

**Stilwell Area
Development Authority**

Annual Financial & Audit Report

Year Ended June 30, 2013

Stilwell
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Utilities

STILWELL AREA DEVELOPMENT AUTHORITY
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2013

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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, 2013, 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, 2013, 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.

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 November 25, 2013, 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.



Michael Green
Certified Public Accountant

November 25, 2013

STILWELL AREA DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2013

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, 2013. 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 \$15,999,828.

*The Authority's net assets decreased from \$17,487,070 to \$15,999,828.

*The Authority's cash and cash equivalents were \$713,595, representing a decrease of \$609,002.

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 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. 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

STILWELL AREA DEVELOPMENT AUTHORITY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

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, 2013

Net Assets

The Authority's net assets decreased \$1,487,242 for the year ended June 30, 2013. The following table provides a summary of net assets.

SUMMARY OF NET ASSETS

	2011-2012 Total Proprietary Funds	2012-2013 Total Proprietary Funds
ASSETS		
Current Assets:		
Cash and cash equivalents	1,322,597	713,595
Receivables-utility billings	961,274	947,655
Receivables-other	1,138	747
Inventory	521,226	530,223
Restrict-Cash rsvd debt serv	430,395	429,616
Restrict-Cash held in trust	298,219	298,219
Restrict-Cash rsvd replace/ext	4,044,647	2,732,733
Restrict-Cash/Invest-meter dep	228,046	232,621
Total Current Assets:	7,807,542	5,885,409
Non-current assets:		
Fixed assets & equipment	26,490,100	26,964,160
Accumulated depreciation	(11,189,220)	(12,323,035)
Total Non-current assets:	15,300,880	14,641,125
Total assets	23,108,422	20,526,534
LIABILITIES AND FUND BALANCES		
Current liabilities:		
Accounts payable & accruals	64,322	157,524
Current portion of LTD	553,759	435,471
Accrued compensated absences	144,409	155,493
Customer deposits	228,046	232,621
Total Current Liabilities:	990,536	981,109
Non-current liabilities		
Non-current portion of LTD	4,630,816	3,545,597
Total Non-current liabilities:	4,630,816	3,545,597
Total liabilities	5,621,352	4,526,706
Net Assets		
Investment in Capital Assets net of Debt	14,385,100	14,539,085
Restricted for CUSTOMER DEPOSITS	119,899	120,711
Restricted for DEBT SERVICE	(2,671,400)	(3,086,404)
Restricted for LINE EXT & REPAIRS	5,653,471	4,426,436
Total Fund Equity	17,487,070	15,999,828

The purchase of Fixed Assets and Equipment contributed to the decrease in Cash and Cash Equivalents by \$609,002. Restricted Cash Reserved for Replacement and Extensions also decreased by \$1,371,914 as a result of a \$750,000 pay down by each of the City of Stilwell and the Authority to the Oklahoma Municipal Retirement Fund. This pay down of unfunded liabilities by \$1.5 million will save the City and Authority approximately \$90,000 each per year. The payoff of the Park/Sports Complex loan, in the amount of \$631,484 also impacted the Cash Reserved for Replacement and Extension; however it also saved the Authority over \$61,000 in interest over the life of the loan. The increase in fixed assets and equipment of \$474,059 is consistent with the improvement of the electrical, water and sewer system and is necessary to provide adequate services to our customers and assure compliance with all applicable laws and regulations. Overall Cash decreased by \$1,922,133; however, the aforementioned pay downs attributed to \$1,381,484 of the cash reduction.

STILWELL AREA DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2013

SUMMARY OF CHANGES IN NET ASSETS

	2011-2012	2012-2013
	Total Proprietary Funds	Total Proprietary Funds
Operating revenues:		
Charges for water & sewer	1,643,173	1,578,460
Charges for electricity	6,475,402	6,466,336
Billing services	85,130	-
Other revenues	157,739	63,290
Total Operating revenues	8,361,444	8,108,086
Operating expenses:		
Personal services cost	1,554,104	2,463,334
Power cost	4,689,804	4,571,195
Materials & supplies	380,586	346,499
Other costs	991,542	722,997
Utility lease	256,990	234,403
Bad debts	19,436	17,327
Depreciation	1,116,730	1,133,815
Total operating expenses	9,009,192	9,489,570
Operating Income (loss)	(647,748)	(1,381,484)
Non-operating revenues (expenses):		
Interest revenue	74,525	52,336
Interest expense	(186,716)	(148,495)
Fiscal charges & fees	(10,653)	(9,599)
Total non-operating revenues (expenses)	(122,844)	(105,758)
Income (loss) before contributions and transfers	(779,961)	(1,487,242)
Change in net assets		
Total net assets--beginning	18,267,031	17,487,070
Total net assets--ending	17,487,070	15,999,828

