

CITY OF STILLWATER, OKLAHOMA

Comprehensive Annual Financial Report

And Accompanying

Independent Accountant's Report

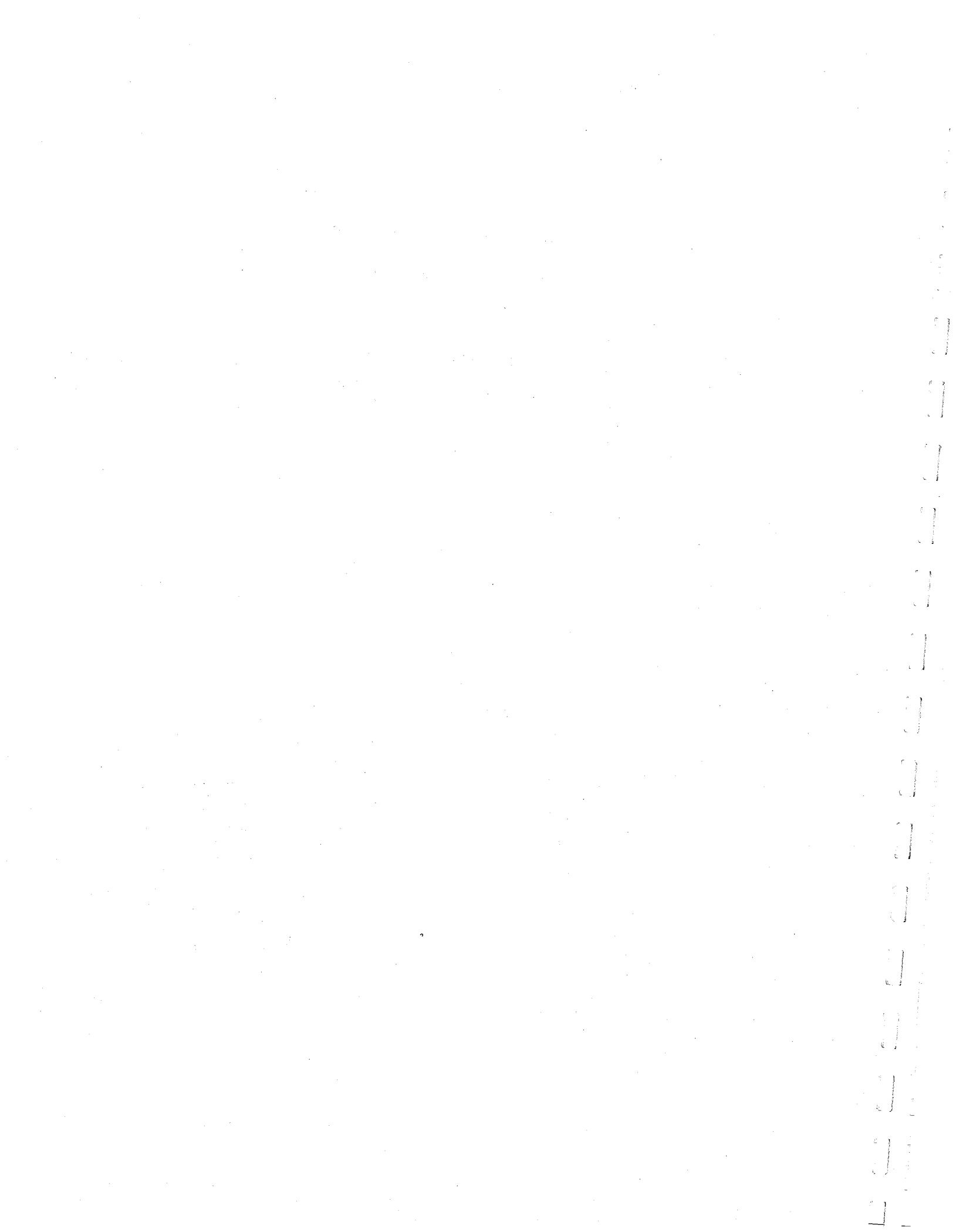
For the Fiscal Year ended June 30, 2005

Prepared by:

Department of Finance

Marcy Alexander

Director of Finance



**CITY OF STILLWATER, OKLAHOMA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED JUNE 30, 2005
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MAKE STILLWATER RUN

September 30, 2005

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, 2005, 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 2005, 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.

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 and are comprised of the following:

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 and are comprised of the following:

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.

Fiduciary 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 was completed at the Stillwater Airport which will enable larger aircraft to use the airport. The Lakeside Golf Course has been operated by the SPGA for the last eight 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 opened the newly renovated west wing and the Lowry Activity Center. Funds made available for this renovation included approximately \$500,000 in donated funds. Additional renovations were added in accordance with the needs of a tenant who paid for the project.

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 the city hall and 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 accountants' report, review and report deficiencies in internal control, oversee the audit function and to report to the City Commission as required. The independent accountants' 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 accountants' 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, 2004. 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 accounting principles generally accepted in the United States of America and applicable legal requirements.

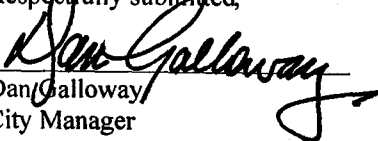
A Certificate of Achievement is valid for a period of one year only. The City of Stillwater has received a Certificate of Achievement for the last twenty-three consecutive years. We believe that our current report continues to meet the

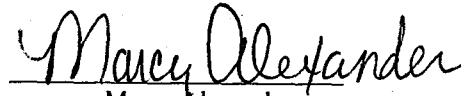
Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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 accountants, BKD, LLP. 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,


Dan Galloway
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, 2004

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. Emmer

Executive Director

CITY OF STILLWATER
CITY OFFICIALS AND AUDIT COMMITTEE

JUNE 30, 2005

Mayor and City Commission

Bud Lacy
Ruth Ann Kennedy
Tom Dugger
Tom Williams
Hank Moore

Mayor
Vice Mayor
Commissioner
Commissioner
Commissioner

Audit Committee

Susie Presley
Unfilled position
Lanny Chasteen
K. Cohlma
Cindy Todd

Chairman
Member
Member
Member
Member

Administration

Jason Gage
Mary Rupp
Marcy Alexander
Lynda Reynolds
Roy Lavicky
Jeff Tullis
Dan Blankenship
Chad Morris
Gary Johnson
John Dorman
Norman McNickle
John McClenney
Robert Barker
Larry Mullikan
Fred Forbes

City Manager
Assistant City Manager
Director of Finance
Director of Library
Director of Information Services
Director of Electric Utility
Director of Development Services
Director of Water/Wastewater Utility
Director of Airport
City Attorney
Police Chief
Director of Parks and Recreation
Director of Personnel
Fire Chief
Director of Lakeside Golf Course

