



THE CITY OF LAWTON, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS

**AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2006**

**CITY OF LAWTON, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2006**

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**CITY OF LAWTON, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2006**

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
City of Lawton, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lawton, Oklahoma (the "City") as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the City's discretely presented component units. Additionally, we did not audit the City Employees Retirement Trust Fund, which the City reports as a Pension Trust Fund. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions insofar as they relate to the amounts included for the discretely presented component units and the Pension Trust Fund, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement and schedule presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lawton, Oklahoma, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2007, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, Pension Plan Funding Schedules, and Budgetary Comparison Schedules, as listed in the Table of Contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Expenditures of Federal and State Awards and Schedule of Changes in Fund Balances - Non-major Governmental Funds, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Performer Analysis, as listed in the Table of Contents, has not been audited by us and, accordingly, we express no opinion on such data.


March 16, 2007
Edmond, Oklahoma

**CITY OF LAWTON, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended June 30, 2006**

MANAGEMENT DISCUSSION AND ANALYSIS

**CITY OF LAWTON, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended June 30, 2006**

Our discussion and analysis of the City of Lawton's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended June 30, 2006, the City's total net assets increased by \$5.6 million or 3.6% from the prior year.
- During the year, the City's expenses for governmental activities were \$58.3 million and were funded by program revenues of \$11.3 million and further funded with taxes and other general revenues that totaled \$41.2 million.
- In the City's business-type activities, such as utilities, program revenues exceeded expenses by \$10.8 million.
- Sales and use taxes increased by \$1.9 million or 6.6% over the prior fiscal year. Considering the City's sales tax rate of 3.25% in effect for both years, this translates into an increase in taxable sales of \$58.5 million from the prior year.
- At June 30, 2006, the General Fund reported an unreserved, undesignated fund balance of \$6 million, which is an increase of 6.3% from the prior year.
- For budgetary reporting purposes, the General Fund reported revenues in excess of estimates of \$2 million or 5.3%, while expenditures were under the final appropriations by \$1.7 million or 4.4%.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the City of Lawton (the "City") and its component units using the integrated approach as prescribed by GASB Statements No. 14, 34, and 39. Included in this report are governmental-wide statements for each of two categories of activities – governmental and business-type, along with six discretely-presented component units. The government-wide financial statements present the complete financial picture of the City from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business type activities separately and combined. These statements include all assets of the City (including infrastructure capital assets) as well as all liabilities (including all long-term debt).

About the City

The City of Lawton is an incorporated municipality with a population of approximately 92,800 located in southwestern Oklahoma. The City operates under a council-manager form of government with a charter that provides for three branches of government.

- Legislative – the governing body includes an elected eight-member City Council and Mayor
- Executive – the City Manager is the Chief Executive Officer and is appointed by the City Council
- Judicial – the Municipal Judge is a practicing attorney appointed by the City Council

The City's Financial Reporting Entity

This annual report includes all activities for which the City Council of the City of Lawton is fiscally responsible. These activities are operated within several separate legal entities that are reported together to make up the City's financial reporting entity.

The City's financial reporting entity includes the City of Lawton, four blended component units and six discretely presented component units as follows.

Primary Government:

- **The City of Lawton** – incorporated municipality that operates the public safety, health and welfare, streets and highways, parks and recreation, and administrative activities as a home rule charter city

Blended Component Units:

- **Lawton Water Authority** – public trust that operates the water, wastewater, and sanitation services of the City
- **City Transit Trust** – public trust that operates and maintain public transportation systems and facilities should be included as a blended component unit, but is not. However, since the City records payments to this trust as an expense, the exclusion of the Trust is not considered material.
- **Lawton Urban Homestead Authority** – public trust created to purchase and maintain property, buildings and facilities to upgrade neighborhood areas in accordance with the Urban Homesteading Program of the City
- **Lawton Parking Authority (Presently Inactive)** – public trust created to operate and maintain public parking systems and facilities

Discretely Presented Component Units:

- **Lawton Metropolitan Area Airport Authority** – public trust that operates to develop and maintain airport operations for the City
- **Lawton Arts and Humanities Council** – public trust that operates to encourage and promote knowledge of the fine arts and humanities
- **McMahon Auditorium Authority** – public trust created to operate and maintain the McMahon Auditorium, a public and municipal auditorium of the City
- **Museum of the Great Plains Trust Authority** – public trust created to collect, preserve, and exhibit items relevant to cultural history of man in the Great Plains of North America

**CITY OF LAWTON, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended June 30, 2006**

- **Lawton Economic Development Authority (Presently Inactive)** – public trust created to promote economic development within the Lawton area
- **Lawton Industrial Development Authority (Presently Inactive)** – public trust created to promote industrial development within the Lawton area

Using This Annual Report

This annual report is presented in a format that substantially meets the presentation requirements of the Governmental Accounting Standards Board (GASB) in accordance with generally accepted accounting principles. The presentation includes financial statements that communicate the City's financial condition and changes therein at two distinct levels:

- **The City as a Whole** (a government-wide presentation)
- **The City's Funds** (a presentation of the City's major and aggregate non-major funds)

The City's various government-wide and fund financial statements are presented throughout this annual report and are accompanied by:

- **Management's Discussion and Analysis** – that provides useful analysis that facilitates a better understanding of the City's financial condition and changes therein.
- **Footnotes** - that elaborate on the City's accounting principles used in the preparation of the financial statements and further explain financial statement elements
- **Supplemental Schedules** – that provide additional information about specified elements of the financial statements, such as budgetary comparison information, and capital assets and long-term debt information
- **Performer Analysis** - that presents a historical financial condition and performance analysis including various financial ratios over an extended period of time

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most frequently asked questions about the City's finances is, "Has the City's overall financial condition improved, declined or remained steady over the past year?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two government-wide statements report the City's net assets and changes in them from the prior year. You can think of the City's net assets – the difference between assets and liabilities – as one way to measure the City's financial condition, or position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving, deteriorating, or remaining steady. However, you must consider other nonfinancial factors, such as changes in the City's tax base, the condition of the City's roads, and the quality of services to assess the overall health and performance of the City.

**CITY OF LAWTON, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended June 30, 2006**

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

- **Governmental activities** -- Most of the City's basic services are reported here, including the police, fire, general administration, streets, and parks. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities.
- **Business-type activities** -- The City charges a fee to customers to help cover all or most of the cost of certain services it provides. The City's water, wastewater, and sanitation activities are reported here.
- **Discretely-presented component units** -- These account for activities of the City's reporting entity that do not meet the criteria for blending, specifically the Lawton Metropolitan Area Airport Authority, Lawton Arts and Humanities Council, McMahon Auditorium Authority, Museum of the Great Plains Trust Authority, Lawton Economic Development Authority, and Lawton Industrial Development Authority. The Lawton Economic Development Authority and the Lawton Industrial Development Authority are presently inactive.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money.

Governmental funds -- Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic service it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences of results in the Governmental Fund financial statements to those in the Government-Wide financial statements are explained in a reconciliation following each Governmental Fund financial statement.

Proprietary funds - When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Fund Net Assets and Statement of Cash Flows. In fact, the City's enterprise funds are the essentially the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

**CITY OF LAWTON, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended June 30, 2006**

Fiduciary funds - When the City is responsible for assets that – because of a trust arrangement or other fiduciary requirement – can be used only for trust beneficiaries or others parties, these activities are reported as fiduciary funds, such as the Employee Retirement Trust Fund. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. All of the City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance operations.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$162,860,834 at the close of the most recent fiscal year.

**Table 1
Net Assets
(In Thousands)**

	Governmental		% Inc.	Business-type		% Inc.	Total		% Inc.
	Activities		(Dec.)	Activities		(Dec.)	Primary Government		(Dec.)
	2006	(Restated) 2005		2006	(Restated) 2005		2006	(Restated) 2005	
Current and other assets	\$ 39,342	\$ 32,340	22%	\$ 23,046	\$ 22,451	3%	\$ 62,388	\$ 54,791	14%
Capital assets	50,426	50,172	1%	133,310	130,344	2%	183,736	180,516	2%
Total assets	89,768	82,512	9%	156,356	152,795	2%	246,124	235,307	5%
Long-term debt outstanding	27,198	24,931	9%	49,153	47,503	3%	76,351	72,434	5%
Other liabilities	5,276	3,892	36%	1,636	1,749	-6%	6,912	5,641	23%
Total liabilities	32,474	28,823	13%	50,789	49,252	3%	83,263	78,075	7%
Net assets:									
Invested in capital assets, net of debt	32,545	30,488	7%	88,671	86,923	2%	121,216	117,411	3%
Restricted	19,390	17,168	13%	3,095	3,177	-3%	22,485	20,345	11%
Unrestricted	5,359	6,033	-11%	13,801	13,443	3%	19,160	19,476	-2%
Total net assets	\$ 57,294	\$ 53,689	7%	\$105,567	\$ 103,543	2%	\$162,861	\$157,232	4%

The largest portion of the City's net assets reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. For 2006, this investment in capital assets, net of related debt amounted to \$121,216,054. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A major portion of the City's net assets, \$22,484,771 also represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$19,160,009, may be used to meet the government's ongoing obligations to citizens and creditors.

**CITY OF LAWTON, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended June 30, 2006**

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

There was a decrease of \$0.3 million (or 1.6%) in unrestricted net assets which resulted primarily from unrestricted excess revenues over expenses.

Changes in Net Assets

For the year ended June 30, 2006, net assets of the primary government changed as follows:

**Table 2
Changes in Net Assets
(In Thousands)**

	Governmental		% Inc.	Business-Type		% Inc.	Total		% Inc.
	Activities	Activities	(Dec.)	Activities	Activities	(Dec.)	Primary Government	Primary Government	(Dec.)
	2006	2005		2006	2005		2006	2005	
Revenues:									
Program revenues:									
Charges for services	\$ 6,306	\$ 5,566	13%	\$ 28,497	\$ 27,389	4%	\$ 34,803	\$ 32,955	6%
Operating grants and contributions	4,140	3,763	10%	750	-	100%	4,890	3,763	30%
Capital grants and contributions	834	4,596	-82%	-	-	100%	834	4,596	-82%
General revenues:									
Sales and use taxes	31,336	29,396	7%	-	-	-	31,336	29,396	7%
Other taxes	6,796	7,033	-3%	-	-	-	6,796	7,033	-3%
Other general revenue	3,036	1,787	70%	725	400	81%	3,761	2,187	72%
Total revenues	<u>52,448</u>	<u>52,141</u>	1%	<u>29,972</u>	<u>27,789</u>	8%	<u>82,420</u>	<u>79,930</u>	3%
Program expenses:									
General government	10,866	9,710	12%	-	-	-	10,866	9,710	12%
Public safety	28,155	24,487	15%	-	-	-	28,155	24,487	15%
Public works and streets	7,167	5,294	35%	-	-	-	7,167	5,294	35%
Health	-	19	-100%	-	-	-	-	19	-100%
Transportation	1,518	1,557	-3%	-	-	-	1,518	1,557	-3%
Cultural, parks and recreation	7,670	6,688	15%	-	-	-	7,670	6,688	15%
Community/economic development	1,931	532	263%	-	-	-	1,931	532	263%
Interest	999	990	1%	-	-	-	999	990	1%
Water	-	-	-	8,980	7,117	26%	8,980	7,117	26%
Sewer	-	-	-	7,211	6,547	10%	7,211	6,547	10%
Sanitation	-	-	-	2,295	2,229	3%	2,295	2,229	3%
Total expenses	<u>58,306</u>	<u>49,277</u>	18%	<u>18,486</u>	<u>15,893</u>	16%	<u>76,792</u>	<u>65,170</u>	18%
Excess (deficiency)									
before transfers	(5,858)	2,864	305%	11,486	11,896	-3%	5,628	14,760	-62%
Transfers	9,462	14,410	-34%	(9,462)	(14,410)	-34%	-	-	-
Increase (decrease)									
in net assets	<u>\$ 3,604</u>	<u>\$ 17,274</u>	-79%	<u>\$ 2,024</u>	<u>\$ (2,514)</u>	181%	<u>\$ 5,628</u>	<u>\$ 14,760</u>	-62%

The City's governmental activities' report a decrease in net revenue before transfers of 305% due mainly to increased sales tax revenue of \$815,000 in the prior year and uncapitalized capital outlay of \$7.3 million in the current year. The business-type activities' increase in net assets of \$2 million represents a 181% increase in net assets which is largely attributable to decreased transfers out of \$4.9 million. The results indicate the City, as a whole, improved its financial condition from the prior year.

**CITY OF LAWTON, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended June 30, 2006**

Governmental Activities

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note all taxes are classified as general revenue even if restricted for a specific purpose.

**TABLE 3
Net Revenue (Expense) of Governmental Activities
(In Thousands)**

	Total Expense of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	2006	2005		2006	2005	
General government	\$10,866	\$9,710	12%	(\$6,501)	(\$5,003)	30%
Public safety	28,155	24,487	15%	(26,435)	(22,236)	19%
Public works and streets	7,167	5,294	35%	(5,518)	(1,148)	381%
Health	-	19	-100%	-	(19)	-100%
Culture, parks and recreation	7,670	6,688	15%	(7,115)	(6,268)	14%
Community development	1,931	532	263%	(116)	970	-112%
Transportation	1,518	1,557	-3%	(341)	(658)	-48%
Interest on long-term debt	999	990	1%	(999)	(990)	1%
Total	\$58,306	\$49,277	18%	(\$47,025)	(\$35,352)	33%

For the year ended June 30, 2006, total expenses for governmental activities amounted to \$58.3 million which increased 18% from the prior year due mainly to \$7.3 million in uncapitalized capital outlay. Also, capital grants and contributions for Public Works and Streets activity declined by \$3.3 million.

Business-type Activities

**TABLE 4
Net Revenue (Expense) of Business-Type Activities
(In Thousands)**

	Total Expense of Services		% Inc. Dec.	Net Revenue (Expense) of Services		% Inc. Dec.
	2006	2005		2006	2005	
Water	\$ 8,980	\$ 7,116	26%	\$ 6,493	\$ 7,732	-16%
Wastewater	7,211	6,547	10%	1,359	984	38%
Sanitation	2,296	2,229	3%	2,908	2,781	5%
Total	\$ 18,487	\$ 15,892	16%	\$ 10,760	\$ 11,497	-6%

The City's business-type activities include utility services for water, wastewater, and sanitation.

**CITY OF LAWTON, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended June 30, 2006**

In reviewing the business-type activities net (expense)/revenue, the following highlights should be noted:

- Total business-type activities reported net revenues of \$10.8 million for the year ended June 30, 2006.
- All individual activities reported net revenue for the years ended June 30, 2006 and June 30, 2005.
- Wastewater utility had an increase in capital grants from developers of \$1 million for fiscal year 2006.

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2006 fiscal year, the governmental funds reported a combined fund balance of \$36.7 million or a 22.2% increase from 2005 due to bond proceeds of \$4,000,000. The enterprise funds reported combined net assets of \$105.6 million or a 2% increase from 2005.

Other fund highlights include:

- For the year ended June 30, 2006, the General Fund's total fund balance increased by \$566,013 or 5.9%.
- The 2005 CIP Fund's total fund balance increased by \$9.2 million or 306% due to an increase in transfers in of approximately \$9.3 million.
- The CIP 2000 Fund's total fund balance decreased by \$2.3 million or 36.3% due to a decrease in transfers of approximately \$13.6 million.

<u>Fund Balance/Net Assets</u>			
Governmental Funds		Proprietary Funds	
Reserved for compensated absences, encumbrances and other purposes	\$ 7,673,906	Invested in capital assets, net of related debt	\$ 88,671,404
Unreserved	<u>28,983,757</u>	Restricted for debt service	3,095,107
		Unrestricted	<u>13,800,706</u>
Total Fund Balance	<u>\$ 36,657,663</u>	Total Net Assets	<u>\$ 105,567,217</u>

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the General Fund budget various times. The revised budget included an increase in overall revenue projections of 0.3% or \$130,000 and a decrease in appropriations of 5.1% or \$2,144,772. Actual revenues exceeded estimates by \$2,016,540 or 5.3%, while expenditures were under final appropriations by \$1,739,997 or 4.4%.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2006, the City had \$183.7 million invested in capital assets, net of depreciation, including police and fire equipment, buildings, park facilities, water lines and sewer lines. (See table below). This represents a net increase of \$25.6 million or 16% over last year. The main reason for the increase was related to an accounting change of adding street infrastructure assets.

