

THE CITY OF STILWELL, OKLAHOMA

**ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS**

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

THIS PAGE INTENTIONALLY LEFT BLANK

TABLE OF CONTENTS

| | Page |
|---|-------------|
| Independent Auditor’s Report on Financial Statements | 5-6 |
| Management’s Discussion and Analysis | 7-12 |
| The Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Assets (Modified Cash Basis)..... | 14 |
| Statement of Activities (Modified Cash Basis)..... | 15 |
| Governmental Funds Financial Statements: | |
| Balance Sheet (Modified Cash Basis)..... | 17 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances (Modified Cash Basis)..... | 18 |
| Reconciliation of Governmental Fund and Government-Wide Financial Statements..... | 19 |
| Footnotes to the Basic Financial Statements | 20-33 |
| Required Supplementary Information: | |
| Budgetary Comparison Information | |
| Budgetary Comparison Schedule – General Fund (Modified Cash Basis)..... | 35 |
| Footnotes to Budgetary Comparison Schedules..... | 36 |
| Schedule of Funding Progress Information | |
| Schedule of Funding Progress – City Employee Retirement System..... | 37 |
| Supplementary Information: | |
| Combining Financial Statements – Nonmajor Governmental Funds | |
| Combining Balance Sheet – Nonmajor Governmental Funds | 39 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds..... | 40 |

CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

TABLE OF CONTENTS

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.....42-44

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

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Stilwell, Oklahoma

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Stilwell, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the City of Stilwell, Oklahoma, prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements do not include financial data of the City's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for these component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues, and expenses of the aggregate discretely presented component units are not presented. The amounts not presented are not reasonably determinable but are considered material.

In our opinion, because of the omission of the discretely presented component units, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component units of the City of Stillwell, Oklahoma, as of June 30, 2011, or the changes in its financial position thereof for the year then ended.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Stilwell, Oklahoma, as of June 30, 2011, and the respective changes in financial position-modified cash basis thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, We have also issued a report dated November 10, 2011, on our consideration of the City of Stilwell's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Stilwell, basic financial statements. The financial information presented as supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information schedule of expenditures of federal and state awards, and the combining fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting described in Note 1.



Michael Green
Certified Public Accountant
November 10, 2011

CITY OF STILWELL, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2011

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, 2011. 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 Board is a five-member governing body elected by the citizens at large
- 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 Board

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 with its only asset being land held in its name.

FINANCIAL HIGHLIGHTS

- While the City's total net assets decreased by \$886,817, the assets of the City exceed its liabilities at June 30, 2011, by \$10,875,903 (net assets). Of this amount, \$2,114,128 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF STILWELL, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2011

- At June 30, 2011, the City's governmental funds reported combined ending fund balances of \$3,343,801. Of that amount, \$2,101,106 is available for spending at the government's discretion (unassigned fund balance) of the General Fund.
- At the end of fiscal year 2011, unassigned fund balance for the General Fund was 60.8% of General Fund net 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 Assets 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 Assets 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 Assets and the Statement of Activities, we have the *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.

CITY OF STILWELL, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2011

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 that is different from other funds. 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 20-33 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; a schedule of funding progress for the city employee retirement system; 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, 2011, net assets for the governmental activities decreased \$886,817. The following is a summary comparison of the change in net assets from last year for the City of Stilwell.

NET ASSETS (In Thousands)

| | Governmental Activities | | % Inc. (Dec.) |
|--|----------------------------|-----------|------------------|
| | 2011 | 2010 | |
| Current assets | \$ 3,345 | \$ 3,488 | -4% |
| Capital assets, net | 7,532 | 8,276 | -9% |
| Total assets | 10,877 | 11,764 | -8% |
| Current liabilities | 1 | 1 | 16% |
| Total liabilities | 1 | 1 | 16% |
| Net assets | | | |
| Invested in capital assets, net of related debt | 7,532 | 8,276 | -9% |
| Restricted | 1,230 | 1,430 | -14% |
| Unrestricted | 2,114 | 2,057 | 3% |
| Total net assets | \$ 10,876 | \$ 11,763 | -8% |

CITY OF STILWELL, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2011

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

CHANGES IN NET ASSETS (In Thousands)

| | Governmental Activities | | % Inc. (Dec.) |
|------------------------------------|----------------------------|--------------|------------------|
| | <u>2011</u> | <u>2010</u> | |
| Revenues | | | |
| Charges for service | \$ 752 | \$ 642 | 17% |
| Operating grants and contributions | 38 | 288 | -87% |
| Capital grants and contributions | 229 | 68 | 237% |
| Taxes | 2,365 | 2,224 | 6% |
| Intergovernmental revenue | 181 | 151 | 20% |
| Investment income | 31 | 64 | -52% |
| Miscellaneous | 319 | 285 | 12% |
| | 3,915 | 3,722 | |
| Expenses | | | |
| General government | 553 | 642 | -14% |
| Public safety | 2,128 | 2,001 | 6% |
| Streets | 1,212 | 1,238 | -2% |
| Culture, parks and recreation | 627 | 84 | 646% |
| Sanitation | 282 | 286 | -1% |
| | 4,802 | 4,251 | 13% |
| Change in net assets | (887) | (529) | 68% |
| Beginning net assets | 11,763 | 12,292 | -4% |
| Ending net assets | \$ 10,876 | \$ 11,763 | -8% |

