

CITY OF STILLWATER, OKLAHOMA

Comprehensive Annual Financial Report

And Accompanying

Independent Auditor's report

For the Fiscal Year ended June 30, 2004

Prepared by:

Department of Finance

Marcy Alexander

Director of Finance

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**CITY OF STILLWATER, OKLAHOMA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED JUNE 30, 2004**

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November 19, 2004

To the Honorable Mayor Bud Lacy, members of the City Commission and the Citizens of the City of Stillwater, Oklahoma:

The comprehensive annual financial report of the City of Stillwater, for the fiscal year ended June 30, 2004, is submitted herewith. This report was prepared by the City's Department of Finance. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City in accordance with generally accepted accounting principles; and, accordingly, all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Management's Discussion and Analysis.

OVERVIEW

Report Format

This report conforms to the standards prescribed in Statement No. 34 of the Governmental Accounting Standards Board (GASB). GASB Statement No. 34 implements a new model of financial reporting for state and local governments designed to enhance the usefulness of the City's annual report.

The comprehensive annual financial report is composed of the following three sections:

Introductory Section - Includes this transmittal letter, the City's organizational chart and a list of City officials including the audit committee.

Financial Section - Begins with the independent auditor's opinion and includes Management's Discussion and Analysis and the basic financial statements which provide an overview of the City's financial position and operating results, followed by required supplemental information and other supplemental disclosures that provide detailed information relative to the basic financial statements.

Statistical Section - Presents unaudited financial, economic and demographic data and other information relative to the community.

Results of the Single Audit for fiscal year 2004, including the independent auditors' reports on the internal control and compliance with applicable laws, are presented in a separate document which is available upon request.

Governmental Structure, Local Economic Conditions and Outlook

The City of Stillwater, located in north central Oklahoma is a municipal corporation organized in 1891 under the applicable laws of the State of Oklahoma. The City currently has a land area of 28 square miles and a population of over 40,000. Located in Payne County, the City serves as a regional center for shopping, entertainment, health care, and education. Stillwater is home to Oklahoma State University.

The City is governed under the commission-manager form of government according to its charter adopted in 1960. Policymaking and legislative authority are vested in the governing body, which consists of a five-member commission. The five commissioners, including the mayor, are elected at-large on a

non-partisan basis for staggered three-year terms. The mayor is elected at large by the citizenry while the vice-mayor is elected by the commission from its membership. The commission holds regular meetings each Monday evening.

The economic outlook for the City of Stillwater and its residents is positive. The City has a diverse economy with a high degree of stability. Stillwater is the county seat for Payne County and houses other governmental entities and educational centers that provide a stable labor force. Oklahoma State University is the City's largest employer and the City is also the headquarters for the Oklahoma Department of Career and Technology Education and the Meridian Technology Center. In addition manufacturing and advanced technology companies cover a large share of the local economic base. A recent study by the Oklahoma Cooperative Extension Service at Oklahoma State University has concluded that Stillwater manufacturing and advanced technology companies account for one quarter of the total economic activity in Payne County. The study found that local manufacturers provided jobs for 2,787 residents and an annual payroll of \$71.9 million, while technology companies accounted for an additional 1,550 jobs and \$40.4 million in income to individuals.

Stillwater business and community leaders began a five-year strategic plan titled "Forward Stillwater". The campaign, which was joined by more than 260 area businesses and public sector partners, raised more than \$2.5 million for economic development in 2004. The plan addresses new initiatives for business retention and expansion, industry attraction, entrepreneurial development, and visitor promotion for Stillwater and north central Oklahoma.

Stillwater's cost of living remains well below the U.S. average. Unemployment is consistently among the lowest in the U.S. for Stillwater and the surrounding county.

The Reporting Entity and Its Services

The City's financial reporting entity includes all the funds and account groups of the primary government (i.e., the City of Stillwater as legally defined), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The City provides the full range of municipal services contemplated by the City Charter. These include public safety (police, fire and civil defense), general government functions, recreation and culture, streets and sewers, human services, sanitation, airport and public improvement.

Blended component units, although legally separate entities, are in substance, part of the primary government's operations and are included as part of the primary government. Accordingly, the Stillwater Utilities Authority (SUA), Stillwater Public Golf Authority (SPGA), Stillwater Industrial and Redevelopment Authority (SIRA) and the Stillwater Public Works Authority (SPWA) are reported as three enterprise funds and an internal service fund, respectively, of the primary government. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations and cash flows from those of the primary government. The Stillwater Medical Center Authority is reported as a discretely presented proprietary component unit. The Stillwater Convention and Visitors Bureau is reported as a discretely presented governmental component unit. The reporting entity is described in Note 1 to the combined financial statements in the financial section of this report.

FINANCIAL INFORMATION

Internal Controls

The responsibility for establishing and maintaining the internal control structure rests with the City. In developing and evaluating the City's accounting system, consideration is given to the adequacy of

internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition and (2) the evaluation of costs and benefits requiring estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Budgetary Control

The administrative level of budgetary control is maintained at the character classification level by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. The legal level of control at which expenditures and encumbrances may not exceed appropriations is at the category levels for personal services, materials and supplies, other services and charges, capital outlay and debt services for each department within each fund. The method of budget adoption and amendment process is described in Note 1 to the basic financial statements in the financial section of this report.

Accounting System

The diverse nature of governmental operations and the necessity of complying with legal provisions require an accounting system unlike those used by commercial enterprises. Rather than establishing a single unified set of accounts for recording and summarizing all financial transactions, the accounts of the City are organized on the basis of funds, each of which constitutes a separate accounting entity. The funds used by the City are grouped into the following broad fund types:

Governmental Funds: These funds are used to account for the programs and activities of the governmental functions of the City.

General Fund: This fund serves as the main operating fund of the City. It is used for recording all financial resources except those required to be accounted for in another fund.

Special Revenue Funds: These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Capital Project Funds: These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Fund: This fund is used to account for the accumulation of financial resources for payment of interest and principle debt and court-assessed judgments.

Proprietary Funds: These funds are used to account for ongoing organizations and activities that are similar to those found in the private sector.

Enterprise Funds: These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing goods or services on a continuing basis be financed or recovered primarily through user charges.

Internal Service Funds: These funds are used to account for services and/or commodities furnished by a designated program to other programs within the City, on a cost reimbursement basis.

Agency Funds: These funds are used to administer resources received and held by a governmental unit as the trustee or as the agent for others. Use of these funds facilitates the discharge of responsibilities placed upon the governmental unit by virtue of law or other similar authority.

General Fund Operations

The General Fund accounts for all revenues and expenditures, which are not accounted for in other funds. It finances the traditional governmental functions and is the principal operating fund of the City. Police,

Fire, Parks, Events and Recreation, Administration, and Development Services are all activities reported in the general fund.

Enterprise Fund Operations & Similar Component Units

The SUA, the Airport Fund, the Sanitation Fund, the SPGA, the SIRA and the Community Center Fund are classified as Enterprise Funds for reporting purposes. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprise where the intent of the governing body is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges and/or a determination of net income is desirable. Services accounted for in Enterprise Funds are tangible, and it is possible to determine the extent to which they benefit individual service consumers.

Extensive upgrades have been made to the water and wastewater treatment plants in the last few years which should provide customers with quality service for many years to come. A major runway extension project underway at the Stillwater Airport will enable larger aircraft to use the airport. The Lakeside Golf Course has been operated by the SPGA for the last seven years after an extensive renovation to the course and clubhouse facilities. Several upgrades to cart paths and bridges have been made adding to the aesthetics and the functionality of the course. The Community Center recently opened the newly renovated west wing and the Lowry Activity Center. Funds made available for this renovation included approximately \$500,000 in donated funds.

Risk Management

In 1986, the City Commission directed that the City initiate a self-insurance program for the vehicle liability, general liability, and City property damage coverage. This action was initiated due to the City's low loss experience compared to high premiums and lower coverage offered by conventional and pooled insurance plans. The first full year of operation for the City's self-insurance program was fiscal year 1987-88.

The City had been self-insured for workers compensation and unemployment compensation coverage prior to the decision to implement a self-insurance program. To create a self-insurance fund for the City, the workers compensation and unemployment compensation funds were combined with the funds budgeted in the 1987 fiscal year for insurance premiums. Within this fund, accounts were created for the different types of losses the City could anticipate. Expenditures from the fund are determined by claims filed with the City during the year and approved for payment by the City Commission.

The health benefit program for employees is self-funded using a third party administrator, with the city maintaining stop loss coverage. Traditional property insurance is maintained on city hall and the library. Excess property coverage is maintained on the water utility as required by the bond indenture. Coverage for airport liability and hangar keeper's liability was added in 1995. In 1997, an excess liability program was established with the city continuing to administer claims. Coverage includes general liability, employee benefits liability, law enforcement liability, public entity management, EMT, and commercial auto.

The City has several policies and procedures regarding safety training of employees, hazardous material communications, accident reporting and investigation, and medical assistance. The City intends to limit their risk exposure through stringent enforcement of these policies.

Cash Management

The Finance Director is responsible for maintaining the City's investment portfolio and providing oversight for bond proceeds held by trustees. The City generally combines unrestricted cash for investment purposes. Cash temporarily idle during the year was invested in time deposits and U.S. Treasury Bills. The City, SUA and SPWA use interest bearing NOW checking accounts and higher

yielding money market accounts as provided under Public Law 97-320 (sec.327). The City's cash is deposited daily. Deposits are insured by federal depository insurance or collateralized.

Independent Audit

The Oklahoma State Statutes and City Charter require an annual audit by certified public accountants or qualified independent public accountants. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the federal Single Audit Act of 1984, as amended in 1996, and related OMB circular A-133 and "Government Auditing Standards" issued by the Comptroller General of the United States. The independent certified public accountants who performed the audit were selected by the City Commission.

The City's Audit Committee is a five-member advisory committee provided for under City Ordinance #1929. Under the provisions of the ordinance, the City Commission appoints the committee. The purpose of the Audit Committee is to maintain independence between the outside auditors and city management. The primary responsibilities of the Audit Committee are to review and evaluate the year-end financial statements and independent auditors' report, review and report deficiencies in internal control, oversee the audit function and to report to the City Commission as required. The independent auditor's report on the basic financial statements and combining and individual fund statements and schedules is included in the financial section of this report. The independent auditor's reports related specifically to the Single Audit are included in a separately bound Single Audit supplement.


Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Stillwater for its comprehensive annual financial report for the fiscal year ended June 30, 2003. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements.

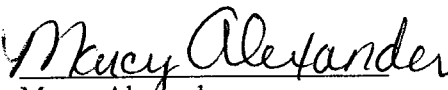
A Certificate of Achievement is valid for a period of one year only. The City of Stillwater has received a Certificate of Achievement for the last twenty-two consecutive years. We believe that our current report continues to meet the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments. The preparation of this report could not be accomplished without the dedicated services of the entire Department of Finance staff, with special thanks to Nancy Franklin and Tammy Brown and the professional assistance of the City's independent auditors, Crawford and Associates, P.C.. In addition, thanks are extended to the members of the Audit Committee for their review and oversight of the audit process and to the members of the City Commission for their interest and support in strengthening and improving the fiscal policies of the City of Stillwater.

The City will strive to continue to provide its citizens with quality services, management and financial reporting.

Respectfully submitted,


Jason Gage
City Manager


Marcy Alexander
Director of Finance

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Stillwater,
Oklahoma

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

President

Jeffrey R. Enos

Executive Director

