

STILLWATER UTILITIES AUTHORITY

Financial Statements

Fiscal Year ended June 30, 2010

CITY OF
stillwater

STILLWATER UTILITIES AUTHORITY
FINANCIAL STATEMENTS AND REPORTS
OF INDEPENDENT ACCOUNTANTS

JUNE 30, 2010

Prepared by:
Department of Finance

Marcy Alexander
Director of Finance

STILLWATER UTILITIES AUTHORITY
A Component Unit of the City of Stillwater, Oklahoma

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Stillwater Utilities Authority

We have audited the accompanying statement of net assets of the Stillwater Utilities Authority (the "Authority"), a component unit of the City of Stillwater, Oklahoma, as of June 30, 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Stillwater Utility Authority as of June 30, 2010, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2010, on our consideration of the Authority's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered in assessing the results of our audit.

The Management's Discussion and Analysis and Other Post-Employment Benefits Funding Schedule, as listed in the Table of Contents, are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We 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, we did not audit the information and express no opinion on it.

Arledge & Associates, P.C.

Edmond, Oklahoma
October 14, 2010

STILLWATER UTILITIES AUTHORITY
A Component Unit of the City of Stillwater, Oklahoma
Management's Discussion and Analysis
June 30, 2010

As management of the Stillwater Utilities Authority (the "Authority"), we provide our readers this overview and analysis of the Authority's financial activities for the fiscal year ended June 30, 2010.

USING THE FINANCIAL STATEMENTS IN THIS ANNUAL REPORT

Statement of Net Assets and Statement of Revenues, Expenses and Change in Net Assets

The Statement of Net Assets and the Statement of Revenues, Expenses and Change in Net Assets includes all assets and liabilities of the Authority using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Authority's net assets and changes in them from the prior year. Net assets are the difference between assets and liabilities and are one way to measure the Authority's financial condition or position. Over time, increases or decreases in the Authority's net assets are indicators of the financial health of the Authority.

FINANCIAL ANALYSIS

Net Assets

A comparative overview of the major components of the Statement of Net Assets as of June 30 is shown below.

(in millions)	<u>2009</u>	<u>2010</u>
Current Assets	\$ 38.5	\$ 33.8
Noncurrent assets	100.7	107.2
Total assets	\$ 139.2	\$ 141.0
Current liabilities	\$ 11.7	\$ 11.1
Noncurrent liabilities	25.7	24.2
Total liabilities	\$ 37.4	\$ 35.3
Net assets -		
Invested in capital assets, net of related debt	\$ 77.2	\$ 78.6
Restricted for debt service	2.2	2.5
Restricted for capital projects	0.1	1.8
Unrestricted	22.3	22.8
Total net assets	\$ 101.8	\$ 105.7

At the end of the current and previous fiscal year, the Authority is able to report positive balances in each of its net asset classifications

The largest portion of the Authority's net assets (74.4%) reflects its investment in capital assets (e.g. land, buildings, improvements other than buildings, machinery and equipment, and infrastructure), plus unspent bond proceeds, less any related debt used to acquire those assets that is still outstanding. The SUA uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the Authority's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Authority's net assets (4.0%) represents resources that are subject to restrictions as to how they may be used. The remaining balance (21.6%) is unrestricted.

Changes in Net Assets

For the year ended June 30, 2010, the Authority's net assets increased by \$4 million or 4%. Detail of the increase in net assets is presented below in a comparative overview of the major components of the Statement of Revenues, Expenses, and Change in Net Assets for each of the years ended June 30:

(in millions)	<u>2009</u>	<u>2010</u>
Operating revenues	\$ 53.1	\$ 56.3
Operating expenses	<u>44.7</u>	<u>44.5</u>
Operating income	8.4	11.8
Non-operating revenues (expenses)	<u>(0.6)</u>	<u>(0.7)</u>
Net income before contributions and transfers	7.8	11.1
Capital contributions	2.6	3.2
Transfers in	8.2	8.4
Transfers out	<u>(14.5)</u>	<u>(18.8)</u>
Increase (decrease) in net assets	<u>\$ 4.1</u>	<u>\$ 3.9</u>

Rate increases enacted for water and electric services contributed to the \$3.4 million increase in operating revenues. Capital contributions increased \$0.6 million due to the receipt of grant funds under the American Recovery and Reinvestment Act. These funds were used for water and sewer improvements. Transfers out increased by \$4.3 million due to an increase in budgeted transfers out to the City of Stillwater General Fund as well as debt proceeds from the 2007 Revenue Note being transferred to the City of Stillwater as construction costs were incurred on the approved transportation improvement projects.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The following is a summary of changes in capital assets and debt administration for the year ended June 30, 2010. More detailed information on capital asset activity and long-term debt activity is contained in the accompanying notes to the financial statements on page 16 and pages 12-15, respectively.

Capital Assets

At June 30, 2010, the Authority had \$101 million invested in capital assets including water and sewer lines, electric systems, and equipment.

