

The City of  
*Stillwater*  
OKLAHOMA

STILL PIONEERING

STILLWATER ENERGY CENTER

**STILLWATER UTILITIES AUTHORITY**

Financial Statements and Reports of Independent Auditors

Fiscal Year Ended June 30, 2016



## GRAND OPENING / SEPTEMBER 27, 2016

The Stillwater Energy Center, 2000 E. Airport Rd., will provide clean, low-cost energy to its customers, support the national effort to reduce greenhouse gas emissions and promote economic growth in the Stillwater area. It features three Wartsila natural gas-fired reciprocating engines capable of producing 56 megawatts of electricity, the first of its kind in the state and the internal United States.



### **Left to Right**

City Manager Norman McNickle  
Deputy City Manager/SUA Director Dan Blankenship  
Councilor Emeritus Cody Scott  
Mayor Emeritus John Bartley  
Councilor Alane Zannotti  
Stillwater Electric Utility Director Loren Smith  
Councilor Will Joyce  
Councilor Miguel Najera  
Vice Mayor Pat Darlington





STILL PIONEERING

# STILLWATER UTILITIES AUTHORITY

Financial Statements and Reports of Independent Auditors

Fiscal Year Ended June 30, 2016

*Prepared by*  
Department of Finance

Melissa Reames  
Chief Financial Officer





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# STILLWATER UTILITIES AUTHORITY

## Independent Auditor's Report



BERBERICH TRAHAN & CO., P.A.  
Certified Public Accountants

### INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Stillwater Utilities Authority  
Stillwater, Oklahoma

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Stillwater Utilities Authority (the Authority), a component unit of the City of Stillwater, Oklahoma (the City), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements 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**

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 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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# STILLWATER UTILITIES AUTHORITY

## Independent Auditor's Report



### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows for the years 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 on pages 3 - 6 and the Schedule of Funding Progress on page 30 be presented to supplement the basic 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. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2016 on our consideration of the Authority's internal control over financial reporting and on our 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 our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the Authority's internal control over financial reporting and compliance.

*Berberich Trahan & Co., P.A.*

October 27, 2016  
Topeka, Kansas

# STILLWATER UTILITIES AUTHORITY

## A Component Unit of the City of Stillwater, Oklahoma Management's Discussion and Analysis



The following discussion and analysis of the Stillwater Utilities Authority (the "Authority") provides our readers an overview of the Authority's financial activities for the year ended June 30, 2016 in comparison with the prior year financial results. Please consider the information presented here in conjunction with the financial statements, which begin on page 7.

### USING THE FINANCIAL STATEMENTS IN THIS ANNUAL REPORT

The basic financial statements presented in this report consist of the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, the Statements of Cash Flows, and the Notes to Financial Statements.

The Statements of Net Position include 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. The Statements of Revenues, Expenses and Changes in Net Position report all of the Authority's revenues and expenses for the period regardless of when cash is received or paid. Together, the two statements report the Authority's net position and the changes from the prior year. Net position is the difference between assets and liabilities and is one way to measure the Authority's financial condition or position. Over time, increases or decreases in the Authority's net position are indicators of the financial health of the Authority.

The Statements of Cash Flows report the cash provided and used by operating, investing, and financing activities of the Authority during the reporting period.

The Notes to Financial Statements provide additional explanation and details about the financial information reported in the financial statements.

### FINANCIAL ANALYSIS

#### *Net Position*

A comparative overview of the major components of the Statements of Net Position as of June 30 is shown below.

<i>(in millions)</i>	2016	2015	2014
Current Assets	\$93.5	\$138.4	\$78.7
Noncurrent assets	194.3	131.2	108.6
<b>Total assets</b>	<b>287.8</b>	<b>269.6</b>	<b>187.3</b>
Current liabilities	17.6	12.2	10.3
Noncurrent liabilities	88.0	90.4	24.5
<b>Total liabilities</b>	<b>105.6</b>	<b>102.6</b>	<b>34.8</b>
Net position –			
Net investment in capital assets	110.8	94.8	86.0
Restricted for debt service	1.1	1.1	0.3
Restricted for capital projects	1.6	2.3	0.6
Unrestricted	68.7	68.8	65.6
<b>Total net position</b>	<b>\$182.2</b>	<b>\$167.0</b>	<b>\$152.5</b>

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

The largest portion of the Authority’s net position (60.8% in 2016 and 56.8% in 2015) 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 Authority 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 position (1.5% in 2016 and 2.0% in 2015) represents resources that are subject to restrictions as to how they may be used. The remaining balance (37.7% in 2016 and 41.2% in 2015) is unrestricted.

The decrease in current assets of \$45 million or 32.5% in 2016 represents the decrease in bond proceeds from the issuance of Series 2014A Revenue Bonds on August 12, 2014. The bond proceeds were used for the purpose of constructing a 56 MW reciprocating engine power plant and associated 69kV to 12.47 kV electrical substation. The \$63.1 million increase in noncurrent assets is due the addition of power plant assets funded by the bond proceeds. Construction of the power plant was completed July 2016.

**Changes in Net Position**

For the year ended June 30, 2016 and 2015, the Authority’s net position increased by \$15.1 million or 9.1% and \$14.5 million or 9.5%, respectively. Detail of the increase in net position is presented below in a comparative overview of the major components of the Statement of Revenues, Expenses and Changes in Net Position for each of the years ended June 30:

<i>(in millions)</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Operating revenues	\$73.1	\$75.5	\$72.9
Operating expenses	52.8	56.6	52.8
Operating income	20.3	18.9	20.1
Nonoperating revenues (expenses)	(5.3)	(5.0)	(3.0)
<b>Net income before contributions</b>	<b>15.0</b>	<b>13.9</b>	<b>17.1</b>
Capital contributions	0.1	0.6	0.1
<b>Increase in net position</b>	<b>\$15.1</b>	<b>\$14.5</b>	<b>\$17.2</b>

In 2016, operating expenses decreased \$3.8 million due to a reduction in the power cost adjustment (PCA) billed to the Authority by the purchased power supplier. Because the Authority passes on the PCA billed by the power supplier to its customers, a decrease in operating revenues in the amount of \$2.4 million was realized when the PCA was reduced.

In 2015, operating expenses increased by \$3.8 million due to a \$2.4 million increase in purchased power, increases in employee health insurance costs and increases in utility system repair costs. The \$2.6 million increase in operating revenues is due increases in the rates of the electric, water, and wastewater utilities. The increase in nonoperating expenses during 2015 is due to \$0.9 million in debt issuance costs associated with the 2014 bond issuance as well as an increase in the transfer to the City of Stillwater in the amount of \$1.1 million.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

The following is a summary of changes in capital assets and debt administration for the years ended June 30, 2016 and 2015. More detailed information on capital asset activity and long-term debt activity is contained in the accompanying notes to the financial statements on pages 16-23.

### Capital Assets

At June 30, 2016 and 2015, the Authority had \$188.6 million and \$125.8 million, respectively, invested in capital assets including water and sewer lines, electric systems, and equipment.

<b>Capital Assets, Net of Accumulated Depreciation</b>			
<i>(in millions)</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Land	\$1.0	\$1.0	\$1.0
Intangible assets	1.5	1.5	1.5
Water plant	40.6	40.8	42.3
Electric plant	26.1	26.1	26.6
Wastewater plant	29.5	29.9	28.5
Construction work in progress	87.3	23.9	6.2
General plant	2.6	2.6	1.3
<b>Totals</b>	<b>\$188.6</b>	<b>\$125.8</b>	<b>\$107.4</b>

### Debt Administration

At June 30, 2016 and 2015, the Authority had \$88.6 million and \$92.1 million, respectively, in bonds, notes, and long-term leases outstanding. The 2016 decrease of \$3.5 million is due to debt service payments made on long term debt as indicated in the chart below. The 2015 increase of \$66.0 million is due to the issuance of Series 2014A Revenue Bonds for the purpose of designing and constructing a 56 MW reciprocating engine power plant and associated 69 kV to 12.47 kV electrical substation.