**CITY OF LAWTON, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended June 30, 2006**

**TABLE 5
Primary Government Capital Assets
(In Thousands)
(Net of accumulated depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	Restated		Restated		Restated	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 3,641,438	\$ 3,634,557	\$ 1,405,554	\$ 1,405,554	\$ 5,046,992	\$ 5,040,111
Buildings and utility infrastructure	5,226,266	4,682,558	108,551,229	109,430,561	113,777,495	114,113,119
Machinery, furniture and equipment	7,307,757	6,889,400	2,357,379	1,375,901	9,665,136	8,265,301
Infrastructure	34,250,922	34,965,638	-	-	34,250,922	34,965,638
Unamortized water rights	-	-	16,524,435	16,741,862	16,524,435	16,741,862
Construction in progress	-	-	4,471,635	1,390,528	4,471,635	1,390,528
Totals	<u>\$ 50,426,383</u>	<u>\$ 50,172,153</u>	<u>\$ 133,310,232</u>	<u>\$ 130,344,406</u>	<u>\$ 183,736,615</u>	<u>\$ 180,516,559</u>

This year's more significant capital asset additions included:

Street reconstruction - \$567,000	Sewer line reconstruction - \$2.4 million
Traffic signals - \$278,000	Southeast water treatment plant - \$1.8 million
2 bathrooms - \$821,000	Water storage tank – \$247,000

See Note 4 to the financial statements for more detail information on the City's capital assets and changes therein.

Long- Term Debt

At year-end, the City had \$76.1 million in long-term debt outstanding which represents a \$3.7 million or 5.1% increase from the prior year. The City's changes in long-term debt by type of debt are as follows:

**TABLE 6
Primary Government Long-Term Debt**

	Governmental Activities		Business-Type Activities		Total	
	Restated		Restated		Restated	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Accrued absences	\$ 4,112,690	\$ 3,794,137	\$ 663,148	\$ 646,598	\$ 4,775,838	\$ 4,440,735
General Obligation Bonds	21,340,000	19,660,000	-	-	21,340,000	19,660,000
General Obligation Bond Premium	145,439	-	-	-	145,439	-
Worker's Compensation	440,012	420,273	-	-	440,012	420,273
Judgments Payable	1,160,041	1,031,991	-	-	1,160,041	1,031,991
Revenue Bonds	-	-	8,375,000	9,590,000	8,375,000	9,590,000
Revenue Bonds Premium	-	-	400,693	480,832	400,693	480,832
Notes Payable	-	-	18,386,817	15,319,682	18,386,817	15,319,682
Contracts Payable	-	-	18,047,511	18,509,255	18,047,511	18,509,255
Landfill Closure and Post-closure	-	-	3,195,557	2,846,546	3,195,557	2,846,546
Capital Leases	-	23,880	84,465	110,439	84,465	134,319
Totals	<u>\$ 27,198,182</u>	<u>\$ 24,930,281</u>	<u>\$ 49,153,191</u>	<u>\$ 47,503,352</u>	<u>\$ 76,351,373</u>	<u>\$ 72,433,633</u>

See Note 6 to the financial statements for more detail information on the City's long-term debt and changes therein.

**CITY OF LAWTON, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended June 30, 2006**

The Upcoming Year

The City of Lawton has been very fortunate to continue to experience moderate growth in sales tax and utilities revenue as compared to many cities in Oklahoma that are experiencing decreases in their primary revenue stream. Much of Lawton's growth is attributable to several new businesses and the Base Realignment program (BRAC) which is stimulating new construction of new homes and new businesses.

The FY 2006-2007 budget will increase by an estimated amount of nearly 4 million dollars. These increases are fueled by a series of economic changes and labor costs as uncontrollable. Examples include the cost of fuel, natural gas, electricity, chemicals that are needed for water treatment, construction materials, etc. Labor cost previously established for the multi-year police and fire contracts that have "built in" wage and benefit increases. A looming issue on the horizon that will also most likely cause increases in the upcoming budgets will be the ability for the general employees to unionize due to a law passed by Oklahoma leaders that only affects cities with a population greater than 35,000.

The capital needs of the city continue to play a dominant role in the over all demand for rate increases. Currently, the city has a \$3.00 assessment on the utility bill to help defray the cost of police and fire vehicles as well as all other equipment needs of the city. The assessment generates approximately \$1.5 million with anticipated needs of over \$5.0 million. It is anticipated that this rate will increase during the FY 2006-2007 budget year.

Water and sewer rates do have a small built in rate adjustment each year based on the overall cost of living or CPI index. In the coming year we anticipate that these rates will increase approximately 3.50 percent.

The City of Lawton continues to be impacted by many "Unfunded mandates" from both Federal and State rulings. As a result many economic factors are "unforeseen" and adjustments have to be made in upcoming budgets to meet these governmental regulations. The primary sources of revenue for the City of Lawton are Sales Tax and the sale of Water. Sales tax requires a vote of the people and cannot be adjusted very easy. A slight adjustment of Water rates, based on the CPI, does not sustain the increasing cost of services. Therefore, the city is aggressively looking for other sources of revenue, such as grants, state and federal participation in infrastructure needs, and also looking at the organization to find ways to streamline and reduce costs.

**CITY OF LAWTON, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Year Ended June 30, 2006**

Contacting the City's Financial Management

This report is designed to provide our citizens, taxpayers, customers and creditors with an understanding of the City's finances and to demonstrate the City's accountability for the resources it receives. If you have questions about this report or need additional financial information, contact:

Mr. Rick Endicott, Finance Director
City of Lawton
103 S.W. 4th Street
Lawton, Oklahoma 73501

Telephone at 580-581-3305

**CITY OF LAWTON, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2006**

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

CITY OF LAWTON, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2006

Statement of Net Assets– June 30, 2006

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS:				
Cash and cash equivalents	\$17,080,651	\$5,491,613	\$22,572,264	\$885,100
Investments	16,335,733	13,015,539	29,351,272	148,436
Interest receivable	300,913	42,117	343,030	1,398
Accounts receivable, net	238,384	3,840,614	4,078,998	15,091
Inventory	-	-	-	39,126
Due from other governments	5,349,784	-	5,349,784	23,486
Prepaid items	-	-	-	10,658
Other assets	-	-	-	14,328
Capital assets:				
Land and construction in progress	3,641,438	5,877,189	9,518,627	4,252,427
Other capital assets, net of depreciation	46,784,945	127,433,043	174,217,988	10,578,046
Unamortized bond issuance costs	36,068	655,658	691,726	-
Total assets	89,767,916	156,355,773	246,123,689	15,968,096
LIABILITIES:				
Accounts payable and accrued liabilities	2,795,850	725,839	3,521,689	64,936
Grants payable	-	-	-	3,300
Accrued interest payable	134,396	809,526	943,922	-
Settlement obligation	-	100,000	100,000	-
Deferred revenue	-	-	-	24,330
Net pension obligation	2,345,871	-	2,345,871	-
Long-term liabilities:				
Due within one year	3,558,256	2,805,073	6,363,329	5,164
Due in more than one year	23,639,926	46,348,118	69,988,044	40,589
Total liabilities	32,474,299	50,788,556	83,262,855	138,319
NET ASSETS:				
Invested in capital assets, net of related debt	32,544,650	88,671,404	121,216,054	14,821,196
Restricted for:				
Debt service	1,667,920	3,095,107	4,763,027	263,655
Capital projects	17,095,621	-	17,095,621	-
Grantor purposes	206,002	-	206,002	103,739
Other purposes	420,121	-	420,121	-
Unrestricted	5,359,303	13,800,706	19,160,009	641,187
Total net assets	\$57,293,617	\$105,567,217	\$162,860,834	\$15,829,777

See accompanying notes to the basic financial statements.

CITY OF LAWTON, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2006

Statement of Activities –Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental activities:								
General government	\$10,865,939	\$3,961,097	77,606	326,793	(6,500,443)	-	(\$6,500,443)	-
Public safety	28,154,660	1,018,645	294,019	407,159	(26,434,837)	-	(\$26,434,837)	-
Public works and streets	7,166,982	738,367	910,858	-	(5,517,757)	-	(\$5,517,757)	-
Culture and recreation	7,669,737	376,941	77,507	100,000	(7,115,289)	-	(\$7,115,289)	-
Community development	1,931,026	-	1,814,670	-	(116,356)	-	(\$116,356)	-
Transportation	1,517,893	210,664	965,811	-	(341,418)	-	(\$341,418)	-
Interest on long-term debt	999,312	-	-	-	(999,312)	-	(\$999,312)	-
Total governmental activities	<u>58,305,549</u>	<u>6,305,714</u>	<u>4,140,471</u>	<u>833,952</u>	<u>(47,025,412)</u>	<u>-</u>	<u>(47,025,412)</u>	<u>-</u>
Business-type activities:								
Water	8,980,130	15,473,266	-	-	-	6,493,136	6,493,136	-
Wastewater	7,210,874	7,819,497	750,064	-	-	1,358,687	1,358,687	-
Sanitation	2,295,602	5,203,826	-	-	-	2,908,224	2,908,224	-
Total business-type activities	<u>18,486,606</u>	<u>28,496,589</u>	<u>750,064</u>	<u>-</u>	<u>-</u>	<u>10,760,047</u>	<u>10,760,047</u>	<u>-</u>
Total primary government	<u>\$76,792,155</u>	<u>\$34,802,303</u>	<u>\$4,890,535</u>	<u>\$833,952</u>	<u>(47,025,412)</u>	<u>10,760,047</u>	<u>(36,265,365)</u>	<u>-</u>
Component Units:								
Airport	\$1,871,419	\$893,771	\$468,016	\$900,656				\$391,024
Culture and recreation	831,437	245,786	663,749	-				78,098
Total component units	<u>\$2,702,856</u>	<u>\$1,139,557</u>	<u>\$1,131,765</u>	<u>\$900,656</u>				<u>469,122</u>
General revenues:								
Taxes:								
Sales and use taxes					31,336,056	-	31,336,056	-
Property tax					3,545,751	-	3,545,751	-
Franchise and public service taxes					2,529,404	-	2,529,404	-
Hotel/motel taxes					720,918	-	720,918	-
Intergovernmental revenue not restricted to specific programs					702,435	-	702,435	-
Investment income					1,526,485	541,662	2,068,147	19,318
Miscellaneous					806,749	183,608	990,357	-
Transfers - Internal activity					<u>9,461,779</u>	<u>(9,461,779)</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers					<u>50,629,577</u>	<u>(8,736,509)</u>	<u>41,893,068</u>	<u>19,318</u>
Change in net assets					3,604,165	2,023,538	5,627,703	488,440
Net assets - beginning, restated					<u>53,689,452</u>	<u>103,543,679</u>	<u>157,233,131</u>	<u>15,341,337</u>
Net assets - ending					<u>\$57,293,617</u>	<u>\$105,567,217</u>	<u>\$162,860,834</u>	<u>\$15,829,777</u>

See accompanying notes to the basic financial statements.

CITY OF LAWTON, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2006

BASIC FINANCIAL STATEMENTS - GOVERNMENTAL FUNDS

CITY OF LAWTON, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2006

Governmental Funds Balance Sheet - June 30, 2006

	<u>General Fund</u>	<u>2005 CIP Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:				
Cash and cash equivalents	\$ 2,283,712	\$ 4,484,844	\$ 9,923,922	\$ 16,692,478
Investments	3,692,772	8,093,950	4,549,011	16,335,733
Receivables:				
Accounts receivable	586	-	148,742	149,328
Accrued interest receivable	77,684	151,910	71,319	300,913
Due from other funds	-	-	390	390
Due from other governments and entities	5,349,784	-	-	5,349,784
 Total assets	 <u>\$ 11,404,538</u>	 <u>\$ 12,730,704</u>	 <u>\$ 14,693,384</u>	 <u>\$ 38,828,626</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable and accrued liabilities	\$ 1,248,081	\$ 557,265	\$ 361,649	\$ 2,166,995
Due to refundable deposits	-	-	1,600	1,600
Due to other funds	390	-	-	390
Due to other governments and entities	-	-	1,978	1,978
 Total liabilities	 <u>1,248,471</u>	 <u>557,265</u>	 <u>365,227</u>	 <u>2,170,963</u>
Fund Balances:				
Reserved for:				
Compensated absences obligation	3,982,631	-	-	3,982,631
Encumbrances and other purposes	154,880	895,328	2,641,067	3,691,275
Unreserved	6,018,556	11,278,111	-	17,296,667
Unreserved, reported in:				
Special Revenue Funds	-	-	3,140,545	3,140,545
Capital Project Funds	-	-	7,384,194	7,384,194
Debt Service Funds	-	-	1,162,351	1,162,351
 Total fund balances	 <u>10,156,067</u>	 <u>12,173,439</u>	 <u>14,328,157</u>	 <u>36,657,663</u>
 Total liabilities and fund balances	 <u>\$ 11,404,538</u>	 <u>\$ 12,730,704</u>	 <u>\$ 14,693,384</u>	 <u>\$ 38,828,626</u>

See accompanying notes to the basic financial statements.

**CITY OF LAWTON, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2006**

Governmental Funds Statement of Changes in Fund Balances – Year Ended June 30, 2006

	<u>General Fund</u>	<u>2005 CIP Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes	\$34,549,711	-	\$4,314,977	\$38,864,688
Intergovernmental	1,076,328	-	3,841,277	4,917,605
Charges for services	-	-	2,053	2,053
Fines and forfeitures	2,620,987	-	404,236	3,025,223
Licenses and permits	1,015,213	-	2,220,912	3,236,125
Investment income	440,807	\$545,090	540,588	1,526,485
Miscellaneous	698,036	-	226,029	924,065
Total Revenues	<u>40,401,082</u>	<u>545,090</u>	<u>11,550,072</u>	<u>52,496,244</u>
Expenditures:				
Current:				
General government	6,553,804	-	1,297,852	7,851,656
Public safety	21,247,419	-	1,640,068	22,887,487
Public works and streets	4,909,915	-	-	4,909,915
Culture and recreation	4,566,854	-	1,459,486	6,026,340
Community development	-	-	1,889,585	1,889,585
Transportation	-	-	1,517,893	1,517,893
Capital outlay	411,513	2,766,622	9,425,018	12,603,153
Debt service:				
Principal retirement	-	-	2,320,000	2,320,000
Interest and fiscal charges	-	-	870,661	870,661
Judgments	-	-	547,991	547,991
Total Expenditures	<u>37,689,505</u>	<u>2,766,622</u>	<u>20,968,554</u>	<u>61,424,681</u>
Excess (deficiency) of revenues over expenditures	2,711,577	(2,221,532)	(9,418,482)	(8,928,437)
Other Financing Sources (Uses):				
Bond proceeds	-	-	4,000,000	4,000,000
Bond premium	-	-	155,136	155,136
Transfers in	12,066,744	13,435,674	3,984,380	29,486,798
Transfers out	(14,212,308)	(2,036,760)	(1,810,767)	(18,059,835)
Total Other Financing Sources (Uses)	<u>(2,145,564)</u>	<u>11,398,914</u>	<u>6,328,749</u>	<u>15,582,099</u>
Net change in fund balances	566,013	9,177,382	(3,089,733)	6,653,662
Fund balances - beginning	9,590,054	2,996,057	17,417,890	30,004,001
Fund balances - ending	<u>\$10,156,067</u>	<u>\$12,173,439</u>	<u>\$14,328,157</u>	<u>\$36,657,663</u>

See accompanying notes to the basic financial statements.

**CITY OF LAWTON, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2006**

Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund Balance – Net Assets Reconciliation:

Fund balances of governmental funds	\$36,657,663
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$47,214,283.	<u>49,896,903</u>
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	<u>251,373</u>
Certain long-term liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:	
General obligation bonds payable	(21,449,372)
Accrued compensated absences	(3,982,630)
Accrued interest payable	(134,396)
Accrued workers compensation claims	(440,012)
Judgments payable	(1,160,041)
Net pension obligation	<u>(2,345,871)</u>
	<u>(29,512,322)</u>
Net assets of governmental activities	<u><u>\$57,293,617</u></u>

See accompanying notes to the basic financial statements.