Capital Assets, Net of Accumulated Depreciation – (in millions)

	<u>2009</u>	<u>2010</u>
Land	\$ 0.7	\$ 0.7
Water plant	34.3	34.0
Electric plant	31.4	28.1
Wastewater plant	29.7	29.2
Construction work in progress	3.9	7.6
General plant	<u>0.8</u>	<u>1.4</u>
Totals	<u>\$ 100.8</u>	<u>\$ 101.0</u>

Debt Administration

At June 30, 2010, the Authority had \$27.8 million in bonds, notes, and long-term leases outstanding versus \$29.2 million last year, a decrease of 4.8%. The decrease is the net effect of the addition of new long-term debt coupled with the extinguishment of existing debt through scheduled debt service payments.

Outstanding Debt, at fiscal year end - (in millions)

	<u>2009</u>	<u>2010</u>
2002 revenue bonds	\$ 0.9	\$ -
2005 revenue bonds	10.0	8.0
2007 revenue note	5.5	4.9
2002A&B notes-water treatment plant	2.1	2.0
2002C note - wastewater treatment plant	3.3	3.0
2005 OWRB fixed rate note	6.5	6.1
2009 OWRB DWSRF note	-	1.4
2009 OWRB CWSRF note	-	0.3
2009 BancFirst note	-	0.2
Long-term equipment leases	0.9	1.9
Totals	<u>\$ 29.2</u>	<u>\$ 27.8</u>

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES AND RATES

The customer base has increased slightly for the Stillwater Utilities Authority. Since June 30, 2009, the number of utility customers has increased an average of 1.2%.

Budgeting for the Authority is done in conjunction with budgeting for the City of Stillwater as a whole. Trends in rising operational costs led to the adoption of resolutions in June 2007 providing for annual rate increases for all utilities effective January 1 of each year equal to 3% or the most recent annual consumer price index for the south urban region as determined by the U.S. Bureau of Labor Statistics, whichever is less. Although the consumer price index in January 2010 did not warrant a rate increase, the Authority's Trustees approved a 3% increase in electric rates effective January 1, 2010 to offset rising purchased power costs.

In an effort to maintain the aging infrastructure of the water utility, the phasing in of a new rate structure began in Fiscal Year 2010. The first phase was made effective July 1, 2009 with the second phase being effective January 1, 2010. Additional phases of the water rate increase are included in the Fiscal Year 2011 budget and are effective July 1, 2010 and January 1, 2011.

Like the water utility, the wastewater utility is also facing increased costs to maintain its aging infrastructure. Additional rate increases effective July 1, 2010 and January 1, 2011 were included in the adoption of the Fiscal Year 2011 budget to aid in offsetting these costs.

CONTACTING THE STILLWATER UTILITIES AUTHORITY MANAGEMENT

This financial report is designed to provide our citizens, customers, taxpayers, bondholders and creditors with a general overview of the Authority's finances and to show accountability for the money it receives. Financial information for the Authority is also presented in the Comprehensive Annual Financial Report (CAFR) of the primary government, the City of Stillwater, Oklahoma. If you have questions about this report or need additional financial information, contact the Finance Department of the City of Stillwater, 723 S. Lewis St., P.O. Box 1449, Stillwater, Oklahoma 74076.

STILLWATER UTILITIES AUTHORITY
A Component Unit of the City of Stillwater, Oklahoma
Statement of Net Assets
June 30, 2010

ASSETS

Current assets:

Cash and cash equivalents	\$ 11,397,831
Cash and cash equivalents - internally designated	5,538,388
Restricted cash and cash equivalents	4,605,367
Accounts receivable, net of allowance for uncollectible accounts of \$263,660	8,021,073
Due from City of Stillwater	273,246
Interest receivable	57,917
Inventories	3,878,419
Total current assets	33,772,241

Noncurrent assets:

Restricted cash and cash equivalents	822,241
Investments	5,043,638
Unamortized bond expense	331,745
Capital assets: non depreciable	
Land	669,169
Construction work in progress	7,620,835
Capital assets: depreciable	
Water plant	73,641,246
Electric plant	73,284,155
Sewer plant	46,610,062
General plant assets	3,351,140
Less-accumulated depreciation	(104,132,353)
Total noncurrent assets	107,241,878
Total assets	141,014,119

LIABILITIES

Current liabilities:

Accounts payable	4,727,755
Accrued liabilities	307,098
Current portion of compensated absences	18,489
Accrued interest payable	264,852
Current portion of customer deposits payable	671,384
Current portion of long-term debt obligations, net	5,159,084
Total current liabilities	11,148,662

Noncurrent liabilities:

Noncurrent portion of compensated absences	620,143
Noncurrent portion of customer deposits payable	488,658
Noncurrent portion of long-term debt obligations, net	22,649,751
Other postemployment benefits	404,916
Total noncurrent liabilities	24,163,468
Total liabilities	35,312,130

NET ASSETS

Invested in capital assets, net of related debt	78,629,448
Restricted for debt service	2,440,346
Restricted for capital projects	1,827,220
Unrestricted	22,804,975
Total net assets	\$ 105,701,989

The accompanying notes are an integral part of this statement.

STILLWATER UTILITIES AUTHORITY
A Component Unit of the City of Stillwater, Oklahoma
Statement of Revenues, Expenses and Change in Net Assets
For the Year Ended June 30, 2010

Operating revenues:	
Charges for services, net of bad debt expense	\$ 54,457,172
Other	1,883,701
Total operating revenues	<u>56,340,873</u>
Operating expenses:	
Operations and maintenance	38,911,807
Depreciation	5,622,836
Total operating expenses	<u>44,534,643</u>
Operating income	<u>11,806,230</u>
Nonoperating revenues (expenses):	
Investment income	142,271
Miscellaneous	31,263
Bond issuance costs	(76,330)
Interest expense and fiscal charges	(835,956)
Total nonoperating revenues (expenses)	<u>(738,752)</u>
Income before contributions and transfers	11,067,478
Capital contributions	3,191,053
Transfers in	8,394,601
Transfers out	(18,799,888)
Change in net assets	<u>3,853,244</u>
Total net assets, beginning of year	101,848,745
Total net assets, end of year	<u>\$ 105,701,989</u>

The accompanying notes are an integral part of this statement.

STILLWATER UTILITIES AUTHORITY
A Component Unit of the City of Stillwater, Oklahoma
Statement of Cash Flows
For the Year Ended June 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers, including deposits	\$ 53,976,891
Payments to suppliers	(26,724,752)
Payments to employees	(9,741,828)
Internal activity-payments to other funds	(1,964,188)
Other receipts (payments)	1,883,701
Net cash provided by operating activities	<u>17,429,824</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from noncapital debt	240,236
Transfers in from other funds	6,303,046
Operating subsidies and transfers to other funds	(19,976,642)
Interest paid on noncapital debt	(4,784)
Net cash used in noncapital financing activities	<u>(13,438,144)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	1,659,353
Capital contributions	1,702,449
Proceeds from sale of capital assets	5,782
Transfers in related to capital financing	1,575,762
Purchases of capital assets	(5,520,710)
Debt issue costs paid	(154,450)
Principal paid on capital debt	(4,626,685)
Interest paid on capital debt	(904,213)
Net cash used in capital and related financing activities	<u>(6,262,712)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(5,000,000)
Investment income	40,716
Net cash used in investing activities	<u>(4,959,284)</u>
Net increase in cash and cash equivalents	(7,230,316)
Cash and cash equivalents, beginning of year	29,594,143
Cash and cash equivalents, end of year	<u>\$ 22,363,827</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 11,806,230
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	5,622,836
Changes in assets and liabilities:	
Receivables, net	(507,686)
Inventories	(784,553)
Accounts and other payables	1,112,614
Accrued liabilities	(26,820)
Other postemployment benefits	207,203
Net cash provided by operating activities	<u>\$ 17,429,824</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES	
Principal forgiveness on debt	1,702,449
Capital assets contributed to the Authority	1,488,604
Borrowings under capital lease	1,287,601
Change in fair value of investments	43,638

The accompanying notes are an integral part of this statement.

STILLWATER UTILITIES AUTHORITY
A Component Unit of the City of Stillwater, Oklahoma
Notes to Financial Statements
June 30, 2010

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The financial statements of the Stillwater Utilities Authority (the "Authority") are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard setting body for governmental accounting and financial reporting. In accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting", the Authority has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions, issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The more significant accounting policies of the Authority are described below.

Nature of Operations and Reporting Entity

The Authority is a public trust operating under a Trust Indenture dated April 1, 1979, which was created by an ordinance of the City of Stillwater, Oklahoma (the "City"). The City is the beneficiary of the trust. The Authority was created to operate and maintain a utilities system that provides electric, water and wastewater services to residents, businesses and industries located in the Stillwater area. Operations of the Authority commenced July 1, 1979. The City's five councilors who serve as Trustees govern the Authority. The Authority is a component unit of the City's reporting entity and is reported as an enterprise fund in the City's Comprehensive Annual Financial Report.

The Trust Indenture that established the Authority provides for transfers of surplus funds to the City at the sole discretion of the Trustees. Proceeds from the one cent sales tax (see Note 9) are not included in any such transfer since they are entirely exhausted on the Authority's monthly operations, maintenance, and bond payments.

The Trust Indenture limits the amount of bonds or notes that the Authority may issue in any fiscal year to 10% of its gross revenues (as defined) recorded in the preceding year. Per the trust indenture, the 10% limitation can be exceeded only upon approval by a majority of the City's qualified voters, voting on such question. However, no election is required for the issuance of:

- a. Indebtedness incurred to refund all or part of the Authority's outstanding indebtedness.
- b. Project completion bonds or notes authorized to be issued pursuant to the provisions of any indenture or other instrument securing the initial indebtedness to fund such project.
- c. Indebtedness incurred which is necessary to ensure the timely payment of outstanding Authority indebtedness and to operate in accordance with good utility practice as may be required by any indenture or other instrument securing any indebtedness of the Authority.

Basis of Accounting

The financial statements of the Authority are prepared on the accrual basis of accounting using the economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, highly liquid investments, and time deposits with original maturities of ninety days or less.