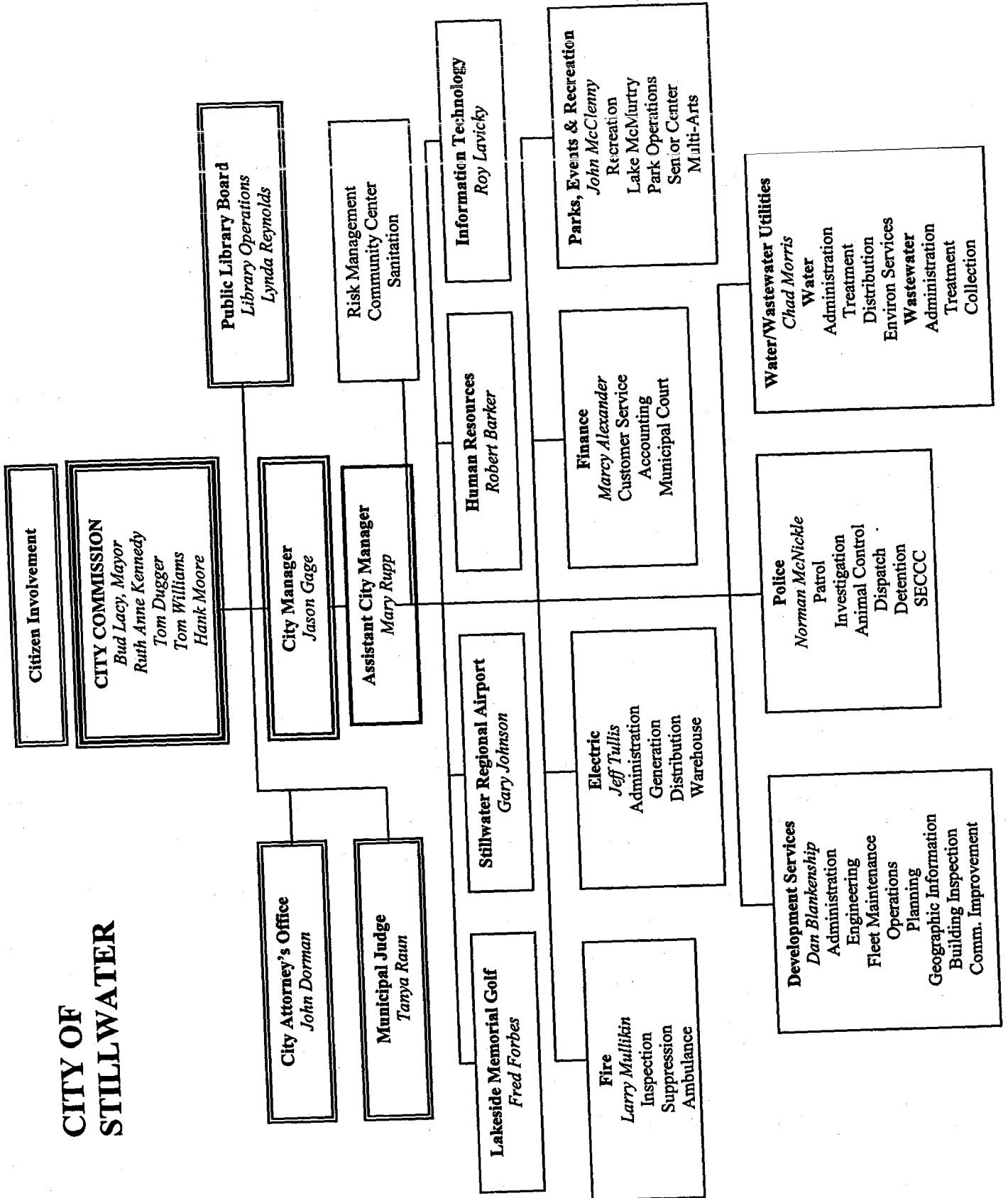
Department Of Finance-Accounting Division

Nancy Franklin
Tamara Brown
Terri Gibbs

Accounting Supervisor
Authority Accountant
Internal Auditor

City Phone Number: (405) 372-0025

CITY OF STILLWATER





Independent Accountants' Report on Financial Statements and Supplementary Information

The Honorable Mayor Bud Lacey and
Members of the City Commission
City of Stillwater, Oklahoma
Stillwater, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Stillwater, Oklahoma as of and for the year ended June 30, 2005, 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. The financial statements of the Stillwater Convention and Visitors Bureau, a component unit included in the financial statements of the aggregate discretely presented component units, were not audited in accordance with *Government Auditing Standards*. 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Stillwater, Oklahoma as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2005, 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.

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Beyond Your Numbers

11

A member of
Moore's Rowland International 

The Honorable Mayor Bud Lacey and
Members of the City Commission
City of Stillwater, Oklahoma
Page 2

The accompanying management's discussion and analysis and budgetary information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying other supplementary information as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying statistical section as listed in the table of contents has not been subjected to the procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

BKD, LLP

September 23, 2005



Management's Discussion and Analysis Fiscal Year Ended June 30, 2005

As management of the City of Stillwater, we offer readers this narrative overview and analysis of the financial activities of the City of Stillwater for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Using the Financial Statement in this Annual Report

This annual report consists of a series of financial statements. The financial statements presented herein include all of the activities of the City of Stillwater (the "City"), the Stillwater Utilities Authority (the "SUA") and other component units. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole, including the SUA and component units, and present a longer-term view of the City's finances. Included in this report are governmental-wide statements for each of two categories of activities – governmental and business-type, along with two discretely-presented component units.

The government-wide financial statements present the complete financial picture of the City from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business-type 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. These statements include all assets of the City, including infrastructure, as well as all liabilities, including long-term debt.

Reporting the City as a Whole – Statements of Net Assets and Activities

This discussion and analysis is intended to serve as an introduction to the City of Stillwater's basic financial statements. 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 questions. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's net assets and changes in them from the prior year. The City's net assets – the difference between assets and liabilities – is one way to measure the City's financial condition, or position. Over time, increases or decreases in the City's net assets are

indicators of whether its financial health is improving or deteriorating. However, other non-financial factors must be considered, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

As mentioned above, in the Statement of Net Assets and the Statement of Activities, we divide the City into three kinds of activities:

Governmental activities – Most of the City's basic services are reported here, including the police, fire, administration, streets and parks. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities.

Business-type activities – The City charges a fee to customers to help cover all or most of the cost of certain services it provides. The City's water, sewer and sanitation utilities are reported here, along with the golf course and airport.

Discretely-presented component units – The City's report has two discretely presented component units, the Stillwater Medical Authority and the Stillwater Convention and Visitors Bureau. Although legally separate entities, these "component units" are important because the City is financially accountable for them in some way. The Stillwater Medical Authority is a public trust of the City and the City is the beneficiary of the trust. The Stillwater Convention and Visitors Bureau receives the proceeds of the City's Hotel/Motel tax to provide economic development by encouraging tourists and conventions to select Stillwater as a destination.

Reporting the City's Most Significant Funds – Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Stillwater, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Some funds are required to be established by State law and by bond covenants. However, management establishes many 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. All of the funds of the City of Stillwater can be divided into two categories: governmental funds and proprietary funds.

Governmental funds – Most 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. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic service it provides. Governmental fund information helps determine 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.

The General Fund decreased by \$3.5 million mainly as a result of increased capital expenditures. Increases in expenditures for Public Safety, Recreation and Culture and General Government also contributed to this decrease.

Proprietary fund – When the City charges customers for the services it provides- whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets. In fact, the City’s enterprise funds, along with certain capital project funds, are the same as the business-type activities reported in the government-wide statements but provide more detail and additional information, such as cash flows. Net assets of the Stillwater Utilities Authority (SUA) have increased mainly due to a rate increase for Electric, Water and Wastewater services enacted July 1, 2004 and an increase in the customer base. The SUA transfer to the Stillwater Public Golf Authority increased by \$1.73 million. This was due to the payoff of a higher interest rate loan, of which SUA was the guarantor, using proceeds of the 2005 SUA revenue bond.

The City as Trustee

The City is the trustee, or fiduciary for other assets that – because of a trust arrangement – can be used only for the trust beneficiaries. All of the City’s fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities are excluded from the City’s other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The City as a Whole

For the year ended June 30, 2005, net assets for the governmental activities and business-type activities changed as follows:

| The City of Stillwater's Net Assets | | | |
|--|------------------------------------|-------------------------------------|--------------|
| (expressed in \$ 000's) | | | |
| | Governmental Activities | Business-type Activities | Total |
| Beginning net assets, as restated | 84,437 | 96,130 | 180,567 |
| Increase/(Decrease) | (766) | 6,275 | 5,509 |
| Ending net assets | 83,671 | 102,405 | 186,076 |

The above numbers reflect a decrease of .91% in net assets for governmental activities and an increase of 6.53% in net assets for business-type activities. Overall, the net assets for both governmental and business type activities increased 3.05% for this fiscal year.

The following is a summary comparison of the change in net assets from last year for the City of Stillwater.

The City of Stillwater's Net Assets
(expressed in \$ 000's)

| | Governmental Activities | | Business-type Activities | | Total | |
|----------------------------|-------------------------|----------------|--------------------------|----------------|----------------|----------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Assets: | | | | | | |
| Current and other assets | 16,478 | 17,541 | 34,085 | 33,120 | 50,563 | 50,661 |
| Capital assets | 83,924 | 83,979 | 111,724 | 111,296 | 195,648 | 195,275 |
| Total assets | 100,402 | 101,520 | 145,809 | 144,416 | 246,211 | 245,936 |
| Liabilities: | | | | | | |
| Long-term liabilities | 14,231 | 14,858 | 38,262 | 41,566 | 52,493 | 56,424 |
| Other liabilities | 2,500 | 2,225 | 5,141 | 4,636 | 7,641 | 6,861 |
| Total liabilities | 16,731 | 17,083 | 43,403 | 46,202 | 60,134 | 63,285 |
| Net assets: | | | | | | |
| Invested in capital assets | 71,725 | 70,989 | 74,540 | 70,512 | 146,265 | 141,501 |
| Restricted | 8,619 | 1,074 | 1,377 | 2,276 | 9,996 | 3,350 |
| Unrestricted | 3,327 | 12,374 | 26,489 | 25,425 | 29,816 | 37,799 |
| Total net assets | 83,671 | 84,437 | 102,406 | 98,213 | 186,077 | 182,650 |

At the end of the current fiscal year, the City of Stillwater is able to report positive balances in net assets for the governmental activities and business-type activities as well as for the city as a whole.