**CITY OF LAWTON, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2006**

Changes in Fund Balances – Changes in Net Assets Reconciliation:

Net change in fund balances - total governmental funds \$6,653,662

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

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets

Capital asset purchases capitalized	3,267,558
Loss on disposal of capital asset	(12,158)
Depreciation expense	(3,369,294)
	(113,894)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Deferred revenue	(48,308)
	(48,308)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:

Incurrence of judgments rendered against the City	(609,523)
Judgment payments	481,473
General obligation bond proceeds	(4,000,000)
General obligation bond premium	(155,136)
General obligation bond principal payments	2,320,000
Net pension obligation increase	(395,507)
	(2,358,693)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Change in accrued interest payable	(110,303)
Change in accrued compensated absences	(294,391)
Change in amortization of bond premium	48,169
Change in amortization of bond issue costs	(2,405)
Change in accrued worker's compensation claims	(19,739)
	(378,669)

Internal service fund activity is reported as a proprietary fund in the fund financial statements, but certain net revenues are reported in governmental activities on the Statement of Activities

Total change in net assets for internal service funds	(149,933)
	(149,933)

Change in net assets of governmental activities \$3,604,165

See accompanying notes to the basic financial statements.

**CITY OF LAWTON, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2006**

BASIC FINANCIAL STATEMENTS - PROPRIETARY FUNDS

CITY OF LAWTON, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2006

Proprietary Funds Statement of Net Assets - June 30, 2006

	Enterprise Fund	Internal Service Funds
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$3,004,541	\$388,173
Investments	3,032,250	-
Interest receivable	42,117	-
Accounts receivable, net	3,840,614	89,056
Total current assets	9,919,522	477,229
Noncurrent Assets:		
Restricted Assets:		
Cash and cash equivalents	2,487,072	-
Investments	9,983,289	-
Unamortized bond and note issue costs	655,658	-
Land and construction in progress	5,877,189	-
Other capital assets, net	127,433,043	529,480
Total noncurrent assets	146,436,251	529,480
Total assets	156,355,773	1,006,709
LIABILITIES:		
Current Liabilities:		
Accounts payable and accrued liabilities	725,839	625,277
Accrued interest payable	809,526	-
Accrued compensated absences	79,578	15,542
Contract payable - Waurika note	477,735	-
Settlement obligation	100,000	-
Capital lease obligations	84,465	-
Notes payable	893,295	-
Revenue bonds payable	1,270,000	-
Total current liabilities	4,440,438	640,819
Noncurrent liabilities:		
Accrued compensated absences	583,570	114,517
Landfill post closure liability	3,195,557	-
Contract payable	17,569,776	-
Notes payable	17,493,522	-
Revenue bonds payable, net	7,505,693	-
Total noncurrent liabilities	46,348,118	114,517
Total liabilities	50,788,556	755,336
NET ASSETS:		
Invested in capital assets, net of related debt	88,671,404	529,480
Restricted for debt service	3,095,107	-
Unrestricted	13,800,706	(278,107)
Total net assets	\$105,567,217	\$251,373

See accompanying notes to the basic financial statements.

CITY OF LAWTON, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2006

Proprietary Funds Statement of Changes in Net Assets - Year Ended June 30, 2006

	<u>Enterprise Fund</u>	<u>Internal Service Funds</u>
Operating Revenues:		
Pledged as security for revenue bonds and notes:		
Charges for services	\$28,481,647	-
Unpledged revenues:		
Charges for services	-	\$5,965,491
Fees, licenses and permits	9,489	-
Rentals	147,684	-
Other sources	4,681	-
 Total operating revenues	 28,643,501	 5,965,491
Operating Expenses:		
General government and claims	650	5,605,259
Public works operations	11,510,849	-
Computer service operations	-	433,755
Depreciation expense	4,887,711	105,930
Amortization expense	292,138	-
Landfill closure expense	349,011	-
 Total operating expenses	 17,040,359	 6,144,944
 Operating income (loss)	 11,603,142	 (179,453)
Non-Operating Revenues (Expenses):		
Investment income	541,662	31,750
Interest expense and fiscal charges	(1,415,834)	-
Non-capital grants	750,064	-
Gain (Loss) on asset retirement	(19,691)	(2,675)
Other non-operating revenue	25,974	445
 Total non-operating revenues (expenses)	 (117,825)	 29,520
 Net income (loss) before contributions and transfers	 11,485,317	 (149,933)
Capital contributions	1,965,184	-
Transfers in	4,398,619	-
Transfers out	(15,825,582)	-
 Change in net assets	 2,023,538	 (149,933)
 Total net assets - beginning, restated	 103,543,679	 401,306
 Total net assets - ending	 \$105,567,217	 \$251,373

See accompanying notes to the basic financial statements.

CITY OF LAWTON, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2006

Proprietary Funds Statement of Cash Flows - Year Ended June 30, 2006

	Enterprise Fund	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 29,025,340	\$ 5,876,880
Payments to suppliers	(4,837,228)	-
Payments to employees	(6,771,878)	(409,594)
Claims and benefits paid	-	(5,393,830)
Net Cash Provided by Operating Activities	17,416,234	73,456
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	4,398,619	-
Transfers to other funds	(15,825,582)	-
Net Cash Provided by (Used in) Non-Capital Financing Activities	(11,426,963)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from notes issued	3,677,755	-
Purchases of capital assets	(5,866,507)	(476,730)
Principal paid on capital debt	(2,572,303)	(23,880)
Interest and fiscal charges paid on capital debt	(1,495,171)	(445)
Bond issue costs paid	(141,419)	-
Net Cash Provided by (Used in) Capital and Related Financing Activities	(6,397,645)	(501,055)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments	1,043,593	-
Interest and dividends	540,090	31,750
Net Cash Provided by (Used in) Investing Activities	1,583,683	31,750
Net Increase (Decrease) in Cash and Cash Equivalents	1,175,309	(395,849)
Balances - beginning of the year	4,316,304	784,022
Balances - end of the year	\$ 5,491,613	\$ 388,173
Reconciliation to Statement of Net Assets:		
Cash and cash equivalents	\$ 3,004,541	\$ 388,173
Restricted cash and cash equivalents	2,487,072	-
Total cash and cash equivalents	\$ 5,491,613	\$ 388,173
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$11,603,142	\$ (179,453)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	4,887,711	105,930
Amortization expense	292,138	-
Landfill closure expense	349,011	-
Miscellaneous revenue	776,038	445
Change in assets and liabilities:		
Receivables, net	(394,199)	(89,056)
Accounts payables	(447,743)	594,893
Claims liability	-	(383,464)
Settlement liability	100,000	-
Due to employees	233,585	-
Accrued compensated absences	16,551	24,161
Net Cash Provided by Operating Activities	\$ 17,416,234	\$ 73,456
Non-cash activity:		
Non-cash capital contributions received	\$ 2,803,211	\$ -
Capital assets disposed	19,691	4,356
Capital assets transferred from/to other funds	1,965,853	1,681
Capital assets financed with capital lease	258,965	-

See accompanying notes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS - FIDUCIARY FUNDS

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Fiduciary Funds Statement of Net Assets - June 30, 2006

	City Employees Retirement Trust Fund	Agency Funds
ASSETS:		
Cash and cash equivalents	\$375,941	\$390,726
Investments	1,177,103	707,954
Investments, at market value:		
United States government securities and agencies	28,564,008	-
United States government money market	448,438	-
Common stock	5,374,629	-
Interest receivable	53,513	13,972
Other receivables	-	-
Due from other funds	-	10,483
Employer contributions receivable	42,328	-
Employee contributions receivable	28,219	-
Total assets	\$36,064,179	\$1,123,135
LIABILITIES:		
Due to depositors	-	1,112,494
Bank overdraft	-	10,483
Other payables	-	158
Total liabilities	-	\$1,123,135
NET ASSETS:		
Held in trust for pension benefits	\$36,064,179	

See accompanying notes to the basic financial statements.

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Pension Trust Fund Statement of Changes in Plan Net Assets – Year Ended June 30, 2006

	<u>City Employees Retirement Trust Fund</u>
ADDITIONS:	
Contributions:	
Members	\$ 912,813
Employer	<u>1,252,430</u>
Total Contributions	<u>2,165,243</u>
Investment Income (Loss):	
Net decrease in fair value of investments	(3,308,970)
Interest, dividends, and other	<u>1,781,805</u>
Total investment income (loss)	<u>(1,527,165)</u>
Less investment expense:	
Investment activity expense	<u>(52,525)</u>
Net investment income (loss)	<u>(1,579,690)</u>
Total Additions	<u>585,553</u>
DEDUCTIONS:	
Benefits paid to participants or beneficiaries	2,182,898
Refunds and transfers to other systems	719,075
Administrative expense	<u>25,161</u>
Total Deductions	<u>2,927,134</u>
Change in net assets held in trust for employees' pension benefits	(2,341,581)
Net assets--beginning	<u>38,405,760</u>
Net assets--ending	<u><u>\$ 36,064,179</u></u>

See accompanying notes to the basic financial statements.

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COMBINING FINANCIAL STATEMENTS - COMPONENT UNITS

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Component Units – Combining Statement of Net Assets - June 30, 2006

	LAWTON METROPOLITAN AREA AIRPORT AUTHORITY	LAWTON ARTS AND HUMANITIES COUNCIL	MCMAHON AUDITORIUM AUTHORITY	MUSEUM OF THE GREAT PLAINS TRUST AUTHORITY	TOTALS
<u>ASSETS</u>					
Current Assets:					
Cash, including time deposits	\$ 275,014	\$ 53,546	\$ 72,659	\$ 220,226	\$ 621,445
Restricted cash	263,655	-	-	-	263,655
Investments	148,436	-	-	-	148,436
Accounts receivable	13,996	-	1,095	-	15,091
Inventory	-	-	-	39,126	39,126
Due from other governments	19,986	3,500	-	-	23,486
Accrued interest receivable	1,398	-	-	-	1,398
Prepaid expenses	9,058	-	1,600	-	10,658
Other Assets	-	-	-	14,328	14,328
Total current assets	731,543	57,046	75,354	273,680	1,137,623
Noncurrent Assets:					
Capital Assets:					
Land and construction in progress	4,252,427	-	-	-	4,252,427
Depreciable, net of accumulated depreciation	9,228,884	9,453	57,945	1,281,764	10,578,046
Total noncurrent assets	13,481,311	9,453	57,945	1,281,764	14,830,473
Total Assets	\$ 14,212,854	66,499	133,299	1,555,444	\$ 15,968,096
<u>LIABILITIES</u>					
Current Liabilities:					
Accounts payable and accrued liabilities	42,474	-	387	22,075	64,936
Grants payable	-	3,300	-	-	3,300
Deferred revenue	-	7,942	16,388	-	24,330
Capital leases payable	1,200	-	-	-	1,200
Current portion of notes payable	3,964	-	-	-	3,964
Total current liabilities	47,638	11,242	16,775	22,075	97,730
Noncurrent Liabilities:					
Accrued compensated absences	4,411	-	-	32,065	36,476
Notes payable	4,113	-	-	-	4,113
Total noncurrent liabilities	8,524	-	-	32,065	40,589
Total Liabilities	56,162	11,242	16,775	54,140	138,319
<u>NET ASSETS</u>					
Investment in capital assets, net of related debt	13,472,034	9,453	57,945	1,281,764	14,821,196
Restricted for grant projects	-	-	-	103,739	103,739
Restricted for debt service	263,655	-	-	-	263,655
Unrestricted	421,003	45,804	58,579	115,801	641,187
Total Net Assets	\$ 14,156,692	\$ 55,257	\$ 116,524	\$ 1,501,304	\$ 15,829,777

See accompanying notes to the basic financial statements.

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Component Units - Combining Statement of Changes in Net Assets - Year Ended June 30, 2006

	LAWTON METROPOLITAN AREA AIRPORT AUTHORITY	LAWTON ARTS AND HUMANITIES COUNCIL	MCMAHON AUDITORIUM AUTHORITY	MUSEUM OF THE GREAT PLAINS TRUST AUTHORITY	TOTALS
Expenses:					
Airport	1,871,419	-	-	-	1,871,419
Culture and recreation	-	63,498	68,911	699,028	831,437
Total expenses	1,871,419	63,498	68,911	699,028	2,702,856
Program Revenues:					
Charges for services	\$ 893,771	\$ 40,484	\$ 66,388	\$ 138,914	\$ 1,139,557
Operating grants and contributions	468,016	21,300	5,064	637,385	1,131,765
Capital grants and contributions	900,656	-	-	-	900,656
Total program revenues	2,262,443	61,784	71,452	776,299	3,171,978
Net revenue (expense)	391,024	(1,714)	2,541	77,271	469,122
General Revenues:					
Investment income	12,989	-	1,079	5,250	19,318
Total general revenues	12,989	-	1,079	5,250	19,318
Change in Net Assets	404,013	(1,714)	3,620	82,521	488,440
Net Assets, beginning of year (restated)	13,752,679	56,971	112,904	1,418,783	15,341,337
Net Assets, end of year	\$ 14,156,692	\$ 55,257	\$ 116,524	\$ 1,501,304	\$ 15,829,777

See accompanying notes to the basic financial statements.

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FOOTNOTES TO BASIC FINANCIAL STATEMENTS

Footnotes to the Basic Financial Statements:

1. Financial Reporting Entity

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity" and includes all component units for which the City is financially accountable/fiscally responsible. The City's financial reporting entity primary government presentation includes the City of Lawton and the certain component units as follows:

The City of Lawton – that operates the public safety, health and welfare, streets and highways, parks and recreation, and administrative activities

The City of Lawton is an incorporated municipality with a population of approximately 92,800 located in southwestern Oklahoma. The City operates under a council-manager form of government with a charter that provides for three branches of government:

- Legislative – the governing body includes an elected eight-member City Council and Mayor
- Executive – the City Manager is the Chief Executive Officer and is appointed by the City Council
- Judicial – the Municipal Judge is a practicing attorney appointed by the City Council

Blended Component Units (separate legal entities for which the City Council is fiscally responsible, and for which the City Council members serve as the trustees/governing body of the entity):

Lawton Water Authority – that operates the water, wastewater, and sanitation services of the City

City Transit Trust – that operates and maintains public transportation systems and facilities should be included as a blended component unit, but is not. However, since the City records payments to this trust as an expense in its governmental activities, the exclusion of the Trust is not considered material to the City.

Lawton Urban Homestead Authority – created to purchase and maintain property, buildings and facilities to upgrade neighborhood areas in accordance with the Urban Homesteading Program of the City

Lawton Parking Authority (Inactive) – created to operate and maintain public parking systems and facilities

Discretely Presented Component Units (separate legal entities for which the City Council is fiscally responsible, but appoints a separate governing body):

Lawton Metropolitan Area Airport Authority – that operates to develop and maintain airport operations for the City

Lawton Arts and Humanities Council – that operates to encourage and promote knowledge of the fine arts and humanities

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McMahon Auditorium Authority – created to operate and maintain the McMahon Auditorium, a public and municipal auditorium of the City

Museum of the Great Plains Trust Authority – created to collect, preserve, and exhibit items relevant to cultural history of man in the Great Plains of North America

Lawton Economic Development Authority (Presently Inactive) – created to promote economic development within the Lawton area

Lawton Industrial Development Authority (Presently Inactive) – created to promote industrial development within the Lawton area

Each of these component units listed above are Public Trusts established pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance City services through issuance of revenue bonds or other non-general obligation debt and to enable the City Council to delegate certain functions to the governing body (Trustees) of the Authority. In accordance with state law, the City Council must approve, by two-thirds vote, all debt obligations of these public trusts prior to incurring the obligation. The Authorities generally retain title to assets which are acquired or constructed with Authority debt or other Authority generated resources. In addition, the City has leased certain existing assets at the creation for the Authorities to the Trustees on a long-term basis. The City, as beneficiary of the Public Trusts, receives title to any residual assets when a Public Trust is dissolved.

Related Organizations:

A related organization is one for which the City is not financially accountable, even though it appoints a voting majority of the organization's governing body. Such organizations include:

- **Lawton Housing Authority**
- **Lawton Urban Renewal Authority**

Related organizations are not included within the City's reporting entity financial statements.

2. Basis of Presentation and Accounting

This annual report is presented in a format that substantially meets the presentation requirements of the Governmental Accounting Standards Board (GASB) in accordance with generally accepted accounting principles. The presentation includes financial statements that communicate the City's financial condition and changes therein at two distinct levels:

- **The City as a Whole** (a government-wide presentation)
- **The City's Funds** (a presentation of the City's major and aggregate non-major funds)

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Government-Wide Financial Statements:

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

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

Business-type activities – Services where the City charges a fee to customers to help it cover all or most of the cost of these services it provides. The City's water, sewer, and sanitation systems activities are reported here.

