

2011 City of Stillwater, Oklahoma Historical Financial Data Analysis

Briefing Document

Stillwater, Oklahoma: Financial Overview (2011)

Date: October 26, 2011

Subject: Comprehensive Financial Review of Stillwater, Oklahoma, and Related Entities for Fiscal Year

Key Findings:

This briefing summarizes the financial health and operational performance of the City of Stillwater, Oklahoma, and its component units, including the Stillwater Housing Authority and the Stillwater Medical Center Authority, for the fiscal year ended June 30, 2011 (for the City) and September 30, 2011, or December 31, 2011 (for component units, depending on their fiscal year). Overall, the City and its component units demonstrate sound financial management practices, although specific areas show varying performance and ongoing financial considerations.

I. City of Stillwater, Oklahoma (Fiscal Year Ended June 30, 2011)

A. Financial Position & Performance:

Positive Economic Outlook: Stillwater's economy is considered "behind the downturn and the recovery is well underway." The city benefits from its high degree of stability due to the presence of Oklahoma State University (OSU) and other governmental/educational centers, providing a stable labor force.

Net Assets Increase: The City's governmental activities saw a net asset increase of \$380,888, a 0.18% increase, while business-type activities experienced a \$9,263,355 increase, a 4.29% change. Overall, the City's net assets increased 39% for governmental activities and 4.27% for business-type activities.

Governmental Activities: Revenue: Total revenues were \$33,205, compared to \$33,270 in 2010. Sales tax revenue was \$24,389, compared to \$23,410 in 2010.

Expenditures: Total expenses for governmental activities were \$37,496, compared to \$38,643 in 2010. Public safety, general government, and streets and sewers were the largest expense categories.

General Fund Balance: The General Fund balance increased by \$1,750,954 due to increased sales tax and the sale of a city-owned building.

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Capital Assets: The City had \$191.3 million invested in capital assets, including police and fire equipment, buildings, park facilities, water and sewer lines, electric systems, and roads. Total capital assets were \$191,344, an increase from \$193,449 in 2010.

Long-Term Debt: Total long-term debt decreased to \$41,575 from \$37,346 in 2010. The City's legal debt margin was \$19,390, representing a significant unused capacity for general obligation bonds.

Pension & OPEB: The City participates in a defined contribution pension plan. The actuarial accrued liability for the retiree-only defined benefit plan was \$74,967, with a value of assets at \$5,460,468, resulting in an overfunded status. Other Post-Employment Benefits (OPEB) have an actuarial accrued liability of \$6,237,065, with no assets, indicating an unfunded liability.

Business-type Activities: Revenue: Operating revenues increased by \$4.8 million or 8.62%. Non-operating revenues decreased by \$3.4 million.

Expenditures: Operating expenditures increased by \$3.82 million or 8.58%.

Stillwater Utilities Authority (SUA): SUA net assets increased by \$9.5 million or 9.03%. Rate increases were implemented for electric, water, wastewater, solid waste collection and street sweeping.

Capital Assets: Total business-type capital assets were \$98,697, up from \$96,739 in 2010.

Debt: Revenue bonds payable for business-type activities were \$4,877,590. Total notes payable were \$26,066,740. Capital lease obligations were \$2,127,695.

B. Management & Control:

Strong Internal Controls: The City maintains robust internal accounting controls and budgetary controls to safeguard assets and ensure accurate financial reporting.

Risk Management: The City self-insures for various risks, including vehicle, general liability, and property damage, and maintains stop-loss coverage for workers' compensation and unemployment compensation.

Awards: The City received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the fiscal year ended June 30, 2010, marking 29 consecutive years of this achievement.

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C. Future Considerations:

Budget Focus: The focus for the 2011-12 budget is "to ensure sufficient allocation of resources to fully maintain core services related to the health, safety, and well-being of citizens and visitors."

Staffing Levels: The economic recovery has not been sufficient to return all departments to pre-2009 staffing levels, with no calculated lay-offs or furloughs.

Capital Improvement Program: Future needs will be addressed in the capital improvement planning process, with rate increases anticipated for water and sewer systems.

Development: Stillwater anticipates positive development with new businesses and improvements to downtown. OSU's expansion projects (>\$800 million) and research center development (>\$1.2 billion) are expected to positively impact the local economy.

II. Stillwater Housing Authority (Fiscal Year Ended September 30, 2011)

A. Financial Position & Performance:

Overall Increase in Net Assets: The Housing Authority's total net assets increased by \$106,891 or 2% from the prior year, reaching \$7,097,172.

