

**THE CITY OF STILWELL, OKLAHOMA**

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

**AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**CITY OF STILWELL, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2012**

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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, 2012, which collectively comprise the City's basic financial statements 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 prepares its financial statements on the 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 Stilwell, Oklahoma, as of June 30, 2012, 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 for the City as of June 30, 2012 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 14, 2012, on our consideration of the City'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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The management's discussion and analysis and budgetary comparison information on pages 7 through 13 and page 37 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining nonmajor governmental funds schedules—modified cash basis are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis and is also not a required part of the financial statements. The combining nonmajor governmental funds schedules—modified cash basis, schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Michael Green  
Certified Public Accountant  
Stilwell, Ok  
November 14, 2012

**CITY OF STILWELL, OKLAHOMA**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2012**

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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, 2012. 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 fund.

### **FINANCIAL HIGHLIGHTS**

- While the City's total net assets decreased by \$214,337, the assets of the City exceed its liabilities at June 30, 2012, by \$10,661,566 (net assets). Of this amount, \$2,458,600 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

- At June 30, 2012, the City's governmental funds reported combined ending fund balances of \$3,320,991. Of that amount, \$2,333,322 is available for spending at the government's discretion (unassigned fund balance) of the General Fund.
- At the end of fiscal year 2012, unassigned fund balance for the General Fund was 65.8% 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 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**  
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**As of and for the Year Ended June 30, 2012**

*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 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, 2012, net assets for the governmental activities decreased \$214,337. 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.)
	2012	2011	
Current assets	\$ 3,322	\$ 3,345	-1%
Capital assets, net	7,591	7,532	1%
<b>Total assets</b>	<b>10,913</b>	<b>10,877</b>	<b>0%</b>
Current liabilities	4	1	297%
Non-current liabilities	247	-	100%
<b>Total liabilities</b>	<b>251</b>	<b>1</b>	<b>23976%</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	7,341	7,532	-3%
Restricted	862	2,781	-69%
Unrestricted	2,459	2,114	16%
<b>Total net assets</b>	<b>\$ 10,662</b>	<b>\$ 12,427</b>	<b>-14%</b>

**CITY OF STILWELL, OKLAHOMA**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2012**

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>2012</u>	<u>2011</u>	
<b>Revenues</b>			
Charges for service	\$ 742	\$ 752	-1%
Operating grants and contributions	93	38	145%
Capital grants and contributions	252	229	10%
Taxes	2,419	2,365	2%
Intergovernmental revenue	209	181	15%
Investment income	19	31	-39%
Miscellaneous	308	319	-3%
	<b>Total revenues</b>	<b>3,915</b>	<b>3%</b>
<b>Expenses</b>			
General government	556	553	1%
Public safety	2,165	2,128	2%
Streets	1,115	1,212	-8%
Culture, parks and recreation	133	627	-79%
Sanitation	287	282	2%
	<b>Total expenses</b>	<b>4,802</b>	<b>-11%</b>
<b>Change in net assets</b>	(214)	(887)	-76%
<b>Beginning net assets</b>	10,876	11,763	-8%
<b>Ending net assets</b>	\$ 10,662	\$ 10,876	-2%

**CITY OF STILWELL, OKLAHOMA**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2012**

**Governmental Activities**

The City's governmental activities' decrease in net assets of \$214,337 represents a 2% decrease in net assets. Expenditures decreased by \$545,819, while revenues increased \$126,661. This is mainly due to a \$500,000 decrease in professional service expenditures in the parks department. The increase in revenue is primarily related to FEMA grant revenue of \$43,164 and an increase of \$81,511 in use tax revenue 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.)
	2012	2011		2012	2011	
	General government	\$ 556		\$ 553	1%	
Public safety	2,165	2,128	2%	(1,400)	(1,551)	-10%
Streets	1,115	1,212	-8%	(1,081)	(1,172)	-8%
Culture, parks and recreation	133	627	-79%	(99)	(579)	-83%
Sanitation	287	282	2%	(86)	(76)	13%
<b>Total</b>	<b>\$4,256</b>	<b>\$4,802</b>	<b>-11%</b>	<b>(\$3,168)</b>	<b>(\$3,783)</b>	<b>-16%</b>

**A FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As the City completed its 2012 fiscal year, the governmental funds reported a combined fund balance of \$3.3 million or a 0.7% decrease from the prior year.