The statements of net assets and activities are reported on the accrual basis of accounting and economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized when earned and expenses (including depreciation and amortization) are recorded when the liability is incurred or economic asset used.

For business-type activities, Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Fund Financial Statements:

Governmental Funds:

Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Governmental funds report their activities on the modified accrual basis of accounting and current financial resources measurement focus that is different from other funds. For example, these funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The City's governmental funds include:

Major Funds:

- General Fund – accounts for all activities not accounted for in other special-purpose funds
- 2005 CIP Fund – accounts for various projects such as the southeast water treatment plant and street projects

Aggregated Non-Major Funds (reported as Other Governmental Funds):

Special Revenue Funds include the Real Property Proceeds Fund, RSVP Fund, Public Library Fund, Small Business Loan Fund, CDBG Fund, HOME Investment CDBG Fund, Lawton Urban Housing Fund, Police Grant Fund, Park Fee Fund, Hunting and Fishing Permits Fund, Narcotics Fund, Animal Sterilization Fund, Insurance Proceeds Fund, Emergency 911 Fund, Adult Softball Fund, Cemetery Care Fund, Officers Training Fund, Court Credit Card Maintenance Fund, Lawton Parking Authority Fund, Senior Crafts Fund, Animal License Fund, State Landfill Fund, Police Sentinel Fund, Fire

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Prevention Education Fund, Park Fund, McMahon Authority Grants Fund, Drainage Maintenance Fund, Animal Donation Fund, Application Fees Fund, Capital Outlay Rolling Stock Fund, LLEBG Fund, Cemetery Reward Fund, Centennial Fund, Hotel/Motel Tax Fund, Project Impact Fund, Mass Transit Fund, Reserve Fund, Federal Grant Fund, Special Jail Fund, Cellular Service Fund, and Impact Fees Fund.

Debt Service Funds – accounts for ad-valorem taxes levied by the City for use in retiring court-assessed judgments, general obligation bonds, and their related interest expenses

Capital Project Funds:

- Capital Improvement Fund – accounts for transfers from other City funds for various capital acquisitions and projects.
- Ad Valorem Fund – accounts for G.O. Bond proceeds used for capital projects.
- CIP 1995 Fund – accounts for sales taxes restricted for specified capital projects.
- 2000 CIP Fund – accounts for improvements to the water treatment plant, streets and other miscellaneous water projects.

The governmental funds are reported on the modified accrual basis of accounting. On the modified accrual basis of accounting, revenues are recorded when earned and measurable and available to pay current financial obligations, while expenditures are recorded when incurred and normally due and payable from current financial resources. The City defines revenue availability as collected within 60 days of period end.

The reconciliation of the governmental funds financial statements to the governmental activities presentation in the government-wide financial statements is the result of the use of the accrual basis of accounting and economic resources measurement focus at the government-wide level.

Proprietary Funds:

When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds include enterprise funds and internal service funds. Enterprise funds are used to account for business-like activities provided to the general public. Internal service funds are used to account for business-like activities provided to other funds or departments of the City. Proprietary funds are reported on the accrual basis of accounting and economic resources measurement focus. For example, proprietary fund capital assets are capitalized and depreciated and principal payments on long-term debt are recorded as a reduction to the liability. For the enterprise funds, Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The City's proprietary funds include the following:

Enterprise Fund

- Lawton Public Works Authority Fund that accounts for the activities of the public trust in providing water, sewer, and sanitation services to the public.

Internal Service Funds (combined for reporting purposes)

- Group Insurance Fund that accounts for the cost of providing various insurance services to other funds and departments of the City
- Computer Service Fund that accounts for the cost of providing automation services to other funds and departments of the City

Fiduciary Funds:

The City's fiduciary funds are used to report net assets and changes therein of assets held by the City in a trustee or fiduciary capacity. These net assets are not available for operations of the City. The City reports two types of fiduciary funds: Pension Trust Fund and Agency Funds. Agency funds are custodial in nature (i.e., assets equal liabilities) and do not involve the measurement of changes in net assets.

The fiduciary funds are reported on the accrual basis of accounting and economic resources measurement focus. The City's fiduciary funds include:

Pension Trust Fund

City Employees Retirement Trust Fund – accounts for assets and changes therein of the City's single employer defined benefit plan.

Agency Funds

Used to account for assets held on behalf of others including the License & Permits Fund, Meter Deposits Fund, Municipal Court Fund, Payroll Savings Fund, and Flexible Benefits Fund.

3. Cash and Cash Equivalents, Deposits and Investments

Cash and cash equivalents includes all demand and savings accounts, certificates of deposit or short-term investments with an original maturity of three-months or less, and money market investments. Trust account investments in open-ended mutual fund shares are also considered cash equivalents.

Investments consist of long-term certificates of deposit, U.S. Treasury bonds and notes, U.S. agency securities, government money market funds, and common stock in the employee retirement fund only. Certificates of deposit are reported at cost, while the U.S. Treasury and agency securities and common stock are reported at fair value.

Deposits and Investments Risks

The City of Lawton primary government and blended component units, are governed by the deposit and investment limitations of state law and trust indentures. The deposits and investments held at June 30, 2006 by these entities are as follows:

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Schedule of Deposits and Investments by Type - June 30, 2006

Type	Fair Value	Maturities in Years				
		On Demand	Less Than One	1 - 5	6 - 10	More than 10
Demand deposits	\$ 23,367,884	\$ 23,367,884	\$ -	\$ -	\$ -	\$ -
Time deposits	5,971,269	-	5,873,596	97,673	-	-
Government Money Market Accounts	419,944	419,944	-	-	-	-
U.S. Treasury Obligations	26,241,861	-	975,554	2,465,468	2,414,530	20,386,309
U.S. Agencies Obligations	16,426,356	-	12,134,595	994,060	-	3,297,701
Sub-Total	\$ 72,427,314	\$ 23,787,828	\$ 18,983,745	\$ 3,557,201	\$ 2,414,530	\$ 23,684,010
Mutual Fund Pooled U.S. Government Obligations	9,983,289					
Common Stock	5,374,629					
Other Investments	1,177,103					
Total Deposits and Investments	\$ 88,962,335					
Reconciliation to Financial Statements:						
Cash and cash equivalents	\$ 22,572,264					
Investments	29,351,272					
	51,923,536					
Retirement fund investments:						
Investments	1,177,103					
U.S. gov't security agencies	28,564,008					
U.S. gov't money market	448,438					
Common stock	5,374,629					
Retirement fund cash and cash equivalents	375,941					
Agency fund cash and cash equivalents	390,726					
Agency fund investments	707,954					
	\$ 88,962,335					

Custodial Credit Risk – Exposure to custodial credit risk related to deposits exists when the City holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the City holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

The City's policy as it relates to custodial credit risk is to secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 102% of the uninsured deposits and accrued interest thereon. The City's policy limits acceptable collateral to U.S. Treasury securities, federally insured obligations, or direct debt obligations of municipalities, counties, and school districts in Oklahoma. Also, as required by Federal 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee.

At June 30, 2006, the City was not exposed to custodial credit as defined above.

Investment Credit Risk – The City's investment policy limits investments, excluding retirement trust fund investments, to the following:

- a. Obligations of the U. S. Government, its agencies and instrumentalities;
- b. Collateralized or insured non-negotiable certificates of deposit or other evidences of deposit that are either insured or secured with acceptable collateral with an in-state financial institution, and fully insured deposits in out-of-state institutions;
- c. Insured or fully collateralized negotiable certificates of deposit;

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d. Repurchase agreements that have underlying collateral consisting of those items specified in paragraph a above; and

e. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs a.

Investment credit risk is the risk that an issuer or other counterpart to an investment will not fulfill its obligations. The City has no formal policy limiting investments based on credit rating, but discloses any such credit risk associated with their investments by reporting the credit quality ratings of investments in debt securities as determined by nationally recognized statistical rating organizations—rating agencies—as of the year end. Unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

Investment Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City’s investment policy indicates that the investment portfolio, except for retirement trust fund investments, shall remain sufficiently liquid to enable the City to meet all operating requirements as anticipated. It sets a desired limit on investment maturities to a period of three years, as a means of managing exposure to fair value losses arising from increasing interest rates. The City discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments by date range.

As noted in the schedule of deposits and investments above, at June 30, 2006, the investments held by the City mature between 2006 through 2024 and are subject to early call or redemption.

Concentration of Investment Credit Risk - Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The City’s investment policy requires diversification of investments and indicates that, with the exception of U.S. Treasury securities and authorized pools, no more than 50% of the City’s total investment portfolio will be invested in a single financial institution.

Restricted Cash and Investments

The amounts reported as restricted assets of the Enterprise Fund on the statement of net assets are comprised of amounts held by the Lawton Water Authority in accounts of the trustee bank for revenue bond retirement, and other accounts with restricted uses. The restricted assets as of June 30, 2006 are as follows:

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Pooled Cash Restricted for Debt Service	\$	<u>2,487,072</u>
Investments:		
Landfill Financial Trust	\$	141,942
Series 2001B Promissory Note Debt Service		93,589
Series 2001B Promissory Note Debt Reserve		344,500
Series 2003B OWRB Promissory Note Debt Service		98,829
Series 2003B OWRB Promissory Note Debt Reserve		231,167
Series 2003D OWRB Promissory Note Debt Service		57,313
Series 2003D OWRB Promissory Note Debt Reserve		131,621
Series 2004F OWRB Promissory Note Debt Service		71,995
Series 2004F OWRB Promissory Note Debt Reserve		161,837
Series 2004 Sales Tax & Utility Revenue Bonds:		
Construction Funds		7,826,356
Debt Service		824,140
		<u>\$ 9,983,289</u>

4. Capital Assets and Depreciation

Capital Assets:

For the primary government and component units, capital assets are reported at actual or estimated historical cost, net of accumulated depreciation where applicable. Donated capital assets are reported at their fair value at date of donation. Estimated historical cost was used to value the majority of the capital assets acquired prior to June 30, 1992. The capitalization threshold is capital assets with a cost of \$1,000 or more.

For the year ended June 30, 2006, capital assets balances changed as follows:

	Restated, Balance at July 1, 2005	Additions	Transfers	Deductions	Balance at June 30, 2006
PRIMARY GOVERNMENT:					
<i>Governmental activities:</i>					
Capital assets not being depreciated:					
Land	\$ 3,634,557	\$ 6,881	\$ -	\$ -	\$ 3,641,438
Construction in progress	-	-	-	-	-
Total capital assets not being depreciated	<u>3,634,557</u>	<u>6,881</u>	<u>-</u>	<u>-</u>	<u>3,641,438</u>
Other capital assets:					
Buildings	15,850,524	831,770	-	-	16,682,294
Infrastructure	51,075,810	846,140	-	-	51,921,950
Machinery, furniture and equipment	24,807,465	2,059,495	274,414	705,503	26,435,871
Total other capital assets at historical cost	<u>91,733,799</u>	<u>3,737,405</u>	<u>274,414</u>	<u>705,503</u>	<u>95,040,115</u>
Less accumulated depreciation for:					
Buildings	11,167,966	288,062	-	-	11,456,028
Infrastructure	16,110,172	1,560,856	-	-	17,671,028
Machinery, furniture and equipment	17,918,065	1,626,306	275,081	691,338	19,128,114
Total accumulated depreciation	<u>45,196,203</u>	<u>3,475,224</u>	<u>275,081</u>	<u>691,338</u>	<u>48,255,170</u>
Other capital assets, net	<u>46,537,596</u>	<u>262,181</u>	<u>(667)</u>	<u>14,165</u>	<u>46,784,945</u>
Governmental activities capital assets, net	<u>\$ 50,172,153</u>	<u>\$ 269,062</u>	<u>\$ (667)</u>	<u>\$ 14,165</u>	<u>\$ 50,426,383</u>

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	Restated, Balance at July 1, 2005	Additions	Transfers	Deductions	Balance at June 30, 2006
<i>Business-type activities:</i>					
Capital assets not being depreciated:					
Land	\$ 1,405,554	\$ -	\$ -	\$ -	\$ 1,405,554
Construction in progress	1,390,528	4,471,635	-	1,390,528	4,471,635
Total capital assets not being depreciated	<u>2,796,082</u>	<u>4,471,635</u>	<u>-</u>	<u>1,390,528</u>	<u>5,877,189</u>
Other capital assets:					
Buildings and utility infrastructure	158,352,176	2,966,620	-	-	161,318,796
Machinery, furniture and equipment	10,829,122	2,042,928	(274,414)	641,179	11,956,457
Unamortized water rights	21,742,677	-	-	-	21,742,677
Total other capital assets at historical cost	<u>190,923,975</u>	<u>5,009,548</u>	<u>(274,414)</u>	<u>641,179</u>	<u>195,017,930</u>
Less accumulated depreciation for:					
Buildings and utility infrastructure	48,921,615	3,845,952	-	-	52,767,567
Machinery, furniture and equipment	9,453,221	1,041,758	(275,081)	620,820	9,599,078
Unamortized water rights	5,000,815	217,427	-	-	5,218,242
Total accumulated depreciation	<u>63,375,651</u>	<u>5,105,137</u>	<u>(275,081)</u>	<u>620,820</u>	<u>67,584,887</u>
Other capital assets, net	127,548,324	(95,589)	667	20,359	127,433,043
Business-type activities capital assets, net	<u>\$ 130,344,406</u>	<u>\$ 4,376,046</u>	<u>\$ 667</u>	<u>\$ 1,410,887</u>	<u>\$ 133,310,232</u>

Lawton Metropolitan Area Airport Authority

Non-depreciable:

Land	\$ 2,400	\$ -	\$ -	\$ 2,400
Construction-in-progress	3,665,497	584,530	-	4,250,027
Total non-depreciable assets at historical cost	<u>3,667,897</u>	<u>584,530</u>	<u>-</u>	<u>4,252,427</u>

Depreciable:

Runways, ramps, and roads	14,453,556	207,750	-	14,661,306	
Buildings and improvements	5,378,252	8,284	-	5,386,536	
Equipment and fixtures	1,484,083	22,779	-	1,506,862	
Furniture and equipment	113,594	-	-	113,594	
Total depreciable assets at historical cost	<u>21,429,485</u>	<u>238,813</u>	<u>-</u>	<u>21,668,298</u>	
Less accumulated depreciation					
Runways, ramps, and roads	(8,825,284)	(491,972)	-	(9,317,256)	
Buildings and improvements	(1,889,112)	(109,283)	-	(1,998,395)	
Equipment and fixtures	(924,467)	(92,220)	-	(1,016,687)	
Furniture and equipment	(103,759)	(3,317)	-	(107,076)	
Total accumulated depreciation	<u>(11,742,622)</u>	<u>(696,792)</u>	<u>-</u>	<u>(12,439,414)</u>	

Net depreciable assets

<u>\$ 13,354,760</u>	<u>\$ 126,551</u>	<u>\$ -</u>	<u>\$ 13,481,311</u>
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Museum of the Great Plains Trust Authority

Depreciable:

Furniture and equipment	\$ 288,421	\$ 1,478	-	\$ 289,899	
Displays	17,725	-	-	17,725	
Leasehold improvements	118,897	1,195	-	120,092	
Collections and exhibits	1,000,504	8,929	-	1,009,433	
Total depreciable assets at historical cost	<u>1,425,547</u>	<u>11,602</u>	<u>-</u>	<u>1,437,149</u>	
Less accumulated depreciation					
Total accumulated depreciation	<u>(127,396)</u>	<u>(27,989)</u>	<u>-</u>	<u>(155,385)</u>	

Net depreciable assets

<u>\$ 1,298,151</u>	<u>\$ (16,387)</u>	<u>\$ -</u>	<u>\$ 1,281,764</u>
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	Balance at June 30, 2006
Lawton Arts and Humanities Council	
Machinery and equipment	\$ 18,456
Less accumulated depreciation	(9,003)
Net depreciable assets	\$ 9,453
 McMahon Auditorium Authority	
Furniture and fixtures	\$ 24,628
Machinery and equipment	6,500
Buildings and improvements	54,549
Total depreciable assets at historical cost	85,677
Less accumulated depreciation	(27,732)
Net depreciable assets	\$ 57,945

Depreciation:

Depreciable capital assets are depreciated on a straight-line basis over their useful lives. The range of estimated lives by type of assets is as follows:

- Buildings 50 years
- Improvements other than buildings 20-40 years
- Utility property and improvements 15-50 years
- Infrastructure 15-50 years
- Machinery, furniture, and equipment 5-25 years

Depreciation of capital assets is included in total expenses and is charged or allocated to the activities primarily benefiting from the use of the specific asset. Depreciation expense has been allocated as follows:

Governmental Activities:	
General Government	\$ 849,698
Public Safety	706,692
Public Works and Streets	1,315,629
Community Development	38,300
Culture and Recreation	458,975
Sub-total governmental funds depreciation	3,369,294
Allocated Internal Service Fund Depreciation	105,930
Total	\$ 3,475,224
 Business-Type Activities:	
Water	\$ 2,552,569
Sewer	1,021,027
Sanitation	1,531,541
Total depreciation	\$ 1,531,541

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5. Internal and Interfund Balances and Transfers

Internal and Interfund Balances:

The City's policy is to eliminate interfund receivable and payables between funds in the statement of net assets to avoid the grossing up of balances. Only the residual balances due between governmental and business-type activities are reported as internal balances and then offset in the total column. There were no material interfund receivables and payables at June 30, 2006.

Internal and Interfund Transfers:

The City's policy is to eliminate interfund transfers between funds in the statement of activities to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and then offset in the total column. Internal activities between funds and activities for the year ended June 30, 2006 were as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>	<u>Nature of Interfund Transfer</u>
Debt service	Enterprise Fund	941,859	Debt service
General Fund	Officer Training Fund	5,453	Court fines
General Fund	Court Credit Card Fund	170,000	Excess revenues
General Fund	Enterprise Fund	11,514,942	Excess utility payments
General Fund	Enterprise Fund	147,684	Lease payments
Lakes Fund	General Fund	462,561	Operating subsidy
Officer Training	Court Credit Card Fund	40,000	Excess revenues
Mass Transit Fund	General Fund	455,000	Operating subsidy
Capital Outlay Rolling Stock Fund	Enterprise Fund	1,267,062	Capital purchases
Capital Improvement Fund	General Fund	518,285	Capital purchases
2005 CIP Fund	General Fund	11,481,640	Sales tax transfer
2005 CIP Fund	Enterprise Fund	1,954,034	Debt proceeds drawn for capital projects
RSVP Fund	General Fund	49,823	Operating subsidy
Enterprise Fund	2005 CIP Fund	2,036,760	Debt service
2000 CIP	1995 CIP Fund	366,649	To close 1995 CIP Fund
General Fund	Special Jail Fund	3,665	Jail fees
Enterprise Fund	Ad Valorem Fund	1,000,000	Debt proceeds drawn for capital projects
Communications Fund	General Fund	825,000	Operating subsidy
General Fund	Court Credit Card Fund	225,000	Court fines
Enterprise Fund	General Fund	420,000	Operating subsidy
		<u>33,885,417</u>	

<u>Reconciliation to fund financial statements:</u>	<u>Transfers to Other Funds</u>	<u>Transfers from Other Funds</u>	<u>Net Transfers</u>
Governmental Funds	\$ (18,059,835)	\$ 29,486,798	\$ 11,426,963
Enterprise Funds	(15,825,582)	4,398,619	(11,426,963)
Totals	<u>\$ (33,885,417)</u>	<u>\$ 33,885,417</u>	<u>\$ -</u>

<u>Reconciliation to Statement of Activities:</u>		
Net Transfers		\$ 11,426,963
Capital contributions transferred from governmental funds		(1,965,184)
Transfers - Internal Activity		<u>\$ 9,461,779</u>

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6. Long-Term Debt

The City's long term debt consists of general obligation bonds, judgments, revenue bonds and notes, capital lease obligations, accrued compensated absences, contracts payable, landfill closure and post closure, and long-term deposits subject to refund.

For the year ended June 30, 2006, the City's long-term debt balances changed as follows:

Primary Government:

<u>Type of Debt</u>	<u>Restated Balance July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
General Obligation Bonds	\$ 19,660,000	\$ 4,000,000	\$ 2,320,000	\$ 21,340,000	\$ 2,320,000
General Obligation Bond Premium	-	155,135	9,696	145,439	-
Judgments Payable	1,031,991	609,523	481,473	1,160,041	526,784
Capital Lease Obligations	23,880	-	23,880	-	-
Worker's Compensation	420,273	19,739	-	440,012	220,006
Accrued Compensated Absences	3,794,137	318,553	-	4,112,690	491,466
Total Governmental Activities	<u>\$ 24,930,281</u>	<u>\$ 5,102,950</u>	<u>\$ 2,835,049</u>	<u>\$ 27,198,182</u>	<u>\$ 3,558,256</u>
Business-Type Activities:					
Notes Payable	\$ 15,319,682	\$ 3,677,755	\$ 610,620	\$ 18,386,817	\$ 893,295
Revenue Bonds Payable	9,590,000	-	1,215,000	8,375,000	1,270,000
Revenue Bonds Premium	480,832	-	80,139	400,693	-
Contracts Payable	18,509,255	-	461,744	18,047,511	477,735
Capital Lease Obligations	110,439	258,965	284,939	84,465	84,465
Accrued Compensated Absences	646,598	16,550	-	663,148	79,578
Landfill Closure and Post-closure	2,846,546	349,011	-	3,195,557	-
Total Business-Type Activities	<u>\$ 47,503,352</u>	<u>\$ 4,302,281</u>	<u>\$ 2,652,442</u>	<u>\$ 49,153,191</u>	<u>\$ 2,805,073</u>

Component Units:

<u>Type of Debt</u>	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>	<u>Amount due in one year</u>
Component Units:					
Lawton Metropolitan Area Airport Authority					
Long-term debt:					
Note payable-truck	11,878	-	3,801	8,077	3,964
Capital Leases:					
Copier	1,210	-	1,210	-	-
Building	14,528	-	13,328	1,200	1,200
Total Debt	<u>\$ 27,616</u>	<u>\$ -</u>	<u>\$ 18,339</u>	<u>\$ 9,277</u>	<u>\$ 5,164</u>

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Governmental activities long-term debt payable from property tax levies or other governmental revenues includes the following:

General Obligation Bonds:

\$5,000,000 general obligation bonds dated April 1, 2000, payable in annual installments of \$555,000, with interest rates of 4.8% to 7.7%, repaid by property tax levies	\$2,225,000
\$15,580,000 general obligation bonds dated July 1, 2002, payable in annual installments of \$1,170,000, with interest rates of 3.75% to 6.0%, repaid by property tax levies	11,700,000
\$4,000,000 general obligation bonds dated April 1, 2002, payable in annual installments of \$445,000, with interest rates of 3.5% to 4.0%, repaid by property tax levies	2,665,000
\$1,500,000 general obligation bonds dated October 1, 2005, payable in annual installments of \$115,000, with an interest rate of 5%, repaid by property tax levies	
General Obligation Bond Payable	1,500,000
Unamortized General Obligation Bond Premium	<u>145,439</u>
Total General Obligation Bond, Net	1,645,439
\$2,500,000 general obligation bonds dated October 1, 2005, payable in annual installments of \$190,000, with an average interest rate of 3.59%, repaid by property tax levies	2,500,000
\$1,050,000 general obligation bonds dated June 1, 2003, payable in annual installments of \$150,000, with interest rates of 2.0% to 3.0%, repaid by property tax levies	<u>750,000</u>
Total general obligation bonds	<u>\$21,485,439</u>

Judgments Payable:

Court-assessed judgments to be paid with ad valorem taxes with periods ranging from one to three years.	<u>\$1,160,041</u>
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Business-type activities long-term debt payable from net revenues generated by and taxes pledged to the City's business-type activities include the following:

Note Payable – Oklahoma Water Resources Board:

Series 2001A for \$2,008,570 and Series 2001B for \$3,445,000 with interest on Series 2001B subject to annual adjustment (1.82% at June 30, 2006), and no interest charged on Series 2001A; however, there is a .5% annual administrative fee. Debt service payments are due February 15 and August 15 through February, 2021. Both notes are secured by the revenues of the Lawton Water Authority's (the "Authority") sanitary, and garbage collection and disposal systems.	\$4,516,827
Series 2003A for \$1,819,430, Series 2003B for \$3,095,000, Series 2003C for \$1,020,000 and Series D for \$1,745,000 with interest on Series 2003B and 2003D ranging from 1.345% to 5.245%. No interest is charged on Series 2003A and 2003C; however, there is a .5% annual administrative fee. Debt service payments are due March 15 and September 15 through September, 2027. Both notes are secured by the revenues of the Authority's water, sanitary, and garbage collection and disposal systems.	6,902,593

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Series 2004A for \$1,310,000 and Series 2004B for \$2,215,000, with interest charged on Series 2004B ranging from 1.145% to 4.795%. No interest is charged on Series 2004A; however, there is a .5% annual administrative fee. Debt service payments are due March 15 and September 15 through September, 2028. Both notes are secured by the revenues of the Authority's water, sewer, and garbage collection and disposal systems. 3,289,642

Series 2005 for \$10,815,000 with interest rate of 2.6% and .5% annual administrative fee. Debt service payments are due March 15 and September 15 through September 15, 2026. Secured by revenues of the Authority's water, sewer, and garbage collection and disposal Systems. At June 30, 2006 only \$3,677,755 had been drawn on the note. 3,677,755

Total Notes Payable – Oklahoma Water Resources Board \$18,386,817

Revenue Bonds Payable:

\$9,590,000 revenue bond issue of 2004, with average variable interest at 4.0%, used to construct and improve water and wastewater infrastructure to be repaid by sales tax revenue. Debt service payments are due January 1 and July 1 through January 1, 2012.

Revenue Bond Payable	\$8,375,000
Unamortized Revenue Bond Premium	<u>400,693</u>
Total Revenue Bonds, Net	<u>\$8,775,693</u>

Contract Payable:

\$20,634,941 contract payable with the Waurika Project Master Conservancy District. The contract provides the City with share of the District's water supply and the City pays its share of the costs of the facilities and its operations to the District. The City has pledged water revenues to secure this obligation and also has the ability to levy property taxes to pay the obligation. Debt principal payments are due annually, with interest at 3.46% (subject to adjustment) \$18,047,511

Capital Lease Obligation:

\$258,965 capital lease obligation for the purchase of a caterpillar track-type tractor, matures September 2006 with a stated interest rate of 4.85%. \$84,465

Long-term debt service requirements to maturity are as follows:

Governmental-Type Activities				
Year Ending June 30,	G.O. Bonds Payable		Judgments Payable	
	Principal	Interest	Principal	Interest
2007	2,320,000	1,016,061	526,784	69,602
2008	2,625,000	799,990	430,083	37,995
2009	2,625,000	690,606	203,174	12,190
2010	2,630,000	580,570	-	-
2011	2,070,000	471,583	-	-
2012-2016	7,815,000	1,270,703	-	-
2017-2021	1,255,000	133,145	-	-
Total	\$ 21,340,000	\$ 4,962,658	\$ 1,160,041	\$ 119,787

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Business-Type Activities

Year Ending June 30,	Notes Payable		Revenue Bonds Payable		Contract Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	893,295	664,540	1,270,000	352,450	477,735	624,985
2008	1,172,670	645,486	1,320,000	301,650	494,278	608,442
2009	1,187,270	621,931	1,360,000	262,050	511,396	591,324
2010	1,197,770	597,328	1,405,000	221,250	529,105	573,615
2011	1,224,070	571,596	1,475,000	151,000	547,428	555,292
2012-2016	6,420,349	2,436,483	1,545,000	77,250	3,034,976	2,478,624
2017-2021	7,169,149	1,630,168	-	-	3,598,162	1,915,438
2022-2026	4,965,116	739,911	-	-	4,265,855	1,247,745
2027-2031	1,294,373	66,299	-	-	4,588,576	479,504
Total	\$ 25,524,062	\$ 7,973,742	\$ 8,375,000	\$ 1,365,650	\$ 18,047,511	\$ 9,074,969
Less remaining proceeds to be drawn	(7,137,245)					
Principal balance	\$ 18,386,817					

The capital lease obligation has one remaining payment in fiscal year 2006 of \$84,465 principal and \$4,411 interest.

Landfill Closure Liability:

State and federal laws and regulations require the City to place a final cover on its construction and demolition landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for eight years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these costs as an operating expense of the Utilities Authority in each fiscal year. The current period expense amount is based upon the amount of landfill capacity used as of each fiscal year end.

The \$3,195,557 reported as accrued landfill closure cost liability at June 30, 2006, represents the cumulative amount of such costs reported to date based on the use of 78% of the estimated capacity of the landfill. The Authority will recognize the remaining estimated costs of closure and post-closure care in the amount of \$95,688 as the remaining estimated capacity if filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2006. The City has \$141,942 set aside to fund the estimated landfill closure cost liability

6. Net Assets and Fund Balances

Net assets are displayed in three components:

- a. *Invested in capital assets, net of related debt* - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. *Restricted net assets* - Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.

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c. *Unrestricted net assets* - All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

It is the City’s policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Prior period adjustments:

Statement of Activities:

Governmental Activities:

Beginning net assets as previously reported	\$ 31,100,909
Add understatement of street infrastructure assets, net of accumulated depreciation	22,332,105
Add overstatement of worker's compensation claims liability	256,438
Beginning net assets, restated	<u><u>\$ 53,689,452</u></u>

Business-Type Activities and Enterprise Fund:

Beginning net assets as previously reported	\$100,740,468
Add understatement of utility infrastructure assets, net of accumulated depreciation	2,803,211
Beginning net assets, restated	<u><u>\$103,543,679</u></u>

Discretely Presented Component Unit:

Lawton Arts and Humanities Council:

Beginning net assets as previously reported	\$65,223
Deduct understatement of deferred revenues	(8,252)
Beginning net assets, restated	<u><u>\$56,971</u></u>

7. Revenues

Program Revenues:

Program revenues within the statement of activities that are derived directly from each activity or from parties outside of the City’s taxpayers are reported as program revenues. The City has the following program revenues in each activity:

- Public Safety – Fire, Police, Ambulance – ambulance fees, fire run charges, officer’s training charges for services, police sentinel charges for services, restricted operating grants, 911 revenue, and restricted capital grants
- Community development – operating and capital grants
- Streets – Commercial vehicle and gasoline excise tax shared by the State.
- Culture and recreation – lake fees, pool fees, library fees, hunting and fishing permits, softball fees, operating and capital grants
- Transportation – bus fees and operating grants
- General Government – license and permits, fines and forfeitures, cemetery revenue, impact fees, and operating grants

All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

Sales Tax Revenue:

Sales tax revenue represents a 3.25 cents tax on each dollar of taxable sales of which is collected by the Oklahoma Tax Commission and remitted to the City. Sales tax revenue represents a 3.25 cents tax on each dollar of taxable sales of which is recorded as follows:

The total 3.25 cents is recorded initially in the General Fund. Then two-thirds of 1.25 cents is transferred to the 2000 CIP Fund and one-third of 1.25 cents is transferred to the 2005 CIP Fund for specific capital projects approved by voters. If needed, the 2005 CIP and 2000 CIP Funds transfer a portion of the dedicated sales taxes to the Enterprise Fund for debt service on voter-approved projects as well.

Property Tax Revenue:

In accordance with state law, a municipality may only levy a property tax to retire general obligation debt approved by the voters and to pay judgments rendered against the City. The City's property taxes are billed and collected by the County and remitted to the City. Property taxes levied by the City are billed and collected by the County Treasurer's Office and remitted to the City in the month following collection. Property taxes are levied normally in October and are due in equal installments on December 31 and March 31. Property taxes unpaid for the fiscal year are attached by an enforceable lien on property in the following October. For the year ended June 30, 2006, the City's net assessed valuation of taxable property was \$348,911,644. The taxes levied by the City per \$1,000 of net assessed valuation for the year ended June 30, 2006 was \$10.31.

8. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. The City manages these various risks of loss as follows:

- General Liability – Covered through self-insurance
- Physical Property – Covered through purchased insurance with a \$35,000 deductible.
- Workers' Compensation – Workers' compensation is covered through self-insurance using a third party processor to process claims.
- Employee's Group Medical –Covered through self-insurance using a third party processor to process medical claims. The City uses the third party processor's estimates to record group insurance claims payable. The City also has a stop-loss policy which covers individual claims in excess of \$150,000 during any year.

