 from the Bank of Commerce for the purpose of completing the construction of the Stilwell Community Park and Sports Complex. Security for this note is a Certificate of Deposit on file with the Bank of Commerce. Principal balance of the note at June 30, 2011, was \$ 901,237. The note bears an interest rate of 4.50%.

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

June 30,	Principal	Interest
2012	520,628	153,430
2013	542,915	141,132
2014	566,198	127,962
2015	581,379	114,436
2016	779,203	100,933
Maturing after 2015	2,672,109	

Note 6: INTERFUND TRANSACTIONS AND BALANCES

Operating Transfers

	Transfers in	Transfers out
Operating fund		923,634
Debt service	536,880	
Deprec Reserve	290,118	
Extension & Improvement	96,636	

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 2010-11 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 \$212,283.

The schedule of funding progress of the Pension Fund as of January 1, 2011 (latest actuarial report) is as follows:

Actuarial Valuation Date	Actuarial value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAI as % of Covered Payroll
1/1/2003	1,234,873	2,373,899	1,139,026	52.00%	1,956,503	57.90%
1/1/2004	1,649,266	1,960,337	1,146,112	84.10%	752,463	41.30%
1/1/2005	1,868,838	3,564,626	1,695,788	52.40%	2,051,941	82.60%
1/1/2006	2,161,080	3,869,806	1,708,726	55.80%	2,114,101	80.80%
1/1/2007	2,537,172	4,281,276	1,744,104	59.30%	2,250,910	77.50%
1/1/2008	2,955,064	4,722,182	1,767,118	62.60%	2,289,332	77.20%
1/1/2009	3,047,554	5,863,604	2,816,050	52.00%	2,552,347	110.30%
1/1/2010	3,454,239	6,295,431	2,841,192	54.90%	2,604,326	109.10%
1/1/2011	3,927,858	6,802,610	2,874,752	57.70%	2,583,637	111.30%

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.

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, 2011, which collectively comprise the Authority's basic financial statements and have issued my report thereon dated November 3, 2011. 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, I considered the Stilwell Area Development Authority's internal control over financial reporting as a basis for designing my auditing procedures 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 Stilwell Area Development Authority's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the Stilwell Area Development Authority, management and all applicable federal and state agencies and is not intended to be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read 'Michael Green', is positioned above the printed name.

Michael Green, CPA

November 3, 2011