

STILLWATER UTILITIES AUTHORITY FINANCIAL STATEMENTS

AS OF JUNE 30, 2004

TOGETHER WITH REPORT OF INDEPENDENT AUDITORS

Prepared by:
Department of Finance

Marcy Alexander
Director of Finance

INDEPENDENT AUDITOR'S REPORT

To The Board of Trustees
Stillwater Utilities Authority
Stillwater, Oklahoma

We have audited the accompanying statement of net assets of the Stillwater Utilities Authority (the "Authority"), a component unit of the City of Stillwater, Oklahoma, as of June 30, 2004, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended comprising the basic financial statements of the component unit. 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 basic 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 the Stillwater Utilities Authority, as of June 30, 2004, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Stillwater Utility Authority's basic financial statements. The accompanying supplemental schedules related to revenue bond coverage are presented for purposes of additional analysis and are 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, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

October 13, 2004

Crawford & Associates, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Stillwater Utilities Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2004.

FINANCIAL HIGHLIGHTS

Net Assets: The Authority's net assets increased by \$3.4 million or 4.1%. A slight increase in sales tax and an electric rate increase enabled the Authority to fund some system upgrades and expansion projects that had been deferred in the previous year.

Unrestricted Net Assets: Unrestricted net assets of the Authority decreased by \$0.3 million or 1.2%

Revenues: The Authority's operating revenues increased by \$1.6 million or 4.4%. However, non-operating revenues decreased by 3.3%. Warmer summer temperatures and a 2% rate increase in the electric utility resulted in increased revenues for water and electricity during fiscal year 2003/2004 while investment interest rate decreases led to the non-operating revenue decreases.

Expenses: The Authority's operating and maintenance expenses increased 2.3% from the previous year. Debt service interest and fees decreased 9% due to having a full year of the lower rates resulting from the 2002/2003 refunding of higher interest rate revenue bonds to new lower rate bonds and the conversion of a higher interest rate construction loan to lower rate permanent financing. In addition, the interest rates on the variable rate notes were lower in 2003/2004.

Transfers Out: The Authority transferred \$3.96 million less to other funds in the current year or a decrease of 29.5%. Sales tax received by the primary government increased by 6.3% in 2003/2004. This led to decreased transfers from the Authority to fund other government activities.

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.

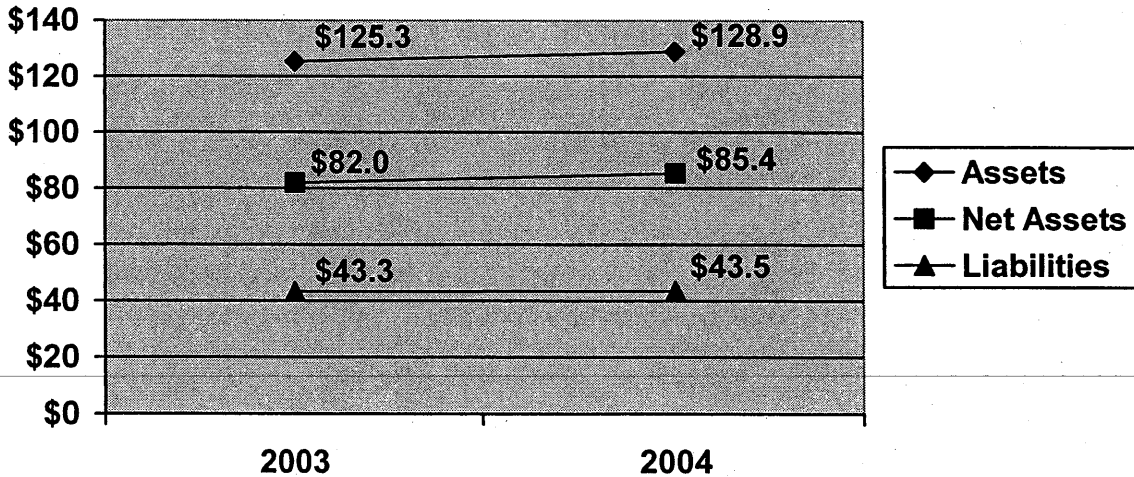
FINANCIAL ANALYSIS

Net Assets

The Authority's net assets increased by \$3.5 million or 4.2%. A comparative overview of the major components of the Statement of Net Assets is shown below.

Net Assets (in million \$)		Percentage Change 2003 to 2004	
	June 30, 2003	June 30, 2004	
Total current assets	\$ 30.7	\$ 27.2	-11.4%
Total noncurrent assets	94.6	101.7	7.5%
Total assets	125.3	128.9	2.9%
Total current liabilities	7.9	7.8	-1.3%
Total noncurrent liabilities	35.4	35.7	0.8%
Total liabilities	43.3	43.5	0.5%
Net assets -			
Invested in capital assets, net of related debt	54.8	58.5	6.8%
Restricted for debt service	2.3	2.3	0.0%
Unrestricted	24.9	24.6	-1.2%
Total net assets	\$ 82.0	\$ 85.4	4.1%

