City of

Stilwell, Oklahoma

ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2013

THE CITY OF STILWELL, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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TABLE OF CONTENTS

Page

Independent Auditor's Report on Financial Statements 5-6

Management's Discussion and Analysis 7-13

The Basic Financial Statements:

Government-Wide Financial Statements:
Statement of Net Position (Modified Cash Basis) 15
Statement of Activities (Modified Cash Basis) 16

Governmental Funds Financial Statements:
Balance Sheet (Modified Cash Basis) 18
Statement of Revenues, Expenditures, and Changes in Fund Balances (Modified Cash Basis) 19
Reconciliation of Governmental Fund and Government-Wide Financial Statements 20

Footnotes to the Basic Financial Statements 21-35

Supplementary and Other Information:

Budgetary Comparison Information

Budgetary Comparison Schedule – General Fund (Modified Cash Basis) 37
Budgetary Comparison Schedule – Street and Alley Fund (Modified Cash Basis) 38
Footnotes to Budgetary Comparison Schedules 38

Combining Financial Statements – Nonmajor Governmental Funds

Combining Balance Sheet – Nonmajor Governmental Funds (Modified Cash Basis) 39
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds (Modified Cash Basis) 40

Federal and State Awards Information

Schedule of Expenditures of Federal and State Awards (Modified Cash Basis) 41

Internal Control and Compliance over Financial Reporting

Independent Auditor's Report on Internal Control and Compliance 43-44

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Stilwell, Oklahoma

I have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Stilwell, Oklahoma (the City), as of and for the year ended June 30, 2013, which collectively comprise the City'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 the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 error or fraud.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and Government Audit Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City'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 City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made, by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Adverse Opinion

The financial statements referred to above include only the primary government of the City's reporting entity, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City reporting entity. The financial statements do not include financial data for one of the City's legally separate component units, the Stilwell Area Development Authority. Accounting principles generally accepted in the United States of America require the financial data of the Stilwell Area Development Authority to be reported as a discretey-presented component of the City's reporting entity. The amount by which this departure would affect the modified cash basis assets, liabilities, net position, revenues, and expenses of the aggregate discretely-presented component unit opinion unit is not reasonable determinable.

Adverse Opinion

In my opinion, because of the omission of the Stilwell Area Development Authority as a discretely-presented component unit discussed in the "Basis for Adverse Opinion" paragraph, the financial statements referred to above do not present fairly, in conformity with the modified cash basis of accounting, as described in Note 1, the financial position of the aggregate discretely-presented component unit opinion unit of the City of Stilwell, OK,, as of June 30, 2013, or the changes in the modified cash basis financial position thereof for the year then ended.

Unmodified Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the City as of June 30, 2013 and the respective changes in the modified cash basis financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Report on Supplementary and Other Information

My audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise the City's basic financial statements. The management's discussion and analysis on pages 7-13, the budgetary comparison information on pages 37-38, the combining non-major governmental fund statements on pages 39-40 and the Schedule of Expenditures of Federal and State Awards on page 41, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining non-major governmental fund financial statements on pages 39-40, and the Schedule of Expenditures of Federal and State Awards on page 41, are the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

Management's Discussion and Analysis on pages 7-13, and the budgetary comparison information presented on pages 37-38, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on such information.

Basis of Accounting

I draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinion is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated November 22, 2013, on my consideration of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Michael Green
Certified Public Accountant
Stilwell, Ok
November 22, 2013

The management of the City of Stilwell is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the City's financial condition and activities as of and for the fiscal year ended June 30, 2013. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The City reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analyses in this report must be considered within the context of the limitations of the modified cash basis of accounting.

About the City

The City of Stilwell is an aldermanic form of government with a population of approximately 3,949 located in Adair County in eastern Oklahoma. The City is governed by a five-member Board and operates under state law and City ordinances through the three branches of democratic government:

- Legislative – the City Council is a five-member governing body elected by the citizens by Ward
- Executive – the City Mayor is the Chief Executive Officer and is elected for a four year term
- Judicial – the Municipal Judge is a practicing attorney appointed by the City Council

The City provides typical municipal services such as public safety, street and alley maintenance, parks and recreation, and community development.

The City's Financial Reporting Entity

This annual report includes all activities for which the City of Stilwell Council is fiscally responsible. These activities, defined as the City's financial reporting entity, make up the primary government.

The City's financial reporting entity includes the primary government (City of Stilwell), and the Stilwell Improvement Authority, a blended component unit that operates to provide financing and capital for the benefit of the city, and excludes the Stilwell Area Development Authority, a discretely presented component unit that operates the electric, water, and sewer systems leased from the city. The reporting entity for financial reporting purposes is as follows:

- **The City of Stilwell** – that operates the public safety, health and welfare, streets and highways, parks and recreation, economic and community development, and administrative activities.

- **The Stilwell Improvement Authority** – a public trust that operates to provide financing and capital for the City. This authority is a governmental-type fund.

FINANCIAL HIGHLIGHTS

- While the City's total net position decreased by $1,245,979, the assets of the City exceed its liabilities at June 30, 2013, by $9,415,587 (net position). Of this amount, $1,317,380 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.

- At June 30, 2013, the City's governmental funds reported combined ending fund balances of $2,444,299. Of that amount, $1,294,131 is available for spending at the government's discretion (unassigned fund balance) of the General Fund.

- At the end of fiscal year 2013, unassigned fund balance for the General Fund was 39.7% of General Fund revenues.

OVERVIEW OF THE FINANCIAL STATEMENTS

Except for the exclusion of the Stilwell Area Development Authority, the financial statements presented herein include all of the activities of the City of Stilwell (the "City"). Included in this report are government-wide statements for the governmental activities.

The government-wide financial statements present the complete financial picture of the City from the economic resources measurement focus using the modified cash basis of accounting. They present governmental activities separately and combined. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Reporting the City as a Whole

The Statement of Net Position and Statement of Activities

One of the most important questions to ask about the City's finances is, "Has the City's overall financial condition improved, declined or remained steady as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. You will need to consider other non-financial factors, however, such as changes in the City's sales tax base, the condition of the City's roads, and quality of service to assess the overall health of the City. You will also need to keep in mind that these government-wide statements are prepared in accordance with the modified cash basis of accounting and include only those City assets and liabilities resulting from cash transactions.