<b>Outstanding Debt, at fiscal year end</b>			
<i>(in millions)</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>
2014 revenue bonds	\$68.0	\$68.2	\$0.0
2007 revenue note	0.4	1.2	2.0
2010 revenue note	0.5	1.6	2.6
2002A&B notes-water treatment plant	0.9	1.1	1.3
2002C note - wastewater treatment plant	1.6	1.8	2.1
2005 OWRB fixed rate note	4.0	4.4	4.8
2009 OWRB DWSRF note	8.2	8.6	9.0
2009 OWRB CWSRF note	1.0	1.0	1.0
USACE note	0.9	0.9	0.9
Long-term equipment leases	3.1	3.3	2.4
<b>Totals</b>	<b>\$88.6</b>	<b>\$92.1</b>	<b>\$26.1</b>



## ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES AND RATES

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 a resolution in June 2007 providing for annual rate increases for the electric utility 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. No rate increases were effective for electric service rates on January 1, 2016.

A water and wastewater cost of service and rate design study was completed in Fiscal Year 2015 which led to the adoption of a resolution establishing new water and wastewater rate structures for our retail, wholesale, and raw water customers. The resolution sets the rates for Fiscal Years 2016, 2017, and 2018.

## 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 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

Statements of Net Position

As of June 30, 2016 and 2015

<b>ASSETS</b>	<b>2016</b>	<b>2015</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$56,663,743	\$52,009,141
Restricted cash and cash equivalents	12,663,828	61,920,307
Investments	9,277,614	9,062,723
Accounts receivable, net of allowance for uncollectible accounts of \$279,028 in 2016 and \$294,316 in 2015	10,823,272	10,524,108
Interest receivable	4,132	38,465
Inventories	4,065,805	4,916,488
<b>Total current assets</b>	<b>93,498,394</b>	<b>138,471,232</b>
<b>Noncurrent assets:</b>		
Restricted cash and cash equivalents	1,395,971	1,296,890
Restricted investments	4,304,317	4,117,186
<b>Capital assets: non depreciable</b>		
Land	1,042,994	1,037,894
Intangible assets	1,530,403	1,530,403
Construction work in progress	87,278,577	23,863,632
<b>Capital assets: depreciable</b>		
Water plant	94,227,276	91,514,163
Electric plant	83,909,489	82,148,447
Sewer plant	55,878,439	54,717,461
General plant assets	5,387,610	5,179,814
Less-accumulated depreciation	(140,653,098)	(134,220,191)
<b>Total noncurrent assets</b>	<b>194,301,978</b>	<b>131,185,699</b>
<b>Total assets</b>	<b>287,800,372</b>	<b>269,656,931</b>
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable	10,846,989	5,143,871
Accrued liabilities	286,111	574,771
Current portion of compensated absences	127,491	51,272
Due to City of Stillwater	1,229,487	389,529
Accrued interest payable	877,088	894,571
Current portion of customer deposits payable	775,016	766,469
Current portion of long-term debt obligations, net	3,508,247	4,359,013
<b>Total current liabilities</b>	<b>17,650,429</b>	<b>12,179,496</b>
<b>Noncurrent liabilities:</b>		
Noncurrent portion of compensated absences	771,736	758,226
Noncurrent portion of customer deposits payable	644,402	630,049
Noncurrent portion of long-term debt obligations, net	85,130,999	87,776,232
Other postemployment benefits	1,433,385	1,274,733
<b>Total noncurrent liabilities</b>	<b>87,980,522</b>	<b>90,439,240</b>
<b>Total liabilities</b>	<b>105,630,951</b>	<b>102,618,736</b>
<b>NET POSITION</b>		
Net investment in capital assets	110,769,016	94,878,967
Restricted for debt service	1,057,398	1,056,953
Restricted for capital projects	1,655,304	2,282,192
Unrestricted	68,687,703	68,820,083
<b>Total net position</b>	<b>\$182,169,421</b>	<b>\$167,038,195</b>

The accompanying notes are an integral part of this statement.



# STILLWATER UTILITIES AUTHORITY

## A Component Unit of the City of Stillwater, Oklahoma Statements of Revenues, Expenses and Changes in Net Position For the Years Ended June 30, 2016 and 2015



	2016	2015
<b>Operating revenues:</b>		
Charges for services, net of bad debt expense	\$69,632,931	\$71,914,143
Other	3,515,729	3,577,687
<b>Total operating revenues</b>	<b>73,148,660</b>	<b>75,491,830</b>
<b>Operating expenses:</b>		
Operations and maintenance	45,967,377	49,766,394
Depreciation	6,809,697	6,818,274
<b>Total operating expenses</b>	<b>52,777,074</b>	<b>56,584,668</b>
<b>Operating income</b>	<b>20,371,586</b>	<b>18,907,162</b>
<b>Nonoperating revenues (expenses):</b>		
Investment income	701,429	369,412
Miscellaneous	(82,007)	503,379
Debt issuance costs	(155,500)	(963,859)
Interest expense and fiscal charges	(364,234)	(467,581)
Transfer from City of Stillwater	10,256,584	10,250,753
Transfer to City of Stillwater	(15,683,672)	(14,688,194)
<b>Total nonoperating revenues (expenses)</b>	<b>(5,327,400)</b>	<b>(4,996,090)</b>
<b>Income before contributions</b>	<b>15,044,186</b>	<b>13,911,072</b>
<b>Capital contributions</b>	<b>87,040</b>	<b>604,049</b>
<b>Change in net position</b>	<b>15,131,226</b>	<b>14,515,121</b>
<b>Total net position, beginning of year</b>	<b>167,038,195</b>	<b>152,523,074</b>
<b>Total net position, end of year</b>	<b>\$182,169,421</b>	<b>\$167,038,195</b>

*The accompanying notes are an integral part of this statement.*

# STILLWATER UTILITIES AUTHORITY

A Component Unit of the City of Stillwater, Oklahoma

Statements of Cash Flows

For the Years Ended June 30, 2016 and 2015

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers, including deposits	\$69,356,667	\$71,554,232
Payments to suppliers	(24,941,984)	(35,063,255)
Payments to employees	(13,333,501)	(12,447,956)
Payments to City of Stillwater for administrative costs	(1,178,370)	(1,178,370)
Other receipts	3,515,729	3,577,687
Net cash provided by operating activities	33,418,541	26,442,338
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers from City of Stillwater	8,205,267	8,200,602
Operating subsidies and transfers to City of Stillwater	(14,487,281)	(13,671,374)
Net cash used in noncapital financing activities	(6,282,014)	(5,470,772)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from capital debt	306,638	68,417,490
Proceeds from sale of capital assets	25,846	37,916
Transfers from City of Stillwater related to capital financing	2,051,317	2,050,151
Purchases of capital assets	(66,545,573)	(20,235,886)
Debt issuance costs paid	(155,500)	(963,859)
Principal paid on capital debt	(4,196,780)	(4,010,464)
Interest paid on capital debt	(3,458,729)	(2,492,489)
Net cash provided by (used in) capital and related financing activities	(71,972,781)	42,802,859
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(9,022,042)	(8,138,100)
Proceeds from maturities of investments	9,022,042	4,083,117
Interest received	333,458	219,448
Net cash provided by (used in) investing activities	333,458	(3,835,535)
Net increase (decrease) in cash and cash equivalents	(44,502,796)	59,938,890
Cash and cash equivalents, beginning of year	115,226,338	55,287,448
Cash and cash equivalents, end of year	\$70,723,542	\$115,226,338
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$20,371,586	\$18,907,162
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,809,697	6,818,274
Changes in assets and liabilities:		
Receivables, net	(299,164)	(137,195)
Inventories	850,683	146,262
Accounts and other payables	5,726,018	420,747
Accrued liabilities	(198,931)	99,466
Other postemployment benefits	158,652	187,622
Net cash provided by operating activities	\$33,418,541	\$26,442,338
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
Capital assets contributed to the Authority	\$87,040	\$604,049
Capital assets transferred to City of Stillwater	548,131	0
Borrowings under capital lease	628,106	1,799,556
Premium amortization	233,962	206,400
Change in fair value of investments	378,883	125,798