CITY OF STILWELL, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2011

Governmental Activities

The City's governmental activities' decrease in net assets of \$886,817 represents a 7.5% decrease in net assets. Expenditures increased by \$550,880, while revenues increased \$193,432. This is mainly due to a \$500,000 contribution to the SADA recorded in the parks department.

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

| | <u>Total Expense</u> <u>of Services</u> | | <u>% Inc.</u> <u>(Dec.)</u> | <u>Net Revenue</u> <u>(Expense)</u> <u>of Services</u> | | <u>% Inc.</u> <u>(Dec.)</u> |
|-------------------------------|--|----------------|--------------------------------|--|----------------|--------------------------------|
| | <u>2011</u> | <u>2010</u> | | <u>2011</u> | <u>2010</u> | |
| General government | \$ 553 | \$ 642 | -14% | (\$405) | (\$360) | 13% |
| Public safety | 2,128 | 2,001 | 6% | (1,551) | (1,559) | -1% |
| Streets | 1,212 | 1,238 | -2% | (1,172) | (1,188) | -1% |
| Culture, parks and recreation | 627 | 84 | 646% | (579) | (67) | 764% |
| Sanitation | 282 | 286 | -1% | (76) | (80) | -5% |
| Total | <u>\$4,802</u> | <u>\$4,251</u> | 13% | <u>(\$3,783)</u> | <u>(3,254)</u> | 16% |

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2011 fiscal year, the governmental funds reported a combined fund balance of \$3.3 million or a 4.1% decrease from the prior year.

Other fund highlights include:

- For the year ended June 30, 2011, the General Fund's total fund balance increased by \$44,454, or 2.2 %.

General Fund Budgetary Highlights

For the year ended June 30, 2011, the General Fund reported actual budgetary basis revenues above final estimates by \$876,340 or a 23.7% positive variance. General Fund actual expenditures were under final appropriations by \$319,373 or a 9.5% positive variance. Revenue was above final estimates due to a large increase in taxes and charges for services.

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2011, the City had approximately \$7.5 million invested in capital assets including land, buildings, machinery and equipment, and park facilities. This represents a net decrease of \$743,752 from last year.

CITY OF STILWELL, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2011

Below are details regarding the change in the City's capital assets for the year ended June 30, 2011.¹

The City of Stilwell's Capital Assets

| Capital Assets | | |
|--|------------------------------------|-----------------|
| (In Thousands) | | |
| (Net of accumulated depreciation) | | |
| | Governmental Activities | |
| | 2011 | 2010 |
| Land | \$ 497 | \$ 497 |
| Buildings and Improvements | 6,035 | 6,571 |
| Machinery and Equipment | 740 | 926 |
| Construction in progress | 260 | 282 |
| Totals, Net | \$ 7,532 | \$ 8,276 |

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

- Lighting & Thermal Window Project - \$36,434
- Caney Creek Drainage Project - \$15,566
- Mower - \$8,000
- 10 HVAC Units - \$88,750

Debt Administration

At year-end, the City has no long-term debt outstanding.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

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

- The FY12 budget is consistent with prior years.

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.

¹ For more detailed information on capital asset activity please refer to page 27, Note 3. Capital Assets and Depreciation

**CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

BASIC FINANCIAL STATEMENTS – STATEMENTS OF NET ASSETS AND ACTIVITIES

CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

Statement of Net Assets (Modified Cash Basis)– June 30, 2011

| | <u>Governmental</u> <u>Activities</u> |
|---|--|
| ASSETS | |
| Cash and cash equivalents | \$ 1,596,228 |
| Investments | 1,748,615 |
| Capital Assets: | |
| Land and construction in progress | 756,999 |
| Other capital assets, net of accumulated depreciation | 6,775,103 |
| Total Assets | 10,876,945 |
| LIABILITIES | |
| Due to other governments | 1,042 |
| Total liabilities | 1,042 |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 7,532,102 |
| Restricted for: | |
| Statutory requirements | 454,143 |
| External contracts | 775,530 |
| Unrestricted | 2,114,128 |
| Total net assets | \$ 10,875,903 |

See accompanying notes to the basic financial statements.

**CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Statement of Activities (Modified Cash Basis)– Year Ended June 30, 2011

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenue</u> | | | <u>Net (Expense) Revenue and Changes in Net Assets</u> |
|---|------------------|---------------------------------|---|---|--|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | |
| Primary government | | | | | |
| Governmental Activities | | | | | |
| General Government | \$ 553,160 | \$ 6,649 | \$ - | \$ 141,317 | \$ (405,194) |
| Public Safety | 2,128,123 | 522,085 | 6,802 | 48,250 | (1,550,986) |
| Highways and streets | 1,211,960 | - | 31,156 | 9,410 | (1,171,394) |
| Sanitation | 281,722 | 205,597 | - | - | (76,125) |
| Culture and Recreation | 626,624 | 17,550 | - | 30,000 | (579,074) |
| Total primary government | <u>4,801,589</u> | <u>751,881</u> | <u>37,958</u> | <u>228,977</u> | <u>(3,782,773)</u> |
| General revenues: | | | | | |
| Taxes: | | | | | |
| Sales taxes | | | | | \$ 2,132,686 |
| Use taxes | | | | | 126,422 |
| Franchise taxes and public service taxes | | | | | 105,952 |
| Intergovernmental revenue not restricted to specific programs | | | | | 180,955 |
| Unrestricted investment earnings | | | | | 31,324 |
| Miscellaneous | | | | | 76,286 |
| Payment from Development Authority | | | | | 242,331 |
| Total general revenues and transfers | | | | | <u>2,895,956</u> |
| Change in net assets | | | | | (886,817) |
| Net assets - beginning | | | | | 11,762,720 |
| Net assets - ending | | | | | <u>\$ 10,875,903</u> |

See accompanying notes to the basic financial statements.

**CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2011

| | <u>General Fund</u> | <u>Capital Improvement Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|---|---|---|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 606,314 | \$ 725,220 | \$ 264,694 | \$ 1,596,228 |
| Investments | 1,495,834 | - | 252,781 | 1,748,615 |
| Total assets | <u>2,102,148</u> | <u>725,220</u> | <u>517,475</u> | <u>3,344,843</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Due to other governments | 1,042 | - | - | 1,042 |
| Total liabilities | <u>1,042</u> | <u>-</u> | <u>-</u> | <u>1,042</u> |
| Fund balances: | | | | |
| Restricted | - | 716,068 | 513,605 | 1,229,673 |
| Assigned | - | 9,152 | 3,870 | 13,022 |
| Unassigned | 2,101,106 | - | - | 2,101,106 |
| Total fund balances | <u>2,101,106</u> | <u>725,220</u> | <u>517,475</u> | <u>3,343,801</u> |
| Total liabilities and fund balances | <u>\$ 2,102,148</u> | <u>\$ 725,220</u> | <u>\$ 517,475</u> | <u>\$ 3,344,843</u> |

See accompanying notes to the basic financial statements.

CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance
(Modified Cash Basis) – Year Ended June 30, 2011

| | <u>General Fund</u> | <u>Capital Improvement Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|---|---|---|
| REVENUES | | | | |
| Taxes | \$ 2,365,060 | \$ - | \$ - | \$ 2,365,060 |
| Intergovernmental | 134,993 | 141,317 | 33,406 | 309,716 |
| Licenses and permits | 6,039 | - | - | 6,039 |
| Charges for services | 755,797 | - | 7,020 | 762,817 |
| Fines and forfeitures | 82,829 | - | - | 82,829 |
| Investment income | 15,835 | 9,152 | 6,337 | 31,324 |
| Miscellaneous | 92,956 | - | 25,000 | 117,956 |
| Total revenues | <u>3,453,509</u> | <u>150,469</u> | <u>71,763</u> | <u>3,675,741</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government: | | | | |
| General government | 252,615 | - | 2,268 | 254,883 |
| Clerk/treasurer | 150,742 | - | - | 150,742 |
| Community building | 74,044 | - | - | 74,044 |
| Public safety and judiciary | | | | |
| Fire | 127,770 | - | - | 127,770 |
| Civil defense | 18,453 | - | - | 18,453 |
| Police | 962,553 | - | - | 962,553 |
| Code enforcement | 44,464 | - | - | 44,464 |
| Municipal court | 58,836 | - | - | 58,836 |
| Ambulance | 751,273 | - | - | 751,273 |
| Streets | 522,248 | - | - | 522,248 |
| Sanitation | 281,722 | - | - | 281,722 |
| Cultural, Parks, and Recreation: | | | | |
| Parks and recreation | 42,486 | 500,000 | 4,915 | 547,401 |
| Library | 4,086 | - | - | 4,086 |
| Cemetery | 33,685 | - | - | 33,685 |
| Capital Outlay | 21,740 | 178,986 | 28,251 | 228,977 |
| Total Expenditures | <u>3,346,717</u> | <u>678,986</u> | <u>35,434</u> | <u>4,061,137</u> |
| Excess (deficiency) of revenues over expenditures | <u>106,792</u> | <u>(528,517)</u> | <u>36,329</u> | <u>(385,396)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Payment from Development Authority | 242,331 | - | - | 242,331 |
| Transfers in | - | 304,669 | - | 304,669 |
| Transfers out | (304,669) | - | - | (304,669) |
| Total other financing sources and uses | <u>(62,338)</u> | <u>304,669</u> | <u>-</u> | <u>242,331</u> |
| Net change in fund balances | 44,454 | (223,848) | 36,329 | (143,065) |
| Fund balances - beginning | 2,056,652 | 949,068 | 481,146 | 3,486,866 |
| Fund balances - ending | <u>\$ 2,101,106</u> | <u>\$ 725,220</u> | <u>\$ 517,475</u> | <u>\$ 3,343,801</u> |