In the Statement of Net Position and the Statement of Activities, we have *governmental activities* in which most of the City's basic services are reported here, including the police, fire, administration, and streets. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities.

Reporting the City's Most Significant Funds - Fund Financial Statements

Fund Financial Statements

The fund financial statements provide detailed information about the City's most significant (major) funds -- not the City as a whole. Some funds are required to be established by State law and by debt covenants. However, the City Council may also establish certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

Governmental funds - All of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Governmental funds report their activities on a modified cash basis of accounting and current financial resources measurement focus. For example, these funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

Notes to the Financial Statements

The notes provide additional information that is essential to gain understanding of the data provided in the government-wide and fund financial statements. The Notes to the Basic Financial Statements can be found on pages 21-36 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents Budgetary Comparison Schedules for the General Fund, combining financial statements for non-major governmental funds, and federal and state award schedule.

THE CITY AS A WHOLE

For the year ended June 30, 2013, net position for the governmental activities decreased $1,245,979. The following is a summary comparison of the change in net position from last year for the City of Stilwell.

NET POSITION (In Thousands)

	Governmental Activities		% Inc. (Dec.)
	2013	2012	
Current assets	$ 2,445	$ 3,322	-26%
Capital assets, net	7,335	7,591	-3%
Total assets	9,780	10,913	-10%
Current liabilities	30	4	623%
Non-current liabilities	334	247	35%
Total liabilities	364	251	45%
Net position			
Net investment in capital assets	6,971	7,341	-5%
Restricted	1,127	862	31%
Unrestricted	1,317	2,459	-46%
Total net position	$ 9,415	$ 10,662	-12%

Following is a summary comparison of change in net position from the prior year for the City of Stilwell.

CHANGES IN NET POSITION (In Thousands)

	Governmental Activities		% Inc. (Dec.)
	2013	2012	
Revenues			
Charges for service	$ 644	$ 742	-13%
Operating grants and contributions	48	93	-48%
Capital grants and contributions	211	252	-16%
Taxes	2,305	2,419	-5%
Intergovernmental revenue	176	209	-16%
Investment income	11	19	-42%
Miscellaneous	352	308	14%
Total revenues	3,747	4,042	-7%
Expenses			
General government	1,301	556	134%
Public safety	2,133	2,165	-1%
Streets	1,106	1,115	-1%
Culture, parks and recreation	156	133	17%
Sanitation	284	287	-1%
Interest on long-term debt	14	-	N/A
Total expenses	4,994	4,256	17%
Change in net position	(1,247)	(214)	483%
Beginning net position	10,662	10,876	-2%
Ending net position	$ 9,415	$ 10,662	-12%

Governmental Activities

The City's governmental activities' decrease in net position of $1,245,979 represents a 12% decrease in net position. Expenditures increased by $736,809, while revenues decreased $294,833. This is mainly due to a $750,000 increase in personal service expenditures in the general government department which was a payment to OMRF to help fund the City's unfunded pension plan actuarial accrued liability. The decrease in revenue is primarily related to a decrease of $90,140 in public safety charges for services, a decrease of $57,434 in sales and use tax revenue, and a decrease of $56,421 in franchise tax recognized during the year.

Net Revenue (Expense) of Governmental Activities
(In Thousands)

	Total Expense of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	2013	2012		2013	2012	
General government	$ 1,301	$ 556	134%	($1,156)	($502)	130%
Public safety	2,133	2,165	-1%	(1,639)	(1,400)	17%
Streets	1,106	1,115	-1%	(1,070)	(1,081)	-1%
Sanitation	283	287	-1%	(86)	(86)	0%
Culture, parks and recreation	156	133	17%	(125)	(99)	26%
Interest on long-term debt	14	-	N/A	(14)	-	N/A
Total	$4,993	$4,256	17%	($4,090)	($3,168)	29%

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2013 fiscal year, the governmental funds reported a combined fund balance of $2.4 million or a 26.4% decrease from the prior year.

Other fund highlights include:

- For the year ended June 30, 2013, the General Fund's total fund balance decreased by $1,039,191, or 45% due mainly to the $750,000 payment to OMRF to help fund the City's unfunded pension plan actuarial accrued liability.

General Fund Budgetary Highlights

For the year ended June 30, 2013, the General Fund reported actual budgetary basis revenues above final estimates by $241,233 or a 8.2% positive variance. General Fund actual expenditures were over final appropriations by $651,543 or an 18.2% negative variance. Expenditures were above final estimates due to the $750,000 payment to OMRF to help fund the unfunded accrued actuarial liability of the City's pension plan. In addition to this payment, SADA also contributed $750,000 to this liability.

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2013, the City had approximately $7.3 million invested in capital assets including land, buildings, machinery and equipment, and park facilities. This represents a net decrease of $255,979 from last year.

Below are details regarding the change in the City's capital assets for the year ended June 30, 2013.[1]

The City of Stilwell's Capital Assets
(In Thousands)
(Net of accumulated depreciation)

	Governmental Activities	
	2013	2012
Land	$ 592	$ 583
Buildings and Improvements	5,920	5,594
Machinery and Equipment	773	715
Construction in progress	50	698
Totals, Net	$ 7,335	$ 7,590

This year's more significant capital asset additions include the following:

- 1996 Pierce 75 Fire Truck $168,000
- Armory Building Project $190,523
- Walking Trail Project $138,348
- Police Building $633,647
- Purchase of property on S. Third Street

Several of the purchases above were made by possible by State, Federal, and Private Foundation grants. Please refer to the Schedule of Federal and State Awards for additional information.

Debt Administration

At year-end, the City had $363,308 in long-term debt outstanding issued during FY 12 and FY 13.[2]

Long-Term Debt
(In Thousands)

	Governmental Activities		Total Percentage Change
	2013	2012	
Notes payable	$ 363	$ 250	45%
Totals	$ 363	$ 250	

[1] For more detailed information on capital asset activity please refer to page 28, Note 3. Capital Assets and Depreciation

[2] For more detailed information on long-term debt activity please refer to page 29, Note 4. Long-Term Debt.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

The following information outlines significant known factors that will affect subsequent year finances:

- During fiscal year 2013 the Stilwell Volunteer Fire Department began the process of an ISO (Insurance Service Office) review with the Oklahoma Insurance Department. This review has not been conducted in more than 10 years. Recent investments in fire protection equipment, written response plans, individual training and infrastructure warranted an update to the city's ISO rating. A likely result of a lower ISO rating will be lower property insurance rates for both residential and commercial businesses within the fire department service area. This project is anticipated to be complete by June 30, 2014.