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

As of and for the Years Ended June 30, 2016 and 2015



## 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. 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”), and amended by an Amendment to Trust Indenture dated November 1, 1980, and further amended by a Second Amendment to Trust Indenture dated March 24, 2014. 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 40% of its gross revenues (as defined) recorded in the preceding year. The Trust Indenture also does not allow for Trustee authorization of bonds or notes in any amount if a utility rate increase is necessary to fund such bonds or notes at the time of issuance. Per the Trust Indenture, the debt limitations 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.
- d. Indebtedness to be primarily funded by the proceeds of a contract, agreement, or other collateral source that was not at the time of the issuance of such debt an existing revenue source 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.

### *Investments*

Money market investments with an original maturity of one year or less are recorded at amortized cost. Long term investments are recorded at fair value.

### *Assets Internally Designated*

Assets internally designated consist of cash and cash equivalents set aside by the Board of Trustees in anticipation of future potential operating cost increases and/or future substantial capital expenditure requirements and at the Board's discretion may subsequently be used for other purposes. As of June 30, 2016 and 2015, cash and cash equivalents in the amount of \$43,854,970 and \$37,843,331, respectively, have been internally designated by the Authority for this purpose.

### *Restricted Assets*

Certain assets of the Authority are classified as restricted assets since their use is restricted by applicable bond indentures and agreements.

### *Accounts Receivable*

Substantially all accounts receivable relate to electric, water, wastewater, and solid waste services provided to residents, businesses, and industries located in the Stillwater area. Unbilled, but earned, revenues are accrued as accounts receivable and recognized as revenue at year end.

### *Inventories*

Inventories of materials and supplies are valued at the lower of average cost or market.

### *Capital Assets*

The cost of utility plant includes direct material, direct labor, and indirect costs such as engineering fees. Assets are recorded at historical cost except for donated assets which are recorded at fair value at the time of donation. The cost of routine maintenance and repairs to property is expensed. For depreciation purposes, assets are depreciated over their estimated useful lives (ranging from 3 to 50 years) using the straight-line method. Gains and losses are included in operations in the period the asset is retired or removed from service.

### *Capitalized Interest*

The Authority capitalizes net interest costs during the construction period on funds borrowed to finance the construction of significant capital projects. Total interest incurred by the Authority during the years ended June 30, 2016 and 2015 was \$3,207,284 and \$2,986,839 respectively. Of these amounts, \$2,843,050 was capitalized during 2016 and \$2,519,258 was capitalized during 2015 on construction in progress.

### *Unamortized Debt Discount and Premium*

Debt discount and premium are amortized using the straight-line method, which approximates the effective interest method, over the life of the applicable debt. Amortized debt discount and premium are reported as a component of interest expense.

### *Unamortized Loss Due to Bond Refunding*

A non-cash gain or loss resulting from the refunding of bonds is amortized using the straight-line method over the original life of the defeased bonds. Loss on defeasance is reported as a component of interest expense.



### Operating and Nonoperating Revenues

Operating revenues are those that result from providing services to customers. All revenues not meeting this definition are reported as nonoperating revenues.

### Transfers

Permanent transfers of assets between the Authority and the City are recorded as nonoperating revenues and expenses.

### Compensated Absences

Full-time employees of the Authority accumulate vacation leave benefits each pay period at various rates depending upon tenure with the Authority and may accumulate and carry over to subsequent years up to 25 days of unused vacation leave depending upon their tenure. Upon termination, employees are paid for unused vacation. Full-time employees accumulate sick leave at a set rate each pay period and may accrue upon a maximum of 1,000 hours of sick leave. An employee with five or more years of service who retires or resigns receives 10% of the accumulated sick leave to be computed at the rate of pay being received by the employee at retirement or resignation date. Employees with ten to thirty years of service receive a percentage payment of their unused sick leave ranging from 12.5 to 35%. The liability is estimated based on historical trends using the amounts that would be payable if termination occurred at the end of the fiscal year.

### Other Postemployment Benefits (OPEB)

Other postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Of the total benefits offered by employers to attract and retain qualified employees, some benefits, including salaries and active employee health care, are taken while the employees are in active service, whereas other benefits, including postemployment health care and other OPEB, are taken after the employees' services have ended. Nevertheless, both types of benefits constitute compensation for employee services. In accordance with GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," the Authority recognizes annual OPEB costs during the periods when employees render their services and provides disclosure of the actuarially accrued liabilities related to past services and the progress of funding the benefits.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Equity Classifications

Equity is classified as net position and is displayed in three components:

- Net investment in capital assets — This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted—This component of net position consists of constraints placed on net position use by external groups such as creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through ordinance or other enabling legislation. For the year ended June 30, 2016, the statement of net position reports restricted net position in the amount of \$2,712,702, of which \$696,813 is restricted by enabling legislation. For the year ended June 30, 2015, the statement of net position reports restricted net position in the amount of \$3,339,145, of which \$612,085 is restricted by enabling legislation.

- Unrestricted—This component of net position consists of net positions that do not meet the definition of “net investment in capital assets” or “restricted.”

When both restricted and unrestricted net positions are available for use, it is the Authority’s policy to use restricted resources first.

### Adoption of New Accounting Standards

During the year, the Authority adopted the following accounting standards:

- GASB Statement No. 72, “Fair Value Measurement and Application” — This Statement addresses accounting and financial reporting issues related to fair value measurements. The application of this statement resulted in the categorization of Authority investment assets as reflected in Note 2.
- GASB Statement No. 73, “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68” — The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This statement did not have an impact on the Authority’s financial statements.
- GASB Statement No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments” — The objective of this Statement is to identify the hierarchy of generally accepted accounting principles and supersedes GASB Statement No. 55, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.” This statement did not have an impact on the Authority’s financial statements.

## 2. DEPOSITS AND INVESTMENTS

### Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, a government’s deposits may not be returned. The Authority’s deposit policy for custodial credit risk requires compliance with the provisions of state law. State law requires collateralization of all deposits with federal depository insurance, U.S. government issues, U.S. government insured securities, State of Oklahoma bonds, or bonds of any Oklahoma county or school district of the State of Oklahoma. At June 30, 2016 and 2015, the Authority was not exposed to custodial credit risk.

### Investments

It is the Authority’s policy to use state statutes as the Authority’s investment guide. Oklahoma Statutes authorize municipalities to invest in obligations of the U.S. government, its agencies and instrumentalities; collateralized or insured certificates of deposit and other evidences of deposits at financial institutions within this state, or fully insured certificates of deposit at financial institutions located out of state; negotiable certificates of deposit issued by a nationally or state-chartered bank; prime banker’s acceptances which are eligible for purchase by the Federal Reserve System and which do not exceed 270 days’ maturity; prime commercial paper which shall not have a maturity that exceeds 180 days nor represent more than 10% of the outstanding paper of an issuing corporation; repurchase agreements that have underlying collateral consisting of those items specified above; and money market funds regulated by the Securities and Exchange Commission and which investments consist of those items noted above.

