

# **CITY OF LAWTON**

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## **ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS**

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**AS OF AND FOR THE FISCAL YEAR ENDED  
JUNE 30, 2007**

**CITY OF LAWTON, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2007**

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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, 2007, 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 Lawton Metropolitan Area Airport Authority, the Lawton Arts and Humanities Council, the McMahon Auditorium Authority, and the Museum of the Great Plains Trust Authority, which represent 98%, 99%, and 100%, respectively, of the assets, net assets, and revenues of the 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit 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, 2007, 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 May 23, 2008, 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, Schedule of Changes in Fund Balances – Non-major Governmental Funds, and The Debt Service Coverage Schedule, 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.

*John M. Arledge & Associates, P.C.*

May 23, 2008  
Edmond, Oklahoma

**CITY OF LAWTON, OKLAHOMA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Year Ended June 30, 2007**

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**MANAGEMENT DISCUSSION AND ANALYSIS**

**CITY OF LAWTON, OKLAHOMA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Year Ended June 30, 2007**

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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, 2007. Please read it in conjunction with the City's financial statements, which follow this section.

***FINANCIAL HIGHLIGHTS***

- For the fiscal year ended June 30, 2007, the City's total net assets increased by \$7.4 million or 4.1% from the prior year.
- During the year, the City's expenses for governmental activities were \$55.7 million and were funded by program revenues of \$11.5 million and further funded with taxes and other general revenues that totaled \$44.3 million.
- In the City's business-type activities, such as utilities, program revenues exceeded expenses by \$6.3 million.
- Sales and use taxes increased by \$1.4 million or 4.4% 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 \$42.4 million from the prior year.
- At June 30, 2007, the General Fund reported an unreserved, undesignated fund balance of \$7.7 million, which is an increase of 28.7% from the prior year.
- For budgetary reporting purposes, the General Fund reported revenues in excess of estimates of \$878,117 or 2.1%, while expenditures were under the final appropriations by \$1.3 million or 3%.

***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, 2007**

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- **Lawton Economic Development Authority** – 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, 2007**

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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, McMahan Auditorium Authority, Museum of the Great Plains Trust Authority, Lawton Economic Development Authority, and Lawton Industrial Development Authority. The Lawton Industrial Development Authority is 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, 2007**

*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 \$182,310,947 at the close of the most recent fiscal year.

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

	Governmental Activities		% Inc. (Dec.)	Business-type Activities		% Inc. (Dec.)	Total Primary Government		% Inc. (Dec.)
	(Restated)			(Restated)			(Restated)		
	2007	2006	2007	2006	2007	2006	2007	2006	
Current and other assets	\$ 46,549	\$ 39,342	18%	\$ 24,002	\$ 23,046	4%	\$ 70,551	\$ 62,388	13%
Capital assets	69,067	62,519	10%	138,785	133,310	4%	207,852	195,829	6%
Total assets	115,616	101,861	14%	162,787	156,356	4%	278,403	258,217	8%
Long-term debt outstanding	26,559	27,198	-2%	59,910	49,153	22%	86,469	76,351	13%
Other liabilities	8,015	5,276	52%	1,608	1,636	-2%	9,623	6,912	39%
Total liabilities	34,574	32,474	6%	61,518	50,789	21%	96,092	83,263	15%
Net assets:									
Invested in capital assets, net of debt	51,625	45,167	14%	89,983	96,498	-7%	141,608	141,665	0%
Restricted	27,179	19,390	40%	5,733	5,803	-1%	32,912	25,193	31%
Unrestricted	2,238	4,830	-54%	5,553	3,266	70%	7,791	8,096	-4%
Total net assets	\$ 81,042	\$ 69,387	17%	\$101,269	\$ 105,567	-4%	\$182,311	174,954	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 2007, this investment in capital assets, net of related debt amounted to \$141,608,479. 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, \$32,911,305 also represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$7,791,163, 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, 2007**

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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.

Explanations of significant changes displayed in Table 1 are as follows:

*Governmental Activities:*

Other Liabilities – Increase of \$2.7 million (52%) due to an increase in accrued payables related to large capital purchases and an escrow account of \$500,000.