- The 1.17 mile non-motorized recreational trail was completed in FY 2013. The trail is available to the public 24/7 365 days per year. It has been well received by the public and is getting much use. The city continues investment in parks & recreation. At June 30, 2013 the city was in the planning phases of an indoor facility to be located on the north side of the park. This 9,375 square foot facility will house another set of restrooms, separate locker rooms, and an open area that will be used for various activities mostly related to organized sports. The facility is expected to be complete in May-June 2014.

- The city completed the purchase of a piece of real estate located on S. Third Street. The single family dwelling was demolished to enable the city to make some additional drainage improvements in the Caney Creek drainage tributary. This project is not yet slated for completion but plans are being made to straighten the drainage way in that area to increase flow rates and alleviate flooding in this area of town. This purchase was part of a larger project that the city is currently undertaking. The city applied for and received a $150,000 grant from the Oklahoma Department of Commerce - Community Development Block Grant (CDBG) - Community Revitalization program. This grant along with two grants from the Eastern Oklahoma Development District - Rural Economic Assistance Program (REAP) totaling $40,000 were committed to drainage improvements. In addition to the required matching funds of $150,000, the city invested $47,500 in engineering fees and pre-construction costs and an additional $26,627 for a total project cost of $414,127. The areas receiving improvements are wide spread across the city and are being constructed in priority according to the updated drainage study conducted originally in calendar year 2000 and updated in 2011. This is the largest single effort to improve drainage in Stilwell. This effort may positively impact the total size of the floodplain in the city which will reduce the number of residents and businesses that are required or choose to carry flood insurance.

Contacting City Management

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives and expends. If you have questions about this report or need additional financial information, contact the City Clerk's office at 503 West Division, Stilwell, Oklahoma 74960 or telephone at 918-696-8111.

BASIC FINANCIAL STATEMENTS – STATEMENTS OF NET POSITION AND ACTIVITIES

Statement of Net Position (Modified Cash Basis)– June 30, 2013

	Governmental Activities
ASSETS	
Cash and cash equivalents	$ 2,021,106
Investments	423,639
Capital Assets:	
Land and construction in progress	641,747
Other capital assets, net of accumulated depreciation	6,692,849
Total Assets	9,779,341
LIABILITIES	
Due to other governments	446
Long-term liabilities	
Due within one year	29,434
Due in more than one year	333,874
Total liabilities	363,754
NET POSITION	
Net investment in capital assets	6,971,288
Restricted for:	
Streets	278,847
Cemetery	198,468
Capital improvements	438,980
Library	26,236
Depot operations	7,761
Grants	176,627
Unrestricted	1,317,380
Total net position	$ 9,415,587

See accompanying notes to the basic financial statements.

Statement of Activities (Modified Cash Basis)– Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Primary government					
Governmental Activities					
General Government	$ 1,300,591	$ 4,924	$ 3,518	$ 136,499	$ (1,155,650)
Public Safety	2,133,264	427,902	8,067	57,750	(1,639,545)
Highways and streets	1,105,691	-	36,128	-	(1,069,563)
Sanitation	283,501	197,665	-	-	(85,836)
Culture and Recreation	155,873	13,900	-	16,676	(125,297)
Interest on Long-term debt	13,659	-	-	-	(13,659)
Total primary government	4,992,579	644,391	47,713	210,925	(4,089,550)
General revenues:					
Taxes:					
Sales taxes					$ 2,097,635
Use taxes					172,028
Franchise taxes and public service taxes					35,353
Intergovernmental revenue not restricted to specific programs					175,865
Unrestricted investment earnings					10,988
Miscellaneous					108,505
Payment from Development Authority					243,197
Total general revenues					2,843,571
Change in net position					(1,245,979)
Net position - beginning					10,661,566
Net position - ending					$ 9,415,587

See accompanying notes to the basic financial statements.

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2013

	General Fund	Street and Alley Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 1,127,162	$ 169,697	$ 367,002	$ 357,245	$ 2,021,106
Investments	167,415	116,151	-	140,073	423,639
Total assets	1,294,577	285,848	367,002	497,318	2,444,745
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to other governments	446	-	-	-	446
Total liabilities	446	-	-	-	446
Fund balances:					
Restricted	-	278,847	352,040	496,032	1,126,919
Assigned	-	7,001	14,962	1,286	23,249
Unassigned	1,294,131	-	-	-	1,294,131
Total fund balances	1,294,131	285,848	367,002	497,318	2,444,299
Total liabilities and fund balances	$ 1,294,577	$ 285,848	$ 367,002	$ 497,318	$ 2,444,745

See accompanying notes to the basic financial statements.

Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance (Modified Cash Basis) – Year Ended June 30, 2013

