

STILLWATER UTILITIES AUTHORITY FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

TOGETHER WITH REPORT OF INDEPENDENT AUDITORS

Prepared by:
Department of Finance

Marcy Alexander
Director of Finance

STILLWATER UTILITIES AUTHORITY
A component unit of the City of Stillwater, Oklahoma
Financial Statements

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Stillwater Utilities Authority
Stillwater, Oklahoma

We have audited the accompanying basic financial statements of Stillwater Utilities Authority, a component unit of the City of Stillwater, Oklahoma, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stillwater Utilities Authority as of June 30, 2005, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is 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.

BKD, LLP

September 23, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Stillwater Utilities Authority's (SUA) financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2005.

FINANCIAL HIGHLIGHTS

Net Assets: The Authority's net assets increased by \$3.2 million or 3.7%. This increase indicates a level of activity is being maintained that is currently adequate to replace depreciating assets as needed.

Unrestricted Net Assets: Unrestricted net assets of the Authority increased by \$2.4 million or 9.8% due to the refunding of debt with restricted reserve funds. These reserve funds were released because the new revenue bonds utilized a security bond in lieu of a cash reserve.

Revenues: The Authority's operating revenues increased by \$5.5 million or 14.37%. Non-operating revenues decreased by 26.5%. A 3.72% rate increase in the electric utility along with an increased customer count in all utilities contributed to the operating revenue increase while continued low interest rates on investments led to the non-operating decrease.

Expenses: The Authority's operating and maintenance expenses increased 19.4% from the previous year. Debt service interest and fees increased 15.8% due to higher interest rates on the variable rate notes in 2004/2005. This interest increase was offset by the capitalization of construction interest for the wastewater treatment plant project. The variable rate notes were refinanced by a revenue bond in May 2005. The higher rate construction note was also refinanced in June 2005 by fixed rate permanent financing available through the Oklahoma Water Resources Board.

Transfers Out: The Authority transferred \$1.56 million more to other funds in the current year or an increase of 16.8%. While transfers to the primary government decreased by \$0.2 million, the 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.

USING THIS ANNUAL REPORT

The Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities include all assets and liabilities of the Authority using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenditures are taken into account regardless of when the cash is received or paid. These statements provide information about whether the entity is better off or worse off as a result of the year's activities.

Net assets are the difference between the Authority's assets and liabilities. Over time, increases or decreases in the Authority's net assets provide one indicator of the financial health of the Authority.

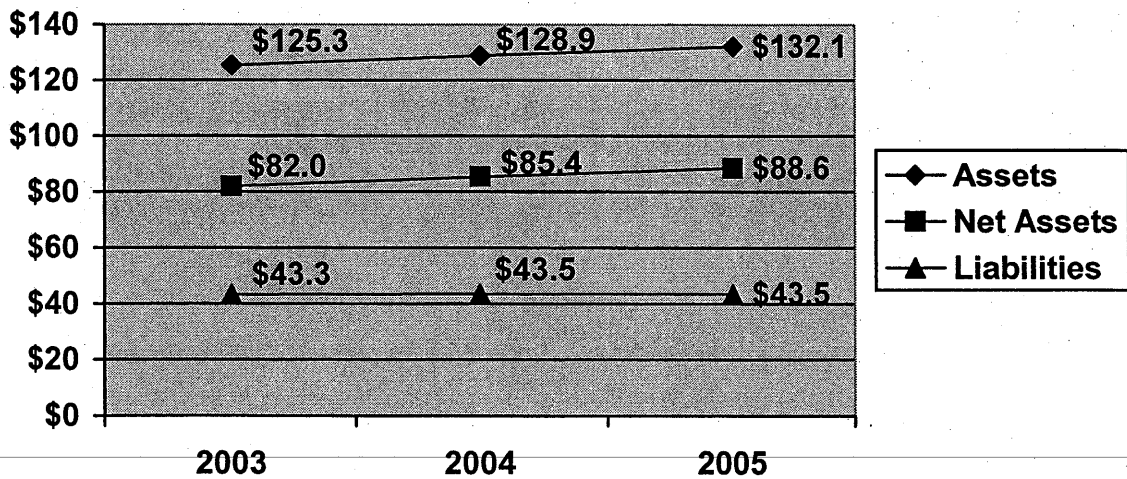
FINANCIAL ANALYSIS

Net Assets

The Authority's net assets increased by \$3.2 million or 3.7%. A comparative overview of the major components of the Statement of Net Assets is shown below.