Governmental Activities

Governmental activities decreased the City of Stillwater's net assets by \$765,753 which contributed to a .42% decrease of the net assets of the City of Stillwater. The following provides details of the decrease:

The City of Stillwater's Statement of Activities
(expressed in \$ 000's)

| | Governmental Activities | | Business-type Activities | | Total | |
|---|----------------------------|-----------------|-----------------------------|-----------------|----------------|-----------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 2,989 | \$ 2,718 | \$45,226 | \$42,516 | \$48,215 | \$45,234 |
| Grants & contributions | 725 | 322 | 256 | 22 | 981 | 344 |
| Capital grants & contributions | 103 | 214 | 3,927 | 1,619 | 4,030 | 1,833 |
| General revenues: | | | | | | |
| Sales taxes | 19,823 | 18,598 | | | 19,823 | 18,598 |
| Other taxes | 3,792 | 3,863 | | | 3,792 | 3,863 |
| Other general revenues | 423 | 287 | 664 | 910 | 1,087 | 1,197 |
| Total Revenues | 27,855 | 26,002 | 50,073 | 45,067 | 77,928 | 71,069 |
| Program Expenses: | | | | | | |
| General Government | 2,475 | 2,275 | | | 2,475 | 2,275 |
| Financial Administration | 605 | 569 | | | 605 | 569 |
| Public Safety | 13,486 | 12,682 | | | 13,486 | 12,682 |
| Streets & Sewers | 5,520 | 5,401 | | | 5,520 | 5,401 |
| Engineering and Public Works Administration | 1,009 | 833 | | | 1,009 | 833 |
| Tourism | 331 | 280 | | | 331 | 280 |
| Recreation and Culture | 4,656 | 4,326 | | | 4,656 | 4,326 |
| Economic Development | 606 | 509 | | | 606 | 509 |
| Health and Welfare | 1,613 | 1,227 | | | 1,613 | 1,227 |
| Interest on Long-term Debt | 681 | 740 | | | 681 | 740 |
| Stillwater Utilities Authority | | | 37,756 | 35,062 | 37,756 | 35,062 |
| Community Center Operations | | | 521 | 326 | 521 | 326 |
| Stillwater Public Golf Authority | | | 1,161 | 1,181 | 1,161 | 1,181 |
| Stillwater Industrial & Redevelopment Authority | | | 101 | 50 | 101 | 50 |
| Airport Operations | | | 1,960 | 1,375 | 1,960 | 1,375 |
| Total Expenses | 30,982 | 28,842 | 41,499 | 37,994 | 72,481 | 66,836 |
| Excess/(Deficiency) | (3,127) | (2,840) | 8,574 | 7,073 | 5,447 | 4,233 |
| Net Transfers | 2,299 | 2,178 | (2,299) | (2,178) | - | - |
| Increase/(Decrease) in Net Assets | \$ (828) | \$ (662) | \$ 6,275 | \$ 4,895 | \$5,447 | \$ 4,233 |

Sales and use tax received in fiscal year 2005 resulted in an increase over the prior year of \$1,224,461. This increase was due to increased sales and not as a result of a tax increase. Transfers from the SUA to the non-major proprietary funds were increased by \$1.56 million mainly due to a transfer to fund the debt service payments of the Stillwater Public Golf Authority. Property taxes decreased \$150,420 due to a slight reduction in the levies to support the repayment of the outstanding general obligation bonds. Investment income increased by \$209,037 due to increased principal invested and slightly higher interest rates.

Business-type Activities

Business-type activities increased the City of Stillwater's net assets by \$6,275,369 which contributed to a 3.47% increase in the net assets of the City of Stillwater. Rate increases of 3.72% for electric service and 2.5% for water and wastewater contributed to a \$2.7 million increase in charges for services in the business-type activities.

General Fund Budgetary Highlights

The general fund budget for fiscal year 2004-05 was conservative, designed to preserve current service levels, while meeting the City Commission's financial goals for community priorities. Sales tax revenues increased in 2003-04 after being stagnant for two years. The 2004-05 budget estimated sales tax to grow at the same trend at 4.83% which is still approximately 2% behind historical levels. The City Commission gave staff direction to hold operating expenditure growth under 5.5% and the general fund budget for fiscal year 2004-05 met this goal with only a 4.8% increase anticipated. The expenditure budget included funds in the amount of \$411,751 for the implementation of a new city-wide pay plan, however, the plan did not affect wage costs substantially for the general fund. Funds budgeted for the pay plan were identified in General Government and once the pay plan was formulated the funds were reallocated to the appropriate function. Transfers are budgeted based on the anticipated needs of the recipient funds at the time of budget preparation, however actual transfers are made only as needed.

Capital Asset & Debt Administration

The following is a summary of changes in capital assets and debt administration for FY2005. More detailed information on capital asset activity and long-term debt activity is contained in the accompanying notes to the financial statements on pages 47 to 49 and pages 51 to 57, respectively.

Capital Assets

At the end of June 30, 2005, the City had \$195.6 million invested in capital assets including police and fire equipment, buildings, park facilities, water and sewer lines, electric systems and roads.

The City of Stillwater's Capital Assets
(expressed in \$ 000's)

| | Governmental Activities | | Business-type Activities | | Total | |
|--------------------------|-------------------------|------------------|--------------------------|-------------------|-------------------|----------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Land | \$ 4,994 | \$ 4,814 | \$ 1,668 | \$ 1,608 | \$ 6,662 | \$ 6,422 |
| Buildings | 23,309 | 23,308 | 4,438 | 4,438 | 27,747 | 27,746 |
| Other Improvements | - | - | 22,770 | 12,884 | 22,770 | 12,884 |
| Equipment | 17,219 | 16,193 | 17,881 | 16,376 | 35,100 | 32,569 |
| Infrastructure | 112,833 | 108,868 | 152,067 | 128,321 | 264,900 | 237,189 |
| Intangible Assets | | | 74 | 74 | 74 | 74 |
| Construction-in-progress | 2,766 | 2,835 | 4,493 | 30,655 | 7,259 | 33,490 |
| | <u>161,121</u> | <u>156,018</u> | <u>203,391</u> | <u>194,356</u> | <u>364,512</u> | <u>350,374</u> |
| Less Depreciation | <u>77,197</u> | <u>72,039</u> | <u>91,667</u> | <u>85,132</u> | <u>168,864</u> | <u>157,171</u> |
| Totals | \$ 83,924 | \$ 83,979 | \$ 111,724 | \$ 109,224 | \$ 195,648 | 193,203 |

Debt Administration

At year-end, the City had \$50,391,824 in outstanding notes, bonds, and capital leases. Additionally, the City had \$2,151,372 in accrued compensated absences and \$1,116,695 in utility deposits. These debts are further detailed below as follows:

The City of Stillwater's Long-term Debt
(expressed in \$000's)

| | Governmental Activities | | Business-type Activities | | Total | |
|--------------------------------|-------------------------|------------------|--------------------------|------------------|------------------|------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| General Obligation Bonds | \$ 12,200 | \$ 12,990 | \$ 505 | \$ 1,010 | \$ 12,705 | \$ 14,000 |
| Capital Lease Obligations | - | - | 1,019 | 1,350 | 1,019 | 1,350 |
| Notes Payable | - | - | 14,703 | 29,253 | 14,703 | 29,253 |
| Revenue Bonds | - | - | 21,250 | 9,979 | 21,250 | 9,979 |
| Unamortized Loss on Defeasance | - | - | (465) | (430) | (465) | (430) |
| Unamortized Premium (Discount) | - | - | 708 | - | 708 | - |
| Accrued Compensation | 1,543 | 1,338 | 607 | 450 | 2,150 | 1,788 |
| Utility Deposits | - | - | 1,117 | 1,051 | 1,117 | 1,051 |
| Refundable Grant Obligations | 473 | 529 | - | - | 473 | 529 |
| Totals | \$ 14,216 | \$ 14,857 | \$ 39,444 | \$ 42,663 | \$ 53,660 | \$ 57,520 |

Decreases in debt resulted from the conversion from construction loans used for the wastewater treatment plant upgrade to permanent financing and the decrease in general obligation bonds outstanding.

Economic Factors and Next Year's Budget

Stillwater has not experienced many of the extreme economic situations that have faced many other Oklahoma cities, however in the past two years the ability to fund major capital projects has declined due to stagnant sales tax growth. In fiscal year 04-05 sales taxes increased and the trend appears to be heading towards historical growth patterns. Rate increases have also eased the situation somewhat.