	General Fund	Street and Alley Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	$ 2,305,016	$ -	$ -	$ -	$ 2,305,016
Intergovernmental	105,641	36,128	136,499	50,000	328,268
Licenses and permits	3,149	-	-	-	3,149
Charges for services	657,461	-	-	5,560	663,021
Fines and foreitures	65,845	-	-	-	65,845
Investment income	6,658	1,429	1,361	1,540	10,988
Miscellaneous	111,973	-	22,885	3,844	138,702
Total revenues	3,255,743	37,557	160,745	60,944	3,514,989
EXPENDITURES					
Current:					
General government:					
General government	1,012,911	-	-	1,993	1,014,904
Clerk/treasurer	165,784	-	-	-	165,784
Community building	62,349	-	-	-	62,349
Public safety and judiciary					
Fire	136,097	-	-	-	136,097
Civil defense	17,651	-	-	-	17,651
Police	1,044,998	-	-	-	1,044,998
Code enforcement	48,106	-	-	-	48,106
Municipal court	56,792	-	-	-	56,792
Ambulance	650,437	-	-	-	650,437
Streets	490,712	-	-	-	490,712
Sanitation	283,501	-	-	-	283,501
Cultural, Parks, and Recreation:					
Parks and recreation	28,514	-	-	-	28,514
Library	3,659	-	-	-	3,659
Cemetery	57,287	-	-	-	57,287
Capital Outlay	3,600	51,350	381,933	236,853	673,736
Debt Service:					
Principal	-	-	-	17,442	17,442
Interest and other charges	-	-	-	13,659	13,659
Total Expenditures	4,062,398	51,350	381,933	269,947	4,765,628
Excess (deficiency) of revenues over expenditures	(806,655)	(13,793)	(221,188)	(209,003)	(1,250,639)
OTHER FINANCING SOURCES (USES)					
Proceeds from long-term debt, net	-	-	-	130,750	130,750
Payment from Development Authority	243,197	-	-	-	243,197
Transfers in	-	-	299,107	470,030	769,137
Transfers out	(475,733)	-	(69,506)	(223,898)	(769,137)
Total other financing sources and uses	(232,536)	-	229,601	376,882	373,947
Net change in fund balances	(1,039,191)	(13,793)	8,413	167,879	(876,692)
Fund balances - beginning	2,333,322	299,641	358,589	329,439	3,320,991
Fund balances - ending	$ 1,294,131	$ 285,848	$ 367,002	$ 497,318	$ 2,444,299

See accompanying notes to the basic financial statements.

Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund Balance – Net Position Reconciliation:

Total fund balance, governmental funds	$	2,444,299
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.		7,334,596
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.		(363,308)
Net Position of Governmental Activities in the Statement of Net Position		9,415,587

Changes in Fund Balances – Changes in Net Position Reconciliation:

Net change in fund balances - total governmental funds:	$	(876,692)
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.		
Capital asset purchases capitalized		650,790
Depreciation expense		(905,073)
Book value of disposed capital assets		(1,696)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:		
Proceeds of long-term debt		(130,750)
Principal payments on long-term debt		17,442
Change in net position of governmental activities	$	(1,245,979)

See accompanying notes to the basic financial statements.

FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City's financial reporting entity includes the primary government (City of Stilwell), one governmental-type blended component unit, and one excluded discretely presented component unit as follows:

- **The City of Stilwell** – that operates the public safety, streets and highways, parks and recreation, health and social services, public improvements, and general administration.

- **The Stilwell Improvement Authority** – A public trust that operates to provide financing and capital for the City. This authority is a governmental-type fund.

- **The Stilwell Area Development Authority** – A public trust that operates the electric, water and wastewater services of the City. (Excluded from report)

In determining the financial reporting entity, the City uses the provisions of Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity,* and Statement No. 61, *"The Financial Reporting Entity: Omnibus"* and includes all component units for which the City is financially accountable except for the Stilwell Area Development Authority discretely presented component unit.

Each of these component units are Public Trusts established pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance City services through issuance of revenue bonds or other non-general obligation debt and to enable the City Council to delegate certain functions to the governing body (Trustees) of the Authority. The Authorities generally retain title to assets which are acquired or constructed with Authority debt or other Authority generated resources. In addition, the City has leased certain existing assets at the creation for the Authorities to the Trustees on a long-term basis. The City, as beneficiary of the Public Trusts, receives title to any residual assets when a Public Trust is dissolved.

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

The statement of net position and activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

- capital assets and the depreciation of those assets, where applicable
- long-term debt
- cash-based interfund receivables and payables
- other cash-based receivables/payables
- investments

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Program revenues within the statement of activities are derived directly from each activity or from parties outside the City's taxpayers. The City has the following program revenues in each activity:

- General government: License and permits, moving and hauling revenue and a CDBG grant
- Public safety: Fine revenue and ambulance fees, an operating grant from Oklahoma Department of Agriculture, and a capital grant from USDA Rural Development
- Cultural, parks and recreation: Cemetery fees
- Street: Gas excise and commercial vehicle taxes
- Sanitation: Charges for trash service

Governmental Funds:

The City's governmental funds are comprised of the following:

Major Funds:

- General Fund – accounts for all activities not accounted for in other special-purpose funds

- Street and Alley Fund – a special revenue fund that accounts for revenues received from gasoline excise tax, motor vehicle tax and expenditures made for street maintenance and operations.

- Capital Improvement Fund – A capital project fund that accounts for revenues received from voter-restricted sales tax and other sources and expenditure for capital improvements.

Non-Major Funds:

Special Revenue Funds:

- Library Fund – Accounts for revenues received and restricted for the library
- Depot Operational Fund – Accounts for revenues received and restricted for the maintenance of the Depot.

Capital Project Funds:

- Cemetery Care Fund - Accounts for statutorily restricted cemetery revenues and the expenditures of those revenues.
- CDBG Grant Fund – Accounts for Community Development Block Grant funds in accordance with state and federal program guidelines.

Debt Service Funds:

- Stilwell Improvement Authority – Accounts for financing and capital for the City.

The governmental funds are reported on a modified cash basis of accounting and current financial resources measurement focus. Only current financial assets and liabilities are generally included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period. The reconciliation of the governmental funds financial statements to the governmental activities presentation in the government-wide financial statements is the result of the use of the economic resources measurement focus at the government-wide level.

The General Fund, Street and Alley Fund, and Capital Improvement Fund are the major funds and are therefore displayed in separate columns. All other governmental funds are considered non-major funds and are aggregated under the column Other Governmental Funds. The combining financial statements for these non-major funds can be found in the supplemental information section of this report.

New Accounting Standards

The City has implemented the following standards during this fiscal year:

- Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* – GASB No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The implementation of this standard did not have a significant impact on the City's financial statement presentation.

- Statement No. 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34.* - Modifies certain requirements for inclusion of component units in the financial reporting entity and also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. The implementation of this standard did not have a significant impact on the City's financial statement presentation.

- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* - Intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The implementation of this standard did not have a significant impact on the City's financial statement presentation.

- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* - Provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The implementation of this standard did not have a significant impact on the City's financial statement presentation other than the renaming of "Net Assets" as "Net Position".

- Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53* – Provides for accounting of derivative instruments when hedge accounting terminates. The implementation of this standard had no impact on the City's financial statement presentation because they have no derivative instruments.