Management believes the insurance coverage listed above is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

9. Retirement Plan Participation

The City of Lawton participates in three pension or retirement plans:

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1. Lawton City Employee Retirement System (the "System") – single-employer, defined benefit pension plan
2. Oklahoma Police Pension and Retirement System (OPPRS) - a statewide cost-sharing plan
3. Oklahoma Firefighter's Pension and Retirement System (OFPRS) – a statewide cost-sharing plan

Lawton City Employee Retirement System

The City contributes to the City of Lawton Employees' Retirement System (the "System"), which is a single employer defined benefit pension plan administered by the City of Lawton. After November 1, 1975, all regular, full-time employees become a participant after completing thirty days of creditable service except for full-time police officers, firefighters and the city manager. The funding policy is established by Ordinance No. 692. Therefore, contributions are determined by ordinance rather than by actuarial determination. Each year, employees contribute 4.55% of annual pre-tax wages and the City contributes an amount required to provide benefits under the retirement system, subject to a maximum of 7.50% of annual pre-tax gross wages. The City performs actuarial valuations in each odd-numbered year to determine if the City's fixed contribution rate is funding the actuarially determined liability. The System issues separate audited annual financial statements.

The following is a summary of funding policies, contribution methods, and benefit provisions:

Year established and governing authority	1970; City Ordinance No. 692
Determination of Contribution requirements	City Ordinance
Employer	7.50% maximum
Plan members	4.55%
Funding of administrative costs	Investment earnings
Period required to vest	Based on years of service; 100% vested after 10 years
Eligibility for distribution	Age 52 with 10 years credited service, or earlier with 25 years credited service
Provisions for:	
Disability benefits	Yes
Death benefits	Yes

Plan Membership (as of July 1, 2005):

Active members	496
Retired participants	127
Disabled participants	15
Beneficiaries	<u>33</u>
 Total	 <u>671</u>

B. Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting - Disclosures of the System's financial condition are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as System revenues in the period in which

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they are due to the plan per the plan agreement. Benefits and refunds are recognized when due and payable per plan provisions.

Method Used to Value Investments - Values of System assets are reported at fair value which approximates market. As of June 30, 2006, the System held no related party investments or individual investments (other than U.S. government and U.S. government guaranteed securities) whose market value exceeds five percent or more of the net assets available for benefits.

C. Annual Pension Cost, Net Pension Obligation, and Reserves

Current year annual pension costs for the System is shown in the trend information provided in the Trend Information section. Annual required contributions were made by the plan. There were increases to net pension benefit obligation for the year ended June 30, 2006. See further explanation in paragraph D below.

There are no assets legally reserved for purposes other than the payment of plan member benefits. There are no long-term contracts for contributions.

D. Actuarial Assumptions

For the City Employees Retirement Plan, the actuarial assumptions used are as follows:

Valuation date	July 1, 2005
Actuarial cost method	Entry age
Amortization method	Level dollar open
Remaining amortization period	30 years
Asset valuation method	Market value
Investment rate of return	7.0%
Projected salary increases	5.0%
Inflation rate	2.0%

E. Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Employer Contribution</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	1,805,450	1,069,903	59.3%	1,334,511
2005	1,797,664	1,181,811	65.7%	1,950,364
2006	1,647,937	1,252,430	76.0%	2,345,871

Oklahoma Firefighter's and Police Pension and Retirement Systems

The City of Lawton, as the employer, participates in two statewide cost-sharing multiple employer defined benefit plans on behalf of the firefighters. The systems are funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

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	<u>Oklahoma Police Pension and Retirement System</u>	<u>Oklahoma Firefighter's Pension and Retirement System</u>
Obtaining separately issued financial statements	Police Pension and Retirement 1001 N.W. 63rd St., Suite 605 Oklahoma City, OK 73116-7335	Oklahoma Firefighter's Pension and Retirement System 4545 N. Lincoln Blvd., Suite 265 Oklahoma City, OK 73105-3414
Eligibility to participate	All full-time officers, employed by a participating municipality, not less than 21 years of age or more than 45 years of age when hired	All full-time or voluntary firefighters of a participating municipality hired before age 45.
Authority establishing contribution obligations and benefits	State Statute	State Statute
Employee's contribution rate (percent of covered payroll)	8%	8%
City's contribution rate (percent of covered payroll)	13%	13%
State obligation	State appropriation to fund the unfunded actuarial accrued liability	State appropriation to fund the unfunded actuarial accrued liability
Period required to vest	10 years	10 years
Eligibility and benefits for distribution (full-time)	20 years credited service, 2 ½% of final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.	20 years credited service 2 ½% of final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.
Eligibility and benefits for distribution (volunteer)	-	20 years credited service equal to \$5.46 per month per year of service, with a maximum of 30 years considered.
Deferred retirement option	Yes, 20 years credited service with additional option to participate in Louisiana Plan.	Yes, 20 years credited service with continued service for a maximum of 30 or more years.
Provisions for:		
Cost of living adjustments (normal retirement)	Yes	Yes, if vested by 5/83
Death (duty, non-duty, post retirement)	Yes	Yes
Disability (duty, non-duty)	Yes	Yes
Cost of living allowances	Yes	Yes

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Retirement Plan Contributions – OFPRS and OPPRS Cost-Sharing Plans

Oklahoma Police Pension and Retirement System			Oklahoma Firefighter's Pension and Retirement System		
Fiscal Year	Required Contribution	Percentage Contributed	Fiscal Year	Required Contribution	Percentage Contributed
2004	874,960	100%	2004	727,942	100%
2005	904,289	100%	2005	771,981	100%
2006	942,314	100%	2006	802,798	100%

10. Commitments and Contingencies

Construction Contracts Outstanding

The following construction contracts were outstanding at June 30, 2006:

Landfill expansion	\$ 119,295
67th Street	60,288
Medicine Park Water Plant	77,806
City wide waterline repairs	543,698
SE Water Treatment Plant	966,960
Arterial street repairs	292,989
NW Ashley	92,557
Water storage	676,500

Litigation

The City is a party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a City Sinking Fund for the payment of any court assessed judgment rendered against the City. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

Grant Programs

The City of Lawton participates in various federal or state grant/loan programs from year to year. In 2006, the City's involvement in federal and state award programs is relatively material. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The City has not been notified of any noncompliance with federal or state award requirements. Any liability for reimbursement which may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

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REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF LAWTON, OKLAHOMA
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Budgetary Comparison Schedules – Year Ended June 30, 2006

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts (Budget basis)	Final Budget Positive (Negative)
Beginning Budgetary Fund Balance:	\$4,250,000	\$4,250,000	\$5,433,134	1,183,134
Resources (Inflows):				
Taxes and assessments	32,719,591	\$ 32,719,591	34,194,517	1,474,926
Fees, licenses and permits	943,661	943,661	1,014,363	70,702
Rentals and sales of property	64,000	194,000	135,452	(58,548)
Fines and forfeitures	2,821,000	2,821,000	2,795,689	(25,311)
Interest earned	150,000	150,000	387,638	237,638
Other sources	359,738	359,738	575,927	216,189
Intergovernmental	840,000	840,000	910,474	70,474
Grants	135,000	135,000	165,470	
Total Resources (Inflows)	<u>38,032,990</u>	<u>38,162,990</u>	<u>40,179,530</u>	<u>2,016,540</u>
Amounts available for appropriation	<u>42,282,990</u>	<u>42,412,990</u>	<u>45,612,664</u>	<u>3,199,674</u>
Charges to Appropriations (Outflows):				
General Government	8,296,865	\$ 7,201,971	\$ 6,563,443	\$ 638,528
Public Safety	22,512,095	22,169,395	21,520,211	649,184
Public Works and Streets	6,475,689	5,161,194	4,895,893	265,301
Culture and Recreation	4,739,680	5,346,997	5,160,013	186,984
Total Charges to Appropriations	<u>\$ 42,024,329</u>	<u>\$ 39,879,557</u>	<u>\$ 38,139,560</u>	<u>\$ 1,739,997</u>
Other financing sources (uses)				
Prior year obligation expense	-	-	(24,247)	(24,247)
Transfers from other funds	415,000	11,997,316	11,922,053	(75,263)
Transfers to other funds		(13,581,786)	(13,694,024)	(112,238)
Total other financing sources (uses)	<u>415,000</u>	<u>(1,584,470)</u>	<u>(1,796,218)</u>	<u>(211,748)</u>
Ending Budgetary Fund Balance	<u>\$ 673,661</u>	<u>\$ 948,963</u>	<u>\$ 5,676,886</u>	<u>\$ 4,727,923</u>
Less Fund Balance Reserves:				
Compensated absences obligation			(3,982,631)	
Unreserved Budgetary Basis Fund Balance			<u>\$ 1,694,255</u>	

See accompanying notes to this schedule.

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Footnotes to Budgetary Comparison Schedule:

1. The budgetary comparison schedules and budgetary fund balance amounts are reported on a non-GAAP basis that report revenues on a cash basis, and expenditures in the period the invoice is received, except for payroll expenditures that are recorded when paid. In addition, obligations that are required to be funded from ending budgetary fund balances are subtracted from total ending budgetary fund balances to arrive at the unreserved budgetary fund balance. This presentation of unreserved fund balances on a budgetary basis is used to demonstrate compliance with Article 10, § 26 of the Oklahoma State Constitution.

2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require the approval of the City Manager. All supplemental appropriations require the approval of the City Council. Supplemental appropriations must be filed with the Office of the State Auditor and Inspector.

3. The budgetary basis differs from the modified accrual (GAAP) basis as shown in the schedule below:

Fund Balance - GAAP Basis	9,590,054	566,013	10,156,067
Increases (Decreases):			
Revenues:			
Taxes receivable	(4,994,206)	(355,578)	(5,349,784)
Accounts receivable	(13,079)	12,493	(586)
Accrued interest	(49,703)	(27,981)	(77,684)
Fair value adjustment	3,280	(11,385)	(8,105)
Expenditures:			
Accrued payroll	762,143	114,099	876,242
Encumbrances	(133,160)	(149,543)	(282,703)
Other expenditures	267,805	95,634	363,439
	Fund Balance - Budgetary Basis	\$5,433,134	\$243,752
			\$5,676,886
Less: Reserve for compensated absences obligation			(3,982,631)
Unreserved budgetary fund balance			\$1,694,255

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Schedule of Funding Progress – City Employee Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (a - b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 1, 2005	38,405,760	46,786,796	(8,381,036)	82.1%	15,860,253	52.8%
July 1, 2003	34,278,831	38,738,865	(4,460,034)	88.5%	14,583,355	30.6%
July 1, 2001	30,861,366	37,391,605	(6,530,239)	82.5%	14,267,470	45.8%
July 1, 1999	25,660,421	30,041,920	(4,381,499)	85.4%	12,032,296	36.4%
July 1, 1997	22,446,867	23,154,791	(707,924)	96.9%	10,652,523	6.6%
July 1, 1995	18,707,013	19,280,903	(573,890)	97.0%	9,644,285	6.0%

Effective July 1, 1998, the pension benefit formula multiplier increased from 2.0% to 2.3%. Based on the July 1, 2005, actuarial valuation, this resulted in an increase of \$2,984,285 in the unfunded actuarial accrued liability. The unfunded actuarial accrued liability was also increased by \$302,650 due to a sliding scale, the ad hoc cost-of-living increase for retirees and beneficiaries that became effective April 1, 1998. The number of active plan members decreased from 481 in the July 1, 2003, actuarial valuation to 440 in the July 1, 2005, actuarial valuation. The number of retirees and beneficiaries receiving benefits increased from 168 in the July 1, 2003, actuarial valuation to 175 in the July 1, 2005, actuarial valuation.

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OTHER SUPPLEMENTARY INFORMATION

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Schedule of Expenditures of Federal Awards – Year Ended June 30, 2006

<u>Federal Grantor/Pass Through Agency Grantor/Program Title</u>	<u>Federal CFDA#</u>	<u>Grant #</u>	<u>Award Amount</u>	<u>Awards Expended</u>
<u>U.S. Department of Housing and Urban Development</u>				
Community Development Block Grant	14.218	B-03-MC-40-0002	1,094,000	22,823
	14.218	B-04-MC-40-0003	1,056,000	846,711
	14.218	B-05-MC-40-0004	999,437	25,866
Sub-total CFDA 14.218				<u>895,400</u>
Home Investment in Affordable Housing	14.239	M-00-MC-40-0201	511,000	-
	14.239	M-02-MC-40-0201	569,000	91,818
	14.239	M-03-MC-40-0202	557,461	476,383
	14.239	M-04-MC-40-0202	556,544	361,940
	14.239	M-05-MC-40-0202	531,586	-
Sub-total CFDA 14.239				<u>930,141</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 5,875,028</u>	<u>\$ 1,825,541</u>
<u>U.S. Department of Justice</u>				
Edward Byrnes Memorial Grant	16.579	2005-DJ-BX-1189	97,870	97,870
Bullet Proof Vests	16.607	2002-BUBX02013700	382	382
Bullet Proof Vests	16.607	2003-BUBX03016374	11,705	11,705
Bullet Proof Vests	16.607	2004-BUBX04023433	7,925	7,925
Sub-total CFDA 16.607			<u>20,012</u>	<u>20,012</u>
Weed and Seed Grant	16.595	2004-WS-Q4-0224	225,000	87,351
Total U.S. Department of Justice			<u>\$ 342,882</u>	<u>\$ 205,233</u>
<u>National Community Service Agency</u>				
Retired Senior Volunteer Program	94.002	04SRWOK011	27,368	27,368
<u>Federal Emergency Management Agency</u>				
Hazard Mitigation Grant	97.039	FEMA-1355-DR-OK	7,421	7,421
<u>U.S. Federal Highway Administration</u>				
Pass through Oklahoma Highway Safety Department Lawton Traffic Enforcement Project	20.600	PT-05-03-14-02		17,769
Lawton Traffic Enforcement Project	20.600	PT-06-03-13-03	82,000	23,493
Total U.S. Federal Highway Administration			<u>\$ 82,000</u>	<u>\$ 41,262</u>
<u>Federal Transit</u>				
Urban Area Formula Program	20.507	OK-90-X070-00	863,668	446,391
	20.507	OK-90-X070-00	863,571	413,107
Total Federal Transit			<u>\$ 1,727,239</u>	<u>\$ 859,498</u>
<u>Department of Health and Human Services</u>				
Medical Reserve Corps	93.008	US25G03059-01-1	50,000	2,821
Medical Reserve Corps	93.008	US25G03059-01-1	50,000	29,922
Total Department of Health and Human Services			<u>\$ 100,000</u>	<u>\$ 32,743</u>
<u>Homeland Security</u>				
First Responder Equipment Phase 2	16.007	OKFREP 2	410,000	74,139
Critical Infrastructure Target Hardening Grant	97.074	OKFREP32.07	40,326	40,326
Total Homeland Security			<u>\$ 450,326</u>	<u>\$ 114,465</u>
<u>Environmental Protection Agency</u>				
STAG grant	66.806	XP-976164-01-1	1,940,000	750,063
Total Federal Awards			<u>\$ 10,552,264</u>	<u>\$ 3,863,594</u>

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Footnotes to Schedule of Expenditures of Federal Awards:

1. The Schedule of Expenditures of Federal Awards is prepared on an accrual basis of accounting. The expenditures are recorded when the liability is incurred regardless of when the award proceeds are received.