See accompanying notes to the basic financial statements.

CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund Balance – Net Assets Reconciliation:

| | | |
|---|----|------------|
| Total fund balance, governmental funds | \$ | 3,343,801 |
| Amounts reported for governmental activities in the Statement of Net Assets 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 Assets. | | 7,532,102 |
| Net Assets of Governmental Activities in the Statement of Net Assets | | 10,875,903 |

Changes in Fund Balances – Changes in Net Assets Reconciliation:

| | | |
|---|----|-----------|
| Net change in fund balances - total governmental funds: | \$ | (143,065) |
| 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 | | 168,014 |
| Depreciation expense | | (907,656) |
| Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain or loss on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold. | | |
| Book value of disposed capital assets | | (4,110) |
| Change in net assets of governmental activities | \$ | (886,817) |

See accompanying notes to the basic financial statements.

**CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

Footnotes to the Statement of Net Assets and Activities:

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 with its only asset being land held in its name. (Blended component unit)
- **The Stilwell Area Development Authority** – A public trust that operates the 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 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 assets 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

CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

- 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 for the senior center
- Public safety: Fine revenue and ambulance fees and an operating grant from Oklahoma Department of Agriculture
- 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
- 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 Fund – Accounts for revenues received and restricted for the improvement of the Depot.
- Depot Operational Fund – Accounts for revenues received and restricted for the maintenance of the Depot.
- Street and Alley Fund – Accounts for revenues received from gasoline excise tax, motor vehicle tax and expenditures made for street maintenance and operations.

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.

CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

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 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.

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 9.

G. Fund Balances and Net Assets

Fund Statements:

Governmental fund equity is classified as fund balance. Since the City implemented GASB Statement 54, 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 Assets:

Net assets are displayed in three components:

- a. *Invested in capital assets, net of related debt* - 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 assets* - Consists of net assets 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 assets* - All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

It is the City’s policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets 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 assets to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances then offset in the total column in the government-wide statements. 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, 2011, the City recognized \$31,324 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.

CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

Primary Government:

At June 30, 2011, the primary government held the following deposits and investments:

| Type | Carrying Value |
|---|---------------------|
| Deposits: | |
| Demand deposits | \$ 2,753,411 |
| Time deposit | 591,432 |
| Total deposits and investments | \$ 3,344,843 |
| Reconciliation to Statement of Net Assets: | |
| Cash and cash equivalents | \$ 1,596,228 |
| Investments | 1,748,615 |
| | \$ 3,344,843 |

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, 2011, 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, 2011, 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, 2011, 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.

CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

3. Capital Assets and Depreciation

Capital Assets:

Capital assets consist of land, land improvement, 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 is held in the name of the Stilwell Improvement Authority.

For the year ended June 30, 2011, capital assets balances changed as follows:

| | <u>Balance at July 01, 2010</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance at June 30, 2011</u> |
|---|-------------------------------------|---------------------|------------------|-------------------------------------|
| <i>Governmental activities:</i> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 497,129 | \$ - | \$ - | \$ 497,129 |
| Construction in progress | 282,231 | 46,086 | 68,447 | 259,870 |
| Total capital assets not being depreciated | <u>779,360</u> | <u>46,086</u> | <u>68,447</u> | <u>756,999</u> |
| Other capital assets: | | | | |
| Buildings | 16,103,680 | 164,017 | - | 16,267,697 |
| Machinery, furniture and equipment | 2,482,813 | 26,358 | 189,141 | 2,320,030 |
| Total other capital assets at historical cost | <u>18,586,493</u> | <u>190,375</u> | <u>189,141</u> | <u>18,587,727</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 9,533,188 | 699,496 | - | 10,232,684 |
| Machinery, furniture and equipment | 1,556,811 | 208,160 | 185,031 | 1,579,940 |
| Total accumulated depreciation | <u>11,089,999</u> | <u>907,656</u> | <u>185,031</u> | <u>11,812,624</u> |
| Other capital assets, net | <u>7,496,494</u> | <u>(717,281)</u> | <u>4,110</u> | <u>6,775,103</u> |
| Governmental activities capital assets, net | <u>\$ 8,275,854</u> | <u>\$ (671,195)</u> | <u>\$ 72,557</u> | <u>\$ 7,532,102</u> |

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 | \$ 29,050 |
| Public safety | 161,954 |
| Highways and streets | 677,685 |
| Culture, tourism, and recreation | 38,967 |
| | <u>\$ 907,656</u> |

**CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

4. 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.

5. 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.

6. Internal and Interfund Balances and Transfers

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

Balances:

The City had no interfund receivables and payables at June 30, 2011.

Transfers:

Internal transfers between funds and activities for the year ended June 30, 2011, were as follows:

| <u>Transfer From</u> | <u>Transfer To</u> | <u>Amount</u> | <u>Purpose of Transfer</u> |
|----------------------|--------------------------|-------------------|----------------------------|
| General Fund | Capital Improvement Fund | \$ 304,669 | Sales tax transfer |
| Total | | <u>\$ 304,669</u> | |

**CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

7. Fund Equity

The city implemented GASB Statement 54: Fund Balance Reporting and Governmental Fund Type Definitions. The following tables show the fund balance classifications as shown in the Governmental Funds Balance Sheet in accordance with GASB Statement 54:

| | General Fund | Capital Improvement Fund | Other Governmental Fund | Total |
|----------------------|--------------|-----------------------------|----------------------------|--------------|
| Fund Balance: | | | | |
| Restricted For: | | | | |
| Capital Improvements | \$ - | \$ 716,068 | \$ - | \$ 716,068 |
| Library | - | - | 26,236 | 26,236 |
| Depot Operation | - | - | 12,023 | 12,023 |
| Street Improvements | - | - | 276,243 | 276,243 |
| Cemetery Capital | - | - | 177,900 | 177,900 |
| CDBG Grant | - | - | 21,203 | 21,203 |
| Sub-total Restricted | - | 716,068 | 513,605 | 1,229,673 |
| Assigned to: | | | | |
| Capital Improvements | - | 9,152 | - | 9,152 |
| Library | - | - | 297 | 297 |
| Depot Operation | - | - | 154 | 154 |
| Street Improvements | - | - | 3,419 | 3,419 |
| Sub-total Assigned | - | 9,152 | 3,870 | 13,022 |
| Unassigned | 2,101,106 | - | - | 2,101,106 |
| Total Fund Balance | \$ 2,101,106 | \$ 725,220 | \$ 517,475 | \$ 3,343,801 |

Restricted Net Assets – Governmental Activities:

The following table shows the net asset restricted for other purposes as shown in the Statement of Net Assets:

| Fund | Restricted By | Amount |
|--------------------------|------------------------|-------------------|
| Street & Alley Fund | Statutory requirements | \$ 276,243 |
| Cemetery | Statutory requirements | 177,900 |
| | | <u>\$ 454,143</u> |
| Capital Improvement Fund | External contracts | \$ 716,068 |
| Library Fund | External contracts | 26,236 |
| Depot Operational Fund | External contracts | 12,023 |
| CDBG Fund | External contracts | 21,203 |
| | | <u>\$ 775,530</u> |

8. 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.

9. Commitments and Contingencies

Construction Contract:

There were no construction contracts outstanding at June 30, 2011.

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, 2011, is summarized as follows:

- General Fund – accrued compensated absences \$362,646

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 2011, the City's involvement in federal and state award programs was not 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.

10. Pension Plan Participation

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

**CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

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 |
|----------------|--------------------------|-----------------------|
| 2009 | \$ 7,091 | \$ 7,091 |
| 2010 | \$ 8,362 | \$ 8,362 |
| 2011 | \$ 6,023 | \$ 6,023 |

Schedule of Retirement Plan Contributions – OMRF

For the year ended June 30, 2011, the following amounts related to the defined benefit plan:

| | City and SADA Total | City Only |
|-----------------------------|------------------------|--------------|
| Employee contributions made | \$ 117,081 | \$ 68,945 |
| Employer contributions made | 329,386 | 193,964 |
| Total | \$ 446,467 | \$ 262,909 |

| Fiscal Year | Annual Pension Cost | Percentage of APC Contributed | Net Pension Obligation |
|----------------|---------------------------|-------------------------------------|------------------------------|
| 2009 | \$ 416,065 | 100% | - |
| 2010 | \$ 471,955 | 100% | - |
| 2011 | \$ 446,467 | 100% | - |

**CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

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

| <u>Provision</u> | <u>OMRF Plan</u> |
|-----------------------------------|---|
| 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 | 12.54% 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. |

**CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

3. Annual Pension Costs

A. Current Year Contribution Information

For the year ended June 30, 2011, the City's annual pension cost of \$204,938 was equal to the City's required and actual contributions.