**Other fund highlights include:**

- For the year ended June 30, 2012, the General Fund's total fund balance increased by \$232,216, or 11 %.

**General Fund Budgetary Highlights**

For the year ended June 30, 2012, the General Fund reported actual budgetary basis revenues above final estimates by \$976,146 or a 34.6% positive variance. General Fund actual expenditures were under final appropriations by \$405,372 or a 11.1% 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, 2012, the City had approximately \$7.6 million invested in capital assets including land, buildings, machinery and equipment, and park facilities. This represents a net increase of \$58,473 from last year.

**CITY OF STILWELL, OKLAHOMA**  
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Below are details regarding the change in the City's capital assets for the year ended June 30, 2012.<sup>1</sup>

**The City of Stilwell's Capital Assets**

Capital Assets  
(In Thousands)  
(Net of accumulated depreciation)

	Governmental	
	Activities	
	2012	2011
Land	\$ 583	\$ 497
Buildings and Improvements	5,594	6,035
Machinery and Equipment	715	740
Construction in progress	698	260
<b>Totals, Net</b>	<b>\$ 7,590</b>	<b>\$ 7,532</b>

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

- Police Building Project \$496,672
- Armory Building Project \$156,247
- Purchased fleet truck for Street Department \$15,000
- Purchased fleet truck for Facilities Maintenance \$13,300
- Purchased fleet truck for Fire Department \$20,500
- Purchased SUV for Administration Department \$22,000
- SCBA Fire Respirator Gear for Fire Department \$18,612
- Narrowband-Capable Radio Equipment \$70,599
- Real estate/vacant land purchased \$86,280
- Ambulance purchased for EMS Department \$80,918
- Purchased a mower for the Street Department \$ 6,500
- Purchased trackhoe for Street Department \$31,575

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.

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<sup>1</sup> For more detailed information on capital asset activity please refer to page 28, Note 3. Capital Assets and Depreciation

**CITY OF STILWELL, OKLAHOMA**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2012**

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**Debt Administration**

At year-end, the City had \$250,000 in long-term debt outstanding issued during FY 12.<sup>2</sup>

	Long-Term Debt (In Thousands)		Total Percentage Change
	<u>Governmental Activities</u>		
	<u>2012</u>	<u>2011</u>	
Notes payable	\$ 250	\$ -	100%
<b>Totals</b>	<u>\$ 250</u>	<u>\$ -</u>	

**ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES**

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

- During fiscal year 2012 the city received the National Guard Armory from the Oklahoma Military Department. The land that the armory was constructed on was donated by the city to the Oklahoma Military Department in 1957 with the stipulation that the property would revert to the city if the armory was closed. Renovations of that building were only partially complete at June 30, 2012 at an approximate cost of \$135,930.
- Also, a multi-year project to construct a new police department building broke ground during fiscal year 2012 and was substantially completed at June 30, 2012 at a total cost of \$776,000.00. This cost includes the purchase of real estate, engineering & design work, and other activities that transpired in years prior to 2012. The building was dedicated and opened in July 2012.

**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.

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<sup>2</sup> For more detailed information on long-term debt activity please refer to page 29, Note 4. Long-Term Debt.

**CITY OF STILLWELL, OKLAHOMA  
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**BASIC FINANCIAL STATEMENTS – STATEMENTS OF NET ASSETS AND ACTIVITIES**

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**Statement of Net Assets (Modified Cash Basis)– June 30, 2012**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,566,710
Investments	1,755,155
Capital Assets:	
Land and construction in progress	1,281,153
Other capital assets, net of accumulated depreciation	6,309,422
Total Assets	10,912,440
 <b>LIABILITIES</b>	
Due to other governments	874
Long-term liabilities	
Due within one year	3,261
Due in more than one year	246,739
Total liabilities	250,874
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	7,340,575
Restricted for:	
Streets	294,069
Cemetery	188,380
Capital improvements	344,988
Library	26,236
Depot operations	8,718
Unrestricted	2,458,600
Total net assets	\$ 10,661,566

See accompanying notes to the basic financial statements.

**CITY OF STELWELL, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
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**Statement of Activities (Modified Cash Basis)– Year Ended June 30, 2012**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Governmental Activities</u>
<b>Primary government</b>					
Governmental Activities					
General Government	\$ 555,781	\$ 7,598	\$ 45,744	\$ -	\$ (502,439)
Public Safety	2,164,860	518,042	13,002	234,279	(1,399,537)
Highways and streets	1,115,303	-	34,113	-	(1,081,190)
Sanitation	286,549	200,280	-	-	(86,269)
Culture and Recreation	133,277	16,400	-	18,042	(98,835)
<b>Total primary government</b>	<b>4,255,770</b>	<b>742,320</b>	<b>92,859</b>	<b>252,321</b>	<b>(3,168,270)</b>
<b>General revenues:</b>					
Taxes:					
Sales taxes					\$ 2,119,164
Use taxes					207,933
Franchise taxes and public service taxes					91,774
Intergovernmental revenue not restricted to specific programs					209,397
Unrestricted investment earnings					18,995
Miscellaneous					81,663
Payment from Development Authority					247,968
Payment to Development Authority					(22,961)
Total general revenues and transfers					<u>2,953,933</u>
Change in net assets					(214,337)
Net assets - beginning					10,875,903
Net assets - ending					<u>\$ 10,661,566</u>

See accompanying notes to the basic financial statements.

**CITY OF STILWELL, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
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**BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS**

**CITY OF STILWELL, OKLAHOMA**  
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**Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2012**

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 833,773	\$ 358,589	\$ 374,348	\$ 1,566,710
Investments	1,500,423	-	254,732	1,755,155
Due from other funds	-	-	200,000	200,000
Total assets	<u>2,334,196</u>	<u>358,589</u>	<u>829,080</u>	<u>3,521,865</u>
 <b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Due to other governments	874	-	-	874
Due to other funds	-	-	200,000	200,000
Total liabilities	<u>874</u>	<u>-</u>	<u>200,000</u>	<u>200,874</u>
Fund balances:				
Restricted	-	344,988	776,760	1,121,748
Assigned	-	13,601	6,328	19,929
Unassigned	2,333,322	-	(154,008)	2,179,314
Total fund balances	<u>2,333,322</u>	<u>358,589</u>	<u>629,080</u>	<u>3,320,991</u>
Total liabilities and fund balances	<u>\$ 2,334,196</u>	<u>\$ 358,589</u>	<u>\$ 829,080</u>	<u>\$ 3,521,865</u>

See accompanying notes to the basic financial statements.

**CITY OF STILWELL, OKLAHOMA**  
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**Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**(Modified Cash Basis) – Year Ended June 30, 2012**

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes	\$ 2,418,871	\$ -	\$ -	\$ 2,418,871
Intergovernmental	152,111	-	206,863	358,974
Licenses and permits	3,991	-	-	3,991
Charges for services	773,056	-	6,560	779,616
Fines and forfeitures	77,127	-	-	77,127
Investment income	10,748	4,449	3,798	18,995
Miscellaneous	111,774	49,804	2,580	164,158
Total revenues	<u>3,547,678</u>	<u>54,253</u>	<u>219,801</u>	<u>3,821,732</u>
<b>EXPENDITURES</b>				
Current:				
General government:				
General government	249,400	-	6,643	256,043
Clerk/treasurer	153,477	-	-	153,477
Community building	69,009	-	-	69,009
Public safety and judiciary				
Fire	143,899	-	-	143,899
Civil defense	17,998	-	-	17,998
Police	988,811	-	-	988,811
Code enforcement	44,440	-	-	44,440
Municipal court	54,328	-	-	54,328
Ambulance	659,150	-	-	659,150
Streets	465,656	-	-	465,656
Sanitation	283,244	-	-	283,244
Cultural, Parks, and Recreation:				
Parks and recreation	43,331	-	-	43,331
Library	9,092	-	-	9,092
Cemetery	40,360	-	-	40,360
Capital Outlay	17,562	557,596	517,553	1,092,711
Total Expenditures	<u>3,237,757</u>	<u>557,596</u>	<u>524,196</u>	<u>4,319,549</u>
Excess (deficiency) of revenues over expenditures	<u>309,921</u>	<u>(503,343)</u>	<u>(304,395)</u>	<u>(497,817)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from long-term debt, net	-	-	250,000	250,000
Payment from Development Authority	247,968	-	-	247,968
Payment to Development Authority	(22,961)	-	-	(22,961)
Transfers in	-	302,712	166,000	468,712
Transfers out	(302,712)	(166,000)	-	(468,712)
Total other financing sources and uses	<u>(77,705)</u>	<u>136,712</u>	<u>416,000</u>	<u>475,007</u>
Net change in fund balances	232,216	(366,631)	111,605	(22,810)
Fund balances - beginning	2,101,106	725,220	517,475	3,343,801
Fund balances - ending	<u>\$ 2,333,322</u>	<u>\$ 358,589</u>	<u>\$ 629,080</u>	<u>\$ 3,320,991</u>

See accompanying notes to the basic financial statements.

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**Reconciliation of Governmental Funds and Government-Wide Financial Statements:**

**Fund Balance – Net Assets Reconciliation:**

Total fund balance, governmental funds	\$	3,320,991
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.		7,590,575
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 Assets.		(250,000)
Net Assets of Governmental Activities in the Statement of Net Assets		10,661,566

**Changes in Fund Balances – Changes in Net Assets Reconciliation:**

Net change in fund balances - total governmental funds:	\$	(22,810)
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		943,557
Depreciation expense		(871,606)
Book value of disposed capital assets		(13,478)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of netassets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:		
Proceeds of long-term debt		(250,000)
Change in net assets of governmental activities	\$	(214,337)

See accompanying notes to the basic financial statements.

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**FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS**

**Footnotes to the Statement of Net Assets and Activities:**

**I. 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 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
- investments

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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 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.

*Debt Service Funds:*

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

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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

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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, 2012, the City recognized \$18,995 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.

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**Primary Government:**

At June 30, 2012, the primary government held the following deposits and investments:

<u>Type</u>	<u>Carrying Value</u>
<b>Deposits:</b>	
Demand deposits	\$ 2,725,054
Time deposit	596,811
<b>Total deposits and investments</b>	<b>\$ 3,321,865</b>
 <b>Reconciliation to Statement of Net Assets:</b>	
Cash and cash equivalents	\$ 1,566,710
Investments	1,755,155
	<b>\$ 3,321,865</b>

*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, 2012, 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, 2012, 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, 2012, 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.

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**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, 2012, capital assets balances changed as follows:

	Balance at July 01, 2011	Additions	Disposals	Balance at June 30, 2012
<i>Governmental activities:</i>				
Capital assets not being depreciated:				
Land	\$ 497,129	\$ 86,280	\$ -	\$ 583,409
Construction in progress	259,870	662,885	225,011	697,744
Total capital assets not being depreciated	<u>756,999</u>	<u>749,165</u>	<u>225,011</u>	<u>1,281,153</u>
Other capital assets:				
Buildings	16,267,697	225,011	-	16,492,708
Machinery, furniture and equipment	2,320,030	194,392	175,919	2,338,503
Total other capital assets at historical cost	<u>18,587,727</u>	<u>419,403</u>	<u>175,919</u>	<u>18,831,211</u>
Less accumulated depreciation for:				
Buildings	10,232,684	665,549	-	10,898,233
Machinery, furniture and equipment	1,579,940	206,057	162,441	1,623,556
Total accumulated depreciation	<u>11,812,624</u>	<u>871,606</u>	<u>162,441</u>	<u>12,521,789</u>
Other capital assets, net	<u>6,775,103</u>	<u>(452,203)</u>	<u>13,478</u>	<u>6,309,422</u>
Governmental activities capital assets, net	<u>\$ 7,532,102</u>	<u>\$ 296,962</u>	<u>\$ 238,489</u>	<u>\$ 7,590,575</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	\$ 38,662
Public safety	163,012
Highways and streets	629,460
Culture, tourism, and recreation	40,472
	<u>\$ 871,606</u>

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**4. Long-Term Debt**

For the year ended June 30, 2012, the reporting entity's long-term debt changed as follows:

<u>Type of Debt</u>	<u>Balance July 01, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2012</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Notes payable	\$ -	\$ 250,000	\$ -	\$ 250,000	\$ 3,261
Total Governmental Activities	<u>\$ -</u>	<u>\$ 250,000</u>	<u>\$ -</u>	<u>\$ 250,000</u>	<u>\$ 3,261</u>

**Reconciliation to Statement of Net Assets:**

<b>Governmental Activities:</b>	
Due within one year	\$ 3,261
Due in more than one year	246,739
Total Governmental Activities Long-term liabilities	<u>\$ 250,000</u>

*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 beginning October 30, 2012, final installment due March 30, 2042, secured with a property lien from Stilwell Improvement Authority resources	\$ 250,000
Total Notes Payable	<u>\$ 250,000</u>
Current portion	\$ 3,261
Noncurrent portion	246,739
Total Notes Payable	<u>\$ 250,000</u>

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

<u>Year Ending June 30,</u>	<u>Governmental Type Activities</u>	
	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 3,239	\$ 7,923
2014	4,482	10,401
2015	4,676	10,206
2016	4,878	10,004
2017	5,090	9,792
2018-2022	28,956	45,457
2023-2027	35,798	38,615
2028-2032	44,256	30,155
2033-2037	54,714	19,696
2038-2042	63,911	6,780
Totals	<u>\$ 250,000</u>	<u>\$ 189,029</u>

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**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 assets to avoid the grossing up of balances. Internal transfers and balances between funds are not eliminated in the fund financial statements.

*Balances:*

Internal balances between funds are comprised of the following:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
Stilwell Improvement Authority	CDBG	\$ 200,000	Construction expense
Total		<u>\$ 200,000</u>	

*Transfers:*

Internal transfers between funds and activities for the year ended June 30, 2012, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
General Fund	Capital Improvement Fund	\$ 302,712	Sales tax transfer
Capital Improvement Fund	CDBG	\$ 150,000	Grant match fund transfer
Capital Improvement Fund	Stilwell Improvement Authority	\$ 16,000	Transfer for debt service
Total		<u>\$ 468,712</u>	

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**8. Fund Equity**

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 Funds	Total
Fund Balance:				
Restricted For:				
Capital Improvements	\$ -	\$ 344,988	\$ -	\$ 344,988
Library	-	-	26,236	26,236
Depot Operation	-	-	8,718	8,718
Street Improvements	-	-	294,069	294,069
Cemetery Capital	-	-	188,380	188,380
Stilwell Improvement Authority	-	-	259,357	259,357
Sub-total Restricted	-	344,988	776,760	1,121,748
Assigned to:				
Capital Improvements	-	13,601	-	13,601
Library	-	-	484	484
Depot Operation	-	-	230	230
Street Improvements	-	-	5,572	5,572
Sub-total Assigned	-	13,601	6,286	19,887
Unassigned to:				
General Fund	2,333,322			2,333,322
CDBG Grant			(154,008)	(154,008)
Stilwell Improvement Authority			42	42
Total Fund Balance	\$ 2,333,322	\$ 358,589	\$ 629,080	\$ 3,320,991

**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, 2012.

*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, 2012, is summarized as follows:

- General Fund – accrued compensated absences \$369,909

*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 2012, 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.

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*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
2010	\$ 8,362	\$ 8,362
2011	\$ 6,023	\$ 6,023
2012	\$ 6,340	\$ 6,340

**Schedule of Retirement Plan Contributions – OMRP**

For the year ended June 30, 2012, the following amounts related to the defined benefit plan:

	City and SADA Total	City Only
Employee contributions made	\$ 106,503	\$ 59,046
Employer contributions made	302,942	168,442
Total	\$ 409,445	\$ 227,488

Fiscal Year	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
2010	\$ 471,955	100%	-
2011	\$ 446,467	100%	-
2012	\$ 409,445	100%	-

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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	12.80% 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.

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3. Annual Pension Costs

A. Current Year Contribution Information

For the year ended June 30, 2012, the City's annual pension cost of \$168,442 was equal to the City's required and actual contributions.

B. Actuarial Assumptions:

Date of Last Actuarial Valuation	For Plan Year July 1, 2012
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, 2012, the funded status of the OMRF agent multiple employer defined benefit plan is as follows:

Actuarial accrued liability (AAL)	\$ 7,223,890
Actuarial value of plan assets	<u>4,380,578</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 2,843,312</u>
Funded ratio (actuarial value of plan assets/AAL)	60.6%
Annual covered payroll (active plan members)	2,255,650
UAAL as a percentage of covered payroll	126.1%

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.

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**SUPPLEMENTARY INFORMATION**

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**Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2012**

	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	\$ 2,101,106	\$ (329,894)
<b>Resources (Inflows):</b>				
<b>TAXES:</b>				
Sales tax	1,810,500	1,810,500	2,119,164	308,664
Use tax	107,000	107,000	207,933	100,933
Franchise tax	15,000	15,000	76,234	61,234
Hotel and Motel Tax	-	-	15,540	15,540
Total taxes	<u>1,932,500</u>	<u>1,932,500</u>	<u>2,418,871</u>	<u>486,371</u>
<b>INTERGOVERNMENTAL:</b>				
Alcoholic beverage tax	41,000	41,000	54,523	13,523
Tobacco tax	21,500	21,500	32,097	10,597
Grants	-	-	65,491	65,491
Total Intergovernmental	<u>62,500</u>	<u>62,500</u>	<u>152,111</u>	<u>89,611</u>
<b>CHARGES FOR SERVICES</b>	<u>495,500</u>	<u>495,500</u>	<u>773,056</u>	<u>277,556</u>
<b>FINES AND FORFEITURES</b>	<u>85,000</u>	<u>85,000</u>	<u>77,127</u>	<u>(7,873)</u>
<b>LICENSES AND PERMITS:</b>	<u>1,000</u>	<u>1,000</u>	<u>3,991</u>	<u>2,991</u>
<b>INVESTMENT INCOME</b>	<u>22,000</u>	<u>22,000</u>	<u>10,748</u>	<u>(11,252)</u>
<b>MISCELLANEOUS:</b>				
Rentals	6,000	6,000	6,675	675
Proceeds from sale of capital assets	-	-	11,108	11,108
Miscellaneous	10,000	10,000	93,991	83,991
Total Miscellaneous	<u>16,000</u>	<u>16,000</u>	<u>111,774</u>	<u>95,774</u>
<b>OTHER FINANCING SOURCES:</b>				
Payments from component unit	<u>205,000</u>	<u>205,000</u>	<u>247,968</u>	<u>42,968</u>
<b>Total Resources (Inflows)</b>	<u>2,819,500</u>	<u>2,819,500</u>	<u>3,795,646</u>	<u>976,146</u>
<b>Amount available for appropriation</b>	<u>5,250,500</u>	<u>5,250,500</u>	<u>5,896,752</u>	<u>646,252</u>
<b>Charges to Appropriations (Outflows):</b>				
General government	288,424	258,867	258,932	(65)
Cemetery	60,880	51,180	40,360	10,820
Civil Defense	33,973	18,973	17,998	975
Clerk	177,727	175,227	153,477	21,750
Community building	99,322	77,315	69,009	8,306
Library	5,500	5,500	9,092	(3,592)
Sanitation	365,756	290,756	283,244	7,512
Municipal court	60,755	60,755	54,328	6,427
Code enforcement	44,501	44,501	44,440	61
Police	1,189,102	1,093,102	994,841	98,261
Fire	198,359	205,161	143,899	61,262
Street	670,772	579,329	465,656	113,673
Parks	53,000	68,500	43,331	25,169
Ambulance	741,924	736,924	659,150	77,774
Total other financing sources and uses	<u>3,989,995</u>	<u>3,666,090</u>	<u>3,237,757</u>	<u>428,333</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers to Other Funds	-	-	(302,712)	302,712
Payments to component unit	-	-	(22,961)	22,961
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>(325,673)</u>	<u>325,673</u>
<b>Fund balances - ending</b>	<u>\$ 1,260,505</u>	<u>\$ 1,584,410</u>	<u>\$ 2,333,322</u>	<u>\$ 748,912</u>

See accompanying notes to this schedule.

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**Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2012 (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	(\$65)
General Fund – Library	(\$3,592)

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**Combining Balance Sheet – Nonmajor Funds (Modified Cash Basis) – Year Ended June 30, 2012**

	Special Revenue Funds			Capital Project Funds		Debt Service Funds	Total Governmental Funds
	Library Fund	Depot Operational Fund	Street and Alley Fund	Cemetery Care Fund	GDBG Fund	Stilwell Improvement Authority	
<b>ASSETS</b>							
Cash and cash equivalents	\$ 26,720	\$ 8,948	\$ 184,182	\$ 49,107	\$ 45,992	\$ 59,399	374,348
Investments	-	-	115,459	139,273	-	-	254,732
Due from other funds	-	-	-	-	-	200,000	200,000
Total assets	<u>26,720</u>	<u>8,948</u>	<u>299,641</u>	<u>188,380</u>	<u>45,992</u>	<u>259,399</u>	<u>829,080</u>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Due to other funds	-	-	-	-	200,000	-	200,000
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,000</u>	<u>-</u>	<u>200,000</u>
Fund balances:							
Restricted	26,236	8,718	294,069	188,380	-	259,357	776,760
Assigned	484	230	5,572	-	-	42	6,328
Unassigned	-	-	-	-	(154,008)	-	(154,008)
Total fund balances	<u>26,720</u>	<u>8,948</u>	<u>299,641</u>	<u>188,380</u>	<u>(154,008)</u>	<u>259,399</u>	<u>629,080</u>
Total liabilities and fund balances	<u>\$ 26,720</u>	<u>\$ 8,948</u>	<u>\$ 299,641</u>	<u>\$ 188,380</u>	<u>\$ 45,992</u>	<u>\$ 259,399</u>	<u>\$ 829,080</u>

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**Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Funds**  
**(Modified Cash Basis) – Year Ended June 30, 2012**

	Special Revenue Funds			Capital Project Funds		Debt Service Fund	Total-Other Governmental Funds
	Library Fund	Depot Operational Fund	Street and Alley Fund	Cemetery Care Fund	CDBG Fund	Stilwell Improvement Authority	
<b>REVENUES</b>							
Intergovernmental	\$ -	\$ -	\$ 34,113	\$ -	\$ 172,750	\$ -	\$ 206,863
Charges for services	-	-	-	6,560	-	-	6,560
Investment earnings	187	76	2,153	1,340	-	42	3,798
Miscellaneous	-	-	-	2,580	-	-	2,580
Total revenues	<u>187</u>	<u>76</u>	<u>36,266</u>	<u>10,480</u>	<u>172,750</u>	<u>42</u>	<u>219,801</u>
<b>EXPENDITURES</b>							
Current:							
General government	-	-	-	-	-	6,643	6,643
Capital Outlay	-	3,305	16,287	-	497,961	-	517,553
Total Expenditures	<u>-</u>	<u>3,305</u>	<u>16,287</u>	<u>-</u>	<u>497,961</u>	<u>6,643</u>	<u>524,196</u>
Excess (deficiency) of revenues over expenditures	<u>187</u>	<u>(3,229)</u>	<u>19,979</u>	<u>10,480</u>	<u>(325,211)</u>	<u>(6,601)</u>	<u>(304,395)</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Proceeds from long-term debt, net	-	-	-	-	-	250,000	250,000
Transfers in	-	-	-	-	150,000	16,000	166,000
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>150,000</u>	<u>266,000</u>	<u>416,000</u>
Net change in fund balances	187	(3,229)	19,979	10,480	(175,211)	259,399	111,605
Fund balances - beginning	26,533	12,177	279,662	177,900	21,203	-	517,475
Fund balances - ending	<u>\$ 26,720</u>	<u>\$ 8,948</u>	<u>\$ 299,641</u>	<u>\$ 188,380</u>	<u>\$ (154,008)</u>	<u>\$ 259,399</u>	<u>\$ 629,080</u>