Total revenues decreased by \$253,358, of which \$64,713 consisted of water and sewer revenue. This decrease in operation revenue was a result of lower consumption billed for water customers for the year. Total operating expenses increased \$480,378 due primarily to the increase in personal services cost when the Authority paid \$750,000 to OMRP. A decrease of \$118,609 in power cost was a result of a reduction of power cost adjustment from GRDA. A \$302,632 decrease in materials, supplies and other costs are a result in reduction in spending by management. Depreciation expense increased \$17,085 compared to 2012. Interest income decreased \$22,189 as a result of lower investments available and a decline in return on investments. Non-operating expense decreased \$39,275 as a result of the payoff of the Park/Sports Complex loan.

STILWELL AREA DEVELOPMENT AUTHORITY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

Capital Assets

The investment in capital assets as of June 30th amounts to \$26,964,160. The Authority paid \$474,060 related to the acquisition and purchase of capital assets.

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

	FY 2011-2012	FY 2012-2013	INCREASE (DECREASE)
OFFICE EQUIPMENT	221,018	232,528	11,510
TRUCKS	1,428,950	1,496,806	67,856
TRACTORS/TRAILERS/MOWERS	740,107	769,599	29,492
CONSTRUCTION EQUIPMENT	538,136	543,806	5,670
LAND PURCHASE/IMPROVEMENTS	5,169,903	5,202,585	32,682
SYSTEM IMPROVEMENTS	18,391,986	18,718,837	326,851
TOTAL	26,490,100	26,964,160	474,060

The most significant increases to fixed assets and equipment were to System Improvements. The Maryetta Lift Station Rebuild project was completed totaling \$151,950. A high service pump at the City Lake to bring raw water to the Filter Plant was installed in the amount of \$61,163. Several pumps at the Waste Treatment Plant were rebuilt and installed, costing \$56,621. A 2013 Bucket truck for the electric department was purchased in the amount of \$67,856, replacing a 1993 bucket truck, which the Authority donated and transferred to the City of Stilwell.

Debt

At June 30, the Authority had outstanding debt in the amount of \$3,981,068.

SADA DEBT BALANCE

	Interest Rate	ORIGINAL AMOUNT	6/30/13 DEBT	PAYOFF DATE
OWRB Sewer Plant Rebuild-FIXED RATE	3.27%	4,000,000	1,729,178	02/15/2021
OWRB Water Plant Rebuild	4.04%	2,760,000	1,545,000	03/15/2022
*OWRB *1996 Retention Basin	1.56%	1,000,000	604,850	07/18/2023
BOC 1999 MACK DUMP TRUCK	3.75%	32,750	9,339.00	10/15/2014
BOC 2009 F550 BUCKET TRUCK	3.75%	81,188	25,976.00	12/15/2014
BOC 2010 NEW HOLLAND BACKHOE	3.75%	41,053	20,804.00	11/15/2015
BOC (2) 2012 FORD F150 4X4 PICKUPS	3.15%	57,222	45,921.00	05/15/2017
TOTAL		7,972,213	3,981,068	

***interest rate changes every 6 months

STILWELL AREA DEVELOPMENT AUTHORITY
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

Economic factors and next year's budget and rates

The Authority's board of directors has currently hired an independent contractor to conduct a rate study for FY 2013-2014. Rate studies are necessary to make sure fees are adequate to fund operations, maintenance, debt service and capital outlay.