Commercial development picked up steam in 04-05. The Links, a 500 plus unit golf course and multi-family development under construction represents the largest speculative housing development in Stillwater's history, followed by Whitewoods, a planned retirement living complex. A 206,000 square foot shopping center with anchor and specialty tenants has started construction and a second Wal-Mart Supercenter has been announced to be completed in the next two years. There are approximately a dozen restaurants completed or underway. These projects represent approximately a half million square feet of retail space. The new commercial developments are expected to contribute more than \$50 million in construction and 1,600 new jobs, and an annual payroll of \$35 million.

Stillwater employers have remained stable and there have been no significant reductions in workforce or closings of major employers. Stillwater continues to be Oklahoma's 10th largest city with a steady increase in population according to statistics released by the U.S. Census Bureau. From January through June 2005, there were 148 new single family residential permits issued totaling \$ 25,731,000 and 51 commercial permits issued totaling \$10,235,078. Enrollment projections for the Oklahoma State University Campus indicate an increase of several hundred students for the fall 2005 semester.

The budget for the fiscal year 2005-06 was adopted by the Stillwater City Commission on April 18, 2005, and went into effect on July 1, 2005. A basic set of capital projects have been approved in the budget after two years of minimal capital expenditures. Emphasis has been placed on completing works in progress and priority projects before additional projects are added in future year capital plans or budgets.

The budget does not include any increases in taxes or utility fees, however program and service fees may be reviewed by staff during the year. The budget has been designed to meet the reserve policy of the city to keep a balance of \$2,000,000 in the general fund and \$11,000,000 in the Stillwater Utilities Authority. Additional personnel have been added to the budget to fund mandates in law enforcement and to address a more aggressive approach to completing capital projects.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department at 723 S. Lewis, P.O. Box 1449, Stillwater, Oklahoma or phone at (405) 372-0025.

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CITY OF STILLWATER, OKLAHOMA
STATEMENT OF NET ASSETS
JUNE 30, 2005

| | Primary Government | | | Component Units | |
|---|----------------------------|------------------------------|-----------------------|--|---|
| | Governmental Activities | Business- Type Activities | Total | Stillwater Medical Center Authority | Stillwater Convention and Visitors Bureau |
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 1,504,318 | \$ 20,564,915 | \$ 22,069,233 | \$ 12,454,822 | \$ 82,354 |
| Investments | - | - | - | 5,833,235 | - |
| Pooled investments | 8,085,229 | 35,222 | 8,120,451 | - | - |
| Accounts receivable, net of allowance for uncollectable accounts of \$680,940 | 1,091,044 | 6,612,487 | 7,703,531 | 7,891,424 | 1,925 |
| Internal balances | 1,979,447 | (1,979,447) | - | - | - |
| Inventories | 171,519 | 951,463 | 1,122,982 | 1,524,553 | - |
| Due from other governments | 3,646,524 | 644,578 | 4,291,102 | - | - |
| Leasehold receivable | - | 487,637 | 487,637 | - | - |
| Other assets | - | - | - | 1,062,947 | 1,876 |
| Restricted cash and cash equivalents | - | 6,232,694 | 6,232,694 | 879,456 | - |
| Restricted investments | - | - | - | 11,279,448 | - |
| Capital assets: | | | | | |
| Land and construction in progress | 7,760,117 | 6,448,442 | 14,208,559 | 4,640,501 | - |
| Other capital assets, net of accumulated depreciation | 76,164,368 | 105,275,574 | 181,439,942 | 26,706,247 | 7,375 |
| Intangible assets | - | - | - | 786,144 | - |
| Unamortized bond issue expense | - | 535,150 | 535,150 | - | - |
| Total assets | 100,402,566 | 145,808,715 | 246,211,281 | 73,058,777 | 93,530 |
| LIABILITIES | | | | | |
| Accounts payable | 1,302,987 | 3,584,289 | 4,887,276 | 1,483,985 | - |
| Accrued liabilities | 1,144,480 | 204,350 | 1,348,830 | 2,993,157 | 5,709 |
| Accrued interest payable | 52,639 | 139,783 | 192,422 | 147,715 | - |
| Deferred revenue | - | 95,943 | 95,943 | - | - |
| Customer deposits | - | 1,116,695 | 1,116,695 | - | - |
| Long-term liabilities: | | | | | |
| Due within one year | 1,036,831 | 3,967,799 | 5,004,630 | 1,340,031 | - |
| Due in more than one year | 13,194,369 | 34,294,075 | 47,488,444 | 21,181,316 | - |
| Total liabilities | 16,731,306 | 43,402,934 | 60,134,240 | 27,146,204 | 5,709 |
| NET ASSETS | | | | | |
| Invested in capital assets, net of related debt | 71,724,485 | 74,539,974 | 146,264,459 | 15,911,458 | 7,375 |
| Restricted for: | | | | | |
| Capital Projects | 227,641 | - | 227,641 | - | - |
| Debt service | 696,375 | 1,376,664 | 2,073,039 | 340,352 | - |
| Street Improvements | 7,158,849 | - | 7,158,849 | - | - |
| Specific operating activities | 536,641 | - | 536,641 | 341,791 | - |
| Nonexpendable operating activities | - | - | - | 422,812 | - |
| Unrestricted | 3,327,269 | 26,489,143 | 29,816,412 | 28,896,160 | 80,446 |
| Total net assets | \$ 83,671,260 | \$ 102,405,781 | \$ 186,077,041 | \$ 45,912,573 | \$ 87,821 |

The accompanying notes are an integral part of this statement.

CITY OF STILLWATER, OKLAHOMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

| Functions/Programs | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | | Component Units | |
|---|----------------------|------------------------------------|----------------------------------|---|----------------------------------|-----------------|-------------------------------------|---|
| | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Primary Business-type Activities | Total | Stillwater Medical Center Authority | Stillwater Convention & Visitors Bureau |
| Primary Government | | | | | | | | |
| Government activities | | | | | | | | |
| Public safety | \$ 13,485,558 | \$ 118,593 | \$ - | \$ (12,963,086) | \$ - | \$ (12,963,086) | | |
| Recreation and culture | 4,655,785 | 538,716 | 20,511 | (4,026,166) | - | (4,026,166) | | |
| General government | 2,516,385 | 5,908 | - | (2,505,167) | - | (2,505,167) | | |
| Financial administration | 604,803 | 923,756 | - | 318,953 | - | 318,953 | | |
| Street and sewers | 5,520,360 | 594,989 | - | (4,925,371) | - | (4,925,371) | | |
| Engineering and public works administration | 1,008,922 | 5,405 | - | (1,003,517) | - | (1,003,517) | | |
| Tourism | 331,483 | - | - | (331,483) | - | (331,483) | | |
| Economic development | 605,611 | - | - | (605,611) | - | (605,611) | | |
| Health and welfare | 1,613,431 | 1,019,057 | - | (288,251) | - | (288,251) | | |
| Interest on long-term debt | 681,061 | 306,123 | - | (681,061) | - | (681,061) | | |
| Total governmental activities | 31,023,399 | 3,206,424 | 20,511 | (27,010,760) | - | (27,010,760) | | |
| Business-type activities | | | | | | | | |
| Electric, water, wastewater and sanitation operations | 37,756,145 | 43,595,811 | - | - | 6,065,481 | 6,065,481 | | |
| Community Center operations | 520,719 | 66,875 | - | - | (423,767) | (423,767) | | |
| Stillwater Public Golf Authority | 1,161,042 | 775,913 | - | - | (385,129) | (385,129) | | |
| Stillwater Industrial Redevelopment Authority | 101,129 | 932 | 99,990 | - | (207) | (207) | | |
| Airport operations | 1,959,733 | 787,127 | 3,826,580 | - | 2,653,974 | 2,653,974 | | |
| Total business-type activity | 41,498,768 | 45,226,658 | 3,926,570 | - | 7,910,352 | 7,910,352 | | |
| Total primary government | \$ 72,522,167 | \$ 48,433,082 | \$ 3,947,081 | (27,010,760) | 7,910,352 | (19,100,408) | \$ 3,232,541 | \$ 13,295 |
| Component Units | | | | | | | | |
| Medical Center | \$ 55,827,537 | \$ 58,741,839 | \$ 223,622 | \$ 94,617 | - | - | \$ 3,232,541 | \$ 13,295 |
| Economic Development | 318,188 | 331,483 | - | - | - | - | - | - |
| Total component units | \$ 56,145,725 | \$ 59,073,322 | \$ 223,622 | \$ 94,617 | - | - | \$ 3,232,541 | \$ 13,295 |
| General revenues | | | | | | | | |
| Taxes: | | | | | | | | |
| Sales and use taxes | | | | 19,822,637 | - | 19,822,637 | | |
| Property taxes | | | | 1,979,773 | - | 1,979,773 | | |
| Franchise and public service taxes | | | | 1,380,775 | - | 1,380,775 | | |
| E911 taxes | | | | 98,792 | - | 98,792 | | |
| Hotel/motel taxes | | | | 332,727 | - | 332,727 | | |
| Investment income | | | | 194,331 | 461,770 | 656,101 | 1,044,750 | 457 |
| Miscellaneous | | | | 136,537 | 202,682 | 339,219 | | |
| Transfers-internal activity | | | | 2,299,435 | (2,299,435) | - | | |
| Total general revenues and transfers | | | | 26,245,007 | (1,634,983) | 24,610,024 | 1,044,750 | 457 |
| Change in net assets | | | | | | | | |
| Net assets -beginning (as previously reported) | | | | (765,753) | 6,275,369 | 5,509,616 | 4,277,291 | 13,752 |
| Adjustment applicable to prior years | | | | 84,437,013 | 98,213,488 | 182,650,501 | 41,635,282 | 74,069 |
| Net assets-beginning (as restated) | | | | 84,437,013 | (2,083,076) | (2,083,076) | 41,635,282 | 74,069 |
| Net assets-ending | | | | \$ 83,671,260 | \$ 102,405,781 | \$ 186,077,041 | \$ 45,912,573 | \$ 87,821 |