**Interest Rate Risk** — Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The Authority’s investment policy does not address interest rate risk.

**Credit Risk** — Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Authority’s investment policy does not address credit risk.

**Concentration of Credit Risk** — The Authority places no limit on the amount that may be invested in any one issuer.

**Custodial Credit Risk** — For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority’s investment policy does not address custodial credit risk. However, the Authority’s investments are held in the Authority’s name, thus the Authority had no exposure to custodial credit risk at June 30, 2016 and 2015.

**Fair Value Measurement** — The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. For the years ended June 30, 2016 and 2015, all investments of the Authority were valued using pricing of similar assets in markets that are not active (Level 2 input).

The Authority had the following investments at June 30, 2016:

Type	Credit Rating	Fair Value	Less than 1	1-5	6-10	More than 10
Certificates of Deposit	(1)	\$8,581,796	\$4,277,479	\$0	\$4,304,317	\$0
U.S. Agencies-FHLMC	AA (2)	5,000,135	0	5,000,135	0	0
		\$13,581,931	\$4,277,479	\$5,000,135	\$4,304,317	\$0

(1) not subject to rating  
(2) Standard and Poor’s

The Authority had the following investments at June 30, 2015:

Type	Credit Rating	Fair Value	Less than 1	1-5	6-10	More than 10
Certificates of Deposit	(1)	\$8,371,244	\$4,254,058	\$0	\$4,117,186	\$0
U.S. Agencies-FHLMC	AA (2)	4,808,665	0	0	0	4,808,665
		\$13,179,909	\$4,254,058	\$0	\$4,117,186	\$4,808,665

(1) not subject to rating  
(2) Standard and Poor’s

Deposits and investments presented in the statement of net position as of June 30, 2016 and 2015 are as follows:

	2016	2015
Cash and cash equivalents:		
Unrestricted	\$56,663,743	\$52,009,141
Restricted-current	12,663,828	61,920,307
Restricted-noncurrent	1,395,971	1,296,890
Investments:		
Unrestricted-current	9,277,614	9,062,723
Restricted-noncurrent	4,304,317	4,117,186
<b>Total</b>	<b>\$84,305,473</b>	<b>\$128,406,247</b>



### 3. RESTRICTED ASSETS

Certain assets of the Authority are restricted in their use by bond and note indentures. Cash and cash equivalents, classified as current, in the amount of \$11,807,704 at June 30, 2016 and \$61,074,892 at June 30, 2015 have been restricted in use to the service of debt. Investments, classified as noncurrent, in the amount \$4,304,317 and \$4,117,186 at June 30, 2016 and 2015, respectively, have been restricted for this purpose.

Certain cash and cash equivalents of the Authority are restricted by agreement for the purpose of acquiring necessary easements related to water line upgrades for an area of service purchased from a rural water district. As of June 30, 2016 and 2015 cash and cash equivalents, classified as non-current, in the amount of \$54,756 were restricted for this purpose.

Cash and cash equivalents received from customers as a water tie-on charge for new connections to the water distribution system are restricted by an ordinance of the City for the purpose of financing future construction of extensions and improvements to the water distribution system of the City. Cash and cash equivalents, classified as non-current, in the amount of \$696,813 at June, 30 2016 and \$612,085 at June 30, 2015 were restricted for this purpose.

Cash and cash equivalents received from utility customers for payment of the Western Payne County Ambulance Trust Authority (WPCATA) Subscription Fee are restricted in their use. Per agreement, the Authority remits to the WPCATA on a monthly basis all money collected from said charge. As of June 30, 2016 and 2015 cash and cash equivalents, classified as current, in the amount of \$81,108 and \$78,946, respectively, were restricted for this purpose.

Customer deposits received for water or electric service are restricted in their use toward the customer's final bill. As of June 30, 2016 cash and cash equivalents in the amount of \$1,419,418, of which \$775,016 is classified as current and \$644,402 is classified as non-current, have been restricted for customer deposits. As of June 30, 2015 cash and cash equivalents in the amount of \$1,396,518, of which \$766,469 is classified as current and \$630,049 is classified as non-current, have been restricted for customer deposits.

4. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2016 and 2015 was as follows:

<b>2016</b>					
	<b>Balance at June 30, 2015</b>	<b>Asset Reclassifications</b>	<b>Additions, Net of Transfers</b>	<b>Deletions, Net of Transfers</b>	<b>Balance at June 30, 2016</b>
Capital assets not being depreciated:					
Land	\$1,037,894	\$3,100	\$2,000	\$0	\$1,042,994
Intangible assets	1,530,403	0	0	0	1,530,403
Construction work in progress	23,863,632	0	68,066,767	4,651,822	87,278,577
<b>Total capital assets not being depreciated</b>	<b>26,431,929</b>	<b>3,100</b>	<b>68,068,767</b>	<b>4,651,822</b>	<b>89,851,974</b>
Other capital assets:					
Buildings	3,412,759	65,769,288	406,867	0	69,615,914
Improvements other than buildings	200,658,883	(200,565,698)	17,085	0	110,270
Machinery and equipment	29,488,243	(228,946)	1,786,542	762,166	30,283,673
Infrastructure	0	134,995,256	4,570,920	173,219	139,392,957
<b>Total other capital assets at historical cost</b>	<b>233,559,885</b>	<b>(3,100)</b>	<b>6,781,414</b>	<b>935,385</b>	<b>239,402,814</b>
Less accumulated depreciation for:					
Buildings	2,538,896	40,670,560	1,948,570	0	45,158,026
Improvements other than buildings	115,269,303	(115,227,501)	5,730	0	46,532
Machinery and equipment	16,411,992	(383,495)	1,455,105	203,571	17,280,031
Infrastructure	0	74,940,436	3,401,292	173,219	78,168,509
<b>Total accumulated depreciation</b>	<b>134,220,191</b>	<b>0</b>	<b>6,809,697</b>	<b>376,790</b>	<b>140,653,098</b>
<b>Other capital assets, net</b>	<b>99,339,694</b>	<b>(3,100)</b>	<b>(28,283)</b>	<b>558,595</b>	<b>98,749,716</b>
<b>Total capital assets, net</b>	<b>\$125,771,623</b>	<b>\$0</b>	<b>\$68,040,484</b>	<b>\$5,210,417</b>	<b>\$188,601,690</b>

<b>2015</b>					
	<b>Balance at June 30, 2014</b>	<b>Asset Reclassifications</b>	<b>Additions, Net of Transfers</b>	<b>Deletions, Net of Transfers</b>	<b>Balance at June 30, 2015</b>
<b>Capital assets not being depreciated:</b>					
Land	\$1,021,969	\$0	\$15,925	\$0	\$1,037,894
Intangible assets	1,530,403	0	0	0	1,530,403
Construction work in progress	6,179,523	0	21,286,660	3,602,551	23,863,632
<b>Total capital assets not being depreciated</b>	<b>8,731,895</b>	<b>0</b>	<b>21,302,585</b>	<b>3,602,551</b>	<b>26,431,929</b>
<b>Other capital assets:</b>					
Buildings	8,341,759	0	0	0	3,412,759
Improvements other than buildings	195,538,493	0	5,120,390	0	200,658,883
Machinery and equipment	27,310,160	0	2,333,274	155,191	29,488,243
<b>Total other capital assets at historical cost</b>	<b>226,261,412</b>	<b>0</b>	<b>7,453,664</b>	<b>155,191</b>	<b>233,559,885</b>
<b>Less accumulated depreciation for:</b>					
Buildings	2,105,683	0	433,213	0	2,538,896
Improvements other than buildings	110,304,519	0	4,964,784	0	115,269,303
Machinery and equipment	15,146,906	0	1,420,277	155,191	16,411,992
<b>Total accumulated depreciation</b>	<b>127,557,108</b>	<b>0</b>	<b>6,818,274</b>	<b>155,191</b>	<b>134,220,191</b>
<b>Other capital assets, net</b>	<b>98,704,304</b>	<b>0</b>	<b>635,390</b>	<b>0</b>	<b>99,339,694</b>
<b>Total capital assets, net</b>	<b>\$107,436,199</b>	<b>\$0</b>	<b>\$21,937,975</b>	<b>\$3,602,551</b>	<b>\$125,771,623</b>

### Contributed Capital Assets

For the year ended June 30, 2016 and 2015, the Authority accepted and received water and sewer lines that were installed by developers amounting to \$87,040 and \$604,049, respectively.