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**Schedule of Expenditures of Federal and State Awards (Modified Cash Basis) – Year Ended June 30, 2012**

Federal/State Grantor/Pass Thru Agency Grantor/Program Title	Federal CFDA Number	Pass Thru Grant #	Award Amount	Contract Expenditures	Balance Remaining
<b>FEDERAL AWARDS:</b>					
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>					
Passed Through the Oklahoma Department of Commerce:					
CDBG	14.228	N/A	\$ 150,000	\$ 147,750	\$ -
<u>DEPARTMENT OF HOMELAND SECURITY:</u>					
Passed Through the Oklahoma Office of Homeland Security:					
Disaster Grants - Public Assistance	97.036	FEMA-1823 DR OK	1,833	1,833	-
Interoperable Emergency Communications	97.055	180.118	32,882	29,882	3,000
Interoperable Emergency Communications	97.055	180.119	3,314	3,146	168
State Homeland Security Program (SHSP)	97.073	251.006	18,164	16,776	1,388
Total Department of Homeland Security			<u>56,193</u>	<u>51,637</u>	<u>4,556</u>
<u>DEPARTMENT OF TRANSPORTATION:</u>					
Passed Through the Oklahoma Department of Tourism:					
Recreational Trails Program	20.219	N/A	160,000	9,989	150,011
Passed Through the Oklahoma Department of Public Safety:					
State and Community Highway Safety	20.600	PT-12-03-98-02	5,000	5,000	-
Total Department of Transportation			<u>165,000</u>	<u>14,989</u>	<u>150,011</u>
<u>DEPARTMENT OF AGRICULTURE:</u>					
Community Facilities Loans and Grants	10.766	N/A	50,000	50,000	-
Passed Through the Oklahoma Department of Agriculture:					
Ice Storm Recovery Grant	10.675	Yes	20,000	89	7,086
Total Department of Agriculture			<u>70,000</u>	<u>50,089</u>	<u>7,086</u>
<u>DEPARTMENT OF ENERGY:</u>					
Stimulus Energy Efficiency CBG	81.128	Yes	304,728	136,499	-
<b>Total Federal Awards</b>			<u>\$ 745,921</u>	<u>\$ 400,964</u>	<u>\$ 7,086</u>
<b>STATE AWARDS:</b>					
<u>EASTERN OKLAHOMA DEVELOPMENT DISTRICT:</u>					
2011 REAP Fund 0104	N/A	N/A	\$ 25,000	\$ 25,000	\$ -
<u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u>					
Operational Grant	N/A	N/A	4,413	4,413	-
<u>OKLAHOMA DEPARTMENT OF HOMELAND SECURITY:</u>					
FEMA Reimbursement	N/A	FEMA - 1823 DR OK	41,331	41,331	-
<b>Total State Awards</b>			<u>\$ 70,744</u>	<u>\$ 70,744</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.

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**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, 2012, which collectively comprise the City of Stilwell, Oklahoma's primary government basic financial statements and have issued our report thereon dated November 14, 2012. 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 units for the exclusion of such units and the failure to issue financial statements for the City's entire reporting entity. Our report also includes a paragraph which disclaimed an opinion on management's discussion and analysis and budgetary comparison information-modified cash basis. 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

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the city's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the city'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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies

in internal control that might be 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'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  
Stilwell, Ok  
November 14, 2012