Restricted Net Assets – Increase of \$7.8 million (40%) due mainly to an increase in the 2005 CIP restricted funds of \$8.8 million from unspent transfers from the Enterprise Fund related to draws on the OWRB notes.

*Business-Type Activities:*

Long-term Debt Outstanding – Increase of \$10.7 million (22%) due primarily to draws on OWRB notes of \$14.9 million and normal debt service principal payments of \$4.7 million.

Unrestricted Net Assets – Increase of \$2.3 million (70%) due to excess unrestricted revenues exceeding expenses.

**Changes in Net Assets**

For the year ended June 30, 2007, net assets of the primary government changed as follows:

**CITY OF LAWTON, OKLAHOMA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Year Ended June 30, 2007**

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

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total Primary Government		% Inc. (Dec.)
	2007	2006		2007	2006		2007	2006	
<b>Revenues:</b>									
<b>Program revenues:</b>									
Charges for services	\$ 6,935	\$ 6,306	10%	\$ 31,280	\$ 28,497	10%	\$ 38,215	\$ 34,803	10%
Operating grants and contributions	4,190	4,140	1%	761	750	1%	4,951	4,890	1%
Capital grants and contributions	389	834	-53%	-	-	-	389	834	-53%
<b>General revenues:</b>									
Sales and use taxes	32,713	31,336	4%	-	-	-	32,713	31,336	4%
Other taxes	7,147	6,796	5%	-	-	-	7,147	6,796	5%
Other general revenue	4,428	3,036	46%	888	725	22%	5,316	3,761	41%
Total revenues	<u>55,802</u>	<u>52,448</u>	6%	<u>32,929</u>	<u>29,972</u>	10%	<u>88,731</u>	<u>82,420</u>	8%
<b>Program expenses:</b>									
General government	10,346	10,866	-5%	-	-	-	10,346	10,866	-5%
Public safety	25,594	28,155	-9%	-	-	-	25,594	28,155	-9%
Public works and streets	8,644	7,167	21%	-	-	-	8,644	7,167	21%
Health	-	-	-	-	-	-	-	-	-
Transportation	1,806	1,518	19%	-	-	-	1,806	1,518	19%
Cultural, parks and recreation	7,282	7,670	-5%	-	-	-	7,282	7,670	-5%
Community/economic development	1,020	1,931	-47%	-	-	-	1,020	1,931	-47%
Interest	977	999	-2%	-	-	-	977	999	-2%
Water	-	-	-	13,782	8,980	53%	13,782	8,980	53%
Sewer	-	-	-	8,565	7,211	19%	8,565	7,211	19%
Sanitation	-	-	-	3,359	2,295	46%	3,359	2,295	46%
Total expenses	<u>55,669</u>	<u>58,306</u>	-5%	<u>25,706</u>	<u>18,486</u>	39%	<u>81,375</u>	<u>76,792</u>	6%
Excess (deficiency) before transfers	133	(5,858)	102%	7,223	11,486	-37%	7,356	5,628	31%
Transfers	11,521	9,462	22%	(11,521)	(9,462)	22%	-	-	-
<b>Increase (decrease) in net assets</b>	<u>\$ 11,654</u>	<u>\$ 3,604</u>	223%	<u>\$ (4,298)</u>	<u>\$ 2,024</u>	312%	<u>\$ 7,356</u>	<u>\$ 5,628</u>	31%

Explanations of significant changes in excess of \$1 million and 20% displayed in Table 2 are as follows:

*Governmental Activities:*

**Other General Revenues** – Increase of \$1.5 million (41%) due to an \$825,000 miscellaneous income item in the CIP 2005 fund and an increase in investment income of \$680,000.

**Public Works and Streets Expenses** – Increase of \$1.5 million (21%) due mainly to a \$2 million increase in General Fund operating expenses related to consolidation of fuel and repair expenses from other departments.

*Business-Type Activities:*

**Water, Sanitation, and Sewer Expenses** – Increase of \$7.2 million (39%) due primarily to increase in operating expenses of \$5 million related to increase in uncapitalized capital outlay and increase in interest expense of \$1.7 million.