B. Actuarial Assumptions:

| Date of Last Actuarial Valuation | For Plan Year July 1, 2011 |
|--|---|
| a. Actuarial Cost Method | Entry age normal |
| b. Rate of Return on Investments | 7.5% |
| c. Projected Salary Increase | Rates by age |
| d. Post Retirement Cost-of-Living Increase | None |
| e. Inflation Rate | Separate Inflation rate not available; inflation included in projected salary increase. |
| f. Mortality | UP 94 mortality |
| g. Asset Valuation Method | Actuarial method |

Funded Status and Funding Progress

As of January 1, 2011, the funded status of the OMRF agent multiple employer defined benefit plan is as follows:

| | |
|---|----------------------------|
| Actuarial accrued liability (AAL) | \$ 6,802,610 |
| Actuarial value of plan assets | <u>3,927,858</u> |
| Unfunded actuarial accrued liability (UAAL) | <u><u>\$ 2,874,752</u></u> |
| | |
| Funded ratio (actuarial value of plan assets/AAL) | 57.7% |
| Annual covered payroll (active plan members) | 2,583,637 |
| UAAL as a percentage of covered payroll | 111.3% |

The schedule of funding progress, presented as required supplementary information 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 liabilities for benefits.

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.

**CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2011

| | GENERAL FUND | | | |
|--|---------------------|---------------------|------------------------------------|--|
| | Budgeted Amounts | | Actual Amounts, Budgetary Basis | Variance with Final Budget - Positive (Negative) |
| | Original | Final | | |
| Beginning Budgetary Fund Balance | \$ 2,431,000 | \$ 2,431,000 | \$ 2,056,652 | \$ (374,348) |
| Resources (Inflows): | | | | |
| TAXES: | | | | |
| Sales tax | 1,810,500 | 1,810,500 | 2,132,686 | 322,186 |
| Use tax | 107,000 | 107,000 | 126,422 | 19,422 |
| Franchise tax | 15,000 | 15,000 | 77,948 | 62,948 |
| Hotel and Motel Tax | - | - | 28,004 | 28,004 |
| Total taxes | <u>1,932,500</u> | <u>1,932,500</u> | <u>2,365,060</u> | <u>432,560</u> |
| INTERGOVERNMENTAL: | | | | |
| Alcoholic beverage tax | 41,000 | 41,000 | 47,124 | 6,124 |
| Tobacco tax | 21,500 | 21,500 | 30,149 | 8,649 |
| Grants | - | - | 57,720 | 57,720 |
| Total Intergovernmental | <u>62,500</u> | <u>62,500</u> | <u>134,993</u> | <u>72,493</u> |
| CHARGES FOR SERVICES | <u>495,500</u> | <u>495,500</u> | <u>755,797</u> | <u>260,297</u> |
| FINES AND FORFEITURES | <u>85,000</u> | <u>85,000</u> | <u>82,829</u> | <u>(2,171)</u> |
| LICENSES AND PERMITS: | <u>1,000</u> | <u>1,000</u> | <u>6,039</u> | <u>5,039</u> |
| INVESTMENT INCOME | <u>22,000</u> | <u>22,000</u> | <u>15,835</u> | <u>(6,165)</u> |
| MISCELLANEOUS: | | | | |
| Rentals | 6,000 | 6,000 | 8,150 | 2,150 |
| Proceeds from sale of capital assets | - | - | - | - |
| Miscellaneous | 10,000 | 10,000 | 84,806 | 74,806 |
| Total Miscellaneous | <u>16,000</u> | <u>16,000</u> | <u>92,956</u> | <u>76,956</u> |
| OTHER FINANCING SOURCES: | | | | |
| Payments from component unit | <u>205,000</u> | <u>205,000</u> | <u>242,331</u> | <u>37,331</u> |
| Total Resources (Inflows) | <u>2,819,500</u> | <u>2,819,500</u> | <u>3,695,840</u> | <u>876,340</u> |
| Amount available for appropriation | <u>5,250,500</u> | <u>5,250,500</u> | <u>5,752,492</u> | <u>501,992</u> |
| Charges to Appropriations (Outflows): | | | | |
| General government | 288,424 | 258,867 | 263,349 | (4,482) |
| Cemetery | 60,880 | 51,180 | 33,685 | 17,495 |
| Civil Defense | 33,973 | 18,973 | 18,453 | 520 |
| Clerk | 177,727 | 175,227 | 150,742 | 24,485 |
| Community building | 99,322 | 77,315 | 74,044 | 3,271 |
| Library | 5,500 | 5,500 | 4,086 | 1,414 |
| Sanitation | 365,756 | 290,756 | 281,722 | 9,034 |
| Municipal court | 60,755 | 60,755 | 58,836 | 1,919 |
| Code enforcement | 44,501 | 44,501 | 44,464 | 37 |
| Police | 1,189,102 | 1,093,102 | 962,553 | 130,549 |
| Fire | 198,359 | 205,161 | 127,770 | 77,391 |
| Street | 670,772 | 579,329 | 533,254 | 46,075 |
| Parks | 53,000 | 68,500 | 42,486 | 26,014 |
| Ambulance | 741,924 | 736,924 | 751,273 | (14,349) |
| Total other financing sources and uses | <u>3,989,995</u> | <u>3,666,090</u> | <u>3,346,717</u> | <u>319,373</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers to Other Funds | - | - | 304,669 | (304,669) |
| Total other financing sources and uses | <u>-</u> | <u>-</u> | <u>304,669</u> | <u>(304,669)</u> |
| Fund balances - ending | <u>\$ 1,260,505</u> | <u>\$ 1,584,410</u> | <u>\$ 2,101,106</u> | <u>\$ 516,696</u> |