	Net Assets (in million \$)			Percentage Change 2004 to 2005
	<u>June 30, 2003</u>	<u>June 30, 2004</u>	<u>June 30, 2005</u>	
Current and other assets	\$ 30.7	\$ 27.2	\$ 29.4	8.1%
Capital assets	94.6	101.7	102.7	1.0%
Total assets	125.3	128.9	132.1	2.5%
Total current liabilities	7.9	7.8	8.6	10.3%
Total noncurrent liabilities	35.4	35.7	34.9	-2.2%
Total liabilities	43.3	43.5	43.5	0.0%
Net assets -				
Invested in capital assets, net of related debt	54.8	58.5	60.2	2.9%
Restricted for debt service	2.3	2.3	1.4	-39.1%
Unrestricted	24.9	24.6	27.0	9.8%
Total net assets	\$ 82.0	\$ 85.4	\$ 88.6	3.7%

Assets, Liabilities, and Net Assets at June 30 (in million \$)



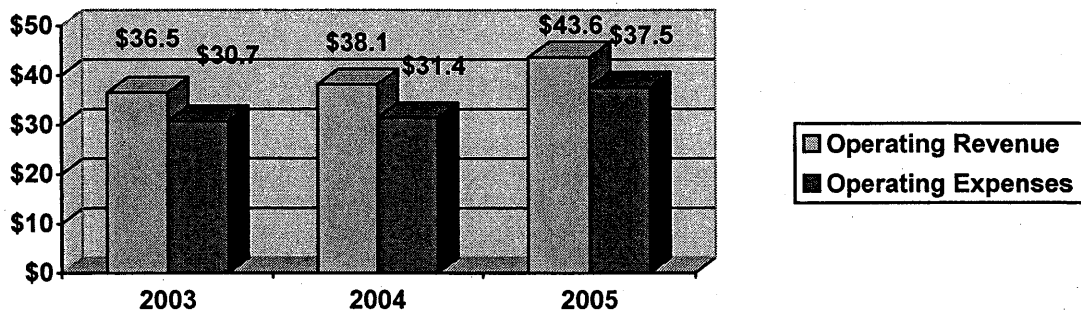
Changes in Net Assets

A comparative overview of the major components of the Statement of Revenues, Expenses, and Change in Net Assets is shown below.

Changes in Net Assets (in million \$)

	<u>June 30, 2003</u>	<u>June 30, 2004</u>	<u>June 30, 2005</u>	<u>Percentage Change 2004 to 2005</u>
Operating revenue	\$ 36.5	\$ 38.1	\$ 43.5	14.2%
Operating expenses	30.7	31.4	37.4	19.1%
Operating income	5.8	6.7	6.1	-9.0%
Non-operating revenues (expenses)	(0.2)	(0.1)	0.4	
Net income before contributions and transfers	5.6	6.6	6.5	-1.5%
Capital contributions	5.4	6.1	0.2	-96.7%
Transfers in			7.3	
Transfers out	(13.2)	(9.3)	(10.8)	16.1%
Increase (decrease) in net assets	\$ (2.2)	\$ 3.4	\$ 3.2	-5.9%

Operating Revenues and Expenses Comparison (in million \$)



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets, Net of Depreciation – (in Million \$)

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Land	\$ 0.4	\$ 0.4	\$ 0.6
Water plant	34.4	34.0	32.6
Electric plant	29.1	28.8	29.3
Wastewater plant	9.2	9.2	30.1
Construction work in progress	18.6	24.8	4.5
General plant	0.2	0.1	0.3
Totals	\$ 91.9	\$ 97.3	\$ 97.4

This year's major changes included the completion of the \$20.1 million upgrade to the wastewater treatment plant.