**Transfers Out** – Increase of \$2 million (22%) resulting from increase in excess utility payments transferred to the General Fund of \$1.1 million and \$1.2 million increase in transfer to Rolling Stock Fund.

**CITY OF LAWTON, OKLAHOMA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Year Ended June 30, 2007**

**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.)
	2007	2006		2007	2006	
General government	\$10,346	\$10,866	-5%	(\$5,777)	(\$6,501)	-11%
Public safety	25,594	28,155	-9%	(23,840)	(26,435)	-10%
Public works and streets	8,644	7,167	21%	(6,872)	(5,518)	25%
Culture, parks and recreation	7,282	7,670	-5%	(6,852)	(7,115)	-4%
Community/economic development	1,020	1,931	-47%	586	(116)	605%
Transportation	1,806	1,518	19%	(423)	(341)	24%
Interest on long-term debt	977	999	-2%	(977)	(999)	-2%
<b>Total</b>	<b>\$55,669</b>	<b>\$58,306</b>	<b>-5%</b>	<b>(\$44,155)</b>	<b>(\$47,025)</b>	<b>-6%</b>

For the year ended June 30, 2007 total expenses for governmental activities amounted to \$55.7 million which was a slight decrease from the prior year of 5%. See Table 2 above for explanations of changes in excess of \$1 million and 20%.

**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.
	2007	2006		2007	2006	
Water	\$ 13,782	\$ 8,980	53%	\$ 3,303	\$ 6,493	-49%
Wastewater	8,565	7,211	19%	713	1,359	-48%
Sanitation	3,359	2,296	46%	2,319	2,908	-20%
<b>Total</b>	<b>\$ 25,706</b>	<b>\$ 18,487</b>	<b>39%</b>	<b>\$ 6,335</b>	<b>\$ 10,760</b>	<b>-41%</b>

**CITY OF LAWTON, OKLAHOMA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Year Ended June 30, 2007**

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

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

- Total business-type activities reported net revenues of \$6.3 million for the year ended June 30, 2007.
- All individual activities reported net revenue for the years ended June 30, 2007 and June 30, 2006.

***A FINANCIAL ANALYSIS OF THE CITY'S FUNDS***

As the City completed its 2007 fiscal year, the governmental funds reported a combined fund balance of \$42.1 million or a 14.7% increase of \$5.4 million mainly due to unspent transfers into the 2005 CIP Fund of \$7 million. The enterprise funds reported combined net assets of \$101.3 million or a 4.1% decrease from 2006.

Other fund highlights include:

- For the year ended June 30, 2007, the General Fund's total fund balance decreased by \$2,139,962 or 21.1% due mainly to increased operating expenses of \$3.2 million while operating income only increased by \$1.7 million.
- The 2005 CIP Fund's total fund balance increased by \$8.9 million or 72.7% due to an increase in transfers in of approximately \$9.3 million.

		<u>Fund Balance/Net Assets</u>	
Governmental Funds		Proprietary Funds	
Reserved for encumbrances and other purposes	\$ 25,441,204	Invested in capital assets, net of related debt	\$ 89,983,092
Unreserved	16,623,755	Restricted for debt service and other	5,732,671
		Unrestricted	5,553,596
Total Fund Balance	\$ 42,064,959	Total Net Assets	\$ 101,269,359

**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 less than 1% or \$835 and a decrease in appropriations of 5.8% or \$2,617,524. Actual revenues exceeded estimates by \$878,117 or 2.1%, while expenditures were under final appropriations by \$1,281,740 or 3%.

***CAPITAL ASSET AND DEBT ADMINISTRATION***

**Capital Assets**

At the end of June 30, 2007, the City had \$207.8 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 \$12 million or 6.1% over last year.