See accompanying notes to this schedule.

**CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2011 (Continued)

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.
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, the City had negative variances in the following departments and for the following amounts:

| | |
|-----------------------------------|------------|
| General Fund – General Government | (\$4,482) |
| General Fund – Ambulance | (\$14,349) |

CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

Schedule of Funding Progress – City Employee Retirement System

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (a - b) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a)/c) |
|--------------------------------|--|--|--------------------------------------|--------------------------|---------------------------|---|
| January 1, 2003 | 1,234,873 | 2,373,899 | (1,139,026) | 52.0% | 1,966,503 | 57.9% |
| January 1, 2004 | 1,524,755 | 2,670,867 | (1,146,112) | 57.1% | 2,061,737 | 55.6% |
| January 1, 2005 | 1,868,838 | 3,564,625 | (1,695,787) | 52.4% | 2,051,941 | 82.6% |
| January 1, 2006 | 2,161,080 | 3,869,806 | (1,708,726) | 55.8% | 2,114,101 | 80.8% |
| January 1, 2007 | 2,537,172 | 4,281,276 | (1,744,104) | 59.3% | 2,250,910 | 77.5% |
| January 1, 2008 | 2,955,064 | 4,722,182 | (1,767,118) | 62.6% | 2,289,332 | 77.2% |
| January 1, 2009 | 3,047,554 | 5,863,604 | (2,816,050) | 52.0% | 2,552,347 | 110.3% |
| January 1, 2010 | 3,454,239 | 6,295,431 | (2,841,192) | 54.9% | 2,604,326 | 109.1% |
| January 1, 2011 | 3,927,858 | 6,802,610 | (2,874,752) | 57.7% | 2,583,637 | 111.3% |

**CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

SUPPLEMENTARY INFORMATION

**CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Combining Balance Sheet – Nonmajor Funds (Modified Cash Basis) – Year Ended June 30, 2011

| | <u>Special Revenue Funds</u> | | | <u>Capital Project Funds</u> | | | <u>Total Governmental Funds</u> |
|--------------------------------------|------------------------------|-------------------|---------------------------------------|----------------------------------|-------------------------------|----------------------|---|
| | <u>Library Fund</u> | <u>Depot Fund</u> | <u>Depot Operational Fund</u> | <u>Street and Alley Fund</u> | <u>Cometary Care Fund</u> | <u>CDBG Fund</u> | |
| ASSETS | | | | | | | |
| Cash and cash equivalents | \$ 26,533 | \$ - | \$ 12,177 | \$ 165,118 | \$ 39,663 | \$ 21,203 | \$ 264,694 |
| Investments | - | - | - | 114,544 | 138,237 | - | 252,781 |
| Total assets | <u>26,533</u> | <u>-</u> | <u>12,177</u> | <u>279,662</u> | <u>177,900</u> | <u>21,203</u> | <u>517,475</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| Liabilities: | | | | | | | |
| Total liabilities | - | - | - | - | - | - | - |
| Fund balances: | | | | | | | |
| Restricted | 26,236 | - | 12,023 | 276,243 | 177,900 | 21,203 | 513,605 |
| Assigned | 297 | - | 154 | 3,419 | - | - | 3,870 |
| Total fund balances | <u>26,533</u> | <u>-</u> | <u>12,177</u> | <u>279,662</u> | <u>177,900</u> | <u>21,203</u> | <u>517,475</u> |
| Total liabilities and fund balances | <u>\$ 26,533</u> | <u>\$ -</u> | <u>\$ 12,177</u> | <u>\$ 279,662</u> | <u>\$ 177,900</u> | <u>\$ 21,203</u> | <u>\$ 517,475</u> |

**CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

**Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Funds
(Modified Cash Basis) – Year Ended June 30, 2011**

| | Special Revenue Funds | | | | Capital Project Funds | | Total-Other Governmental Funds |
|---|-----------------------|----------------|------------------------------|--------------------------|-----------------------|------------------|--------------------------------------|
| | Library Fund | Depot Fund | Depot Operational Fund | Street and Alley Fund | Cemetery Care Fund | CDBG Fund | |
| REVENUES | | | | | | | |
| Intergovernmental | \$ - | \$ - | \$ - | \$ 31,156 | \$ - | \$ 2,250 | \$ 33,406 |
| Charges for services | - | - | - | - | 7,020 | - | 7,020 |
| Investment earnings | 297 | - | 154 | 3,419 | 2,467 | - | 6,337 |
| Miscellaneous | - | - | - | - | - | 25,000 | 25,000 |
| Total revenues | <u>297</u> | <u>-</u> | <u>154</u> | <u>34,575</u> | <u>9,487</u> | <u>27,250</u> | <u>71,763</u> |
| EXPENDITURES | | | | | | | |
| Current: | | | | | | | |
| General government | - | - | - | - | - | 2,268 | 2,268 |
| Culture and recreation | - | - | 4,915 | - | - | - | 4,915 |
| Capital Outlay | - | 2,485 | - | 13,986 | 8,000 | 3,780 | 28,251 |
| Total Expenditures | <u>-</u> | <u>2,485</u> | <u>4,915</u> | <u>13,986</u> | <u>8,000</u> | <u>6,048</u> | <u>35,434</u> |
| Excess (deficiency) of revenues over expenditures | <u>297</u> | <u>(2,485)</u> | <u>(4,761)</u> | <u>20,589</u> | <u>1,487</u> | <u>21,202</u> | <u>36,329</u> |
| Net change in fund balances | 297 | (2,485) | (4,761) | 20,589 | 1,487 | 21,202 | 36,329 |
| Fund balances - beginning | 26,236 | 2,485 | 16,938 | 259,073 | 176,413 | 1 | 481,146 |
| Fund balances - ending | <u>\$ 26,533</u> | <u>\$ -</u> | <u>\$ 12,177</u> | <u>\$ 279,662</u> | <u>\$ 177,900</u> | <u>\$ 21,203</u> | <u>\$ 517,475</u> |

**CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Schedule of Expenditures of Federal and State Awards (Modified Cash Basis) – Year Ended June 30, 2011

| Federal/State Grantor/Pass Thru Agency Grantor/Program Title | Federal CFDA Number | Pass Thru Grant # | Award Amount | Contract Expenditures | Balance Remaining |
|---|------------------------------------|------------------------------|-------------------------|----------------------------------|------------------------------|
| FEDERAL AWARDS: | | | | | |
| <u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u> | | | | | |
| CDBG | 14.228 | Yes | 150,000 | 2,250 | 147,750 |
| <u>DEPARTMENT OF AGRICULTURE:</u> | | | | | |
| Ice Storm Recovery Grant | 10.675 | Yes | 20,000 | 12,825 | 7,175 |
| <u>DEPARTMENT OF ENERGY:</u> | | | | | |
| Stimulus Energy Efficiency CBG | 81.128 | Yes | 250,000 | 141,317 | 81,771 |
| Total Federal Awards | | | <u>420,000</u> | <u>156,392</u> | <u>236,696</u> |
| STATE AWARDS: | | | | | |
| <u>EASTERN OKLAHOMA DEVELOPMENT DISTRICT:</u> | | | | | |
| 2004 REAP Fund 0104 | N/A | N/A | 40,000 | 14,000 | - |
| 2010 REAP Fund 0104 | N/A | N/A | 15,000 | 9,410 | - |
| <u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u> | | | | | |
| Operational Grant | N/A | N/A | 4,398 | 4,398 | - |
| <u>OKLAHOMA DEPARTMENT OF COMMERCE:</u> | | | | | |
| Community Development Centers | N/A | N/A | 5,000 | 5,000 | - |
| Total State Awards | | | <u>\$ 64,398</u> | <u>\$ 32,808</u> | <u>\$ -</u> |

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.

CITY OF STILWELL, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

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 financial statements-modified cash basis of the governmental activities, each major fund, and the aggregate remaining fund information of the primary government for the City of Stilwell, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the City of Stilwell, Oklahoma's primary government basic financial statements and have issued our report thereon dated November 10, 2011. The auditor's report was modified to indicate the financial statements had been prepared using the modified cash basis of accounting which is considered to be an other 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 units for the exclusion of such units and the failure to issue financial statements for the City's entire reporting entity. 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 our audit, we considered the City of Stilwell's internal control over financial reporting as a basis for designing our auditing procedures 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 City of Stilwell's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraphs and was not designed to identify all deficiencies in internal

control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Stilwell'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*.

This report is intended for the information and use of the City of Stilwell management, governing body, those charged with governance, and all applicable federal and state agencies and is not intended to be used by anyone other than these specified parties.



Michael Green, CPA
November 10, 2011