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, 2013
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	\$ 592,883	-	-	-	-	120,712	713,595
Receivables-utility billings	947,655	-	-	-	-	-	947,655
Receivables-other	747	-	-	-	-	-	747
Due from other Funds	-	-	-	-	-	-	-
Inventory	530,223	-	-	-	-	-	530,223
Restrict-Cash rsvd debt service	-	429,616	-	-	-	-	429,616
Restrict-Cash held in trust	-	-	298,219	-	-	-	298,219
Restrict-Cash rsvd replace/ext	925,576	-	-	1,807,157	-	-	2,732,733
Restrict-Cash/Invest-meter dep	-	-	-	-	-	232,621	232,621
Total Current assets:	2,997,084	429,616	298,219	1,807,157	-	353,333	5,885,409
Noncurrent assets:							
Fixed assets & equipment	26,964,160	-	-	-	-	-	26,964,160
Accumulated depreciation	(12,323,035)	-	-	-	-	-	(12,323,035)
Total Noncurrent assets:	14,641,125	-	-	-	-	-	14,641,125
Total assets	17,638,209	429,616	298,219	1,807,157	-	353,333	20,526,534
LIABILITIES AND FUND BALANCES							
Current Liabilities							
Accounts payable & accruals	120,272	37,251	-	-	-	1	157,524
Due to other Funds	-	-	-	-	-	-	-
Current portion of LTD	43,680	391,791	-	-	-	-	435,471
Accrued compensated absences	155,493	-	-	-	-	-	155,493
Customer deposits	-	-	-	-	-	232,621	232,621
Total Current liabilities:	319,445	429,042	-	-	-	232,622	981,109
Noncurrent liabilities:							
Non current portion of LTD	58,360	3,487,237	-	-	-	-	3,545,597
Total Noncurrent liabilities:	58,360	3,487,237	-	-	-	-	3,545,597
Total liabilities	377,805	3,916,279	-	-	-	232,622	4,526,706
NET ASSETS							
Investment in Capital Assets Net of Debt	14,539,085	-	-	-	-	-	14,539,085
Restricted for Customer Deposits	-	-	-	-	-	120,711	120,711
Restricted for Debt Service	102,040	(3,486,663)	298,219	-	-	-	(3,086,404)
Restricted for Line Extension & Repairs	2,619,279	-	-	1,807,157	-	-	4,426,436
TOTAL NET ASSETS	\$ 17,260,404	(3,486,663)	298,219	1,807,157	-	120,711	15,999,828

Stilwell Area Development Authority
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2013
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	\$ 1,578,460	-	-	-	-	-	1,578,460
Charges for electricity	6,466,336	-	-	-	-	-	6,466,336
Billing services	-	-	-	-	-	-	-
Other revenues	63,290	-	-	-	-	-	63,290
Total Operating	<u>8,108,086</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,108,086</u>
Operating Expenses:							
Personal services cost	2,463,334	-	-	-	-	-	2,463,334
Power cost	4,571,195	-	-	-	-	-	4,571,195
Materials & supplies	346,499	-	-	-	-	-	346,499
Other costs	722,757	-	-	-	-	240	722,997
Utility lease	234,403	-	-	-	-	-	234,403
Bad debts	17,327	-	-	-	-	-	17,327
Depreciation	1,133,815	-	-	-	-	-	1,133,815
Total operating expenses	<u>9,489,330</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>240</u>	<u>9,489,570</u>
Operating Income (loss)	<u>(1,381,244)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(240)</u>	<u>(1,381,484)</u>
Nonoperating revenues (expenses):							
Interest revenue	41,336	1,017	-	8,931	-	1,052	52,336
Interest expense	(21,736)	(126,759)	-	-	-	-	(148,495)
Gain(Loss) on sale of asset	-	-	-	-	-	-	-
Fiscal charges & fees	-	(9,599)	-	-	-	-	(9,599)
Total nonoperating revenue (expenses)	<u>19,600</u>	<u>(135,341)</u>	<u>-</u>	<u>8,931</u>	<u>-</u>	<u>1,052</u>	<u>(105,758)</u>
Income (loss) before contributions and transfers	(1,361,644)	(135,341)	-	8,931	-	812	(1,487,242)
Transfers	<u>786,768</u>	<u>534,077</u>	<u>-</u>	<u>(1,320,845)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net assets	(574,876)	398,736	-	(1,311,914)	-	812	(1,487,242)
Total net assets--beginning	<u>17,835,280</u>	<u>(3,885,399)</u>	<u>298,219</u>	<u>3,119,071</u>	<u>-</u>	<u>119,899</u>	<u>17,487,070</u>
Total net assets--ending	<u>\$ 17,260,404</u>	<u>(3,486,663)</u>	<u>298,219</u>	<u>1,807,157</u>	<u>-</u>	<u>120,711</u>	<u>15,999,828</u>