- Statement No. 65, *Items Previously Reported as Assets and Liabilities* - Establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously recognized as assets and liabilities. The City's early implementation of this standard did not have a significant impact on the City's financial statement presentation other than the restatement of beginning net position of the governmental activities at the government-wide statement of activities to remove unamortized loan issue costs. These costs are now reported as an expense when the debt is issued rather than as an asset.

C. Cash, Cash Equivalents, and Investments

Cash and cash equivalents includes all demand and savings accounts, certificates of deposit or short-term investments with an original maturity of three-months or less, and money market accounts. Investments consist of long-term certificates of deposits and are reported at cost.

D. Capital Assets and Depreciation

The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are reported in the government-wide or fund financial statements. In the government-wide financial statements, property, plant and equipment are accounted for as capital assets, net of accumulated depreciation where applicable. In the governmental fund financial statements, capital assets acquired are accounted for as capital outlay expenditures and not reported as capital assets.

Capital assets consist of land, land improvement, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. A capitalization threshold of $5,000 is used to report capital assets. Capital assets are reported at actual or estimated historical cost. Capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 2004. Prior to July 1, 2004, governmental funds' infrastructure assets, such as streets, bridges, drainage systems, and traffic signal systems were not capitalized. Infrastructure assets acquired with cash since July 1, 2004 are recorded at cost.

Depreciable capital assets are depreciated on a straight-line basis over their estimated useful lives. The range of estimated useful lives by type of asset is as follows:

- Buildings, improvements and infrastructure 20 - 50 years
- Machinery and equipment 3-10 years

E. Long-Term Debt

Accounting treatment of long-term debt varies depending upon whether source of repayment is reported in the government-wide or fund financial statements. All long-term debt resulting from cash transactions to be repaid from governmental resources are reported as liabilities in the government-wide statements. Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures.

F. Compensated Absences

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid compensatory time that would be due employees upon termination is reported as a commitment in Note 10.

G. Fund Balances and Net Position

Fund Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as:

a. Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

b. Restricted – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.

c. Committed – included amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the city's highest level of decision-making authority. The City's highest level of decision-making authority is made by ordinance.

d. Assigned – includes amounts that are constrained by the city's intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has delegated that authority. Assignments for transfers and interest income for governmental funds are made through budgetary process.

e. Unassigned – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

It is the City's policy to first use restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The City's policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Net Position:

Net position is displayed in three components:

a. *Net investment in capital assets* - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

b. *Restricted net position* - Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.

c. *Unrestricted net position* - All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

It is the City's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available

H. Internal and Interfund Balances and Transfers

The City's policy is to eliminate interfund transfers and balances in the statement of activities and net position to avoid the grossing up of balances. Internal transfers and balances between funds are not eliminated in the fund financial statements.

I. Use of Estimates

Certain estimates are made in the preparation of the financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management's best judgments and may vary from actual results.

2. Deposits and Investments

For the year ended June 30, 2013, the City recognized $10,988 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the City's deposits are in demand and short-term time deposits.

Primary Government:

At June 30, 2013, the primary government held the following deposits and investments:

Type	Carrying Value
Deposits:	
Demand deposits	$ 2,021,106
Time deposit	423,639
Total deposits and investments	$ 2,444,745
Reconciliation to Statement of Net Position:	
Cash and cash equivalents	$ 2,021,106
Investments	423,639
	$ 2,444,745

Custody Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the government deposits may not be returned to it. The City is governed by the Security for Local Public Deposits Act which requires that the City obtain and hold collateral whose fair value exceeds the amount of uninsured deposits. As of June 30, 2013, none of the City's deposits were exposed to custody credit risk. Investment securities are exposed to custody credit risk if the securities are uninsured, are not registered in the name of the government, and if held by either a counterparty or a counterparty's trust, department or agent, but not in the government's name. As of June 30, 2013, none of the City's investments were subject to custody credit risk.

Investment Interest Rate Risk - the City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk - The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and government money market funds regulated by the SEC. These investment limitations do not apply to the City's public trusts. As of June 30, 2013, the City did not hold any securities with credit ratings since they are all non-negotiable time deposits.

Concentration of Investment Credit Risk - the City places no limit on the amount it may invest in any one issuer.

3. Capital Assets and Depreciation

Capital Assets:

Capital assets consist of land, land improvements, construction in progress, buildings and building improvements, and machinery and equipment. A capitalization threshold of $5,000 is used to report capital assets. Capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Approximately $240,163 of the City's park land and $225,011 of a sports complex project is held in the name of the Stilwell Improvement Authority, a blended component unit.

For the year ended June 30, 2013, capital assets balances changed as follows:

	Balance at July 01, 2012	Additions	Disposals	Balance at June 30, 2013
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 583,409	$ 8,713	$ -	$ 592,122
Construction in progress	697,744	314,399	962,518	49,625
Total capital assets not being depreciated	1,281,153	323,112	962,518	641,747
Other capital assets:				
Buildings	16,492,708	962,518	-	17,455,226
Machinery, furniture and equipment	2,338,503	327,678	120,708	2,545,473
Total other capital assets at historical cost	18,831,211	1,290,196	120,708	20,000,699
Less accumulated depreciation for:				
Buildings	10,898,233	637,052	-	11,535,285
Machinery, furniture and equipment	1,623,556	268,021	119,012	1,772,565
Total accumulated depreciation	12,521,789	905,073	119,012	13,307,850
Other capital assets, net	6,309,422	385,123	1,696	6,692,849
Governmental activities capital assets, net	$ 7,590,575	$ 708,235	$ 964,214	$ 7,334,596

Depreciation:

Depreciation of capital assets is included in total expenses and is charged or allocated to the activities primarily benefiting from the use of the specific asset. Depreciation expense has been allocated as follows:

Governmental Activities:	
General government	$ 41,334
Public safety	218,486
Highways and streets	598,854
Culture, tourism, and recreation	40,774
Improvement authority	5,625
	$ 905,073

4. Long-Term Debt

For the year ended June 30, 2013, the reporting entity's long-term debt changed as follows:

Type of Debt	Balance July 01, 2012	Additions	Deductions	Balance June 30, 2013	Due Within One Year
Governmental Activities:					
Notes payable	$ 250,000	$ 130,750	$ 17,442	$ 363,308	$ 29,434
Total Governmental Activities	$ 250,000	$ 130,750	$ 17,442	$ 363,308	$ 29,434

Reconciliation to Statement of Net Position:		
Governmental Activities:		
Due within one year	$	29,434
Due in more than one year		333,874
Total Governmental Activities Long-term liabilities	$	363,308

Governmental activities long-term debt payable from taxes and other general revenues includes the following note payable:

Note Payable to Bank of Commerce dated April 30, 2012, original amount $250,000 with annual interest rate of 4.25%, due in monthly installments of principal and interest of $1,240 beginning October 30, 2012, final installment due March 30, 2042, secured with a property lien from Stilwell Improvement Authority resources	$	248,924
Note Payable to Bank of Commerce dated November 5, 2012, original amount $130,750 with annual interest rate of 3.15%, due in monthly installments of principal and interest of $2,358 beginning December 5, 2012, final installment due November 5, 2017, secured with a property lien from Stilwell Improvement Authority resources		114,384
Total Notes Payable	$	363,308
Current portion	$	29,434
Noncurrent portion		333,874
Total Notes Payable	$	363,308

Long-term debt service requirements to maturity are as follows:

Year Ending June 30,	Governmental Type Activities	
	Notes Payable	
	Principal	Interest
2014	$ 29,434	$ 13,743
2015	30,425	12,752
2016	31,448	11,729
2017	32,511	10,666
2018	14,488	9,829
2019-2023	29,574	44,836
2024-2028	36,564	37,847
2029-2033	45,204	29,208
2034-2038	55,887	18,526
2039-2042	57,773	5,490
Totals	$ 363,308	$ 194,626

5. Sales Tax Revenue

Sales tax revenue represents a 3.5 cents tax on each dollar of taxable sales of which is recorded as follows:

- All 3.5 cents is first deposited into the General Fund (Ordinance #59, #75 and #202)
- ½ cent is then transferred to the Capital Improvement Fund as required by ordinance #202 and voter approval to be used for capital purchases.

6. Property Tax Levy

The City presently levies no property tax. In accordance with state law, a municipality may only levy a property tax to retire general obligation debt approved by the voters and to pay judgments rendered against the City.

7. Internal and Interfund Balances and Transfers

The City's policy is to eliminate interfund transfers and balances in the statement of activities and net position to avoid the grossing up of balances. Internal transfers and balances between funds are not eliminated in the fund financial statements.

Transfers:

Internal transfers between funds and activities for the year ended June 30, 2013, were as follows:

Transfer From	Transfer To	Amount	Purpose of Transfer
General Fund	Capital Improvement Fund	$ 299,107	Sales tax transfer
General Fund	CDBG	176,626	Transfer for construction project
Capital Improvement Fund	Stilwell Improvement Authority	69,506	Transfer for debt service
Stilwell Improvement Authority	CDBG	223,898	Transfer for construction project
Total		$ 769,137	

8. Fund Equity

The following tables show the fund balance classifications as shown in the Governmental Funds Balance Sheet:

	General Fund	Street and Alley Fund	Capital Improvement Fund	Other Governmental Funds	Total
Fund Balance:					
Restricted For:					
Capital Improvements	$ -	$ -	$ 352,040	$ -	$ 352,040
Library	-	-	-	26,236	26,236
Depot Operation	-	-	-	7,761	7,761
Street Improvements	-	278,847	-	-	278,847
Grant Programs	-	-	-	176,627	176,627
Cemetery Capital	-	-	-	198,468	198,468
Stilwell Improvement Authority	-	-	-	86,940	86,940
Sub-total Restricted	-	278,847	352,040	496,032	1,126,919
Assigned to:					
Capital Improvements	-	-	14,962	-	14,962
Library	-	-	-	592	592
Depot Operation	-	-	-	263	263
Street Improvements	-	7,001	-	-	7,001
Stilwell Improvement Authority	-	-	-	431	431
Sub-total Assigned	-	7,001	14,962	1,286	23,249
Unassigned:					
General Fund	1,294,131	-	-		1,294,131
Total Fund Balance	$ 1,294,131	$ 285,848	$ 367,002	$ 497,318	$ 2,444,299

9. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. The City manages these various risks of loss as follows by securing commercial insurance for all risks, except for participation in the Oklahoma Municipal Assurance Group risk entity pool for certain coverage. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

10. Commitments and Contingencies

Construction Contract:

There were no construction contracts outstanding at June 30, 2013.

Compensated Absences:

As a result of the City's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation, sick and comp leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2013, is summarized as follows:

- General Fund – accrued compensated absences $371,062

Litigation:

The City is party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a City "Sinking Fund" for the payment of any court assessed judgment rendered against the City. These statutory provisions do not apply to the City's public trust Authorities. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

Federal and State Award Programs:

The City of Stilwell participates in various federal or state grant/loan programs from year to year. In 2013, the City's involvement in federal and state award programs was material. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The City has not been notified of any noncompliance with federal or state award requirements.

11. Pension Plan Participation

The City of Stilwell participates in two pension or retirement plans:

1. Oklahoma Municipal Retirement System Master Defined Benefit Plan and Trust (OMRF) – an agent multiple-employer defined benefit plan
2. Oklahoma Firefighter's Pension and Retirement System (OFPRS) – a statewide cost-sharing plan

Firefighter Pension System:

Plan Summary Information. The City of Stilwell, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Firefighter's Pension and Retirement System (OFPRS). The OFPRS defined benefit pension plan provides retirement and

disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the City must participate in the plan if they employ full-time or volunteer firefighters.

The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to OFPRS, 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414.