**CITY OF LAWTON, OKLAHOMA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of and for the Year Ended June 30, 2007**

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

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	Restated				Restated	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 4,051,438	\$ 3,641,438	\$ 1,405,554	\$ 1,405,554	\$ 5,456,992	\$ 5,046,992
Buildings and utility infrastructure	4,392,585	4,934,562	110,307,165	108,551,229	114,699,750	113,485,791
Machinery, furniture and equipment	8,965,646	7,599,463	2,483,334	2,357,379	11,448,980	9,956,842
Infrastructure	33,193,620	34,250,920	-	-	33,193,620	34,250,920
Unamortized water rights	-	-	16,307,008	16,524,435	16,307,008	16,524,435
Construction in progress	18,463,877	12,093,317	8,281,926	4,471,635	26,745,803	16,564,952
<b>Totals</b>	<b>\$ 69,067,166</b>	<b>\$ 62,519,700</b>	<b>\$ 138,784,987</b>	<b>\$ 133,310,232</b>	<b>\$ 207,852,153</b>	<b>\$ 195,829,932</b>

This year's more significant capital asset additions included:

Street reconstruction - \$409,625	Water line reconstruction - \$2 million
Easements - \$410,000	Sewer line reconstruction - \$4.8 million
SE Water Treatment Plant - \$5.6 million (CIP)	

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 \$86.5 million in long-term debt outstanding which represents a \$10.1 million or 13.3% 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**

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	Restated				Restated	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Accrued absences	\$ 4,233,686	\$ 4,112,690	\$ 639,016	\$ 663,148	\$ 4,872,702	\$ 4,775,838
General Obligation Bonds	19,020,000	21,340,000	-	-	19,020,000	21,340,000
General Obligation Bond Premium	135,743	145,439	-	-	135,743	145,439
Worker's Compensation	745,339	440,012	515,270	-	1,260,609	440,012
Judgments Payable	1,079,274	1,160,041	-	-	1,079,274	1,160,041
Revenue Bonds	-	-	7,105,000	8,375,000	7,105,000	8,375,000
Revenue Bonds Premium	-	-	320,554	400,693	320,554	400,693
Notes Payable	-	-	30,363,537	18,386,817	30,363,537	18,386,817
Contracts Payable	-	-	17,569,776	18,047,511	17,569,776	18,047,511
Landfill Closure and Post-closure	-	-	3,397,120	3,195,557	3,397,120	3,195,557
Capital Leases	1,344,730	-	-	84,465	1,344,730	84,465
<b>Totals</b>	<b>\$ 26,558,772</b>	<b>\$ 27,198,182</b>	<b>\$ 59,910,273</b>	<b>\$ 49,153,191</b>	<b>\$ 86,469,045</b>	<b>\$ 76,351,373</b>

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, 2007**

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**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 sources. Much of Lawton's growth is attributable to several new businesses and the Base Realignment program (BRAC) which is a stimulus for new construction of both homes and businesses.

The FY 2007-2008 budget will increase by estimated \$4 million dollars. These increases are the result of a series of economic changes and labor costs. Examples include the continuing rising cost of fuel, natural gas, electricity, chemicals 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. The city also expects that in the coming year that the general employees will be successful in unionizing due to recent laws passed in Oklahoma 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 for "Rolling Stock" to help defray the cost of police and fire vehicles as well as other equipment needs of the City. This assessment generates approximately \$1.5 million with anticipated needs of well over \$5.0 million. In order to meet the equipment needs of the city it is anticipated that the city will increase this rate to \$6.00 during FY 2006-2007.

Water and Sewer rates have a small built in rate adjustment each year based on the overall cost of living or Consumer Price Index. In the coming year we anticipate that these rates will increase approximately 3-4%.

The City of Lawton continues to be impacted by many "Unfunded Mandates" from both State and Federal agencies. As a result many economic factors are "unforeseen" and adjustments have to be made in future budgets to meet these requirements. The primary sources of revenue for the City of Lawton are Sales Tax and Water revenue. Sales tax requires a vote of the people and cannot be adjusted without the people's consent. Consumer Price Index adjustments to water rates will not sustain the ever increasing costs of fuel and materials for operation. The City continues to look for ways to enhance our revenue base through grants that will assist in the completion of major infrastructure and development projects.

**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. 4<sup>th</sup> 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, 2007**

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**BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE**

**CITY OF LAWTON, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2007**

**Statement of Net Assets– June 30, 2007**

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>ASSETS:</b>				
Cash and cash equivalents	\$18,262,354	\$7,344,634	\$25,606,988	\$1,088,711
Investments	21,275,560	12,068,965	33,344,525	112,120
Interest receivable	388,787	65,565	454,352	6,019
Accounts receivable, net	993,426	3,604,796	4,598,222	40,181
Inventory	-	-	-	34,654
Due from other governments	5,595,299	-	5,595,299	188,336
Earmest money	-	-	-	5,000
Prepaid items	-	-	-	8,952
Other assets	-	-	-	15,544
Capital assets:				
Land and construction in progress	22,515,315	9,687,480	32,202,795	785,588
Other capital assets, net of depreciation	46,551,851	129,097,507	175,649,358	14,140,633
Unamortized bond issuance costs	33,663	918,172	951,835	119,250
<b>Total assets</b>	<b>115,616,255</b>	<b>162,787,119</b>	<b>278,403,374</b>	<b>16,544,988</b>
<b>LIABILITIES:</b>				
Accounts payable and accrued liabilities	4,426,080	802,151	5,228,231	61,917
Escrow liability	591,060	-	591,060	-
Due to component unit	184,836	-	184,836	-
Grants payable	-	-	-	3,500
Accrued interest payable	-	805,336	805,336	-
Settlement obligation	-	-	-	-
Deferred revenue	-	-	-	6,775
Net pension obligation	2,813,919	-	2,813,919	-
Long-term liabilities:				
Due within one year	4,622,066	5,003,626	9,625,692	-
Due in more than one year	21,936,706	54,906,647	76,843,353	151,620
<b>Total liabilities</b>	<b>34,574,667</b>	<b>61,517,760</b>	<b>96,092,427</b>	<b>223,812</b>
<b>NET ASSETS:</b>				
Invested in capital assets, net of related debt	51,625,387	89,983,092	141,608,479	14,926,221
Restricted for:				
Debt service	627,990	5,013,515	5,641,505	92,430
Capital projects	25,078,022	-	25,078,022	-
Grantor purposes	685,904	-	685,904	105,248
Landfill financial assurance	-	719,156	719,156	-
Other purposes	786,718	-	786,718	349,285
Unrestricted	2,237,567	5,553,596	7,791,163	847,992
<b>Total net assets</b>	<b>\$81,041,588</b>	<b>\$101,269,359</b>	<b>\$182,310,947</b>	<b>\$16,321,176</b>

See accompanying notes to the basic financial statements.

**CITY OF LAWTON, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2007**

**Statement of Activities – Year Ended June 30, 2007**

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	
<b>Primary Government:</b>								
<b>Governmental activities:</b>								
General government	\$10,345,530	\$4,162,003	405,877	856	(5,776,794)	-	(\$5,776,794)	-
Public safety	25,593,935	1,200,522	164,597	388,703	(23,840,113)	-	(\$23,840,113)	-
Public works and streets	8,644,321	985,657	786,761	-	(6,871,903)	-	(\$6,871,903)	-
Culture and recreation	7,281,787	327,564	102,718	-	(6,851,505)	-	(\$6,851,505)	-
Community development	835,511	-	1,606,185	-	770,674	-	\$770,674	-
Transportation	1,806,476	259,144	1,124,225	-	(423,107)	-	(\$423,107)	-
Economic development - payment to component unit	184,836	-	-	-	(184,836)	-	(\$184,836)	-
Interest on long-term debt	976,857	-	-	-	(976,857)	-	(\$976,857)	-
<b>Total governmental activities</b>	<b>55,669,253</b>	<b>6,934,890</b>	<b>4,190,363</b>	<b>389,559</b>	<b>(44,154,441)</b>	<b>-</b>	<b>(44,154,441)</b>	<b>-</b>
<b>Business-type activities:</b>								
Water	13,782,069	17,084,834	-	-	-	3,302,765	3,302,765	-
Wastewater	8,565,450	8,517,486	760,999	-	-	713,035	713,035	-
Sanitation	3,358,576	5,678,204	-	-	-	2,319,628	2,319,628	-
<b>Total business-type activities</b>	<b>25,706,095</b>	<b>31,280,524</b>	<b>760,999</b>	<b>-</b>	<b>-</b>	<b>6,335,428</b>	<b>6,335,428</b>	<b>-</b>
<b>Total primary government</b>	<b>\$81,375,348</b>	<b>\$38,215,414</b>	<b>\$4,951,362</b>	<b>\$389,559</b>	<b>(44,154,441)</b>	<b>6,335,428</b>	<b>(37,819,013)</b>	<b>-</b>
<b>Component Units:</b>								
Airport	\$2,042,916	\$787,272	\$832,266	\$712,453	-	-	-	\$289,075
Culture and recreation	819,405	231,772	570,965	-	-	-	-	(16,668)
<b>Total component units</b>	<b>\$2,862,321</b>	<b>\$1,019,044</b>	<b>\$1,403,231</b>	<b>\$712,453</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>272,407</b>
<b>General revenues:</b>								
<b>Taxes:</b>								
Sales and use taxes					32,712,758	-	32,712,758	-
Tax increment financing sales taxes					184,836	-	184,836	-
Property tax					3,440,644	-	3,440,644	-
Franchise and public service taxes					2,674,364	-	2,674,364	-
Hotel/motel taxes					847,105	-	847,105	-
Intergovernmental revenue not restricted to specific programs					661,899	-	661,899	-
Investment income					2,213,187	738,602	2,951,789	34,156
Miscellaneous					1,552,815	149,595	1,702,410	-
Payment from primary government					-	-	-	184,836
Transfers - Internal activity					11,521,484	(11,521,484)	-	-
<b>Total general revenues and transfers</b>					<b>55,809,092</b>	<b>(10,633,287)</b>	<b>45,175,805</b>	<b>218,992</b>
<b>Change in net assets</b>					<b>11,654,651</b>	<b>(4,297,859)</b>	<b>7,356,792</b>	<b>491,399</b>
<b>Net assets - beginning, restated</b>					<b>69,386,937</b>	<b>105,567,218</b>	<b>174,954,155</b>	<b>15,829,777</b>
<b>Net assets - ending</b>					<b>\$81,041,588</b>	<b>\$101,269,359</b>	<b>\$182,310,947</b>	<b>\$16,321,176</b>

See accompanying notes to the basic financial statements.

**CITY OF LAWTON, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2007**

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**BASIC FINANCIAL STATEMENTS - GOVERNMENTAL FUNDS**

**CITY OF LAWTON, OKLAHOMA  
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As of and for the Year Ended June 30, 2007**

**Governmental Funds Balance Sheet - June 30, 2007**

	<u>General Fund</u>	<u>2005 CIP Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 1,816,765	\$ 5,935,675	\$ 10,493,871	\$ 18,246,311
Investments	1,950,413	15,930,618	3,394,529	21,275,560
Receivables:				
Accounts receivable	19,213	825,056	148,246	992,515
Accrued interest receivable	49,684	274,458	64,645	388,787
Due from other funds	300,000	-	-	300,000
Due from other governments and entities	5,538,963	-	56,336	5,595,299
 Total assets	 <u>\$ 9,675,038</u>	 <u>\$ 22,965,807</u>	 <u>\$ 14,157,627</u>	 <u>\$ 46,798,472</u>
<b>LIABILITIES AND FUND BALANCES:</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 1,658,933	\$ 1,348,683	\$ 950,001	\$ 3,957,617
Escrow liability	-	589,460	1,600	591,060
Due to refundable deposits	-	-	-	-
Due to other funds	-	-	-	-
Due to component unit	-	-	184,836	184,836
Due to other governments and entities	-	-	-	-
 Total liabilities	 <u>1,658,933</u>	 <u>1,938,143</u>	 <u>1,136,437</u>	 <u>4,733,513</u>
<b>Fund Balances:</b>				
Reserved for:				
Encumbrances and other purposes	267,277	22,555,705	2,618,222	25,441,204
Unreserved	7,748,828	(1,528,041)	-	6,220,787
Unreserved, reported in:				
Special Revenue Funds	-	-	3,692,955	3,692,955
Capital Project Funds	-	-	6,082,023	6,082,023
Debt Service Funds	-	-	627,990	627,990
 Total fund balances	 <u>8,016,105</u>	 <u>21,027,664</u>	 <u>13,021,190</u>	 <u>42,064,959</u>
 Total liabilities and fund balances	 <u>\$ 9,675,038</u>	 <u>\$ 22,965,807</u>	 <u>\$ 14,157,627</u>	 <u>\$ 46,798,472</u>

See accompanying notes to the basic financial statements.