Stilwell Area Development Authority
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2013
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	\$ 8,122,095	-	-	-	-	-	8,122,095
Payments to suppliers & others	(5,798,228)	(19,347)	-	-	-	(239)	(5,817,814)
Payments to employees	(2,452,250)	-	-	-	-	-	(2,452,250)
Payments to/from other funds	-	-	-	-	-	-	-
Net cash provided by operating activities	(128,383)	(19,347)	-	-	-	(239)	(147,969)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Transfers between funds	786,768	534,077	-	(1,320,845)	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Purchase of capital assets	(474,060)	-	-	-	-	-	(474,060)
Principal paid on capital debt	(813,740)	(389,767)	-	-	-	-	(1,203,507)
Gain (Loss) on Sale of Asset	-	-	-	-	-	-	-
Increase in Capital debt	-	-	-	-	-	-	-
Interest and fees paid	(21,736)	(126,759)	-	-	-	-	(148,495)
Net cash used by financing activities	(522,768)	17,551	-	(1,320,845)	-	-	(1,826,062)
CASH FLOWS FROM INVESTING ACTIVITIES							
Change in restricted assets	-	779	-	1,311,914	-	(5,388)	1,307,305
Changes in meter deposit accounts	-	-	-	-	-	5,388	5,388
Interest revenue	41,336	1,017	-	8,931	-	1,052	52,336
Net cash provided by investing activities	41,336	1,796	-	1,320,845	-	1,052	1,365,029
Net change in cash & cash equivalents	(609,815)	-	-	-	-	813	(609,002)
Beginning balance	1,202,698	-	-	-	-	119,899	1,322,597
Ending balance	\$ 592,883	-	-	-	-	120,712	713,595

Stilwell Area Development Authority
Statement of Cash Flows - Continued
Proprietary Funds
For the Year Ended June 30, 2013
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	\$ (1,381,243)	-	-	-	-	(239)	(1,381,482)
Depreciation	1,133,815	-	-	-	-	-	1,133,815
Change in:							
Receivables	14,010	-	-	-	-	-	14,010
Inventory	(8,997)	-	-	-	-	-	(8,997)
Due to /from other funds	-	-	-	-	-	-	-
Accounts payable & accruals	114,032	(19,347)	-	-	-	-	94,685
12 Net cash provided by operating activities	\$ (128,383)	(19,347)	-	-	-	(239)	(147,969)

STILWELL AREA DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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, 2013

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.

STILWELL AREA DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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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 \$4,913,295. 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, 2013 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	\$607,276	\$4,306,019		\$4,913,295

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.

STILWELL AREA DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4: CAPITAL ASSETS

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

		Beginning Balance	Additions	Deletions	Ending Balance
Prop & equip. with life of less than	20yr	\$ 5,308,111	122,119		5,430,230
Prop. & equip. with life of more than	20yr	21,181,989	351,941		21,533,930
Total		<u>\$ 26,490,100</u>	<u>474,060</u>		<u>26,964,160</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 \$604,850 at June 30, 2013. 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 \$1,729,178 at June 30, 2013. 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 \$1,545,000 at June 30, 2013. 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, 2013 was \$ 9,339. 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, 2013 was \$ 25,976. The agreement bears an interest rate of 3.75%.

STILWELL AREA DEVELOPMENT AUTHORITY
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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, 2013 was \$ 20,804. 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. This lease purchase was paid off during the current year.

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 2013 was \$ 45,921. 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,		
2014	435,471	124,380
2015	444,195	114,385
2016	445,849	101,166
2017	458,437	87,669
2018	461,191	73,840
Maturing after 2018	1,735,925	

Note 6: INTERFUND TRANSACTIONS AND BALANCES

Operating Transfers

	Transfers in	Transfers out
Operating fund		534,077
Debt service	534,077	
Operating fund	1,320,845	
Depreciation Reserve Fund		1,320,845

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 \$169,203. The ADA also paid \$ 750,000 toward the unfunded liability balance. The schedule of funding progress of the Pension Fund as of January 1, 2013 (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.

STILWELL AREA DEVELOPMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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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.

NOTE 9: SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 25, 2013, which is the date which the financial statements were available to be issued.

MICHAEL W. GREEN
Certified Public Accountant

827 W. LOCUST STREET
Stilwell, Ok. 74960
(918) 696-6298

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, 2013, which collectively comprise the Authority's basic financial statements and have issued my report thereon dated November 25, 2013. 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.

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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
November 25, 2013