## 5. LONG-TERM LIABILITIES

As of June 30, 2016 and 2015, the Authority's outstanding debt consisted of the following:

<b>Revenue Bonds Payable</b>	<b>2016</b>	<b>2015</b>
Series 2014A Revenue Bonds dated August 14, 2014, original issue amount of \$61,830,000, secured by utility revenues, interest rates range from 3% to 5%, semiannual interest and annual principal installments commencing October 1, 2014 through October 1, 2042	\$61,830,000	\$61,830,000
Plus: Unamortized Debt Premium	<u>6,147,127</u>	<u>6,381,090</u>
<b>Total Revenue Bonds Payable</b>	<u><u>\$67,977,127</u></u>	<u><u>\$68,211,090</u></u>
Current portion	\$233,963	\$233,963
Noncurrent portion	<u>67,743,164</u>	<u>67,977,127</u>
<b>Total Revenue Bonds Payable</b>	<u><u>\$67,977,127</u></u>	<u><u>\$68,211,090</u></u>
<b>Notes Payable</b>	<b>2016</b>	<b>2015</b>
2002 Oklahoma Water Resources Board (OWRB) SRF Note Payable dated February 28, 2002, original amount of \$3,413,483, secured by utility revenues, no interest plus an administrative fee of 0.5%, semiannual installments of principal commencing March 15, 2002 through September 15, 2021	\$938,708	\$1,109,382
2002 OWRB SRF Note Payable dated December 19, 2002, original amount of \$4,876,086, secured by utility revenues, no interest plus an administrative fee of 0.5%, semiannual installments of principal commencing March 15, 2003 through September 15, 2022	1,584,728	1,828,532
2005 OWRB Fixed Rate Note Payable dated June 29, 2005, original amount of \$7,620,000, secured by utility revenues, 2.6% interest plus an administrative fee of 0.5%, semiannual installments of principal and interest commencing September 15, 2005 through March 15, 2025	4,018,999	4,399,526
2007 Revenue Note dated December 5, 2007, original amount of \$6,010,000, secured by dedicated 1/2 cent sales tax revenues, 3.68% interest rate, semiannual installments of principal and interest commencing December 1, 2008 through December 1, 2016	420,000	1,240,000
2009 OWRB DWSRF Note Payable dated November 24, 2009, original amount of \$11,645,000, \$2,000,000 in principal forgiveness from American Recovery and Reinvestment Act grant funds, secured by utility revenues, 2.84% interest plus an administrative fee of 0.5%, semiannual principal installments commencing March 15, 2013 through September 15, 2032	8,236,636	8,603,368
2009 OWRB CWSRF Note Payable dated November 24, 2009, original amount of \$1,875,000, \$578,999 in principal forgiveness from American Recovery and Reinvestment Act grant funds, secured by utility revenues, 2.34% interest plus an administrative fee of 0.5%, semiannual principal installments commencing March 15, 2011 through September 15, 2030	955,638	1,008,004
2010 Revenue Note dated September 23, 2010, original amount of \$6,075,000, secured by dedicated 1/2 cent sales tax revenues, 2.33% interest rate, semiannual installments of principal and interest commencing December 1, 2010 through December 1, 2016	540,000	1,600,000

<b>Notes Payable (Cont.)</b>	<b>2016</b>	<b>2015</b>
2016 Oklahoma Water Resources Board (OWRB) SRF Note Payable dated June 27, 2016, not to exceed \$29,900,000, secured by utility revenues, 1.82% interest plus an administrative fee of 0.5%, semiannual principal installments commence the earlier of March 15, 2017 or construction completion	0	0
United States Army Corp of Engineers Note dated September 26, 1980, original amount of \$1,530,403, 3.222% interest, annual interest and principal installments commencing August 27, 1984 through August 27, 2034	845,728	877,659
<b>Total Notes Payable</b>	<b>\$17,540,437</b>	<b>\$20,666,471</b>
Current portion	\$2,233,931	\$3,126,034
Noncurrent portion	15,306,506	17,540,437
<b>Total Notes Payable</b>	<b>\$17,540,437</b>	<b>\$20,666,471</b>

### Capital Lease Obligations

Borrowings have been advanced pursuant to a credit agreement with Bank of America, N.A. that provides for the purchase of equipment. Total borrowings are limited to \$7.9 million with a fixed interest rate determined at the time of funding. Total borrowings under this credit agreement at June 30, 2016 and 2015 amounted to \$5.2 million and \$4.3 million, respectively, and are denoted with a (\*) below.

<b>Capital Lease Obligations</b>	<b>2016</b>	<b>2015</b>
Total cost of capital assets financed by lease obligations	\$5,107,091	\$5,904,312
Less: accumulated depreciation	(1,109,892)	(1,164,214)
<b>Net capital assets financed by lease obligations</b>	<b>\$3,997,199</b>	<b>\$4,740,098</b>
\$245,932 capital lease with Capital One for equipment, fixed interest rate of 2.8172%, monthly installments commencing August 30, 2010 through July 30, 2015	\$0	\$4,389
\$223,024 capital lease with Capital One for equipment, fixed interest rate of 2.6612%, monthly installments commencing September 30, 2010 through August 30, 2015	0	7,921
\$43,166 capital lease with Capital One for equipment, fixed interest rate of 2.6677%, monthly installments commencing October 15, 2010 through September 15, 2015	0	2,298
\$313,375 capital lease with Capital One for equipment, fixed interest rate of 2.6612%, monthly installments commencing January 15, 2011 through December 15, 2015	0	33,245
\$15,000 capital lease with Capital One for equipment, fixed interest rate of 2.9082%, monthly installments commencing April 30, 2011 through March 30, 2016	0	2,391
\$19,548 capital lease with Capital One for equipment, fixed interest rate of 2.6612%, monthly installments commencing July 30, 2011 through June 30, 2016	0	4,120
\$124,760 capital lease with Capital One for equipment, fixed interest rate of 2.4337%, monthly installments commencing October 30, 2011 through September 30, 2016	6,609	32,646