The accompanying notes are an integral part of this statement.

CITY OF STILLWATER, OKLAHOMA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

| | General | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|--------------------------------|--------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 109,271 | \$ 1,236,699 | \$ 1,345,970 |
| Pooled investments | 425,589 | 7,659,639 | 8,085,228 |
| Due from other governments | 3,333,532 | 312,992 | 3,646,524 |
| Accounts receivable, net of uncollectable accounts of \$514,401 | 1,044,700 | 33,989 | 1,078,689 |
| Due from other funds | 1,556,338 | 2,106 | 1,558,444 |
| Inventories | 171,519 | - | 171,519 |
| Total assets | \$ 6,640,949 | \$ 9,245,425 | \$ 15,886,374 |
| LIABILITIES | | | |
| Accounts payable | \$ 1,111,212 | \$ 191,775 | \$ 1,302,987 |
| Accrued liabilities | 862,685 | 2,299 | 864,984 |
| Due to other funds | - | 60,833 | 60,833 |
| Deferred Revenue | 414,748 | 87,306 | 502,054 |
| Total liabilities | 2,388,645 | 342,213 | 2,730,858 |
| FUND BALANCES | | | |
| Reserved for inventories | 171,519 | - | 171,519 |
| Reserved for debt service | - | 696,375 | 696,375 |
| Reserved for police activities | 110,373 | - | 110,373 |
| Reserved for fire activities | 228,212 | - | 228,212 |
| Reserved for capital improvements | - | 227,641 | 227,641 |
| Reserved for sales tax transfer | 1,334,010 | - | 1,334,010 |
| Reserved for street and alley | 1,339 | - | 1,339 |
| Reserved for hotel/motel | 40,930 | - | 40,930 |
| Unreserved: | | | |
| Designated for self insurance | 855,704 | - | 855,704 |
| Designated for recreation and culture | 169,065 | - | 169,065 |
| Special revenue funds undesignated | - | 7,979,196 | 7,979,196 |
| General Fund undesignated | 1,341,152 | - | 1,341,152 |
| Total fund balances | 4,252,304 | 8,903,212 | 13,155,516 |
| Total liabilities and fund balances | \$ 6,640,949 | \$ 9,245,425 | |

Amounts reported for governmental activities in the Statement of Net Assets are different because:

| | |
|---|------------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not report in the funds, net of accumulated depreciation of \$77,196,864 | 83,924,485 |
|---|------------|

Certain long-term assets are not available to pay for current fund liabilities and, therefore, are deferred in the funds:

| | |
|---|---------|
| Court fines receivable, net of allowance of \$134,246 | 228,539 |
|---|---------|

| | |
|---|----------------------|
| Ambulance receivable, net of allowance of \$380,155 | 123,596 |
| Rental rehab receivable | 62,613 |
| Property tax receivable | 87,306 |
| Internal Service fund assets and liabilities are reported as a proprietary fund in the fund financial statements but are included in government activities in the Statement of Net Assets | 164,879 |
| Certain long-term liabilities are not due and payable from current financial resources and, therefore are not reported in the funds: | |
| Accrued workers compensation claims | (279,494) |
| Accrued interest payable | (52,639) |
| General obligation bonds payable | (12,200,000) |
| Accrued compensated absences | (1,543,541) |
| Net assets of governmental activities | <u>\$ 83,671,260</u> |

The accompanying notes are an integral part of this statement.

CITY OF STILLWATER, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

| | General | Other Governmental Funds | Totals Governmental Funds |
|--|---------------------|--------------------------------|---------------------------------|
| REVENUES | | | |
| Taxes | \$ 21,509,664 | \$ 1,950,397 | \$ 23,460,061 |
| Intergovernmental | 485,219 | 256,886 | 742,105 |
| Charges for services | 1,170,118 | 257,961 | 1,428,079 |
| Fines and forfeits | 889,850 | - | 889,850 |
| Fees and rentals | 526,700 | - | 526,700 |
| Investment income | 92,587 | 99,582 | 192,169 |
| Licenses and permits | 182,293 | - | 182,293 |
| Other miscellaneous revenues | 376,474 | 20,811 | 397,285 |
| Total revenues | 25,232,905 | 2,585,637 | 27,818,542 |
| EXPENDITURES | | | |
| Current | | | |
| Public safety | 12,919,050 | - | 12,919,050 |
| Recreation and culture | 4,050,449 | 470 | 4,050,919 |
| General government | 2,156,559 | - | 2,156,559 |
| Financial administration | 525,900 | - | 525,900 |
| Streets and sewers | 1,649,473 | 239,927 | 1,889,400 |
| Operations | 902,206 | - | 902,206 |
| Economic development | 937,095 | - | 937,095 |
| Human services | 1,176,494 | 350,815 | 1,527,309 |
| Debt service: | | | |
| Principal retirements | - | 790,000 | 790,000 |
| Interest and fiscal charges | - | 685,465 | 685,465 |
| Capital outlay | 4,196,814 | 978,278 | 5,175,092 |
| Total expenditures | 28,514,040 | 3,044,955 | 31,558,995 |
| Excess (deficiency) of revenues over (under) expenditures | (3,281,135) | (459,318) | (3,740,453) |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | 8,700,000 | 3,055,379 | 11,755,379 |
| Transfers out | (8,915,802) | (540,142) | (9,455,944) |
| Total other financing sources (uses) | (215,802) | 2,515,237 | 2,299,435 |
| Net change in fund balances | (3,496,937) | 2,055,919 | (1,441,018) |
| FUND BALANCES, beginning | 7,749,241 | 6,847,293 | 14,596,534 |
| FUND BALANCES, ending | \$ 4,252,304 | \$ 8,903,212 | \$ 13,155,516 |

Reconciliation to Statement of Activities:

| | |
|--|---------------------|
| Net change in fund balances | \$ (1,441,018) |
| Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. | |
| Capital asset purchase capitalized | 5,040,189 |
| Donated capital assets | 82,418 |
| Depreciation expense | (5,177,498) |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds: | |
| Deferred revenue | 129,293 |
| Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets: | 790,000 |
| Internal Service Fund revenue | 264 |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds | |
| Accrued workers compensation claims | 11,353 |
| Accrued interest payable | 4,404 |
| Accrued compensated absences | (205,158) |
| Change in net assets-governmental activities | <u>\$ (765,753)</u> |

The accompanying notes are an integral part of this statement.