Funding Policy. OFPRS plan members are required to contribute 8% of their annual salary. The City is required by state law to contribute 13% of the members' annual salary. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

The OFPRS contributions are as follows:

Fiscal Year	Required Contribution	Amount Contributed
2011	$ 6,023	$ 6,023
2012	$ 6,340	$ 6,340
2013	$ 5,880	$ 5,880

Schedule of Retirement Plan Contributions – OMRF

For the year ended June 30, 2013, the following amounts related to the defined benefit plan:

	City and SADA Total	City Only
Employee contributions made	$ 111,737	$ 60,975
Employer contributions made	1,872,455	953,251
Total	$ 1,984,192	$ 1,014,226

Fiscal Year	Annual Pension Cost	Percentage of APC Contributed
2011	$ 446,467	100%
2012	$ 409,445	100%
2013	$ 484,192	410%

Plan Description, Eligibility Factors, Contribution Methods, and Benefit Provisions

1. Plan Description

The City of Stilwell (along with the Stilwell Area Development Authority) participates in The Oklahoma Municipal Retirement System Master Defined Benefit Plan and Trust, an agent multiple employer - defined benefit plan. Administration of the City's individual plan rests with the City Council. The overall operations of OMRF are supervised by a nine-member Board of Trustees elected by the participating municipalities. JPMorgan Chase of Oklahoma City acts as administrator and securities custodian. OMRF issues separate plan financial statements which may be obtained by contacting the Oklahoma Municipal Retirement Fund, 525 Central Park Drive, Suite 320, Oklahoma City, Oklahoma 73105.

2. Eligibility Factors, Contribution Methods and Benefit Provisions

Provision	OMRF Plan
a. Eligible to Participate	Full-time, non-uniform employees of the City or Authority upon hire if less than age 60.
b. Contribution Requirements:	
- Authorization	By City ordinance
- Actuarially Determined	Yes
- Employer Rate	13.85% of covered payroll
- Employee Rate	4.50% of earnings
c. Period Required to Vest	5 years of credited service
d. Eligibility for Distribution	- Normal retirement at age 65 with 5 years of service - Early retirement at age 55 with 5 years of service - Disability retirement upon disability with 5 years of service - Death benefit with 5 years of service
e. Benefit Determination Base	Final average salary - the average of the five highest consecutive annual salaries out of the last 10 calendar years of service.
f. Benefit Determination Methods:	
- Normal Retirement	2.25% of final average salary multiplied by credited years of service.
- Early Retirement	Actuarially reduced benefit based upon age and years of service at termination.
- Disability Retirement	Benefit computed as for normal retirement based on average salary and service as of the date of disability.
- Death Benefit	50% of employee's accrued benefit, but terminates upon spouse re-marriage.
- Prior to 5 Years Service	Return of employee contributions with accrued interest.
g. Form of Benefit Payments	Normal form is a 60 months certain and life thereafter basis. Employee may elect, with City consent, optional form based on actuarial equivalent.

3. Annual Pension Costs

A. Current Year Contribution Information

For the year ended June 30, 2013, the City contributed $953,251, which was $750,000 more than the City's required contributions due to the City contributing a one-time payment of $750,000 to lower their unfunded actuarial accrued liability.

OMRF issues separate plan financial statements which may be obtained by contacting the Oklahoma Municipal Retirement Fund, 525 Central Park Drive, Suite 320, Oklahoma City, Oklahoma, 73105.

SUPPLEMENTARY AND OTHER INFORMATION

Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2013

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance	$ 554,757	$ 628,881	$ 2,333,322	$ 1,704,441
Resources (Inflows):				
TAXES:				
Sales tax	1,751,000	1,751,000	1,798,528	47,528
Use tax	155,000	155,000	172,028	17,028
Franchise tax	15,000	15,000	14,852	(148)
Hotel and Motel Tax	-	-	20,501	20,501
Total taxes	1,921,000	1,921,000	2,005,909	84,909
INTERGOVERNMENTAL:				
Alcoholic beverage tax	50,000	50,000	57,237	7,237
Tobacco tax	24,000	24,000	27,244	3,244
Grants	-	-	21,160	21,160
Total Intergovernmenta	74,000	74,000	105,641	31,641
CHARGES FOR SERVICES	624,000	624,000	657,461	33,461
FINES AND FORFEITURES	85,000	85,000	65,845	(19,155)
LICENSES AND PERMITS:	2,500	2,500	3,149	649
INVESTMENT INCOME	8,600	8,600	6,658	(1,942)
MISCELLANEOUS:				
Rentals	6,000	6,000	8,969	2,969
Proceeds from sale of capital assets	-	-	11,586	11,586
Miscellaneous	11,500	11,500	91,418	79,918
Total Miscellaneous	17,500	17,500	111,973	94,473
OTHER FINANCING SOURCES:				
Payments from component unit	226,000	226,000	243,197	17,197
Total Resources (Inflows)	2,958,600	2,958,600	3,199,833	241,233
Amount available for appropriation	3,513,357	3,587,481	5,533,155	1,945,674
Charges to Appropriations (Outflows):				
General government	276,066	295,866	1,012,911	(717,045)
Cemetery	60,341	60,341	57,287	3,054
Civil Defense	18,974	27,810	17,651	10,159
Clerk	173,931	165,594	165,784	(190)
Community building	74,714	74,714	62,349	12,365
Library	4,500	4,500	3,659	841
Sanitation	314,361	314,362	283,501	30,861
Municipal court	54,507	62,071	56,792	5,279
Code enforcment	47,246	47,706	48,106	(400)
Police	1,072,928	1,108,228	1,048,598	59,630
Fire	152,119	152,119	136,097	16,022
Street	526,030	526,030	490,712	35,318
Parks	43,100	43,600	28,514	15,086
Ambulance	694,540	704,540	650,437	54,103
Total other financing sources and uses	3,513,357	3,587,481	4,062,398	(474,917)
OTHER FINANCING SOURCES (USES)				
Transfers to Other Funds	-	-	176,626	(176,626)
Total other financing sources and uses	-	-	176,626	(176,626)
Fund balances - ending	$ -	$ -	$ 1,294,131	$ 1,294,131

See accompanying notes to this schedule.

Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2013 (Continued)

	STREET AND ALLEY FUND			
	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance	$ 8,000	$ 8,000	$ 299,641	$ 291,641
Resources (Inflows)				
Intergovernmental	-	-	36,128	36,128
Investment earnings	-	-	1,429	1,429
Amounts Available for Appropriation	8,000	8,000	337,198	329,198
Charges to Appropriations (Outflows)				
Departmental:				
Street:				
Capital outlay	8,000	8,000	51,350	(43,350)
Total Charges to Appropriations	8,000	8,000	51,350	(43,350)
Fund balances - ending	$ -	$ -	$ 285,848	$ 285,848

See accompanying notes to this schedule.

Footnotes to Budgetary Comparison Schedules:

1. The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements, with the exception of sales tax revenue recorded by the City in the Capital Improvement Fund and the payments received from the Development Authority as shown in the schedule below:

	General Fund
Resources budgetary basis	$3,199,833
Add sales tax budgeted in CIF	299,107
Deduct payment from Development Authority	(243,197)
Revenue – modified cash basis	$3,255,743
Transfers out – Budgetary	$(176,626)
Add sales tax transferred to CIF	(299,107)
Transfers out – modified cash basis	$(475,733)

2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require Clerk/Treasurer's approval, while supplemental appropriations require City Council approval.

3. In the General Fund and Street and Alley Fund, the City had negative variances in the following departments and for the following amounts:

General Fund – General Government	($717,045)
General Fund – Clerk	($190)
General Fund – Code Enforcement	($400)
General Fund – Transfers out	($176,626)
Street and Alley Fund – Street	($43,350)

Combining Balance Sheet – Nonmajor Funds (Modified Cash Basis) – Year Ended June 30, 2013

	Special Revenue Funds		Capital Project Funds		Debt Service Fund	
	Library Fund	Depot Operational Fund	Cemetery Care Fund	CDBG Fund	Stilwell Improvement Authority	Total Governmental Funds
ASSETS						
Cash and cash equivalents	$ 26,828	$ 8,024	$ 58,395	$ 176,627	$ 87,371	357,245
Investments	-	-	140,073	-	-	140,073
Total assets	26,828	8,024	198,468	176,627	87,371	497,318
LIABILITIES AND FUND BALANCES						
Liabilities	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-
Fund balances:						
Restricted	26,236	7,761	198,468	176,627	86,940	496,032
Assigned	592	263	-	-	431	1,286
Total fund balances	26,828	8,024	198,468	176,627	87,371	497,318
Total liabilities and fund balances	$ 26,828	$ 8,024	$ 198,468	$ 176,627	$ 87,371	$ 497,318

Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Funds (Modified Cash Basis) – Year Ended June 30, 2013

	Special Revenue Funds		Capital Project Funds		Debt Service Fund	
	Library Fund	Depot Operational Fund	Cemetery Care Fund	CDBG Fund	Stilwell Improvement Authority	Total-Other Governmental Funds
REVENUES						
Intergovernmental	$ -	$ -	$ -	$ -	$ 50,000	$ 50,000
Charges for services	-	-	5,560	-	-	5,560
Investment earnings	108	33	1,010	-	389	1,540
Miscellaneous	-	-	3,518	-	326	3,844
Total revenues	108	33	10,088	-	50,715	60,944
EXPENDITURES						
Current:						
General government	-	-	-	1,993	-	1,993
Capital Outlay	-	957	-	67,896	168,000	236,853
Debt Service:						
Principal	-	-	-	-	17,442	17,442
Interest and other charges	-	-	-	-	13,659	13,659
Total Expenditures	-	957	-	69,889	199,101	269,947
Excess (deficiency) of revenues over expenditures	108	(924)	10,088	(69,889)	(148,386)	(209,003)
OTHER FINANCING SOURCES (USES)						
Proceeds from long-term debt	-	-	-	-	130,750	130,750
Transfers in	-	-	-	400,524	69,506	470,030
Transfers out	-	-	-		(223,898)	(223,898)
Total other financing sources and uses	-	-	-	400,524	(23,642)	376,882
Net change in fund balances	108	(924)	10,088	330,635	(172,028)	167,879
Fund balances (deficit) - beginning	26,720	8,948	188,380	(154,008)	259,399	329,439
Fund balances - ending	$ 26,828	$ 8,024	$ 198,468	$ 176,627	$ 87,371	$ 497,318

Schedule of Expenditures of Federal and State Awards (Modified Cash Basis) – Year Ended June 30, 2013

Federal/State Grantor/Pass Thru Agency Grantor/Program Title	Federal CFDA Number	Pass Thru Grant #	Award Amount	Contract Expenditures
FEDERAL AWARDS:				
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:				
Passed Through the Oklahoma Department of Commerce:				
CDBG	14.228	14263 CDBG CIP 2010	$ 15,000	$ 15,000
DEPARTMENT OF TRANSPORTATION:				
Passed Through the Oklahoma Department of Tourism:				
Recreational Trails Program	20.219	N/A	160,000	150,011
DEPARTMENT OF ENERGY:				
Stimulus Energy Efficiency CBG	81.128	Yes	304,728	-
Total Federal Awards			$ 479,728	$ 165,011
STATE AWARDS:				
OKLAHOMA DEPARTMENT OF AGRICULTURE:				
Operational Grant	N/A	N/A	$ 4,484	$ 4,484
OKLAHOMA ARTS COUNCIL:				
Arts Council Grant	N/A	N/A	1,676	1,676
Total State Awards			$ 6,160	$ 6,160

Footnotes to Schedule of Expenditures of Federal and State Awards:

1. The Schedule of Expenditures of Federal and State Awards is prepared on the modified cash basis. This may differ from the requirements of the OMB Circular A-133 applicable to Single Audits of Federal Expenditures.

INTERNAL CONTROL AND COMPLIANCE

MICHAEL W. GREEN
Certified Public Accountant
827 West Locust Street
Stilwell, Ok. 74960
(918) 696-6298

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

The Honorable Mayor and City Council
City of Stilwell, Oklahoma

We have audited the modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the primary government for the City of Stilwell, Oklahoma (the City), as of and for the year ended June 30, 2013, which collectively comprise the City of Stilwell, Oklahoma's reporting entity basic financial statements and have issued our report thereon dated November 22, 2013. The auditor's report was modified to indicate the financial statements had been prepared using the modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, and included an adverse opinion on the aggregate discretely presented component unit opinion unit for the exclusion of a discretely-presented component unit. Our report also includes a paragraph which disclaimed an opinion on management's discussion and analysis and budgetary comparison information. 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.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the city's financial statements are free of 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 my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Michael Green, CPA
Stilwell, Ok
November 22, 2013