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



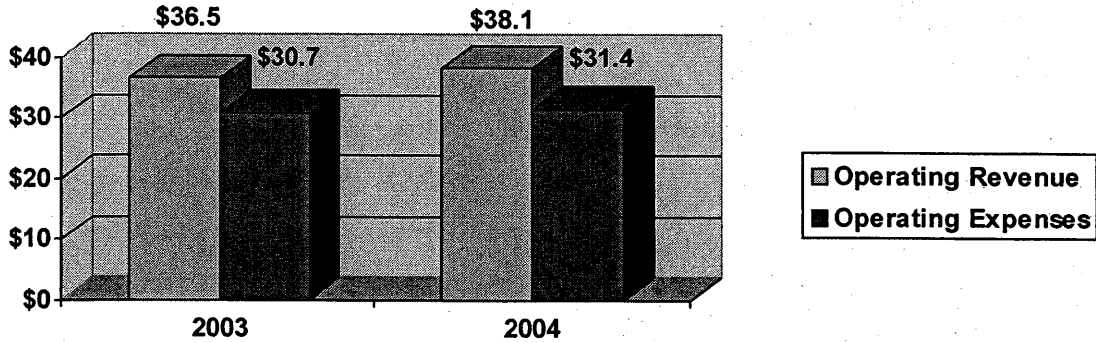
Changes in Net Assets

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>Percentage Change 2003 to 2004</u>
Operating revenue	\$ 36.5	\$ 38.1	4.4%
Operating expenses	30.7	31.4	2.3%
Operating income	<u>5.8</u>	<u>6.7</u>	15.5%
Non-operating income (expense)	<u>(0.2)</u>	<u>(0.1)</u>	-50.0%
Net income before contributions and transfers	5.6	6.6	17.9%
Capital Contributions	5.4	6.1	13.0%
Transfers out	<u>(13.2)</u>	<u>(9.3)</u>	-29.5%
Increase (decrease) in net assets	<u>\$ (2.2)</u>	<u>\$ 3.4</u>	

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>
Land	\$ 0.4	\$ 0.4
Water Plant	34.4	34.0
Electric Plant	29.1	28.8
Wastewater Plant	9.2	9.2
Construction Work In Progress	18.6	24.8
General Plant	0.2	0.1
TOTALS	<u>\$ 91.9</u>	<u>\$ 97.3</u>

This year's major additions included \$4.1 million in wastewater construction work in progress for a major upgrade to the wastewater treatment plant.

Debt

At June 30, 2004, the Authority had \$39.1 million in bonds, notes, and long-term leases outstanding versus \$37.5 million last year – an increase of 4%

Outstanding Debt, at fiscal year end - (in million \$)

	<u>2003</u>		<u>2004</u>
Kaw General Obligation Bonds	\$ 1.5	\$	1.0
2002 Revenue Bonds	11.0		9.5
Construction Loan	2.6		6.7
2002A&B notes-Water Treatment Plant	8.6		8.3
2002C note - Wastewater Treatment Plant	12.7		12.3
Long-term Equipment leases	1.1		1.3
Totals	<u>\$ 37.5</u>	<u>\$</u>	<u>39.1</u>

New debt resulted from additions to the construction loan used for the wastewater treatment plant upgrade and from the addition of a long-term lease used to finance equipment purchases.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES AND RATES

The customer base has increased for the Stillwater Utilities Authority. The number of electric customers has increased 1.5% while the number of water customers has increased 2.8% since July, 2003. Housing starts and increased enrollment at Oklahoma State University would indicate the continuation of this trend into the fiscal year 2004/2005.

Budgeting for the Authority is done in conjunction with budgeting for the City of Stillwater as a whole. Rising health insurance costs and slow growth of sales tax collections during fiscal year 2003/2004 led to the need for rate increases for the 2004/2005 fiscal year in order to meet system maintenance needs as well as anticipated system growth.

Stillwater Utilities Authority Trustees approved a 3.72% electric rate increase effective July 1, 2004 as well as 2.5% rate increases for both water and wastewater utilities.

CONTACTING THE STILLWATER UTILITIES AUTHORITY MANAGEMENT

This financial report is designed to provide our citizens, customers, taxpayers, bondholders and creditors with a general overview of the Authority's finances and to show accountability for the money it receives. Financial information for the Authority is also presented in the Comprehensive Annual Financial Report (CAFR) of the primary government, the City of Stillwater, Oklahoma. If you have questions about this report or need additional financial information, contact the Finance Department for the City of Stillwater, 723 S. Lewis St., P.O. Box 1449, Stillwater, Oklahoma 74076.

Stillwater Utilities Authority
Statement of Net Assets
June 30, 2004

ASSETS

Current Assets:

Cash and cash equivalents	\$ 18,774,161
Restricted cash and cash equivalents	1,641,782
Accounts receivable, net	5,840,648
Equipment lease deposit	10
Inventories	914,164
Total current assets	<u>27,170,765</u>

Noncurrent assets:

Restricted cash and cash equivalents	4,138,344
Unamortized bond expense	310,692
Capital assets: non depreciable	
Land	398,295
Construction work in progress	24,798,860
Capital assets: depreciable	
Water plant	63,230,985
Electric plant	60,861,374
Sewer plant	18,882,679
General plant assets	527,026
Less-accumulated depreciation	<u>(71,427,745)</u>
Total noncurrent assets	<u>101,720,510</u>

Total assets \$128,891,275

LIABILITIES

Current liabilities:

Accounts payable	2,324,421
Accrued liabilities	114,727
Current portion of compensated absences	23,996
Due to other funds	374,161
Accrued interest payable	205,717
Current portion of customer deposits payable	502,600
Current portion of long-term obligations (net of \$79,074 unamortized loss on defeasance)	<u>4,242,871</u>
Total current liabilities	<u>7,788,493</u>

Noncurrent liabilities:

Noncurrent portion of compensated absences	374,134
Noncurrent portion of customer deposits payable	539,805
Noncurrent portion of long-term obligations (net of \$350,094 unamortized loss on defeasance)	<u>34,777,548</u>
Total noncurrent liabilities	<u>35,691,487</u>
Total liabilities	<u>43,479,980</u>

NET ASSETS

Invested in capital assets, net of related debt	58,561,747
Restricted for debt service	2,275,899
Unrestricted	24,573,649
Total net assets	<u>\$ 85,411,295</u>

Stillwater Utilities Authority
Statement of Revenues, Expenses, and Change in Net Assets
For the Year Ended June 30, 2004

Operating Revenues: - pledged as security for revenue bonds	
Charges for services, net of bad debt expense	\$ 37,809,437
Other	308,010
	<hr/>
Total operating revenues	38,117,447
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Operating Expenses:	
Operations and maintenance	27,292,142
Depreciation	4,092,846
	<hr/>
Total operating expenses	31,384,988
	<hr/>
Operating income (loss)	6,732,459
	<hr/>
Non-Operating Revenues (Expenses):	
Investment income	158,939
Miscellaneous	743,816
Interest expense and fiscal charges	(940,073)
Amortization expense	(40,945)
Total non-operating revenues (expenses)	(78,263)
	<hr/>
Net income (loss) before contributions and transfers	6,654,196
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Capital contributions	6,084,853
Transfers out	(9,289,595)
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Change in net assets	3,449,454
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Net Assets, Beginning	81,961,841
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Net Assets, Ending	\$ 85,411,295
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Stillwater Utilities Authority
Statement of Cash Flows
For the Year Ended June 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 37,200,841
Payments to suppliers	(20,617,729)
Payments to employees	(6,643,748)
Internal activity-payments to other funds	(944,815)
Other receipts (payments)	308,010
Net cash provided by operating activities	<u>9,302,559</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating subsidies and transfers to other funds	<u>(9,714,832)</u>
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from capital debt	4,118,281
Capital contributions	5,704,390
Purchases of capital assets	(8,583,978)
Principal paid on capital debt	(3,143,819)
Interest paid on capital debt	(1,070,937)
Other receipts (payments)	1,437,463
Net cash (used) by capital and related financing activities	<u>(1,538,601)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	-
Interest	158,939
Net cash provided by investing activities	<u>158,939</u>

Net increase in cash and cash equivalents (1,791,935)

Balance - beginning of the year 26,346,222

Balance - end of the year \$ 24,554,287

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

Operating income (loss)	\$ 6,732,459
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	4,092,846
Change in assets and liabilities:	
Receivables, net	(608,211)
Inventories	43,975
Accounts and other payables	(902,681)
Accrued expenses	(55,830)
Net cash provided by operating activities	<u>\$ 9,302,559</u>

NON-CASH ACTIVITIES:

Non-cash change in capital assets due to capital lease	<u>\$ 400,880</u>
Non-cash change in capital assets due to donation	<u>\$ 380,463</u>

STILLWATER UTILITIES AUTHORITY
NOTES TO FINANCAL STATEMENTS
JUNE 30, 2004

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Stillwater Utilities Authority (the "Authority") is a public trust operating under a Trust Indenture dated April 1, 1979, which was created by an ordinance of the City of Stillwater, Oklahoma (the "City"). The City is the beneficiary of the trust. The Authority was created to operate and maintain a utilities system that provides electric, water and wastewater services to the City. Operations of the Authority commenced July 1, 1979. The City's five commissioners who serve as trustees govern the Authority. The Authority is a component unit of the City's reporting entity and is reported as an enterprise fund in the City's Comprehensive Annual Financial Report.

The Trust Indenture that established the Authority provides for transfers of surplus funds to the City at the sole discretion of the trustees. Surplus revenues generated by the transferred sales tax (see Note 7A) may be used only for purchasing or redeeming bonds or other indebtedness of the City or the Authority prior to maturity, or any other lawful purpose of the Authority; however, proceeds from the transferred sales tax cannot be returned to the City's General Fund.

The Trust Indenture limits the amount of bonds or notes that the Authority may issue in any fiscal year to 10% of its gross revenues (as defined) recorded in the preceding year. The 10% limitation can be exceeded only upon approval by a majority of the City's qualified voters, voting on such question. However, no election is required for the issuance of:

- a. Indebtedness incurred to refund all or part of the Authority's outstanding indebtedness.
- b. Project completion bonds or notes authorized to be issued pursuant to the provisions of any indenture or other instrument securing the initial indebtedness to fund such project.
- c. Indebtedness incurred which is necessary to ensure the timely payment of outstanding Authority indebtedness and to operate in accordance with good utility practice as may be required by any indenture or other instrument securing any indebtedness of the Authority.

Proprietary Accounting Methodology

The Authority has implemented GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting". The Authority 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.

Accounts Receivable

Substantially all accounts receivable relate to electric, water, and wastewater services provided to residents, businesses and industries located in the Stillwater area. Unbilled, but earned, revenues are accrued as accounts receivable and recognized as revenue at year end.

Inventories

Inventories of materials and supplies are valued at lower of average cost or market.

Utility Plant

The cost of utility plant includes direct material, labor and indirect costs such as engineering fees. Assets are recorded at historical cost except for donated assets that are recorded at fair market value at the time of donation. Assets transferred to the Authority at its inception in 1979 were recorded at estimated historical cost of \$12,999,188. The cost of routine maintenance and repairs to property is expensed. For depreciation purposes, the Authority uses the composite method for certain types of assets, principally meters, wire, poles and electrical transformers. All other fixed assets are depreciated over their estimated useful lives (ranging from 3 to 50 years) using the straight-line method. Gains and losses are included in operations in the period the asset is retired or removed from service.

Capitalized Interest

The Authority capitalizes net interest costs during the construction period on funds borrowed to finance the construction of significant property, plant and equipment projects. No interest has been capitalized on construction in progress for 2004.

Unamortized Bond Discount and Expense

Bond discount and expense are amortized using the straight-line method over the periods of the applicable issues. Bond discount amortized is reported as a component of interest expense, while amortized bond expense is reported as separate nonoperating expense.

Unamortized Loss Due to Bond Refunding

A non-cash gain or loss resulting from the refunding of bonds is amortized using the straight-line method over the original life of the defeased issues. Loss on defeasance is reported as a component of interest expense.

Operating and Non Operating Revenues

Operating revenues for the Authority are those that result from providing services and producing and delivering goods and services.

Non operating revenues are those related to capital and related financing, noncapital financing and investing activities.

Transfers

Permanent transfers of funds that are between the Authority and the City, or between the Authority and other Authorities of the City are recorded as transfers.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and highly liquid investments and time deposits with original maturities of ninety days or less.

Investments

Investments with an original maturity of one year or less are recorded at cost. Long term investments are recorded at fair value in accordance with GASB Statement 31.

Restricted Assets

Proceeds from debt and related sinking fund accounts are classified as restricted assets, since their use is restricted by applicable bond indentures. Customer utilities deposits held by the Authority are also classified as restricted assets.

Monies set aside by the Board of Trustees in anticipation of future potential operating cost increases and/or future substantial capital expenditure requirements (rate stabilization assets) are classified as restricted assets.

Compensated Absences

Full-time employees of the Authority accumulate vacation and sick leave benefits each pay period at various rates depending upon tenure with the Authority. Employees may accumulate and carry over to subsequent years up to 25 days of vacation. Upon termination, employees are paid for unused vacation. Employees may accrue up to a maximum of 1,000 hours of sick leave. An employee with five or more years of service who retires or resigns receives 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 years service receive a percentage payment of their unused sick leave ranging from 12.5% to 30%.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

Equity Classifications

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

- Invested in capital assets, net of related debt – This component consists of capital assets including restricted assets, net of accumulated depreciation and reduced by the outstanding balance of bonds, notes, or long-term leases or other

borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- Restricted net assets – This component consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through resolution or other enabling legislation.
- Unrestricted net assets – This component consists of all other net assets that do not meet the definitions of either “invested in capital assets, net of related debt” or “restricted”.

(2) CASH AND INVESTMENTS

It is the Authority's policy to use state statutes (as they relate to municipal deposits and investments) as the Authority's deposit and investment guide. Therefore, the Authority collateralizes 100% of all deposit amounts, including interest, not covered by federal deposit insurance. Obligations that may be pledged as collateral include U.S. government issues, U.S. government insured securities, State of Oklahoma bonds, and bonds of any Oklahoma county or school district. The Authority prefers and requests U.S. government securities as collateral.

DEPOSITS:

The Authority's deposits are categorized to give an indication of the level of custody credit risk assumed by the Authority at June 30, 2004

The categories are defined as follows:

Category 1 - Insured or collateralized with securities held by the Authority or by its agent in the Authority's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name.

Category 3 - Uncollateralized.

	Cash 2004	Cash with trustee 2004	Certificates of deposit 2004	Totals 2004
Category 1	\$22,192,487	-	\$ -	\$ 22,192,487
Category 2	-	-	-	-
Category 3	-	\$ -	-	\$ -
Total bank balance	<u>\$22,192,487</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,192,487</u>
Carrying amount	22,278,388	-	-	<u>\$ 22,278,388</u>

INVESTMENTS:

The 2002 revenue bond and the 2002A, 2002B, and 2002C promissory note escrow accounts totaling \$2,275,899 at June 30, 2004, consist of highly liquid money market mutual funds that invest in U.S. Treasuries of varying maturities.

The Authority's investments are categorized to give an indication of the level of custody credit risk assumed by the Authority at June 30, 2004:

The categories are defined as follows:

Category 1 - Insured or registered, or securities held by the Authority or its agent in the Authority's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Authority's name.

Category 3 - Uninsured and unregistered, with securities held in the counterparty's safekeeping account at a Federal Reserve Bank.

The Authority's investment in a money market mutual fund has not been classified as to custody credit risk because ownership of this investment is not evidenced by a security.

	U.S. government securities <u>2004</u>	Money market mutual fund <u>2004</u>	Total <u>2004</u>
Category 1	-		\$ -
Category 2	-		
Category 3	\$ -		-
	<u>\$ -</u>		<u>-</u>
	\$ -		\$ -
Market Value	-	2,275,899	<u>2,275,899</u>
Carrying Amount	-	2,275,899	<u>2,275,899</u>

A reconciliation of the deposits and investments shown in this footnote to amounts shown on the balance sheet are as follows:

Carrying amount:	<u>2004</u>
Deposits	\$ 22,278,388
Investments	2,275,899
	<u>\$ 24,554,287</u>
Balance sheet amounts:	
Cash and cash equivalents:	
Unrestricted	\$ 18,774,161
Restricted	5,780,126
Investments:	
Unrestricted	-
Restricted	-
	<u>\$ 24,554,287</u>

(3) LONG-TERM DEBT

At June 30, 2004 the Authority's outstanding debt consisted of the following:

Notes Payable:

2001 OWRB SRF Note Payable dated September 28, 2001, original amount of \$12,170,000 with an annual interest rate of 4.25% plus administrative fee of 0.5%, semiannual payments of interest

commencing March 15, 2002; semiannual payments of principal of \$304,250 commencing September 15, 2004; final installment March 15, 2006. Total draw-downs through June 30, 2004 \$11,326,583. Amount converted to permanent financing on December 19, 2002 \$7,314,125.	\$4,012,458
2001 OWRB Bonded Note Payable dated September 28, 2001, original amount of \$8,110,000 with an annual interest rate of 4.25% plus administrative fee of 0.5%, semiannual payments of interest commencing March 15, 2002, semiannual payments of principal of \$202,750 commencing September 15, 2004; final installment March 15, 2006. Total draw-downs through June 30, 2004 \$7,551,065. Amount converted to permanent financing on December 19, 2002 \$4,876,086.	2,674,979
2002 OWRB Bonded Note Payable dated February 28, 2002, original amount of \$2,500,000 with a variable interest rate set every February and August by the OWRB; originally 3.122%, 1.82% at June 30, 2004; 2.15% as of October 1, 2004; semiannual installments of principal and interest commencing August 15, 2002 through August 15, 2021.	2,382,600
2002 OWRB Bonded Note Payable dated February 28, 2002, original amount of \$3,140,000 with a variable interest rate set every March and September by the OWRB; originally 3.202%, 1.78% at June 30, 2004; 2.38% as of October 1, 2004; semiannual installments of principal and interest commencing September 15, 2002 through September 15, 2021.	2,948,600
2002 OWRB SRF Note Payable dated February 28, 2002, original amount of \$3,413,483 with no interest plus an administrative fee of 0.5%, semiannual installments of principal commencing March 15, 2002 through September, 2021.	2,986,798
2002 OWRB Bonded Note Payable dated December 19, 2002, original amount of \$8,045,000 with a variable interest rate set every March and September by the OWRB; originally 2.122%, 1.78% at June 30, 2004; 2.38% as of October 1, 2004; semiannual installments of principal and interest commencing March 15, 2003 through September 15, 2022.	7,744,200
2002 OWRB SRF Note Payable dated December 19, 2002, original amount of \$4,876,086 with no interest plus an administrative fee of 0.5%, semiannual installments of principal commencing March 15, 2003 through September 15, 2022.	<u>4,510,380</u>
 Total Notes Payable	 <u>\$27,260,015</u>
 Current portion	 \$1,847,978
Non-current portion	25,412,037
Total Notes Payable	<u>\$27,260,015</u>

Revenue Bonds:

2002 Refunding Series bonds dated September 16, 2002, original issue amount of \$11,825,000, secured by utility revenues, interest rates from 2.1% to 3.2%, semiannual interest installments commencing December 1, 2002 through December 1, 2009, annual principal installments commencing December 1, 2002 through December 1, 2009.	\$9,900,000
Less: Unamortized discount	(888)
Unamortized loss on defeasance	(429,168)
Net Revenue Bonds Payable	<u>\$9,469,944</u>
Current portion	\$ 1,535,764
Non-current portion	<u>7,934,180</u>
Total Revenue Bonds Payable	<u>\$9,469,944</u>

Capital Lease Obligations:

\$622,000 capital lease with Banc of America for equipment, fixed interest rate of 4.16%, semiannual installments commencing June 15, 2002 through December 15, 2006.	\$326,992
\$711,000 capital lease with Banc of America for equipment, fixed interest rate of 3.244%, semiannual installments commencing April 4, 2003 through October 4, 2007.	552,580
\$400,880 capital lease with Banc of America for equipment, fixed interest rate of 2.804%, semiannual installments commencing September 8, 2004 through March 8, 2009.	<u>400,880</u>
Total Capital Leases	<u>\$1,280,452</u>
Current portion	\$ 354,129
Non-current portion	<u>926,323</u>
Total Capital Leases	<u>\$1,280,452</u>

General obligation bonds commitment:

1993 Refunding Series general obligation bonds, dated April 1, 1993, original issue amount \$5,980,000, secured by utility revenue and sales tax transfer, interest rates from 3.5% to 9.95%, semiannual interest installments commencing August 1, 1994 through August 1, 2005; annual principal installments commencing August 1, 1994 through August 1, 2005.	<u>\$1,010,000</u>
Current portion	\$ 505,000
Non-current portion	<u>505,000</u>
Total General Obligation Bonds commitment	<u>\$1,010,000</u>

Accrued Compensated Absences:	
Current portion	\$ 23,996
Non-current portion	374,134
Total Accrued Compensated Absences	<u>\$ 398,130</u>

Deposits Subject to Refund:	
Current portion	\$ 502,600
Non-current portion	539,805
Total Deposits Subject to Refund	<u>\$1,042,405</u>

Changes in Long-Term Debt

The following is a summary of changes in the Authority's long-term debt for the year ended June 30, 2004:

Type of Debt	Balance at July 1, 2003	Additions	Deductions	Balance at June 30, 2004	Amounts Due Within One Year
Notes Payable	\$ 23,952,102	\$ 4,118,291	\$ 810,378	\$ 27,260,015	\$ 1,847,978
General Bond obligations	1,485,000	-	475,000	1,010,000	505,000
Revenue Bonds Payable	10,980,708	-	1,510,764	9,469,944	1,535,764
Capital Lease Payable	1,148,012	400,880	268,440	1,280,452	354,129
Accrued Compensated Absences	374,133	47,993	23,996	398,130	23,996
Deposits Subject to Refund	1,042,790	502,215	502,600	1,042,405	502,600
Total	<u>\$38,982,745</u>	<u>\$ 5,069,379</u>	<u>\$ 3,591,178</u>	<u>\$ 40,460,946</u>	<u>\$ 4,769,467</u>

A covenant in the Revenue Bond Indenture securing the revenue bonds provides that the Authority maintain, charge and collect a schedule of rates, fees and charges sufficient to pay all of the costs and debt service of the Authority from revenues available under such Indenture. The Authority has determined that these costs include the debt service on all outstanding general obligation bonds of the City issued to finance the costs of water, sewer and electric facilities. Based upon that covenant, the Authority has accepted the obligation to pay the principal and interest payments of such city general obligation bonds. However, the bonds also remain secured by the City's ability to levy property tax for such debt retirement.

On April 1, 1993, the City issued \$5,980,000 in General Obligation bonds to establish an escrow account to redeem \$6,000,000 of outstanding 1980 Series bonds on August 1, 1993. These 1993 bonds are accounted for as Authority indebtedness as discussed above. The net proceeds of \$5,940,500 (after payment of \$39,500 in issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent and provided for the complete redemption of the 1980 Series bonds at August 1, 1993.

On September 16, 2002, the Authority issued \$11,825,000 of Refunding Series 2002 bonds to advance refund \$13,525,000 of outstanding 1992 Series bonds. The

net proceeds of the 2002 bonds were used to set up an escrow account which, along with proceeds from the 1992 bond reserve account, was used to refund the outstanding 1992 bonds. As a result, the 1992 Series bonds are considered defeased and thus are no longer reported as a liability of the Authority and the related escrowed investments are not reported as Authority assets. This refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$570,419. This difference, shown on the *Statement of Net Assets* as "Unamortized loss on defeasance, is being charged to operations through the fiscal year 2008/2009 using the straight-line method. This refunding resulted in a reduction in debt service payments of \$905,762 (including reserve account interest) and an economic gain (the difference between the present value of the old and new debt service payments) of \$853,093. The defeased bonds were completely redeemed December 1, 2002.

On February 8, 2002 the Authority issued promissory notes payable to the Oklahoma Water Resources Board for the purpose of refinancing an Interim Construction Loan Agreement. The construction loan that was refinanced was in the amount of \$8,533,708 and was used to finance the costs of certain improvements to the Authority's water system. Additional debt issuance costs in the amount of \$51,299.72 and a reserve fund in the amount of \$468,475.48 were also financed with these notes.

Of the total \$9,053,483.20 financed, \$3,413,483.20 was financed using a loan utilizing Oklahoma Water Resources Board State Revolving Fund (SRF) monies. This loan is a no-interest loan with a 0.50% administrative fee.

\$2,500,000 was financed using Oklahoma Water Resources Board Financial Assistance Program monies arising from a 1999 OWRB bond issue. This promissory note (2002A) carries a variable rate set each March and September by the Oklahoma Water Resources Board.

\$3,140,000 was financed using Oklahoma Water Resources Board Financial Assistance Program monies arising from a 2001 OWRB bond issue. This promissory note (2002B) carries a variable rate set each April and October by the Oklahoma Water Resources Board.

On September 28, 2001 the Authority entered into an Interim Construction Loan Agreement with the Oklahoma Water Resources Board. The proceeds of the Construction Loan are being used to finance the costs of certain improvements to the Authority's wastewater system. The loan is for an amount not to exceed \$20,280,000 and is secured on a subordinate basis on the revenues of the Authority's water, sewer, and electric systems. As of June 30, 2004, the Authority had requested and received proceeds in the amount of \$18,877,648.

On December 19, 2002, the Authority issued promissory notes payable to the Oklahoma Water Resources Board for the purpose of refinancing an Interim Construction Loan Agreement. The construction loan that was refinanced was in the amount of \$12,190,211 and was used to finance the costs of certain improvements to the Authority's wastewater system. Additional debt issuance costs in the amount of \$62,633.33 and a reserve fund in the amount of \$668,242.07 were also financed with these notes.

Of the total \$12,921,086.11 financed, \$4,876,086.11 was financed using a loan utilizing Oklahoma Water Resources Board State Revolving Fund (SRF) monies. This loan is a no-interest loan with a 0.50% administrative fee.

\$8,045,000 was financed using Oklahoma Water Resources Board Financial Assistance Program monies arising from a 2001 OWRB bond issue. This promissory note

(2002C) carries a variable rate set each April and October by the Oklahoma Water Resources Board.

On December 14, 2001, the Authority entered into a \$622,000 long-term leasing agreement with the Banc of America for the purpose of financing certain costs of large pieces of equipment with useful lives of over 5 years.

On October 4, 2002, the Authority entered into a \$771,000 long-term leasing agreement with the Banc of America for the purpose of financing certain costs of large pieces of equipment with useful lives of over 5 years.

On March 8, 2004, the Authority entered into a \$400,880 long-term leasing agreement with the Banc of America for the purpose of financing certain costs of large pieces of equipment with useful lives of over 5 years.

The debt service maturities for the Authority's long-term indebtedness for the years 2005 through 2009 and thereafter is as follows:

Years ending June 30,	Revenue Bonds		General Obligation Bonds	
	Principal	Interest	Principal	Interest
2005	\$ 1,615,000	\$ 238,128	\$ 505,000	\$ 34,593
2006	1,645,000	203,090	505,000	11,615
2007	1,875,000	163,318	-	-
2008	1,930,000	114,280	-	-
2009	1,985,000	57,471	-	-
2010-2014	850,000	13,600	-	-
2015-2019	-	-	-	-
2020-2023	-	-	-	-
Total	\$ 9,900,000	\$ 789,886	\$ 1,010,000	\$ 46,208

Years ending June 30,	Notes Payable		Capital Leases	
	Principal	Interest	Principal	Interest
2005	\$ 1,847,978	\$ 638,138	\$ 354,129	\$ 39,717
2006	7,934,868	652,758	366,554	27,292
2007	885,778	316,029	309,891	14,420
2008	914,078	302,810	165,177	5,454
2009	944,078	288,753	84,702	1,785
2010-2014	5,239,592	1,207,868	-	-
2015-2019	6,323,392	731,521	-	-
2020-2023	4,572,601	156,273	-	-
Total	\$ 28,662,367	\$ 4,294,151	\$ 1,280,452	\$ 88,670

(4) RESTRICTED ASSETS

Certain assets of the Authority are restricted in their use by bond and note indentures. Cash and cash equivalents in the amount of \$2,275,899 at June 30, 2004 has been restricted in use to the service of debt.

Certain cash and cash equivalents of the Authority are restricted by agreement for the purpose of acquiring necessary easements related to water line upgrades for an area of service purchased from a rural water district. As of June 30, 2004 cash and cash equivalents of \$54,756 was restricted for this purpose.

Customer deposits received for water or electric service are restricted in their use toward the customer's final bill. Cash and cash equivalents in the amount of \$1,042,405 at June 30, 2004 has been restricted for customer deposits.

In anticipation of future potential operating cost increases and/or future substantial capital expenditure requirements, the Authority deemed it prudent to reserve a portion of its assets. As of June 30, 2004 cash and cash equivalents of \$2,407,066 was restricted for these purposes.

(5) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance at July 1, 2003	Additions	Deletions	Balance at June 30, 2004
Capital assets not being depreciated:				
Land	\$ 398,295			\$ 398,295
Construction work in progress	18,570,392	\$ 7,434,997	\$ 1,206,529	24,798,860
Total capital assets not being depreciated	18,968,687	7,434,997	1,206,529	25,197,155
Other capital assets:				
Buildings	2,070,227	-	-	2,070,227
Improvements other than buildings	126,222,118	2,099,043	-	128,321,161
Machinery and equipment	12,072,864	1,100,980	63,168	13,110,676
Total other capital assets at historical cost	140,365,209	3,200,023	63,168	143,502,064
Less accumulated depreciation for:				
Buildings	818,353	118,616	-	936,969
Improvements other than buildings	57,850,512	3,310,406	-	61,160,918
Machinery and equipment	8,678,988	714,038	63,168	9,329,858
Total accumulated depreciation	67,347,853	4,143,060	63,168	71,427,745
Other capital assets, net	73,017,356	(943,037)	-	72,074,319
Total capital assets	\$ 91,986,043	\$ 6,491,960	\$ 1,206,529	\$ 97,271,474

(6) PENSION PLAN

All full time City employees are provided pension benefits through a defined contribution plan. The employee begins participation at the date of employment. Employees contribute a minimum of 3% of their salary with an optional maximum of up to 14% of their salary. The City Commission determines the City's contribution each year. The City's contributions for each employee begin vesting after 5 years and are fully vested after 10 years. If an employee terminates before becoming fully vested, the part of the employer's contributions that are forfeited may be used to reduce the City's current-period contributions requirement. The Authority reimburses the City for all related costs of the pension plan.

The Authority's total payroll in fiscal year 2004 was \$5,392,305. Covered payroll (for employees covered under the plan) was \$5,257,175. The employees' contribution amounted to \$329,613 or 6.27% of covered payroll in fiscal year 2004. The City made contributions of \$315,575 in 2004, which was 6.00% of the fiscal year covered payroll resulting in total contributions of \$645,188 for the fiscal year ending June 30, 2004.

(7) RELATED PARTY TRANSACTIONS

The Authority provides utility services to the City without charge, and the Authority is not assessed property taxes.

The Authority leases the electric, water and sewer systems from the City under a 50-year lease agreement, with an option to renew the lease for an additional period. The annual lease rental is a nominal amount. The leased utility plant is included in the Authority's financial statements, as it is the City's intent under the lease agreement for the Authority to operate the utilities indefinitely.

All personnel of the Authority are employees of the City. Payroll and related costs are reimbursed by the Authority to the City and are reflected as expenses of the Authority.

Administrative and general expenses incurred by the City benefiting the Authority in the amount of \$944,815 for the fiscal year ended June 30, 2004 have been proportionately allocated and reflected in the Authority's financial statements as expenses.

(7A) CONTRIBUTED ASSETS

For the year ended June 30, 2004 the Authority had the following asset contributions received from the City and outside parties:

City Debt Service Fund

The Authority recorded a capital contribution of levied ad valorem tax from the City's Debt Service Fund of \$532,193 in fiscal year 2004; an amount sufficient to pay the annual debt service on the 1993 General Obligation Bonds of the City for which the Authority has assumed the obligation for repayment.

City General Fund

One cent of the City's three-cent general-use sales tax is designated for the Authority. The sales tax transfer is received by the City monthly from the State of Oklahoma and is appropriated and transferred to the Authority. The Authority uses the sales tax transfer to meet the debt service requirements of the City's 1993 general obligation and the Authority's 2002 revenue bonds. The sales tax may also be used at the Authority's discretion to finance other capital projects of the Authority. For the year ended June 30, 2004 the sales tax related capital contribution to the Authority was \$5,172,197.

Outside Parties

For the fiscal year ended June 30, 2004, the Authority accepted and received water and sewer lines that were installed by developers. The value of the water and sewer lines accepted is \$380,463.

(7B) TRANSFERS OUT

City General Fund

The Authority annually transfers surplus funds in an amount determined by the Authority trustees to the City's General Fund as provided for in the Authority's Trust Indenture. For the year ended June 30, 2004, the transfer amount was \$8,900,000.

Stillwater Industrial Redevelopment Authority

During the fiscal year ended June 30, 2004 the Authority spent \$4,735 for the construction of utility assets in a technology-based industrial park. The utility assets were constructed on behalf of the Stillwater Industrial Redevelopment Authority, an Authority of the City of Stillwater.

Stillwater Public Golf Authority

During the fiscal year ended June 30, 2004 the Authority transferred \$384,860 to the Stillwater Public Golf Authority. This transfer arose as the result of payments made by Stillwater Utilities Authority for vendor and payroll claims made on behalf of the Stillwater Public Golf Authority, an Authority of the City of Stillwater.

(7C) DUE TO OTHER FUNDS

The Authority routinely makes payments to the City to cover payroll costs, vendor payments, health insurance costs, workers' compensation costs and other operating costs of the Authority. In addition, certain funds are collected routinely by the Authority on behalf of the City. When these activities occur before they are paid by the Authority, they are shown on the Authority *Statement of Net Assets* as "Due to Other Funds". Generally these charges are paid to the City within a month of their incurrence and are therefore considered to be short-term loans. At the end of the fiscal year ended June 30, 2004 the Authority owed \$374,161 for such items.

(8) OTHER COMMITMENTS AND CONTINGENCIES

The Authority is a guarantor of a long-term construction note of the Stillwater Public Golf Authority (SPGA) in the event of the SPGA's financial inability to make principal and/or interest payments. The Stillwater Utilities Authority was not required to make any such payments on this note during the fiscal years ending June 30, 2004. As of June 30, 2004 the principal balance on this note was \$1,993,369.

**STILLWATER UTILITIES AUTHORITY
SUPPLEMENTAL SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2004**

**REPORT OF INDEPENDENT AUDITORS ON
REVENUE BOND INDENTURE COMPLIANCE BASED ON AN AUDIT OF THE
FINANCIAL STATEMENTS**

To The Board of Trustees
Stillwater Utilities Authority
Stillwater, Oklahoma

We have audited the statement of net assets of the Stillwater Utilities Authority (the "Authority"), a component unit of the City of Stillwater, Oklahoma, as of June 30, 2004, and the related statements of revenue, expenses and changes in net assets, and cash flows for the year then ended, and have issued our report thereon dated October 13, 2004. That report contained explanatory paragraphs disclaiming an opinion on required supplementary information and disclosing a change in the application of accounting principles.

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.

Compliance with the terms of the covenants, provisions, or conditions of Sections 6.01 to 6.22, inclusive, of the \$11,825,000 Utility System and Sales Tax Revenue Bonds, Refunding Series 2002 Bond Indenture, dated September 1, 2002 with The Bank of New York, as successor Trustee, is the responsibility of the Stillwater Utilities Authority management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Authority's compliance with the above noted provisions of the revenue bond indenture. However, our objective was not to provide an opinion on overall compliance with such provisions. Therefore, we express no such opinion.

As a result of conducting the tests as indicated above, we noted no material instances of noncompliance with the provisions of the revenue bond indenture listed in the third paragraph.

This report is intended solely for the information and use of the Board of Trustees and management of the Stillwater Utilities Authority and The Bank of New York, and is not intended to be and should not be used by anyone other than these specified parties.

Crawford & Associates, P.C.

October 13, 2004

**SCHEDULE OF REVENUE BOND
COVERAGE REQUIREMENT COMPLIANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

COVERAGE REQUIREMENT:

Operating & Maintenance Expenses 27,292,142
(Excluding all Principal and Interest,
Depreciation, and Amortization)

125% of Revenue bond Principal & Interest 2,316,409
payments for the year

Amount paid into bond reserve fund - 0 -

100% of SUA's portion of City of Stillwater 539,593
General Obligation debt Principal and
Interest requirements

TOTAL COVERAGE REQUIREMENT 30,148,144

SUA AVAILABLE REVENUES:

Gross Revenues 39,020,202

Sales Tax Transfer 5,172,197

Ad Valorem Tax Transfer 532,193

TOTAL SUA AVAILABLE REVENUES 44,724,592

EXCESS REVENUES \$14,576,448

**STILLWATER UTILITIES AUTHORITY
SUPPLEMENTAL SCHEDULE OF SALES TAX
REVENUE AND NET REVENUE
FOR THE YEAR ENDED JUNE 30, 2004**

SALES TAX REVENUE (transferred from the City) *	\$	5,172,197
<hr/>		
NET REVENUE *		
Gross revenue:		
Sales	\$	37,809,437
Other operating revenue		308,010
Interest income, net of income earned on the Bond Fund Reserve, Project Fund and Sales Tax Fund		151,843
		<hr/>
		38,269,290
		<hr/>
Operating and maintenance expense:		
Purchased power		16,434,552
Other operating and maintenance		7,481,871
Administrative and general		3,169,387
Purchased fuel		140,592
Purchased water		65,741
		<hr/>
		27,292,142
		<hr/>
Total Net Revenue		\$10,977,148
		<hr/> <hr/>

* Sales Tax Revenue and Net Revenue are presented as defined in the bond indenture agreement dated September 1, 2002, between the trustees of the Stillwater Utilities Authority and the Bank of Oklahoma.