CITY OF STILLWATER, OKLAHOMA
STATEMENT OF NET ASSETS- PROPRIETARY FUNDS
June 30, 2005

| | Business-type Activities | | | Governmental Activities- Internal Service Funds |
|--|--------------------------------------|--|-----------------------|--|
| | Stillwater Utilities Authority | Enterprise Funds Non Major Enterprise Funds | Totals | |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | \$ 20,498,915 | \$ 66,000 | \$ 20,564,915 | \$ 158,348 |
| Restricted cash and cash equivalents | 1,478,535 | - | 1,478,535 | - |
| Pooled investments | - | 35,222 | 35,222 | - |
| Accounts receivable, net of allowance for uncollectible accounts of \$166,539 | 6,597,503 | 14,984 | 6,612,487 | 12,332 |
| Due from other funds | - | - | - | 487,637 |
| Inventories | 881,651 | 69,812 | 951,463 | - |
| Leasehold receivable | - | 487,637 | 487,637 | - |
| Total current assets | 29,456,604 | 673,655 | 30,130,259 | 658,317 |
| NONCURRENT ASSETS | | | | |
| Restricted assets: | | | | |
| Cash and equivalents | 4,754,159 | - | 4,754,159 | - |
| Due from other governments | - | 644,578 | 644,578 | - |
| Capital assets, non depreciable | 5,130,037 | 1,318,405 | 6,448,442 | - |
| Capital assets, net of accumulated depreciation | 92,243,585 | 13,031,989 | 105,275,574 | - |
| Unamortized note issuance cost | 535,150 | - | 535,150 | - |
| Total non current assets | 102,662,931 | 14,994,972 | 117,657,903 | - |
| Total assets | 132,119,535 | 15,668,627 | 147,788,162 | 658,317 |
| LIABILITIES | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable | 3,199,649 | 384,641 | 3,584,290 | - |
| Accrued expenses | 182,776 | 21,574 | 204,350 | - |
| Accrued compensated absences | 65,128 | 10,761 | 75,889 | - |
| Accrued interest payable | 139,783 | - | 139,783 | - |
| Current portion of customer deposits | 494,105 | 1,160 | 495,265 | - |
| Current portion of long-term obligations, net | 3,891,910 | - | 3,891,910 | 41,664 |
| Due to other funds | 688,846 | 1,290,601 | 1,979,447 | 5,801 |
| Deferred revenue | - | 95,943 | 95,943 | - |
| Total current liabilities | 8,662,197 | 1,804,680 | 10,466,877 | 47,465 |
| NONCURRENT LIABILITIES | | | | |
| Customer deposits | 612,650 | 8,780 | 621,430 | - |
| Compensated absences | 429,651 | 37,141 | 466,792 | - |
| Refundable grant obligations | - | - | - | 445,973 |
| Long-term obligations, net | 33,827,283 | - | 33,827,283 | - |
| Total noncurrent liabilities | 34,869,584 | 45,921 | 34,915,505 | 445,973 |
| Total liabilities | 43,531,781 | 1,850,601 | 45,382,382 | 493,438 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 60,189,580 | 14,350,394 | 74,539,974 | - |
| Restricted for debt service | 1,376,664 | - | 1,376,664 | - |
| Unrestricted | 27,021,511 | (532,368) | 26,489,143 | 164,879 |
| Total net assets | \$ 88,587,755 | \$ 13,818,026 | \$ 102,405,781 | \$ 164,879 |

The accompanying notes are an integral part of this statement.

CITY OF STILLWATER, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

| | Business-type Activities | | | Governmental Activities Internal Service Funds |
|---|--------------------------------------|----------------------------------|-----------------------|---|
| | Enterprise Funds | | Totals | |
| | Stillwater Utilities Authority | Non Major Enterprise Funds | | |
| OPERATING REVENUES | | | | |
| Charges for services | \$ 42,441,466 | \$ 1,302,140 | \$ 43,743,606 | \$ 10 |
| Other | 1,154,345 | 358,784 | 1,513,129 | - |
| Total operating revenues | <u>43,595,811</u> | <u>1,660,924</u> | <u>45,256,735</u> | <u>10</u> |
| OPERATING EXPENSES | | | | |
| Operating and maintenance | 32,014,370 | 2,469,382 | 34,483,752 | 1,909 |
| Depreciation | 5,445,704 | 1,224,899 | 6,670,603 | - |
| Amortization | - | 3,449 | 3,449 | - |
| Total operating expenses | <u>37,460,074</u> | <u>3,697,730</u> | <u>41,157,804</u> | <u>1,909</u> |
| Operating income (loss) | <u>6,135,737</u> | <u>(2,036,806)</u> | <u>4,098,931</u> | <u>(1,899)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Investment income | 461,124 | 646 | 461,770 | 2,163 |
| Interest expense | (208,036) | (95,115) | (303,151) | - |
| Amortization of bond issue costs | (47,148) | - | (47,148) | - |
| Gain/(loss) on disposal of assets | (2,756) | - | (2,756) | - |
| Other income | 202,682 | - | 202,682 | - |
| Net nonoperating revenues | <u>405,866</u> | <u>(94,469)</u> | <u>311,397</u> | <u>2,163</u> |
| Income (loss) before capital contributions and transfers | <u>6,541,603</u> | <u>(2,131,275)</u> | <u>4,410,328</u> | <u>264</u> |
| CAPITAL CONTRIBUTIONS AND TRANSFERS | | | | |
| Capital contributions | 225,815 | 3,926,570 | 4,152,385 | - |
| Transfers in | 7,263,449 | 2,597,202 | 9,860,651 | - |
| Transfers out | (10,854,407) | (1,343,810) | (12,198,217) | - |
| Net capital contributions and transfers | <u>(3,365,143)</u> | <u>5,179,962</u> | <u>1,814,819</u> | <u>-</u> |
| Change in net assets | <u>3,176,460</u> | <u>3,048,687</u> | <u>6,225,147</u> | <u>264</u> |
| NET ASSETS, beginning as previously reported | 85,411,295 | 12,802,193 | 98,213,488 | 164,615 |
| Adjustment applicable to prior years | - | (2,083,076) | (2,083,076) | - |
| NET ASSETS, beginning as restated | <u>85,411,295</u> | <u>10,719,117</u> | <u>96,130,412</u> | <u>164,615</u> |
| NET ASSETS, ending | <u>\$ 88,587,755</u> | <u>\$ 13,767,804</u> | <u>\$ 102,355,559</u> | <u>\$ 164,879</u> |

The accompanying notes are an integral part of this statement.

CITY OF STILLWATER, OKLAHOMA
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

| | Business-type Activities | | Totals | Governmental Activities Internal Service Funds |
|---|--------------------------------------|--|----------------------|---|
| | Stillwater Utilities Authority | Enterprise Funds Non Major Enterprise Funds | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Receipts from customers | \$ 41,748,961 | \$ 1,429,725 | \$ 43,178,686 | \$ 10,647 |
| Payments to suppliers | (21,603,730) | (1,253,766) | (22,857,496) | (9,730) |
| Payments to employees | (8,204,423) | (1,016,141) | (9,220,564) | - |
| Inter activity-payments to other funds | (1,133,778) | (83,800) | (1,217,578) | (2,957) |
| Other receipts (payments) | 1,154,345 | 222,515 | 1,376,860 | 10 |
| Net cash provided by (used for) operating activities | <u>11,961,375</u> | <u>(701,467)</u> | <u>11,259,908</u> | <u>(2,030)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Transfers to other funds | (10,539,723) | - | (10,539,723) | - |
| Transfers from other funds | 711,009 | 2,745,834 | 3,456,843 | - |
| Net cash provided by (used for) noncapital financing activities | <u>(9,828,714)</u> | <u>2,745,834</u> | <u>(7,082,880)</u> | <u>-</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Proceeds from debt | 22,819,438 | - | 22,819,438 | - |
| Capital contributions | 5,919,642 | 3,857,266 | 9,776,908 | - |
| Purchases of assets | (5,028,530) | (3,796,162) | (8,824,692) | - |
| Sale of asset | - | 63,225 | 63,225 | - |
| Principal paid on capital debt | (23,853,044) | (2,062,659) | (25,915,703) | - |
| Interest paid on debt | (273,969) | (104,067) | (378,036) | - |
| Net cash provided by (used for) capital activities | <u>(416,463)</u> | <u>(2,042,397)</u> | <u>(2,458,860)</u> | <u>-</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Purchase of investments | - | (24,060) | (24,060) | - |
| Interest | 461,124 | 646 | 461,770 | 2,162 |
| Net cash provided by (used for) investing activities | <u>461,124</u> | <u>(23,414)</u> | <u>437,710</u> | <u>2,162</u> |
| Net increase (decrease) in cash and cash equivalents | <u>2,177,322</u> | <u>(21,444)</u> | <u>2,155,878</u> | <u>132</u> |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>24,554,287</u> | <u>87,444</u> | <u>24,641,731</u> | <u>158,216</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 26,731,609</u> | <u>\$ 66,000</u> | <u>\$ 26,797,609</u> | <u>\$ 158,348</u> |
| Reconciliation of operating income (loss) to net cash provided (used by) operating activities | | | | |
| Operation income (loss) | \$ 6,135,737 | \$ (2,036,806) | \$ 4,098,931 | \$ (1,899) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation expense | 5,445,704 | 1,228,349 | 6,674,053 | 1,909 |
| Bad debt expense | - | - | - | - |
| Changes in assets and liabilities | (756,855) | 5,613 | (751,242) | (2,040) |
| Receivables, net | 32,513 | 5,107 | 37,620 | - |
| Inventories | 939,578 | 51,793 | 991,371 | - |
| Accounts and other payables | - | 33,927 | 33,927 | - |
| Change in deferred revenue | 164,698 | 10,550 | 175,248 | - |
| Accrued expenses | - | - | - | - |
| Net cash provided by (used in) operating activities | <u>\$ 11,961,375</u> | <u>\$ (701,467)</u> | <u>\$ 11,259,908</u> | <u>\$ (2,030)</u> |
| Non cash activities | | | | |
| Change in capital assets due to capital lease | 102,148 | - | 102,148 | - |
| Change in capital assets due to donation | 225,815 | - | 225,815 | - |
| Change due to transfer of Sanitation assets and liabilities | 632,800 | (632,800) | - | - |