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Schedule of Changes in Fund Balances - Non-Major Governmental Funds, Year Ended June 30, 2006

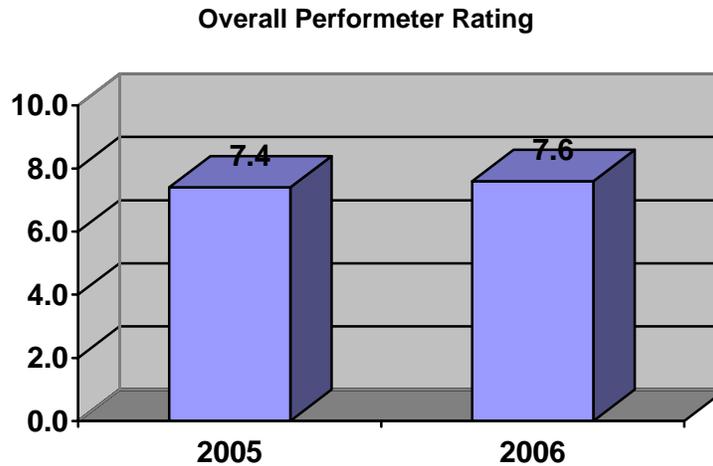
Fund	Fund Balance 7/1/2005	Changes in Fund Balance	Fund Balance 6/30/2006
Special Revenue Funds:			
Real Property Proceeds	\$ 2,275	\$ -	2,275
RSVP	10,610	358	10,968
Public Library	17,112	(12,559)	4,553
Small Business Loan	158,805	3,066	161,871
CDBG	-	-	-
HOME Investment CDBG	-	-	-
Lawton Urban Housing	207	9	216
Police Grant	23,410	4,985	28,395
Park Fee Fund	57,541	-	57,541
Hunting & Fishing Permits	(889)	19,402	18,513
Narcotics Fund	64,356	(15,269)	49,087
Animal Sterilization Fund	163,422	18,495	181,917
Insurance Proceeds	53,105	1,148	54,253
Emergency 911	124,769	(98,877)	25,892
Adult Softball	10,542	663	11,205
Cemetery Care	244,109	(71,686)	172,423
Officers Training	11,285	(10,930)	355
Court Credit Card Maintenance	335,716	(37,185)	298,531
Lawton Parking Authority	1,191	-	1,191
Senior Crafts Fund	158	(72)	86
Animal License Fund	79,385	14,790	94,175
State Landfill Fund	41,849	(2,377)	39,472
Police Sentinel	771	(234)	537
Fire Prevention Education	4,276	886	5,162
Park Fund	3,392	(1,904)	1,488
McMahon Authority Grants	434,967	(280,276)	154,691
Drainage Maintenance Fund	360,352	(238,721)	121,631
Animal Donation Fund	1,614	410	2,024
Application Fees Fund	7,833	1,320	9,153
Capital Outlay Rolling Stock	1,248,668	(627,899)	620,769
LLEBG	22,066	(22,066)	-
Cemetery Reward	5,500	-	5,500
Centennial Fund	25,204	-	25,204
Hotel/Motel Tax Fund	228,592	(72,761)	155,831
Project Impact	64,872	(28,658)	36,214
Mass Transit Fund	(40,585)	132,781	92,196
Reserve Fund	442,138	(21,000)	421,138
Federal Grant Fund	70,849	221,728	292,577
Special Jail Fund	-	8,900	8,900
Cellular Service Fee Fund	-	65,621	65,621
Stormwater Mitigation	-	116,711	116,711
Impact Fees	5,000	263,322	268,322
Capital Project:			
CIP	455,961	73,957	529,918
Ad Valorem	3,839,385	(1,395,353)	2,444,032
CIP 1995	371,585	(371,585)	-
CIP 2000	7,197,165	(2,274,983)	4,922,182
Debt Service			
Prior to 1972	1,269,327	(106,975)	1,162,352
Ad Valorem 2005	-	1,653,085	1,653,085
Total	<u>\$ 17,417,890</u>	<u>\$ (3,089,733)</u>	<u>14,328,157</u>

The General Fund and 2005 CIP Fund are considered major funds and are therefore displayed in separate columns. All other governmental funds are considered non-major funds and are aggregated under the column Other Governmental Funds. The fund balances, are reported on the modified accrual basis for these aggregated non-major funds.

The Performer® Analysis

At the end of the fiscal year, City management employed the firm of Crawford & Associates, P.C. to perform a financial analysis of the City's financial health and performance. The firm's trademarked financial analysis tool, **The Performer®**, uses various financial ratios and a weighted scoring methodology to evaluate and rate the City's financial health and performance. The ratings are based on a weighted ten-point scale with 10 representing the most positive rating, 5 a satisfactory rating, and 1 the most negative rating.

For the year ended June 30, 2006, the City's Overall Performer® Rating was **7.6**. This represents the evaluator's opinion that the City's overall financial health and performance was above satisfactory in 2006 and slightly improved over 2005.¹



The remaining sections of this Performer Analysis include the presentation and discussion of the various ratios used in the overall Performer® Analysis and above ratings.

¹ Performer® is a registered trademark of Crawford and Associates, P.C., Oklahoma City, OK. All Performer® evaluations and ratings are the opinion of Crawford & Associates, P.C. and are not audited. The charts and rating are included in this report to facilitate historical comparisons of financial health and performance to prior periods, and are not intended to be used for any other purpose. The ratings are based on benchmarks established solely by Crawford & Associates, P.C.

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For the year ended June 30, 2006, the annual report reflects the following Performer® ratios.

Performer® Ratio	What Does the Ratio Mean?	Performer® Minimum Goal	2006 Ratio
Financial Position Ratios			
Unrestricted Net Assets	How do our unrestricted and expendable rainy day funds look?	30-50% of annual revenue	23%
Budgetary Fund Balance	How does our General Fund budgetary carryover position look?	10-30% of fund revenue	15%
Capital Asset Condition	How much useful life do we have left in our capital assets?	At least 50% remaining	60%
Debt to Assets	Who really owns the City?	At least 50% ownership	66%
Liquidity Ratio	Will our vendors and employees be pleased with our ability to pay them on time?	At least 2.00 times	13.8 times
Pension Plan Funding Status	Will our employees be pleased with us when they retire?	At least 95% funded	82%
Financial Performance Ratios			
Change in Net Assets	Did our overall financial condition improve, decline, or remain steady over the past year?	0% change	+4%
Interperiod Equity	Who paid for the cost of operating the City, current, past or future tax and rate payers?	95-100% current	107%
Sales Tax Growth	What is the state of our local economy?	1% growth	+6.6%
BTA Self Sufficiency	Did our current year utility services pay for themselves?	At least 95%	100%
Debt Service Coverage	Were our revenue debt investors be pleased with our ability to pay them on time?	At least 1.25 times	4.4 times
Financial Capability Ratios			
Revenue Dispersion	How dependent are we on revenue sources we cannot directly control?	Less than 50%	58%
Bonded Debt Per Capita	What is our long-term general obligation debt burden on our taxpayers?	Less than \$500	\$230
Available Legal Debt Limit	Will we be able to issues more long-term general bonded debt, if needed?	At least 50% available	39%
Property Taxes Per Capita	What is our property tax burden on our taxpayers?	Less than \$50	\$39
Sales Tax Rate	Will our citizens be likely to approve an increase in sales tax rates, if needed?	3.5% or less	3.25%
Debt Service Load	How much of our annual budget is loaded with disbursements to pay off long-term debt?	Less than 20%	12%

Ratio Category	Performer® Rating
Financial Position	7.0
Financial Performance	9.4
Financial Capability	5.8
Overall Rating	7.6

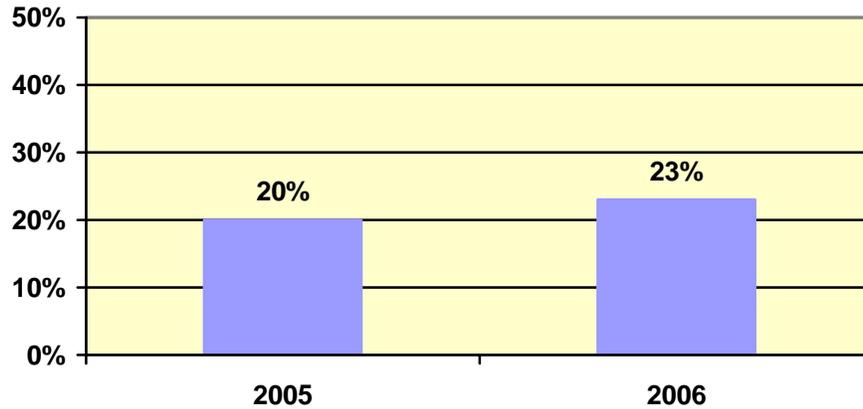
**CITY OF LAWTON, OKLAHOMA
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Performer® Ratio – Level of Unrestricted Net Assets

The level of unrestricted net assets of the City as compared to annual revenue is an indicator of the City’s ability to absorb short-term financial difficulties that may result from revenue shortfalls or unexpected expenditure needs.

**Unrestricted Net Assets as a Percentage of Annual Revenue
(How do our unrestricted and expendable rainy day funds look?)**

Performer® Rating	10	5
Benchmarks	50%	30%



Year	2005	2006
% of Revenue	20%	23%

At June 30, 2006, the total City-wide amount of unrestricted, expendable rainy days funds approximated \$19.1 million or 23% of annual revenues. While governmental activities reported unrestricted net assets at 10% of annual revenues, the business-type activities held 46% of annual revenues as unrestricted net assets. It should be noted that while the amounts reported above are considered unrestricted net assets, certain portions of these amounts are reserved internally for specific fund purposes.

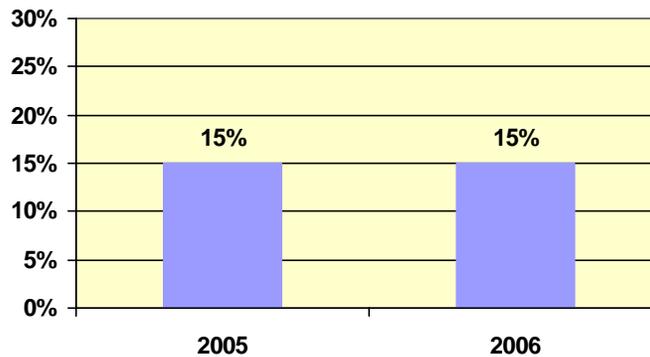
**CITY OF LAWTON, OKLAHOMA
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Performer® Ratio – Budgetary Fund Balance

One meaningful financial indicator of the City’s operating financial condition is a comparison of the amount of unreserved fund balance of the General Fund to its annual fund revenue. Unreserved fund balances are needed in order to provide a funding source to manage occurrences such as revenue shortfalls, unexpected expenditure needs, and monthly cash flow requirements.

**Unreserved Fund Balance as a Percentage of Fund Annual Revenue
(How does our General Fund budgetary carryover position look?)**

Performer® Rating	10	5
Benchmarks	30%	10%



General Fund	2005	2006
Unreserved %	15%	15%

At June 30, 2006, the General Fund’s total unreserved fund balance on the modified accrual basis of accounting amounted to \$6 million or 15% of total General Fund revenues. The unreserved fund balance of 15% level is below the desired level of 30% but is in the range considered by management to be fiscally responsible.

**CITY OF LAWTON, OKLAHOMA
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Performer® Ratio – Capital Asset Condition

A measure of the average age of the City’s capital assets is the capital asset condition ratio. This ratio compares the amount of accumulated depreciation on depreciable capital assets (such as buildings, vehicles and equipment, improvements, and infrastructure) to the historical cost of such assets.

**Capital Asset Accumulated Depreciation as a Percentage of Asset Cost
(How much useful life do we have left in our capital assets?)**

Performer® Rating	10	5
Benchmarks	75%	50%



Year	2005	2006
% of Remaining Useful Life	62%	60%

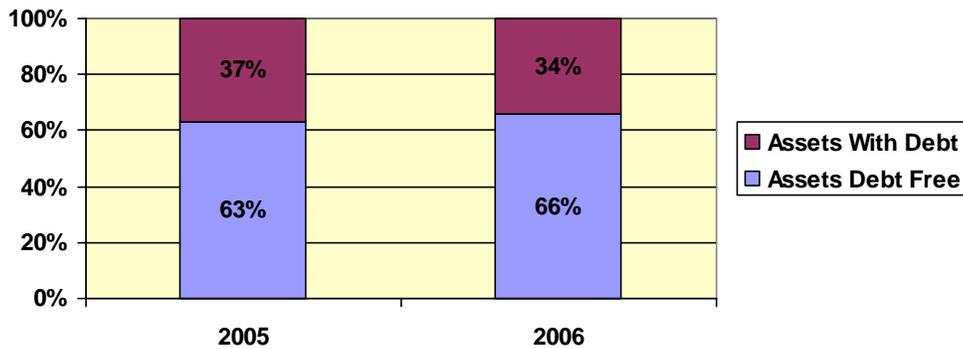
At June 30, 2006, the City owned \$290.1 million of depreciable capital assets with accumulated depreciation on such assets of \$115.8 million. This indicates that on the average, the City’s capital assets have approximately 60% of the useful life remaining.

Performer® Ratio – Debt to Asset Solvency

Another measure of the overall solvency of the City is achieved through a comparison of the City’s total assets to its total liabilities. The higher the percentage of assets debt free, the better the solvency.

**Percentage of Assets Funded With Outstanding Debt
(Who really owns the City?)**

Performer® Rating	10	5
Benchmarks	90%	50%



Year	2005	2006
% of Assets Debt Free	63%	66%

The June 30, 2006 ratio of debt to assets indicates that for every dollar of assets the City owns, it owes 34 cents of that dollar to others. This ratio is considered a relatively favorable indicator of solvency.

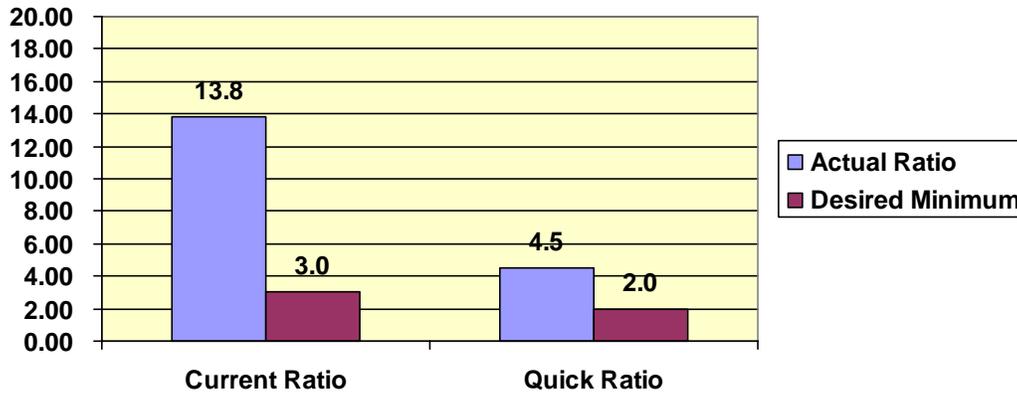
**CITY OF LAWTON, OKLAHOMA
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Performer® Ratio – Liquidity Ratios

Liquidity ratios measure the City’s ability to pay short-term obligations as they become due. The current ratio compares total current assets to current liabilities. The quick ratio is more conservative and compares cash and cash equivalents to current operating liabilities such as accounts payable and accruals. A current ratio of at least 3.0 to 1 and a quick ratio of 2.0 to 1 are indicators of favorable liquidity.

**Current Assets Compared to Current Liabilities
(Will our vendors and employees be pleased with our ability to pay them on time?)**

Performer® Rating Benchmarks	10	5
Current ratio	3.0 - 1	2.0 - 1
Quick ratio	2.0 - 1	1.0 - 1



Year	2005	2006
Current ratio	14.7	13.8
Quick ratio	5.4	4.5

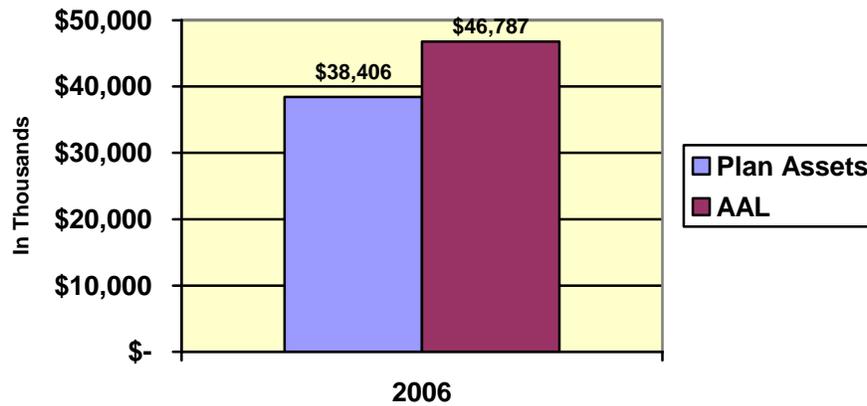
For the year ended June 30, 2006, the City’s liquidity was quite strong with current and quick ratios well in excess of the benchmark levels.

Performer® Ratio – Pension Plan Funding Status of the City’s Single-Employer Defined Benefit Plan

The pension funding ratio compares the actuarial fair value of the pension plan’s assets to the actuarial accrued liability for pension benefits. A percentage less than 100% indicates the plan is underfunded at the valuation date.

**Fair Value of Plan Assets as a Percentage of the Actuarial Accrued Liabilities (AAL)
(Will our employees be pleased with us when they retire?)**

Performer® Rating	10	5
Benchmarks	110%	95%



Year	2005	2006
Funded %	82%	82%

At June 30, 2006, the City’s defined benefit pension plan was 82% funded, indicating that the plan is funded at a level where the fair value of the plan’s net assets is below the actuarial plan liability. In addition, at June 30, 2006, the City had an accumulated net pension obligation (resulting from actual plan contributions made that were less than the actuarially required contributions) in the amount of \$2.3 million.

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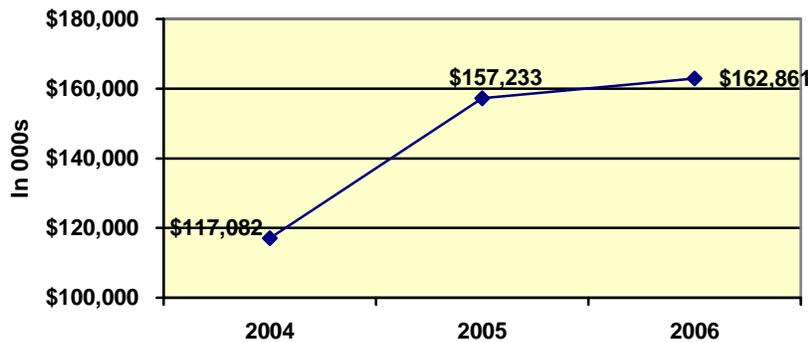
Performer® Ratio – Change in Net Assets

The primary financial indicator in evaluating the overall change in the City’s financial condition is the Change in Net Assets ratio. This ratio measures the dollar and percentage change in the City’s net assets (the difference between total assets and total liabilities) from the prior year.

One of the most important questions asked about the City’s finances is, “Has the City’s overall financial condition improved, declined or remained steady as a result of the year’s activities?” This ratio helps answer this question. You will need to consider other non-financial factors, however, such as changes in the City’s sales tax base, the condition of the City’s infrastructure, and quality of service to assess the overall health of the City.

**Change in Government-Wide Net Assets
(Did our overall financial condition improve, decline or remain steady over the past year?)**

Performer® Rating	10	5
Benchmarks	10%	0%



Year	2005	2006
% Change	+12.6%	+4%

For the year ended June 30, 2006, the City experienced a \$5.6 million or 4% increase in total government-wide net assets. This indicates that the City’s overall financial condition improved over the past year. The City’s governmental activities recorded a \$3.6 million increase in net assets, while business-type activities net assets increased by \$2 million.

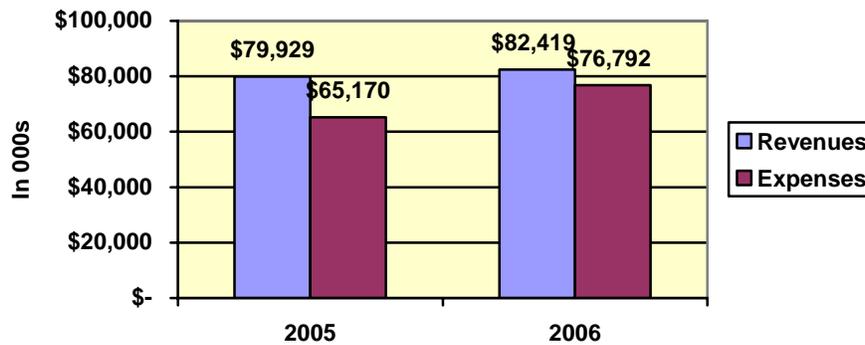
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Performer® Ratio – Interperiod Equity

One measure of financial performance over a given period of time is through the determination of interperiod equity. Interperiod equity is a determination of who actually paid for the cost of current year costs of operation. If current year revenues were sufficient to cover current year expenses (100% or higher coverage), then it can be said that interperiod equity has been achieved. If current year expenses were subsidized by prior year net assets, then it can be said that interperiod equity was not achieved and a portion of the current year costs were financed by prior year tax and rate payers, while if a portion of current year costs were financed with proceeds of long-term debt, then it can be said that some of the current year costs have been shifted to future year tax and rate payers.

**Percentage of Current Year Expenses Funded by Current Year Revenues
(Who paid for the cost of operating the City, current, past, or future tax and rate payers?)**

Performer® Rating	10	5
Benchmarks	100%	95%



Year	2005	2006
% Current Funded	123%	107%

For the year ended June 30, 2006, the full cost of operations was paid by current rate-payers and taxpayers. Current year tax and rate payers provided income that covered current year costs for all activities combined by 107%.

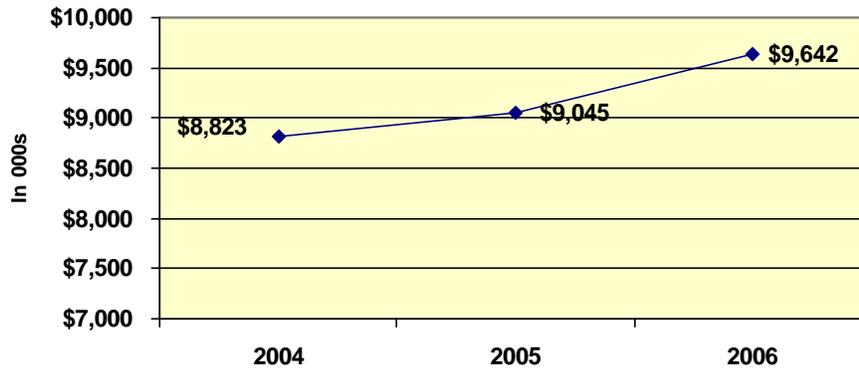
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Performer® Ratio – Sales Tax Growth

Oklahoma municipalities are not provided the constitutional authority to levy an annual property tax for operations. As a result, they are significantly reliant on sales and use taxes to finance general government operations. As such, the City’s ability to finance general government operations is highly dependent on the state of the City’s local economy.

**Sales and Use Tax Revenue Collections per One Percent Rate
(What is the state of our local economy?)**

Performer® Rating Benchmarks	10	5
% Growth	>5%	1%



Year	2004	2005	2006
Total Tax Collected (in 000s)	\$28.7	\$29.4	\$31.3
Average Tax Rate	3.25%	3.25%	3.25%
Collected per One Cent (in 000s)	\$8.8	\$9.0	\$9.6
% Change per One Cent	-	+2.5%	+6.6%

For the year ended June 30, 2006, the City’s sales and use tax collections increased by approximately \$1.9 million or 6.6% from the prior year. Considering the City’s 3.25 cents on the dollar rate in effect for both years, the \$1.9 million increase in sales and use tax collections in 2006 translates into an increase in taxable sales over 2005 of \$59.7 million.

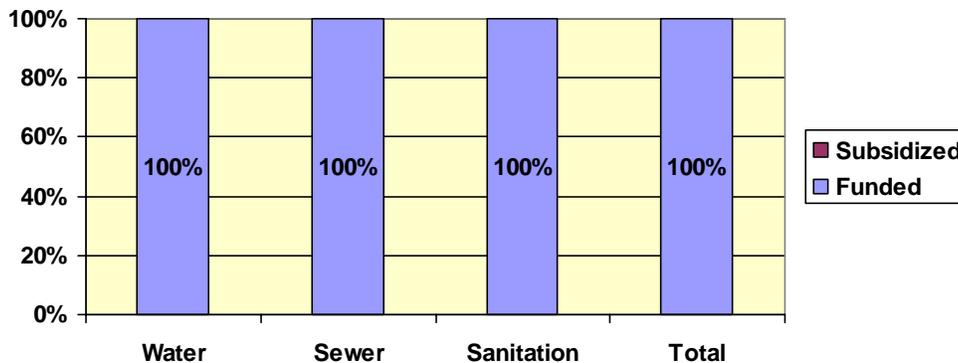
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Performer® Ratio – Business-Type Activities (BTA) Self-Sufficiency

Business-type activities are generally considered activities that should generate sufficient income to cover their costs of operation, such as utility services. However, sometimes governments subsidize these services with general revenues, such as dedicated sales tax. A comparison of service charges generated by the services to the annual costs of operation is an indicator of the level at which business-type activities are self-sufficient.

**Percentage of BTA Costs Covered by Service Charges
(Did our current year utility services pay for themselves?)**

Performer® Rating	10	5
Benchmarks	105%	95%



Year	2005	2006
% Self-Sufficient	100%	100%

The chart above indicates that the City’s utility services were 100% self-sufficient. The City’s business-type activities reported an increase in net assets before transfers to governmental activities of \$11.5 million, and \$2 million increase in net assets after transfers were made to governmental activities for the year ended June 30, 2006. The rates charged for utility usage were sufficient to fund the direct cost of operation of these utilities and the related depreciation on capital assets.

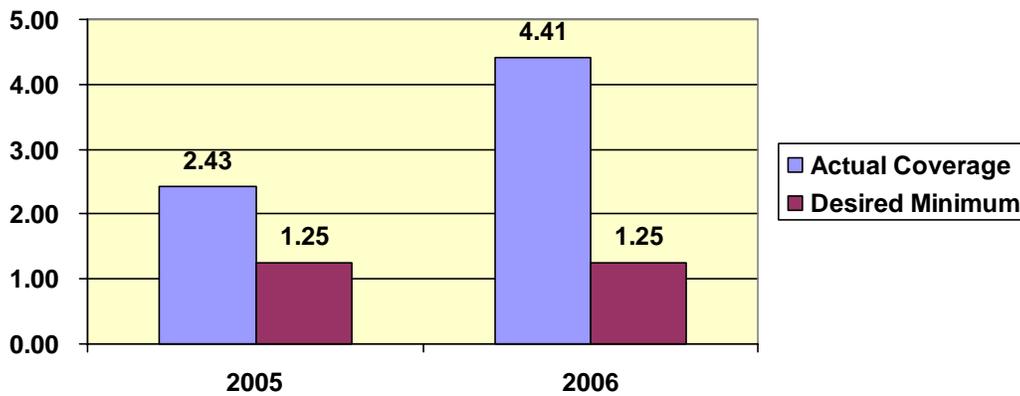
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Performer® Ratio – Debt Service Coverage

One measure of the City’s solvency, or ability to pay long-term obligations as they become due, is the ratio of debt service coverage. This ratio compares the net revenues pledged to the repayment of revenue bond and note debt to the annual debt service requirements of such debt. A ratio of 1.25 to 1 indicates that net revenue pledged was sufficient to cover the amount of annual debt service requirements.

**Net Revenues Compared to Average Annual Debt Service Requirements
(Will our revenue debt investors be pleased with our ability to pay them on time?)**

Performer® Rating	10	5
Benchmarks	2-1	1.25-1



Year	2005	2006
Number of Times Covered	2.43	4.41

For the year ended June 30, 2006, the City’s net revenues from utility rates and other pledged revenues were 4.41 times the year’s debt service. This is a favorable indication of solvency.

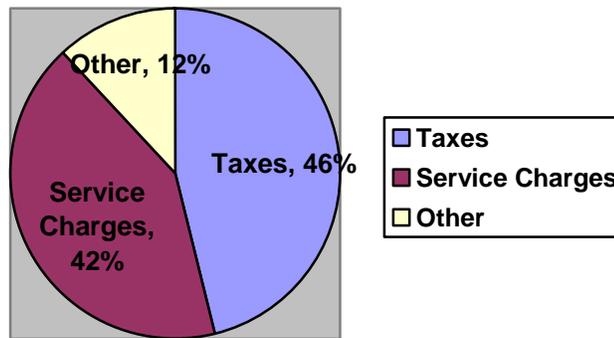
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Performer® Ratio – Revenue Dispersion

The measurement of revenue dispersion is an indicator of how dependent the City is on certain types of revenue. The more dependent the City is on revenue sources beyond its direct control, such as taxes requiring voter approval, grants and other contributions, the less favorable the dispersion.

**Percentage of Annual Revenue Not Subject to Direct Control Compared to Total Revenue
(How dependent are we on revenue sources we cannot directly control?)**

Performer® Rating	10	5
Benchmarks	90%	50%



Year	2005	2006
% Not Subject to Direct Control	59%	58%

Because Oklahoma municipalities are not provided the constitutional authority to levy a property tax for operations, they are significantly reliant on sales taxes to finance general government operations. The City of Lawton is no exception. The City of Lawton is dependent (58% in 2006) on taxes and other revenues that require voter approval or are outside the City’s direct control to finance its operations. The City had direct control of 42% of its annual revenues in 2006 in the form of service charges. This indicates the presence of some exposure to financial difficulties resulting from the reliance on economy based taxes.

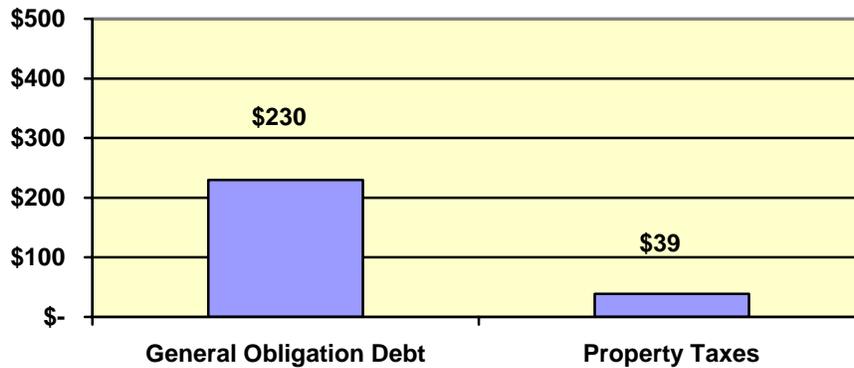
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Performer® Ratios – General Obligation Debt and Property Taxes

As previously discussed, Oklahoma municipalities are not provided the constitutional authority to levy an annual property tax for operations. However, municipalities may incur general obligation debt, with voter approval, and court-assessed judgments funded by property taxes to an amount no more than 10% of the net assessed valuation of taxable property for certain types of general obligation bonds. Measures of general bonded debt per capita, remaining legal debt margin, and property taxes per capita are indicators of the City’s financing capabilities related to the ability to incur future debt.

**General Bonded Debt and Property Taxes Per Capita
(What is our debt and tax burden on our property taxpayers?)**

Performer® Rating Benchmarks	10	5
Debt per Capita	\$0	\$500
Taxes per Capita	\$0	\$50
Remaining Legal Debt Margin	100%	50%



Year	2006
General Bonded Debt /Judgments	\$21.3 mil.
Taxes per \$1000 of Net Assessed Value	\$10.31
Property Taxes Levied (in 000s)	\$3,596
Population	92,757
General Bonded Debt per Capita	\$230
Property Taxes per Capita	\$39
Legal Debt Margin Remaining	39%

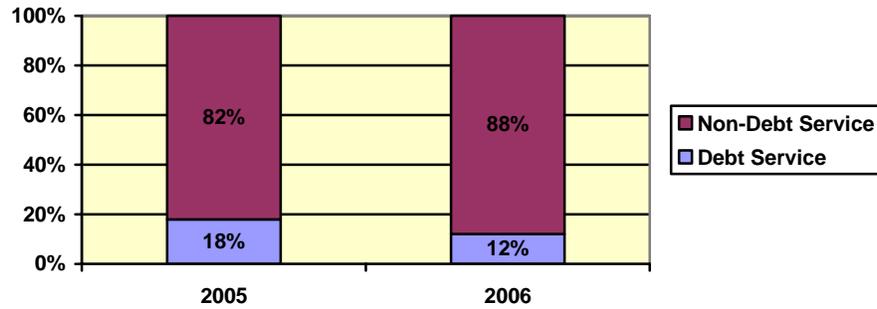
As noted in the table above, at June 30, 2006, the City had \$21.3 million in general bonded debt outstanding, \$3,595,654 property taxes levied, and 39% of its general obligation debt issuing capability remaining. This indicates an acceptable financial capability related to general bonded debt and potential to levy property taxes.

Performer® Ratio – Debt Service Load

The debt service load ratio measures the extent to which the City’s non-capital expenditures were comprised of debt service payments on long-term debt.

**Percentage of Non-Capital Expenditures Comprised of Debt Service Payments
(How much of our annual budget is loaded with disbursements to pay off long-term debt?)**

Performer® Rating	10	5
Benchmarks	5%	20%



Year	2005	2006
% Debt Service	18%	12%

In 2006, approximately \$7.8 million of the \$64.6 million of non-capital expenditures (or 12%) represented principal and interest payments on long-term debt. This is a relatively favorable indicator of solvency and indicates that for every dollar of non-capital expenditures made by the City, only 12 cents of that dollar was needed to pay principal and interest on the City’s long-term debt.