Revenue Decline: Total revenues decreased by \$556,687 or 11%, primarily due to decreases in HUD operating grants and capital grants, interest income, and other revenue. "HUD operating grants decreased by \$24,687. This was primarily due to the Housing Choice Voucher program receiving a reduction in administrative fees earned."

Expense Decline: Total expenses decreased by \$74,700 from the previous year.

Operating Income (Loss): The Authority experienced an operating loss of \$(4,157,335).

Capital Contributions: Capital contributions from HUD PHA grants were \$235,430.

Cash Flow: Net increase in cash and cash equivalents was \$103,072.

Capital Assets: Total net fixed assets (land, buildings, construction in progress, and equipment) were \$3,729,808, an increase of \$2,685 from the prior year.

Debt: The Authority's long-term liabilities increased by \$14,368. An estimated employee's leave as long-term debt of \$11,228 is anticipated in the upcoming fiscal year.

Restricted Net Assets: Restricted net assets increased by \$171,468, "This resulted due to HAP funding exceeding HAP expenditures."

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B. Management & Control:

Internal Control & Compliance: The audit report indicates no material weaknesses or significant deficiencies in internal control over financial reporting, and no noncompliance material to financial statements. The Authority's management maintains compliance with laws, regulations, contracts, and grant agreements.

C. Future Considerations:

HUD Budget Cuts: "Due to potential HUD budget cuts in the 2012 federal fiscal year, agencies with more than 6 months of expenses in reserve (working capital) may be subject to a recapture." The Housing Choice Voucher Program will experience a reduction of \$119,207 due to an NRA offset for the 2012 calendar year.

Modernization Costs: Statements of modernization costs indicate \$701.15 excess of funds approved for CFP 501-09 and \$34,635.70 excess of funds approved for CFP 501-10.

III. Stillwater Medical Center Authority (Fiscal Year Ended December 31, 2011)

A. Financial Position & Performance:

Significant Net Assets Increase: The Authority's net assets increased by \$12,318,908 (16.6%) from 2010, reaching \$86,689,114.

Strong Cash & Equivalents: Cash and cash equivalents increased to \$17,361,359 in 2011 from \$14,898,090 in 2010 (16.5% increase).

Increased Operating Income: Operating income increased by \$6,757,983 or 113.9% compared to 2010. This is attributed to increases in net patient service revenue (11.4%), admissions (3.9%), emergency room visits (3.7%), and births (2.9%).

Total Operating Revenues: Total operating revenues were \$100,073,835 in 2011, up from \$90,467,309 in 2010.

Operating Expenses: Total operating expenses were \$87,381,421 in 2011, compared to \$84,532,878 in 2010. Significant increases in salaries and wages, and employee benefits were noted.

Nonoperating Revenues (Expenses): Net nonoperating revenues (expenses) decreased by \$1,014,987 (179.2%) in 2011 compared to 2010. This was mainly due to a decrease in investment income.

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Capital Assets: Total capital assets were \$40,955,235, an increase from \$39,855,937 in 2010. The Authority purchased new equipment costing \$3,937,496.

Long-Term Debt: Long-term debt for the Authority was \$15,127,818, down from \$16,583,036 in 2010. "The Authority did not issue new debt in either 2011 or 2010."

B. Management & Control:

Internal Control & Compliance: The independent auditors did not identify any deficiencies in internal control over financial reporting that were considered to be material weaknesses. They also did not express an opinion on the effectiveness of the internal control over financial reporting.

Risk Management: The Authority is self-insured for risks related to torts, theft, damage, employee health, and natural disasters. Commercial insurance coverage is maintained for claims exceeding \$100,000 up to \$1,000,000.

Investment Policy: The Authority's investment policy limits its investment portfolio to an average maturity of three to five years, with no investment exceeding 5% of the total fair value of investments.

C. Significant Findings & Responses (from Stillwater Medical Center Authority):

Financial Statement Finding (2011-1): Identified a condition where the business office supervisor and data entry team leaders had incompatible duties, leading to potential misstatements in financial statements.

Recommendation: Management should periodically evaluate cost benefits for segregating duties or adding monitoring.

Management Response: Management will perform the suggested evaluation and make any changes deemed appropriate.

Overall Summary:

The City of Stillwater and its related entities demonstrate a generally strong financial position in 2011, marked by increasing net assets and effective internal controls. While the Housing Authority faces potential impacts from federal budget cuts, the Medical Center Authority shows strong operating performance. The City's continued focus on economic development, infrastructure improvements, and responsible financial management, as evidenced by its long-standing GFOA award, positions it well for future stability.

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