The accompanying notes are an integral part of this statement.

CITY OF STILLWATER, OKLAHOMA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2005

| | Agency Fund |
|---------------------------|--------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 72,554 |
| Pooled investments | 275,050 |
| Assessment receivables | <u>9,761</u> |
| Total assets | <u>\$ 357,365</u> |
| LIABILITIES | |
| Accounts payable | \$ 6,749 |
| Amounts held in escrow | <u>350,616</u> |
| Total Liabilities | <u>\$ 357,365</u> |

The accompanying notes are an integral part of this statement.

CITY OF STILLWATER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The City of Stillwater (the City) is a municipal corporation operating under the authority of Oklahoma State Statute. The City operates under a city manager form of government. Four elected members of the City commission and the Mayor set policy. The city commission employ the city Manager. The general purpose financial statements of the funds and fiduciary funds of the City include those of separately administered organizations that are controlled by or dependent on the legislative or executive branches, the City Commission and the City Manager, respectively. In accordance with the Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units," the City has presented the entities which comprise the primary government along with its discretely presented component units in the general purpose financial statements. As required by accounting principles generally accepted in the United States of America, the general purpose financial statements present the reporting entity which consists of the primary government and organizations for which the primary government is financially accountable.

Based on the foregoing criteria, the accounts of the following organizations are included in the City's reporting entity:

Blended Component Units

The following component units have been presented as blended component units because the governing body is substantially the same as the governing body of the City.

Stillwater Utilities Authority

The Stillwater Utilities Authority (the "SUA") was created by a trust indenture dated April 1, 1979, pursuant to Title 60, Oklahoma Statutes 1971, Section 176 to 180.4 and the Oklahoma Trust Act, designating the City Commission as Trustee for the benefit of the City in respect to water, sewer and electric service. The SUA leases, operates and maintains the water, sewer electrical and sanitation utilities pursuant to a renewable lease agreement and an operation and maintenance contract with the City. The operations, maintenance and debt of the SUA are funded from service charges and a one cent sales tax levied by the City and transferred to the SUA as the SUA has no taxing authority. The SUA's operations are reported in the accompanying general purpose financial statements in the Enterprise Funds.

The Stillwater Public Works Authority

The Stillwater Public Works Authority (the "SPWA") was created by a Declaration of Trust dated January 21, 1963, pursuant to Title 60, Oklahoma Statutes 1961 and the Oklahoma Trust Act, designating the City Commission as Trustee to enter into contractual arrangements to provide services and physical facilities to departments of the City and, on behalf of the City, to other governments and residential and commercial residents within the corporate boundaries of the City. There are both formal and informal leasing arrangements between the SPWA and the City. The SPWA operations are reported in the accompanying general purpose financial statements in the Internal Service Funds.

Stillwater Industrial and Redevelopment Authority

The Stillwater Industrial and Redevelopment Authority was established by resolution of the City Commission on February 19, 1990 pursuant to Title 60, Oklahoma Statutes 1981, Sections 176-180.4, inclusive as amended and supplemented (The "Public Trust Act"), Title 11, Oklahoma Statutes 1981, Sections 40-101 through 40-115, inclusive, as amended and supplemented (the "Central Business District Redevelopment Act"). The Stillwater Industrial and Redevelopment Authority is a public trust with the City of Stillwater as beneficiary and the City Commissioners designated as trustees. The main purpose is the improvement of the economic climate of the trust beneficiary. Methods of improving the economic climate may include but are not limited to, assisting in acquisition of financial resources to improve availability of housing, redevelopment of blighted areas and other economic activities. The operations of the SIRA are reported in the accompanying general purpose financial statements in the Enterprise funds.

Stillwater Public Golf Authority

The Stillwater Golf Authority (SPGA) was created by a trust indenture dated July 1, 1997 pursuant to Title 60, Oklahoma Statutes 1991, Section 176-180.3, designating the City Commission as Trustee for the benefit of the City for the purpose of the operation of an 18 hole golf course, Lakeside Golf Course. The operations, maintenance and debt of the SPGA are funded by fees collected from participants at the golf course. The SPGA operations are reported in the accompanying general purpose financial statements in the Enterprise Funds.

Discretely Presented Component Units

Stillwater Medical Center Authority

The Stillwater Medical Center Authority (the "Hospital") was created by a trust indenture dated December 14, 1971, pursuant to Title 60, Oklahoma Statutes 1961, Sections 176 to 180.4, and the Oklahoma Trust Act, to construct, maintain and operate facilities for various types of health care delivery, for use by the State or any political subdivision or municipality of the State and to lease properties from the City. The Hospital is administered by a seven member Board of Trustees consisting of the Mayor, or one other City Commissioner, and six other individuals appointed by the City Commission. The City cannot, under the trust indenture, control or direct the actions of the Trustees, however the City may remove the Trustees at will. The Board of Trustees designates management, oversees operations and establishes and collects charges. The Hospital's operating and capital expenditures, including debt service, are financed entirely by operating income. Approval from the City is required for debt issues in excess of 5% of the then outstanding debt. All indebtedness of the Hospital is the obligation of the Trustees, payable solely from the Hospital's assets. The City leases land to the Hospital and is the beneficiary of the trust estate but has no responsibility to fund deficits or subsidize operations. The City has no right to the Hospital's assets or its income, nor can the City legally transact any business for the Trustees. The Hospital has a December 31 year-end. To obtain separate financial statements for the Hospital, contact the Chief Financial Officer, Stillwater Medical Center, 1323 West Sixth Street, Stillwater, Oklahoma 74074.

Stillwater Convention And Visitors Bureau

The Stillwater Convention and Visitors Bureau was created by an ordinance March 25, 1985. The ordinance created a 4% excise tax from the gross proceeds derived from the receipts received from occupancy of hotel rooms. These funds are to be used by the Bureau for the development of Stillwater as a visitor destination. The Bureau is administered by an eleven member board which is appointed by the city commission. The board consists of a majority from the private sector and not less than two from the hotel industry. The city manager or his designated representative serves as ex-officio, non-voting member. The city approves the budget of the bureau, however

the Stillwater Chamber of Commerce provides daily oversight of the bureau. To obtain separate financial statements for the Convention and Visitors Bureau contact the Executive Director, Stillwater Convention and Visitors Bureau, P.O. Box 1687, Stillwater, Ok 74076

BASIS OF PRESENTATION

Government-wide Financial Statements:

The statements of net assets and statement of activities display information about the City as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund balances/net assets, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds with the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental fund and enterprise funds combined.

The funds of the financial reporting entity are described below:

General Fund.

The General Fund is the primary operating fund of the City government and will always be classified as a major fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources, other than capital projects, that are legally restricted to expenditures for specified purposes or otherwise segregated for accounting purposes and include the following special revenue funds:

Community Development Block Grant Fund
Transportation Improvement Fund
Library Materials Enhancement Fund
Storm Water Management Fund

The Debt Service Fund

The Debt Service Funds are used to account for the accumulation of ad-valorem taxes levied by the City for the payment of general long-term debt principal, interest and related costs.

Capital Project Fund

The Capital Project Fund is used to account for the resources restricted for the acquisition or construction of specific capital projects or items. The remaining balance of the proceeds from the

bonds issued for the construction of the Police Building and the remodeling of the Municipal Building remain in this fund.

