

CITY OF STILLWATER, OKLAHOMA

Comprehensive Annual Financial Report

And Accompanying

Independent Accountants' Report

For the Fiscal Year ended June 30, 2006

Prepared by:

Department of Finance

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Director of Finance

**CITY OF STILLWATER, OKLAHOMA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED JUNE 30, 2006
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MAKE STILLWATER RUN

October 6, 2006

To the Honorable Mayor Roger McMillian, 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, 2006, 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 accounting principles generally accepted in the United States of America; 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 accountants' 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 2006, including the independent accountants' 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 vicemayor 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" in 2004. The campaign, which was joined by more than 260 area businesses and public sector partners, has raised more than \$2.5 million for economic development. 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 government-wide 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 service for each department within each fund. The method of budget adoption and amendment process is described in Note 1 to the financial statements in the financial section of this report.