<b>Capital Lease Obligations (Cont.)</b>	<b>2016</b>	<b>2015</b>
\$258,550 capital lease with Capital One for equipment, fixed interest rate of 2.5442%, monthly installments commencing January 15, 2012 through December 15, 2016	27,358	81,043
\$123,127 capital lease with Bank of America for equipment, fixed interest rate of 2.4857%, monthly installments commencing February 29, 2012 through January 30, 2017*	15,169	40,668
\$92,387 capital lease with Bank of America for equipment, fixed interest rate of 2.4597%, monthly installments commencing June 15, 2012 through May 15, 2017*	17,798	36,763
\$80,244 capital lease with Bank of America for equipment, fixed interest rate of 2.3687%, monthly installments commencing September 30, 2012 through August 30, 2017*	19,594	58,057
\$62,427 capital lease with Bank of America for equipment, fixed interest rate of 2.3167%, monthly installments commencing October 30, 2012 through September 30, 2017*	16,297	28,999
\$412,263 capital lease with Bank of America for equipment, fixed interest rate of 2.2972%, monthly installments commencing January 30, 2013 through December 30, 2017*	128,757	212,165
\$223,323 capital lease with Bank of America for equipment, fixed interest rate of 2.3882%, monthly installments commencing March 30, 2013 through February 28, 2018*	77,461	122,480
\$286,920 capital lease with Bank of America for equipment, fixed interest rate of 2.3362%, monthly installments commencing April 15, 2013 through March 15, 2018**	104,252	161,940
\$78,040 capital lease with Bank of America for equipment, fixed interest rate of 2.3687%, monthly installments commencing May 15, 2013 through April 15, 2018*	29,706	45,374
\$122,925 capital lease with Bank of America for equipment, fixed interest rate of 2.3362%, monthly installments commencing May 30, 2013 through April 30, 2018*	46,771	71,450
\$524,527 capital lease with Bank of America for equipment, fixed interest rate of 2.3622%, monthly installments commencing June 30, 2013 through May 30, 2018*	208,429	313,489
\$324,915 capital lease with Bank of America for equipment, fixed interest rate of 2.4792%, monthly installments commencing January 30, 2014 through December 30, 2018*	167,623	231,821
\$99,988 capital lease with Bank of America for equipment, fixed interest rate of 1.5800%, monthly installments commencing March 13, 2015 through February 13, 2020*	74,092	93,565
\$95,660 capital lease with Bank of America for equipment, fixed interest rate of 1.5036%, monthly installments commencing April 16, 2015 through March 16, 2020*	72,414	91,045
\$1,422,942 capital lease with Bank of America for equipment, fixed interest rate of 1.4871%, monthly installments commencing July 30, 2015 through April 30, 2020*	1,100,518	1,422,942
\$180,966 capital lease with Bank of America for equipment, fixed interest rate of 1.4588%, monthly installments commencing July 9, 2015 through June 9, 2020*	145,820	180,966

<b>Capital Lease Obligations (Cont.)</b>	<b>2016</b>	<b>2015</b>
\$190,579 capital lease with Bank of America for equipment, fixed interest rate of 1.4780%, monthly installments commencing August 24, 2015 through July 24, 2020*	156,685	0
\$339,721 capital lease with Bank of America for equipment, fixed interest rate of 1.2729%, monthly installments commencing March 11, 2016 through February 11, 2021*	317,739	0
\$288,385 capital lease with Bank of America for equipment, fixed interest rate of 1.2985%, monthly installments commencing April 10, 2016 through March 10, 2021*	274,406	0
\$116,059 capital lease with Bank of America for equipment, fixed interest rate of 1.2537%, monthly installments commencing June 18, 2016 through May 18, 2021*	114,184	0
<b>Total Capital Leases</b>	<b>\$3,121,682</b>	<b>\$3,257,684</b>
Current portion	\$1,040,353	\$999,016
Noncurrent portion	2,081,329	2,258,668
<b>Total Capital Leases</b>	<b>\$3,121,682</b>	<b>\$3,257,684</b>
<b>Accrued Compensated Absences</b>	<b>2016</b>	<b>2015</b>
Current portion	\$127,491	\$51,272
Noncurrent portion	771,736	758,226
<b>Total Accrued Compensated Absences</b>	<b>\$899,227</b>	<b>\$809,498</b>
<b>Deposits Subject to Refund</b>	<b>2016</b>	<b>2015</b>
Current portion	\$775,016	\$766,469
Noncurrent portion	644,402	630,049
<b>Total Deposits Subject to Refund</b>	<b>\$1,419,418</b>	<b>\$1,396,518</b>

Changes in Long-Term Liabilities

Changes in the long-term liabilities for the years ended June 30, 2016 and 2015 are summarized below:

<b>2016</b>					
	<b>Balance at June 30, 2015</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at June 30, 2016</b>	<b>Amounts Due Within One Year</b>
Notes Payable	\$20,666,471	\$0	\$3,126,034	\$17,540,437	\$2,233,931
Revenue Bonds Payable, net	68,211,090	0	233,963	67,977,127	233,963
Capital Lease Obligations	3,257,684	934,744	1,070,746	3,121,682	1,040,353
Total Long-Term Debt Obligations	92,135,245	934,744	4,430,743	88,639,246	3,508,247
Accrued Compensated Absences	809,498	217,220	127,491	899,227	127,491
Deposits Subject to Refund	1,396,518	852,674	829,774	1,419,418	775,016
Other postemployment benefits	1,274,733	200,025	41,373	1,433,385	0
Total Long-Term Liabilities	\$95,615,994	\$2,204,663	\$5,429,381	\$92,391,276	\$4,410,754

<b>2015</b>					
	<b>Balance at June 30, 2014</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance at June 30, 2015</b>	<b>Amounts Due Within One Year</b>
Notes Payable	\$23,692,419	\$0	\$3,025,948	\$20,666,471	\$3,126,034
Revenue Bonds Payable, net	0	68,417,490	206,400	68,211,090	233,963
Capital Lease Obligations	2,442,643	1,799,556	984,515	3,257,684	999,016
Total Long-Term Debt Obligations	26,135,062	70,217,046	4,216,863	92,135,245	4,359,013
Accrued Compensated Absences	785,384	75,386	51,272	809,498	51,272
Deposits Subject to Refund	1,619,232	828,750	1,051,464	1,396,518	766,469
Other postemployment benefits	1,087,111	220,910	33,288	1,274,733	0
Total Long-Term Liabilities	\$29,626,789	\$71,342,092	\$5,352,887	\$95,615,994	\$5,176,754

Applicability of Federal Arbitrage Regulations

Certain debt issuances of the Authority issued after the Tax Reform Act of 1986 are subject to the federal arbitrage regulations. The arbitrage rebate regulations require that all earnings from the investment of gross proceeds of an issue in excess of the amount that could have been earned had the yield on the investment been equal to the yield on the bonds be remitted to the federal government. These carry strict penalties for noncompliance including taxability of interest retroactive to the date of the issue. The Authority’s management believes it is in compliance with these rules and regulations.

Maturities of Long-term Debt

The debt service maturities for long-term indebtedness in the coming years are as follows:

Year ending June 30,	REVENUE BONDS PAYABLE		NOTES PAYABLE		CAPITAL LEASES	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$0	\$2,843,050	\$2,233,931	\$458,112	\$1,040,353	\$43,425
2018	1,295,000	2,823,625	1,302,434	413,965	875,823	25,187
2019	1,330,000	2,777,600	1,331,403	382,921	588,476	13,187
2020	1,385,000	2,723,300	1,360,402	351,829	500,897	4,997
2021	1,440,000	2,659,600	1,392,186	317,993	116,133	605
2022-2026	8,320,000	12,157,875	5,319,120	1,099,095	0	0
2027-2031	10,430,000	10,003,100	3,427,153	517,924	0	0
2032-2036	13,125,000	7,242,650	1,173,808	50,756	0	0
2037-2041	16,710,000	3,563,625	0	0	0	0
2042-2046	7,795,000	314,700	0	0	0	0
<b>Total</b>	<b>\$61,830,000</b>	<b>\$47,109,125</b>	<b>\$17,540,437</b>	<b>\$3,592,595</b>	<b>\$3,121,682</b>	<b>\$87,401</b>

**6. PENSION PLAN**

All full-time City employees are provided pension benefits through a defined contribution plan administered by the Oklahoma Municipal Retirement Fund (OMRF). The employee begins participation at the date of employment. Employees are required to contribute a minimum of 3% of their salary with an optional maximum of up to 100% of their salary, subject to IRS limitations. The City Council determines the City's contribution each year which was 6% of the employee's salary in the years ended June 30, 2016 and 2015. The City's contributions for each employee begin vesting after 5 years and are fully vested after 10 years. If an employee terminates before becoming fully vested, the employer's contributions that are forfeited may be used to reduce the City's current-period contributions requirement. The Authority reimburses the City for all related costs of the pension plan. OMRF issues an annual report that is available on the OMRF website ([www.okmrf.org](http://www.okmrf.org)) or by calling 1-888-394-6673.

A summary of the Authority's pension activity and liability for the years ended June 30, 2016 and 2015 is presented below:

Fiscal Year Ended	Total Payroll	Covered Payroll	Employee Contributions	Employer Contributions	Total Contributions	Liability at June 30*
2016	\$9,758,883	\$9,669,718	\$479,952	\$574,564	\$1,054,516	\$32,733
2015	9,120,521	9,032,334	442,357	542,288	984,645	30,072

\*reported as a portion of accrued liabilities

## 7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

### Plan Description

The City sponsors and administers a self-funded, single-employer defined benefit plan providing postemployment healthcare benefits. The plan is reported in the City’s Comprehensive Annual Financial Report (CAFR). The plan does not issue a stand-alone financial report. All employees who retire from the City on or after attaining age 55 with at least 10 years of service are eligible to participate in the plan. The election to participate must be made at the time of separation from service. The City requires a monthly premium contribution from the retiree based on City-wide claim trends of the previous fiscal year. Upon payment of this premium, the City covers all medical expenses just as for active employees on a pay-as-you-go basis. Coverage is available until the first day of the month in which the retiree reaches Medicare eligibility age (currently 65). If the spouse of a retiree is covered at the time the retiree becomes ineligible for the plan at age 65, the spouse becomes COBRA-eligible until age 65 or for 36 months, whichever is less.

### Funding Policy

The City funds healthcare benefits on a pay-as-you-go basis utilizing a third party administrator, Blue Cross Blue Shield of Oklahoma. Eligible employees are required to pay set premiums for a portion of the cost, with the City subsidizing the remaining costs. Contribution requirements of active employees are established and amended as needed by the City Council. Premium rates for retirees and COBRA participants are set by City management upon recommendations provided by the third party administrator and the City’s re-insurance agent. The required monthly contribution rates for plan members for fiscal year 2016 range from \$49 to \$412 for active employees, \$497 to \$1,827 for retired participants, and \$506 to \$1,863 for COBRA participants. The required contribution rates for plan members for fiscal year 2015 range from \$45 to \$375 for active employees, \$449 to \$1,658 for retired participants, and \$458 to \$1,691 for COBRA participants

### Annual OPEB Cost and Net OPEB Obligation

The annual OPEB cost is equal to the annual required contribution (ARC) plus an adjustment if the ARC is not funded each year. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year plus any unfunded actuarial liabilities as amortized over thirty years.

As reported in the City’s CAFR, the City’s actuarial determined annual required contribution (ARC) for fiscal year ending June 30, 2016 was \$789,904 of which \$121,686 was paid on a pay-as-you-go basis. For fiscal year ending June 30, 2015, the City’s ARC was \$746,704 of which \$95,108 was paid on a pay-as-you-go basis. The Authority’s allocation of the City’s total OPEB obligation is based on the percentage of eligible Authority employees at June 30, 2016 and 2015 and is presented in the table below:

	2016	2015
Annual required contribution	\$268,567	\$261,346
Interest on prior year net OPEB obligation	42,730	48,586
Adjustment to annual required contribution	(111,272)	(89,022)
Annual OPEB cost	200,025	220,910
Employer contributions	(41,373)	(33,288)
Increase in net OPEB obligation	158,652	187,622
Beginning OPEB obligation	1,274,733	1,087,111
Ending OPEB obligation	\$1,433,385	\$1,274,733

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current and the two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$212,801	11.5%	\$1,087,111
2015	\$220,910	15.1%	\$1,274,733
2016	\$200,025	20.7%	\$1,433,385

#### Funding Status and Funding Progress

The unfunded actuarial liability is being amortized using level dollar amortization on a closed basis over thirty years, beginning July 1, 2008. As of June 30, 2016 and 2015, the funded status of the retiree health plan was as follows:

	2016	2015
Actuarial accrued liability (AAL)	\$2,116,642	\$2,173,063
Actuarial value of plan assets (AVA)	0	0
Unfunded actuarial accrued liability (UAAL)	\$2,116,642	\$2,173,063
Funded ratio (AVA/AAL)	0%	0%
Annual covered payroll (active plan members)	9,669,718	9,032,334
UAAL as a percentage of annual covered payroll	21.9%	24.1%

The required supplementary information schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

#### Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the annual required contribution are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

In the actuarial valuations as of July 1, 2015 and July 1, 2014, the projected unit credit (PUC) actuarial cost method was used to measure accruing costs. Under the principles of the PUC method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated pro-rata to each year of service between entry age and assumed exit. The actuarial valuation utilized several significant assumptions affecting the valuation results including the medical claims costs assumptions, the medical trend assumptions, and the discount rate. The resulting annual required contributions were based on a 3.0% discount rate in actuarial valuations as of July 1, 2015 and a 3.8% discount rate in actuarial valuations as of July 1, 2014 and a medical trend rate beginning at 6.12% in 2015 and 7.35% in 2014 and grading to 4.87% in 2060. Additionally, it was assumed that 50% of future retired participants would opt for retiree healthcare coverage. It was also assumed that 50% of future retirees who opt for healthcare coverage would cover a spouse at retirement.

## 8. RELATED PARTY TRANSACTIONS

The Authority provides utility services to the City without charge, and the Authority is not assessed property taxes.

The Authority leases the electric, water, and sewer systems from the City under a 70-year lease agreement which expires in 2049, with an option to renew the lease until all Authority bond obligations are redeemed or a provision for redemption of the obligations has been made. The annual lease rental is a nominal amount. The leased utility plant is included in the Authority's financial statements, as it is the City's intent under the lease agreement for the Authority to operate the utilities indefinitely.

All personnel of the Authority are employees of the City. Payroll and related costs are reimbursed by the Authority to the City and are reflected as expenses of the Authority.

Administrative and general expenses incurred by the City benefiting the Authority in the amount of \$1,178,370 for the years ended June 30, 2016 and 2015 have been proportionately allocated and reflected in the Authority's financial statements as expenses.

## 9. TRANSFERS IN

### City General Fund

One cent of the City's three cent general-use sales tax is designated for the Authority. The sales tax transfer is received by the City monthly from the State of Oklahoma and is appropriated and transferred to the Authority. The sales tax may be used, at the Authority's discretion, for capital expenditures, operating and maintenance expenses or any other lawful purpose of the Authority including the purchase or redemption of bonds or other indebtedness of the Authority prior to maturity. It may also be transferred to the City's sinking fund for the repayment of general obligation debt of the City. For the years ended June 30, 2016 and 2015, the transfers to the Authority related to this sales tax were \$8,205,267 and \$8,200,602, respectively.

### City Transportation Improvement Fund

One half of the City's one-half cent transportation sales tax is transferred to the Authority. The sales tax transfer is received by the City monthly from the State of Oklahoma and is appropriated and transferred to the Authority. The Authority uses the sales tax transfer to meet the debt service requirements of the 2007 and 2010 Revenue Notes. For the years ended June 30, 2016 and 2015, the transfers to the Authority related to this sales tax were \$2,051,317 and \$2,050,151, respectively.

## 10. TRANSFERS OUT

### City General Fund

The Authority annually transfers surplus funds in an amount determined by the Authority Trustees to the City's General Fund as provided for in the Authority's Trust Indenture. For the year ended June 30, 2016 and 2015, the transfer amount was \$15,135,541 and \$14,688,194, respectively.

During the year ended June 30, 2016, the Authority transferred capital assets in the amount of \$548,131 to the City.

## 11. RISK MANAGEMENT

The Authority, as a component unit of the City, is covered under the City's self-insurance policy for group medical, general liability, workers compensation, unemployment, and property damage. The City has a reinsurance policy which limits the City's liability for major medical to \$120,000 per individual per year. The City purchases conventional insurance for excess losses, general liability, and property damage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

## 12. REVENUES PLEDGED

The Authority has pledged future sales tax revenues to repay a \$6,010,000 note issued in December 2007 and a \$6,075,000 note issued in September 2010 to finance transportation improvement projects identified in the

2006 Transportation Sales Tax Ordinance. The notes are payable solely from sales tax revenue equal to one half of the one-half cent transportation sales tax collected by the City and transferred to the Authority by way of the Sales Tax Agreement. Sales taxes are projected to produce 100 percent of the debt service requirements over the life of the notes. Total principal and interest remaining on the 2007 Note is \$427,728 at June 30, 2016 and \$1,285,908 at June 30, 2015, payable semiannually commencing December 2008 and concluding December 2016. Total principal and interest remaining on the 2010 Note is \$546,291 at June 30, 2016 and \$1,637,455 at June 30, 2015, payable semiannually commencing December 2010 and concluding December 2016. For the years ended June 30, 2016 and 2015, total sales tax revenues were \$2,051,317 and \$2,050,151, respectively.

The Authority has pledged future sales tax revenues and future utility revenues, net of operating and maintenance expenses, to repay debt obligations. Proceeds from the debt issues financed electric construction projects, water and wastewater construction projects, and refinanced outstanding balances of notes to the OWRB. The debt obligations are payable from the one cent sales tax revenue dedicated to the Authority by City Ordinance No. 1835 and from net revenues derived from the existence and operation of the utility system. Pledged revenues are projected to produce 125 percent of the debt service requirements over the life of the debt. For the years ended June 30, 2016 and 2015, sales tax revenues were \$8,205,267 and \$8,200,602, respectively. Net revenues were \$25,335,936 for the year ended June 30, 2016 and \$24,503,620 for the year ended June 30, 2015. The following is a summary of the debt issues included in this pledge of revenues as of June 30, 2016 and 2015:

2016					
Debt Issue	Issue Amount	Issue Date	Maturity Date	Remaining Principal and Interest	Current Year Principal and Interest
2002 OWRB SRF Note	\$3,413,483	Feb 2002	Sept 2021	\$952,999	\$175,218
2002 OWRB SRF Note	4,876,086	Dec 2002	Sept 2022	1,612,874	251,532
2005 OWRB Fixed Rate Note	7,620,000	Jun 2005	Mar 2025	4,452,243	494,147
2009 OWRB DWSRF Note	11,645,000	Nov 2009	Sept 2032	10,820,972	655,817
2009 OWRB CWSRF Note	1,875,000	Nov 2009	Sept 2030	1,175,935	81,099
Series 2014A Revenue Bonds	61,830,000	Aug 2014	Oct 2042	108,939,125	2,843,050
2015					
Debt Issue	Issue Amount	Issue Date	Maturity Date	Remaining Principal and Interest	Current Year Principal and Interest
2002 OWRB SRF Note	\$3,413,483	Feb 2002	Sept 2021	\$1,129,097	\$176,098
2002 OWRB SRF Note	4,876,086	Dec 2002	Sept 2022	1,865,665	252,791
2005 OWRB Fixed Rate Note	7,620,000	Jun 2005	Mar 2025	4,946,760	494,517
2009 OWRB DWSRF Note	11,645,000	Nov 2009	Sept 2032	11,476,788	655,817
2009 OWRB CWSRF Note	1,875,000	Nov 2009	Sept 2030	1,257,034	81,099
Series 2014A Revenue Bonds	61,830,000	Aug 2014	Oct 2042	111,782,175	2,843,050

### 13. COMMITMENTS

In July 2006, the Authority and Rural Water Corporation No. 3 entered into a purchase agreement in which the Authority agreed to consolidate the two water distribution systems. In September 2010, the Rural Water Advisory Board, the Rural Water Corporation No. 3 Board, and the Authority's Trustees approved amendment of the initial July 2006 purchase agreement. The amended agreement identifies specific improvements and upgrades to be made to the system and provides a timeline for completion. All improvements and upgrades are subject to funding availability.

## 14. RECENTLY ISSUED ACCOUNTING STANDARDS

The following accounting standards have been recently issued and will be adopted as applicable by the Authority. Unless otherwise noted below, management has not yet determined the impact of these Statements on the Authority's financial statements.

- GASB Statement No. 74, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans” — The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability and replaces the requirements of GASB Statement No. 43, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans” and GASB Statement No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans”. This Statement also includes requirements for those OPEB plans in GASB Statement No. 25, “Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans” and GASB Statement No. 50, “Pension Disclosures”. This Statement will become effective for the Authority in the fiscal year ended June 30, 2017.
- GASB Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions” — The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions and replaces the requirements of GASB Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions” and GASB Statement No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans”. This Statement will become effective for the Authority in the fiscal year ended June 30, 2018.
- GASB Statement No. 77, “Tax Abatement Disclosures” — This Statement requires governments that enter into tax abatement agreements to disclose information about the nature and magnitude of the agreements to increase transparency to financial statement users. This Statement will become effective for the Authority in the fiscal year ended June 30, 2017.
- GASB Statement No. 78, “Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans” — The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement will become effective for the Authority in the fiscal year ended June 30, 2017.
- GASB Statement No. 79, “Certain External Investment Pools and Pool Participants” — This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. This Statement will become effective for the Authority in the fiscal year ended June 30, 2017.
- GASB Statement No. 80, “Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14” — The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement will become effective for the Authority in the fiscal year ended June 30, 2018.
- GASB Statement No. 81, “Irrevocable Split-Interest Agreements” — The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement will become effective for the Authority in the fiscal year ended June 30, 2018.
- GASB Statement No. 82, “Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73” — This Statement addresses issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement will become effective for the Authority in the fiscal year ended June 30, 2018.



## REQUIRED SUPPLEMENTARY INFORMATION

# STILLWATER UTILITIES AUTHORITY

A Component Unit of the City of Stillwater, Oklahoma  
 Required Supplementary Information



POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

*Schedule of Funding Progress*

Actuarial Valuation Date	Actuarial Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (b/a)	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2015	\$2,116,642	\$0	\$2,116,642	0.0%	\$9,669,718	21.9%
7/1/2014	2,173,063	\$0	2,173,063	0.0%	9,032,334	24.1%
7/1/2013	2,017,729	\$0	2,017,729	0.0%	8,475,971	23.8%

Reference



## OTHER REPORTS

Reference Copy

# STILLWATER UTILITIES AUTHORITY

## Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards



### 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

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To the Board of Trustees  
Stillwater Utilities Authority  
Stillwater, Oklahoma

We have audited, in accordance with the 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, the financial statements of the Stillwater Utilities Authority (the Authority), a component unit of the City of Stillwater, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 27, 2016.

#### **Internal Control Over Financial Reporting**

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



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# STILLWATER UTILITIES AUTHORITY

## Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards



Our 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 our audit we did not identify any deficiencies in internal control that we 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 the Authority's financial statements are free from material misstatement, we 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 our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters 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 our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Berberich Trahan & Co., P.A.*

October 27, 2016  
Topeka, Kansas



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## STILLWATER UTILITIES AUTHORITY

Financial Statements and Reports of Independent Auditors

Fiscal Year Ended June 30, 2016



723 S. Lewis Street | Stillwater, Oklahoma 74076-1499  
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