Enterprise Funds

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises (a) where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, management control, accountability or other purpose. The reporting entity includes the following enterprise funds:

- Stillwater Utilities Authority
- Airport
- Stillwater Public Golf Authority
- Stillwater Industrial Redevelopment Authority
- Community Center

Fiduciary Fund

Fiduciary Fund is used to account for assets held in a trustee or agency capacity for other others and cannot be used to support the City's programs. The City has the following agency accounts:

- Property Rehabilitation Escrow
- Detention Pond Escrow
- Sidewalk Escrow
- Right Of Way Escrow
- Street Assessments
- Sanitary Sewer Assessments
- Public Library Donations
- Bond Escheatment Escrow
- Airport Grant Escrow

Discretely Presented Component Units

Discretely presented component units are separate legal entities whose governing body (in majority) is appointed by the Mayor or City Commission, but whose governing body is not substantially the same as the City Commission nor is an entity established to provide services primarily to the primary government. Since these component units are not as closely associated with the City as are the blended component units, they are reported in discretely presented columns on the government-wide financial statements labeled "Component Units." The reporting entity includes the following discretely presented component units:

- Stillwater Medical Center Authority
- Stillwater Convention and Visitors Bureau

Major Fund:

Description

General

See previous description

MajorFund:

Description

Enterprise Funds

Stillwater Utility Authority (SUA)

Accounts for the operations of the electric, water, sewer and sanitation system under the Stillwater Utilities Authority, a public trust existing under a Trust Indenture

dated April 1, 1979, which was created by an ordinance of the City.

Non-Major funds:

Special Revenue Funds:

| | |
|------------------------------------|---|
| Community Development Block Grants | Accounts for funds used for the improvements in low-income portions of the community. Funding is provided by the Community Development Block Grant Small Cities Set Aside program and local matching funds. |
| Transportation Improvement Fund | Accounts for the expenditures for street projects as approved by voters in 2001. Financing is provided by the ½ cent sales tax also approved by the voters. |
| Storm Water Management | Accounts for the expenditures for storm water management funded primarily by a storm water fee. |
| Library Materials Enhancement | Accounts for the expenditures of the proceeds from the sale of the old library building. |
| Debt Service Fund | See previous description |
| Capital Project Fund | |
| Police/Municipal Building | See previous description |
| Enterprise Funds | |
| Airport | Accounts for the operation of the Stillwater Municipal Airport including capital additions and improvements financed through federal and state grant proceeds and City contributions. |
| Stillwater Industrial | |
| Redevelopment Authority | Accounts for expenditures for industrial redevelopment. Financing is provided from federal grants, federal loans, city contributions and citizen participation. |
| Community Center | Accounts for rental of the Community Center. |
| Internal Service Fund | |
| Stillwater Public Works Authority | Accounts for acquisition and financing of physical facilities. Debt service requirements are provided from charges billed to the benefited fund. |

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

The government-wide Statement of Net Assets and the Statement of Activities are presented using the economic resources measurement focus as defined in item 2 below.

The fund financial statements are reported using the “current financial resources measurement focus” and the modified accrual basis of accounting or the “economic resources measurement focus” as appropriate:

1. All governmental fund types and similar component units utilize a "current financial resources" measurement focus and modified accrual basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
2. Proprietary fund types and similar component units utilize an "economic resources" measurement focus and the accrual basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery) financial position and cash flows. All assets and liabilities (whether current or non current, financial or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within 60 days of the end of the fiscal year. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are recorded when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Proprietary funds have implemented GASB Statement No. 20, "Accounting and financial Reporting for Proprietary Funds and Other Governmental entities that use Proprietary Fund Accounting". The city has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

ASSETS, LIABILITIES AND NET ASSETS OR EQUITY

Cash and Cash Equivalents - Cash in bank, cash on hand, and certificates of deposit with original maturities of ninety days or less are reported as cash and cash equivalents.

Pooled Investments - The resources of the individual funds are general purpose and combined to form a pool of investments which is managed by the Director of Finance. These pooled assets (comprised of Treasury repurchase agreements) are stated at amortized cost if the investment had a maturity of one year or less at the time of purchase and all long-term investments are recorded at fair value. All investments held are authorized under Oklahoma State Statutes. Permissible investments include direct obligations of the U. S. government and agency securities, certificates of deposit, and savings accounts or savings certificates of savings and loan associations. Each fund's equity in the pooled investments account is reported in the general purpose financial statements as pooled investments.

Earnings on investments are allocated to the individual funds by a formula based on each fund's month-end equity in the pooled investments account (See Note 2).

Investments - Investments with an original maturity of one year or less are recorded at amortized cost, long term investments are recorded at fair value.

Accounts Receivable – In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales and use taxes, franchise taxes, grants, court fines and ambulance fees.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax and grants and other similar intergovernmental revenues, since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with the modified accrual basis of accounting, but not deferred in the government-wide financial statements in accordance with the accrual basis of accounting. Proprietary fund receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable comprise the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Receivables of the Stillwater Medical Center Authority consists of patient accounts receivable for service rendered. The Authority provides an allowance for uncollectible accounts receivable based upon historical trends and the existing economic conditions.

Restricted Assets - Proceeds from debt and related sinking fund accounts and contributions from governmental grantors to the Enterprise Funds are classified as restricted assets, since their use is restricted by applicable bond indentures and grant agreements. Customer utilities deposits held by the City are classified as restricted assets.

Inventories - Inventories, consisting primarily of materials and supplies, are stated at weighted average cost. The consumption method of accounting is used for the Governmental Funds; therefore, inventory purchases are recorded in these funds as expenditures as they are used. Inventories are adjusted to annual physical count and, since inventories are not available spendable resources, are equally offset by a reservation of fund balance in the Governmental Funds. Inventories of proprietary funds consist primarily of materials, supplies and fuel oil, and are reported at the lower of average cost or market.

Bond Discounts and Issuance Costs - Bond discounts and issuance costs are deferred and amortized over the term of the bonds using the straight-line method.

Capital Assets- The accounting treatment for property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations and similar discretely presented component unit operations or proprietary fund operations and similar discretely presented component unit operations and whether they are reported in the government-wide or fund financial statements. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by business-type activities was \$1,184,089. Of this amount, \$880,938 was included as part of the cost of capital assets under construction in connection with wastewater treatment facilities construction projects.

Government-Wide Statements

In the government-wide financial statements, property, plant and equipment are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. The threshold for capitalization of assets is \$5,000.

Prior to July 1, 2002, governmental activities' infrastructure assets were not capitalized. These assets (dating back to July 1, 1980) have been valued at estimated historical cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method. The range of estimated useful lives by type of asset are as follows:

| Class of Asset | Estimated Useful Life |
|------------------------|-----------------------|
| Buildings | 10-70 Years |
| Other Improvements | 2-70 Years |
| Equipment and vehicles | 1-58 Years |
| Infrastructure | 25-50 Years |

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Intangible Assets - Intangible assets of proprietary funds expected to benefit future years are capitalized and reported in the proprietary fund balance sheet. Amortization for proprietary fund intangible assets is computed using the straight-line method over the estimated useful life of the asset.

Long-term Debt

Accounting treatment of long-term debt varies depending upon the source of repayment and whether the debt is reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and similar discretely presented component unit resources and business-type and similar discretely presented component unit resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of accrued compensated absences, general obligation bonds payable, capital leases payable, notes payable and revenue bonds payable.

Long-term debt of governmental funds is not reported as liabilities in the fund financial statements. Payment of principal and interest is reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

Compensated Absences

Sick Pay-Employees may accrue a maximum of 1,000 hours of sick leave. An employee with five or more years of service who retires or resigns shall receive a bonus credit of 10% of the accumulated unused sick leave to be computed at the rate of pay being received by the employee at retirement or resignation date. Employees with ten to thirty-five years of service receive a bonus credit ranging from 12.5% to 35%.

Vacation Pay-Employees are credited with vacation at various rates depending on length of employment. Nonuniformed employees may accumulate and carry over to subsequent years up to 25 days of vacation. Police officers can carry over to subsequent years up to 33 days of vacation. Firefighters can carry over to subsequent years up to 46 days of vacation. Upon termination, employees are paid for unused vacation.

The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absences to the extent they have matured the proprietary funds report the liability as it is incurred. As of year-end there is no liability reported in the fund financial statements. Compensated absences are paid as they are incurred by the applicable fund charged with the employee's compensation. All Governmental funds participated in the consolidated cash account and thus the payments are funded by this account.

Equity Classifications

Government-Wide Financial Statements:

Equity is classified as net assets and displayed in three components:

