

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.

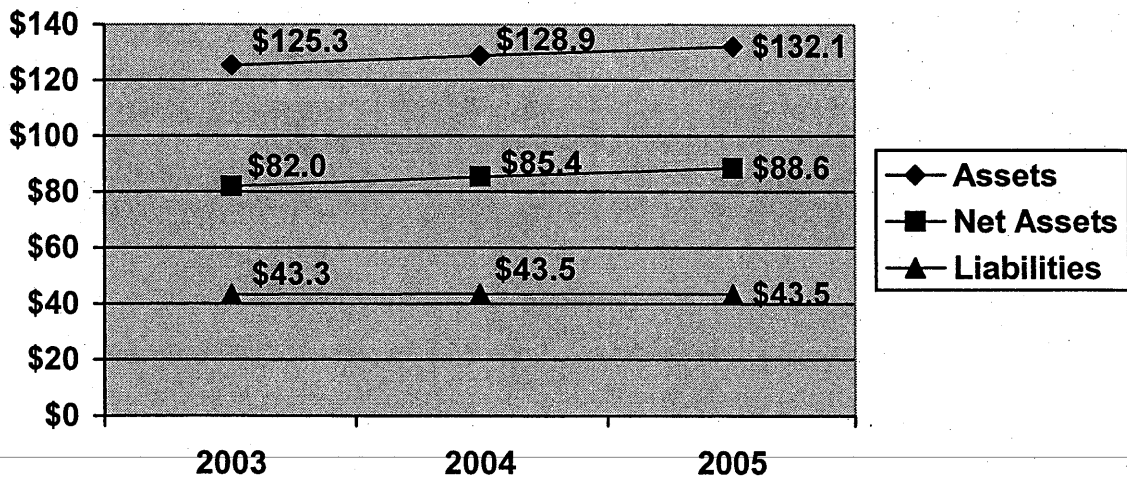
FINANCIAL ANALYSIS

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 \$)



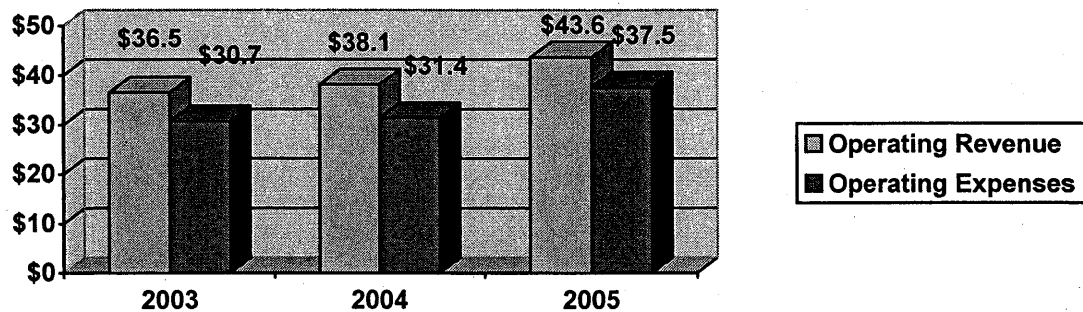
Changes in Net Assets

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 \$)

	June 30, 2003	June 30, 2004	June 30, 2005	Percentage Change 2004 to 2005
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 \$)

	2003	2004	2005
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.

Debt

At June 30, 2005, the Authority had \$37.7 million in bonds, notes, and long-term leases outstanding versus \$39.1 million last year, a decrease of 3.6%

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Kaw general obligation bonds	\$ 1.5	\$ 1.0	\$ 0.5
2002 revenue bonds	11.0	9.5	8.1
2005 revenue bonds	-	-	13.1
Construction loan	2.6	6.7	-
2002A&B notes-water treatment plant	8.6	8.3	2.8
2002C note - wastewater treatment plant	12.7	12.3	4.6
2005 OWRB fixed rate note	-	-	7.6
Long-term equipment leases	1.1	1.3	1.0
Totals	<u>\$ 37.5</u>	<u>\$ 39.1</u>	<u>\$ 37.7</u>

The variable rate portion of the 2002A, B, and C notes as well as a higher interest rate note of SPGA were refinanced using the proceeds of the 2005 Revenue Bonds. The Construction Loan was refinanced using OWRB fixed rate financing.

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 1.9% while the number of water customers has increased 2.6% since July 2004. Housing starts and increased enrollment at Oklahoma State University would indicate the continuation of this trend into the fiscal year 2005/2006

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. No rate increases were made in the 2005/2006 budget.

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
A component unit of the City of Stillwater, Oklahoma
Statement of Net Assets
June 30, 2005

ASSETS

Current assets:

Cash and cash equivalents	\$ 20,498,914
Restricted cash and cash equivalents	1,478,536
Accounts receivable, net of allowance for uncollectible accounts of \$166,539	6,597,503
Inventories	881,651
Total current assets	<u>29,456,604</u>

Noncurrent assets:

Restricted cash and cash equivalents	4,754,159
Unamortized bond expense	535,150
Capital assets: non depreciable	
Land	648,706
Construction work in progress	4,481,332
Capital assets: depreciable	
Water plant	63,446,081
Electric plant	63,844,538
Sewer plant	41,045,033
General plant assets	2,165,617
Less-accumulated depreciation	(78,257,684)
Total noncurrent assets	<u>102,662,932</u>
Total assets	<u>\$ 132,119,536</u>

LIABILITIES

Current liabilities:

Accounts payable	3,199,649
Accrued liabilities	182,776
Current portion of compensated absences	65,128
Due to other funds	688,846
Accrued interest payable	139,783
Current portion of customer deposits payable	494,105
Current portion of long-term obligations (net of \$94,904 unamortized loss on defeasance)	3,891,910
Total current liabilities	<u>8,662,197</u>

Noncurrent liabilities:

Noncurrent portion of compensated absences	429,651
Noncurrent portion of customer deposits payable	612,650
Noncurrent portion of long-term obligations (net of \$370,076 unamortized loss on defeasance)	33,827,283
Total noncurrent liabilities	<u>34,869,584</u>
Total liabilities	<u>43,531,781</u>

NET ASSETS

Invested in capital assets, net of related debt	60,189,580
Restricted for debt service	1,376,664
Unrestricted	27,021,511
Total net assets	<u>\$ 88,587,755</u>

See Notes to Financial Statements

Stillwater Utilities Authority
A component unit of the City of Stillwater, Oklahoma
Statement of Revenues, Expenses, and Change in Net Assets
For the Year Ended June 30, 2005

Operating Revenues: - pledged as security for revenue bonds	
Charges for services, net of bad debt expense	\$ 42,441,466
Other	1,154,345
Total operating revenues	<u>43,595,811</u>
Operating Expenses:	
Operations and maintenance	32,014,370
Depreciation	5,445,704
Total operating expenses	<u>37,460,074</u>
Operating income	<u>6,135,737</u>
Non-Operating Revenues (Expenses):	
Investment income	461,124
Miscellaneous	202,682
Interest expense and fiscal charges	(208,036)
Amortization expense	(47,148)
Loss on disposal of fixed assets	(2,756)
Total non-operating revenues (expenses)	<u>405,866</u>
Net income before contributions and transfers	6,541,603
Capital contributions	225,814
Transfers in	7,263,450
Transfers out	<u>(10,854,407)</u>
Change in net assets	3,176,460
Net Assets, beginning	85,411,295
Net Assets, Ending	<u>\$ 88,587,755</u>

See Notes to Financial Statements

Stillwater Utilities Authority
A component unit of the City of Stillwater, Oklahoma
Statement of Cash Flows
For the Year Ended June 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 41,748,961
Payments to suppliers	(21,603,730)
Payments to employees	(8,204,423)
Internal activity-payments to other funds	(1,133,778)
Other receipts (payments)	1,154,345
Net cash provided by operating activities	<u>11,961,375</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Noncapital transfer in	711,009
Operating subsidies and transfers to other funds	(10,539,723)
Net cash (used) by noncapital financing activities	<u>(9,828,714)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	22,819,438
Transfers in related to capital financing	5,919,642
Purchases of capital assets	(5,028,530)
Principal paid on capital debt	(23,853,044)
Interest paid on capital debt	(273,969)
Net cash (used) by capital and related financing activities	<u>(416,463)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	461,124
Net cash provided by investing activities	<u>461,124</u>
Net increase in cash and cash equivalents	2,177,322
Balance - beginning of the year	<u>24,554,287</u>
Balance - end of the year	<u>\$ 26,731,609</u>
Reconciliation of operating income to net cash provided	
by operating activities:	
Operating income	\$ 6,135,737
Adjustments to reconcile operating income to net cash provided	
by operating activities:	
Depreciation expense	5,445,704
Change in assets and liabilities:	
Receivables, net	(756,855)
Inventories	32,513
Accounts and other payables	939,578
Accrued expenses	164,698
Net cash provided by operating activities	<u>\$ 11,961,375</u>
NON-CASH ACTIVITIES:	
Non-cash change in capital assets due to capital lease	<u>\$ 102,148</u>
Non-cash change in capital assets due to donation	<u>\$ 225,815</u>
Non-cash change due to transfer of Sanitation assets and liabilities	<u>\$ 632,800</u>

See Notes to Financial Statements

STILLWATER UTILITIES AUTHORITY
A component unit of the City of Stillwater, Oklahoma
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

(1) NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Reporting Entity

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 in the trust indenture) recorded in the preceding year. Per the trust indenture, 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 which 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. Total interest expense incurred by the Authority during 2005 was \$1,088,974. Of this amount, \$880,938 has been capitalized on construction in progress for 2005.

Unamortized Bond Discount and Issue Costs

Bond discount and issue costs 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 issue costs are reported separately as non operating 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 amortized 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%. The liability for these compensated absences is recorded as noncurrent liabilities. The current portion of this debt is estimated based on historical trends using the amounts that would be payable if termination occurred at the end of the fiscal year.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period; 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”.

When both restricted and unrestricted resources are available for use, generally, it is the Authority’s policy to use restricted resources first.

(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:

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The City's deposit policy for custodial credit risk requires compliance with the provisions of state law. State law requires collateralization of all deposits with federal depository insurance; U.S. government issues; U.S. government insured securities; State of Oklahoma bonds; or bonds of any county or school district of the state of Oklahoma. At June 30, 2005, the Authority was not exposed to any custodial credit risk.

INVESTMENTS:

The 2002 revenue bond and 2005 revenue bond escrow accounts and the 2005 revenue bond project account totaling \$1,376,664 at June 30, 2005, consist of highly liquid money market mutual funds that invest in U.S. Treasuries of varying maturities. Other Authority investments consist of U.S. Treasuries.

At June 30, 2005, the Authority had the following investments and maturities:

Type	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury Obligations	\$ 3,013,300	\$ 3,013,300			
Money market mutual funds	20,419,758	20,419,758			
	<u>\$ 23,433,058</u>	<u>\$ 23,433,058</u>			

At June 30, 2005, the mutual funds shown above invest in U.S. government securities. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk- Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The mutual funds rated AAA by Standard & Poors'.

Concentration of Credit Risk- The Authority places no limit on the amount that may be invested in any one issuer.

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

Carrying amount:	<u>2005</u>
Deposits	\$ 3,298,551
Investments	23,433,058
	<u>\$ 26,731,609</u>

Statement of Net Assets amounts:

Cash and cash equivalents:	
Unrestricted	\$ 20,498,914
Restricted-current	1,478,536
Restricted-noncurrent	4,754,159
Investments:	
Unrestricted	-
Restricted	-
	<u>\$ 26,731,609</u>

(3) LONG-TERM DEBT

At June 30, 2005, the Authority's outstanding debt consisted of the following:

Notes Payable:

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 15, 2021. \$2,816,124

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.	4,266,575
2005 OWRB Fixed Rate Note Payable dated June 29, 2005, original amount of \$7,620,000 with 2.6% interest plus an administrative fee of 0.5%, semiannual installments of principal and interest commencing September 15, 2005 thru March 15, 2025	<u>7,620,000</u>
Total Notes Payable	<u>\$14,702,699</u>
Current portion	\$ 693,349
Non-current portion	<u>14,009,350</u>
Total Notes Payable	<u>\$14,702,699</u>
<u>Revenue Bonds:</u>	
2002 Refunding Series bonds dated September 16, 2002, original issue amount of \$11,825,000, secured by utility revenues, interest rates range from 2.1% to 3.2%, semiannual interest and annual principal installments commencing December 1, 2002 through December 1, 2009	\$8,285,000
Less: Unamortized discount	(727)
Unamortized loss on defeasance	<u>(350,093)</u>
Net 2002 Revenue Bonds Payable	<u>7,934,180</u>
2005 Refunding Series bonds dated May 11, 2005, original issue amount of \$12,965,000, secured by utility revenues, interest rates range from 3.25% to 5.0%, semiannual interest and annual principal installments commencing October 1, 2005 through October 1, 2012.	12,965,000
Plus: Unamortized premium	708,248
Less: Unamortized loss on defeasance	<u>(114,887)</u>
Net 2005 Revenue Bonds Payable	<u>13,558,361</u>
Total Revenue Bonds Payable	<u>\$21,492,541</u>
Current portion	\$ 2,307,522
Non-current portion	<u>19,185,019</u>
Total Revenue Bonds Payable	<u>\$21,492,541</u>
<u>Capital Lease Obligations:</u>	
Total cost of assets financed by Capital Lease Obligations	\$1,888,511
Less: Accumulated depreciation	<u>(407,953)</u>
Net assets financed by leases	<u>\$1,480,588</u>
\$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.	\$200,220

\$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.	400,998
\$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.	325,106
\$102,148 capital lease with Banc of America for equipment fixed interest rate of 3.116%, semiannual installments commencing June 10, 2005 through December 10, 2009	<u>92,629</u>
Total Capital Leases	<u>\$1,018,953</u>
Current portion	\$386,039
Non-current portion	<u>632,914</u>
Total Capital Leases	<u>\$ 1,018,953</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>\$ 505,000</u>
Current portion	\$ 505,000
Non-current portion	<u>- 0 -</u>
Total General Obligation Bonds commitment	<u>\$ 505,000</u>

Accrued Compensated Absences:

Current portion	\$ 65,128
Non-current portion	<u>429,651</u>
Total Accrued Compensated Absences	<u>\$ 494,779</u>

Deposits Subject to Refund:

Current portion	\$ 494,105
Non-current portion	<u>612,650</u>
Total Deposits Subject to Refund	<u>\$1,106,755</u>

Changes in Long-Term Liabilities

The following is a summary of changes in the Authority's long-term liabilities for the year ended June 30, 2005:

<u>Type of Liability</u>	Balance at			Amounts	
	July 1, 2004	Additions	Reductions	Balance at June 30, 2005	Due Within One Year
Notes Payable	\$27,260,015	\$ 9,014,762	\$21,572,078	\$ 14,702,699	\$ 693,349
General Bond Obligations	1,010,000	-	505,000	505,000	505,000
Revenue Bonds Payable	9,469,944	13,569,787	1,547,190	21,492,541	2,307,522
Capital Lease Payable	1,280,452	102,148	363,647	1,018,953	386,039
Accrued Compensated Absences	398,130	161,777	65,128	494,779	65,128
Deposits Subject to Refund	1,042,405	558,455	494,105	1,106,755	494,105
Total	\$40,460,946	\$23,406,929	\$24,547,148	\$ 39,320,727	\$4,451,143

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 on 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

\$51,300 and a reserve fund in the amount of \$468,475 were also financed with these notes.

Of the total \$9,053,483 financed, \$3,413,483 was financed using a loan utilizing Oklahoma Water Resources Board State Revolving Fund (SRF) monies. This loan was 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) carried a variable interest rate set each March and September by the Oklahoma Water Resources Board. This note was currently refunded using proceeds from the May 11, 2005 Revenue Bonds.

\$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) carried a variable interest rate set each April and October by the Oklahoma Water Resources Board. This note was currently refunded using proceeds from the May 11, 2005 Revenue Bonds.

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 was for an amount not to exceed \$20,280,000 and was secured on a subordinate basis by the revenues of the Authority's water, sewer, and electric systems. This note was refinanced using the proceeds of the June 29, 2005 Oklahoma Water Resources Board fixed interest rate note.

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 and a reserve fund in the amount of \$668,242 were also financed with these notes.

Of the total \$12,921,086 financed, \$4,876,086 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) carried a variable interest rate set each April and October by the Oklahoma Water Resources Board. This note was currently refunded using proceeds from the May 11, 2005 Revenue Bonds.

On June 29, 2005, the Authority issued a fixed interest rate promissory note to the Oklahoma Water Resources Board for the purpose of refinancing Interim Construction Loan Agreements. The construction loans that were refinanced totaled \$7,575,200 and were used to finance the costs of certain improvements to the Authority's wastewater system. Additional debt issuance costs in the amount of \$43,550 were also financed with these notes. This note is a 2.6% fixed interest rate loan with a 0.50% administrative fee.

On May 11, 2005, the Authority issued \$12,965,000 of Revenue Bonds to refinance the variable interest rate Oklahoma Water Resources Board notes dated February 8, 2002 and December 19, 2002 and to pay off a construction note of the Stillwater Public Golf Authority (SPGA). (The Authority had been a guarantor of the SPGA note.) As a result of this refinancing, the variable interest rate Oklahoma water Resources Board notes 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 \$117,098. This difference, shown on the *Statement of Net Assets* as "Unamortized loss on defeasance, is being charged to operations through the fiscal year 2011/2012 using the straight-line method. This refunding resulted in a reduction in debt service payments of \$4,403,088 and an economic gain (the difference between the present value of the old and new debt service payments) of \$625,088.

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.

On December 10, 2004, the Authority entered into a \$102,148 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 Authority entered into a \$102,148 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 2006 through 2010 and thereafter is as follows:

Years ending June 30,	Revenue Bonds		General Obligation Bonds	
	Principal	Interest	Principal	Interest
2006	\$ 2,305,000	\$ 708,586	\$ 505,000	\$ 11,615
2007	2,625,000	692,830	-	-
2008	2,730,000	618,605	-	-
2009	2,855,000	534,658	-	-
2010	2,930,000	440,250	-	-
2011-2015	7,805,000	513,125	-	-
2016-2020	-	-	-	-
2021-2023	-	-	-	-
Total	\$ 21,250,000	\$ 3,508,054	\$ 505,000	\$ 11,615

Years ending June 30,	Notes Payable		Capital Leases	
	Principal	Interest	Principal	Interest
2006	\$ 693,349	\$ 203,190	\$ 386,039	\$ 30,028
2007	702,183	261,809	329,988	16,544
2008	710,702	251,273	185,905	6,947
2009	720,681	239,109	106,081	2,627
2010	730,380	227,308	10,940	170
2011-2015	3,807,965	949,021	-	-
2016-2020	4,100,734	603,714	-	-
2021-2025	3,236,704	215,914	-	-
Total	\$ 14,702,699	\$ 2,951,338	\$ 1,018,953	\$ 56,317

(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 \$1,376,664 at June 30, 2005 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, 2005 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 \$1,106,755 at June 30, 2005 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, 2005 cash and cash equivalents of \$3,694,519 was restricted for these purposes.

(5) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005 was as follows:

	Balance at July 1, 2004	Additions	Deletions	Balance at June 30, 2005
Capital assets not being depreciated:				
Land	\$ 398,295	250,411		\$ 648,706
Construction work in progress	24,798,860	\$ 3,737,900	\$ 24,055,428	4,481,332
Total capital assets not being depreciated	<u>25,197,155</u>	<u>3,988,311</u>	<u>24,055,428</u>	<u>5,130,038</u>
Other capital assets:				
Buildings	2,070,227	11,133	-	2,081,360
Improvements other than buildings	128,321,161	23,841,758	63,542	152,099,377
Machinery and equipment	13,110,676	3,241,746	31,890	16,320,532
Total other capital assets at historical cost	<u>143,502,064</u>	<u>27,094,637</u>	<u>95,432</u>	<u>170,501,269</u>
Less accumulated depreciation for:				
Buildings	936,969	86,906	-	1,023,875
Improvements other than buildings	61,160,918	4,539,676	-	65,700,594
Machinery and equipment	9,329,858	2,230,129	26,772	11,533,215
Total accumulated depreciation	<u>71,427,745</u>	<u>6,856,711</u>	<u>26,772</u>	<u>78,257,684</u>
Other capital assets, net	<u>72,074,319</u>	<u>20,237,926</u>	<u>68,660</u>	<u>92,243,585</u>
Total capital assets	<u>\$ 97,271,474</u>	<u>\$ 24,226,237</u>	<u>\$ 24,124,088</u>	<u>\$ 97,373,623</u>

(6) PENSION PLAN

All full time City employees are provided pension benefits through a defined contribution plan administered by the Oklahoma Municipal Retirement Fund. 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 2005 was \$6,829,306. Covered payroll (for employees covered under the plan) was \$6,653,902. The employees' contribution amounted to \$399,871 or 6.00% of covered payroll in fiscal year 2005. The City made contributions of \$395,142 in 2005, which was 5.94% of the fiscal year covered payroll resulting in total contributions of \$795,013 for the fiscal year ended June 30, 2005.

(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 \$1,133,778 for the fiscal year ended June 30, 2005 have been proportionately allocated and reflected in the Authority's financial statements as expenses.

(7A) CONTRIBUTED ASSETS

For the year ended June 30, 2005, the Authority had the following asset contributions received from outside parties:

Outside Parties

For the fiscal year ended June 30, 2005, the Authority accepted and received water and sewer lines that were installed by developers. The value of the water and sewer lines accepted is \$225,815.

(7B) TRANSFERS IN

City Debt Service Fund

The Authority recorded a capital contribution of levied ad valorem tax from the City's Debt Service Fund of \$540,143 in fiscal year 2005; 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, 2005 the sales tax related capital contribution to the Authority was \$5,379,498.

Sanitation Net Assets

During the fiscal year ended June 30, 2005, sanitation department net assets of \$1,343,809 were transferred to the Authority as part of a lease agreement between the SUA and the City.

(7C) 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, 2005, the transfer amount was \$8,700,000.

Stillwater Industrial Redevelopment Authority

During the fiscal year ended June 30, 2005, the Authority spent \$38,130 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, 2005, the Authority transferred \$2,116,277 to the Stillwater Public Golf Authority, an Authority of the City of Stillwater. This transfer arose as the result of the Authority refinancing several notes payable including a Stillwater Public Golf Authority note by means of the issuance of the 2005 revenue bonds, as well as payments of vendor and payroll claims made on behalf of the Stillwater Public Golf Authority.

(7D) 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, 2005 the Authority owed \$688,846 for such items.

(8) RISK MANAGEMENT

The Authority, as a component unit of the City, is covered under the City's self-insurance policy for group medical, general liability, workers compensation, unemployment, and property damage. The City has a reinsurance policy which limits the City liability for major medical to \$100,000 per individual per year. The City purchases conventional insurance for excess losses for, general liability and property damage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

(9) CHANGE IN ACCOUNTING PRINCIPLES

GASB Statement No. 40 – Deposit and Investment Risk Disclosures

The Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This new standard revises the existing requirements regarding disclosure of custodial credit risk and establishes requirements for disclosures regarding credit risk, concentration of credit risk, interest rate risk and foreign currency risk. Adoption of GASBS 40 had no effect on the net assets and change in net assets in the prior or current year.