**CITY OF LAWTON, OKLAHOMA  
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**Governmental Funds Statement of Changes in Fund Balances – Year Ended June 30, 2007**

	<b>General Fund</b>	<b>2005 CIP Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>				
Taxes	\$36,214,165	-	\$4,287,749	\$40,501,914
Intergovernmental	906,727	-	3,555,751	4,462,478
Charges for services	-	-	-	-
Fines and forfeitures	2,594,758	-	321,006	2,915,764
Licenses and permits	1,044,616	-	2,916,101	3,960,717
Investment income	623,866	\$1,042,369	546,952	2,213,187
Miscellaneous	691,189	825,055	232,116	1,748,360
<b>Total Revenues</b>	<b>42,075,321</b>	<b>1,867,424</b>	<b>11,859,675</b>	<b>55,802,420</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	6,616,789	-	1,502,013	8,118,802
Public safety	22,270,017	-	1,547,644	23,817,661
Public works and streets	6,991,314	-	-	6,991,314
Culture and recreation	4,646,227	-	1,935,717	6,581,944
Community development	-	-	796,593	796,593
Transportation	-	-	1,806,476	1,806,476
Capital outlay	798,051	13,400,673	6,927,227	21,125,951
<b>Debt service:</b>				
Principal retirement	-	-	2,512,012	2,512,012
Interest and fiscal charges	-	-	1,120,949	1,120,949
Judgments	-	-	542,093	542,093
<b>Total Expenditures</b>	<b>41,322,398</b>	<b>13,400,673</b>	<b>18,690,724</b>	<b>73,413,795</b>
Excess (deficiency) of revenues over expenditures	752,923	(11,533,249)	(6,831,049)	(17,611,375)
<b>Other Financing Sources (Uses):</b>				
Capital lease proceeds	-	-	1,536,742	1,536,742
Transfers in	13,126,875	22,752,460	5,109,372	40,988,707
Transfers out	(16,019,760)	(2,364,986)	(937,200)	(19,321,946)
Transfer to discretely presented component unit	-	-	(184,836)	(184,836)
<b>Total Other Financing Sources (Uses)</b>	<b>(2,892,885)</b>	<b>20,387,474</b>	<b>5,524,078</b>	<b>23,018,667</b>
Net change in fund balances	(2,139,962)	8,854,225	(1,306,971)	5,407,292
<b>Fund balances - beginning</b>	<b>10,156,067</b>	<b>12,173,439</b>	<b>14,328,161</b>	<b>36,657,667</b>
<b>Fund balances - ending</b>	<b>\$8,016,105</b>	<b>\$21,027,664</b>	<b>\$13,021,190</b>	<b>\$42,064,959</b>

See accompanying notes to the basic financial statements.

**CITY OF LAWTON, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
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**Reconciliation of Governmental Funds and Government-Wide Financial Statements:**

**Fund Balance – Net Assets Reconciliation:**

<b>Fund balances of governmental funds</b>	<b>\$42,064,959</b>
 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 \$49,079,184.	<u>68,667,935</u>
Certain long-term assets are not available to pay for current fund liabilities and, therefore, are deferred in the funds:	
Unamortized bond issuance costs	<u>33,663</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>(498,661)</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	(19,020,000)
Unamortized debt premium	(135,743)
Capital lease payables	(1,344,730)
Accrued compensated absences	(4,087,303)
Accrued workers compensation claims	(745,339)
Judgments payable	(1,079,274)
Net pension obligation	<u>(2,813,919)</u>
	<u>(29,226,308)</u>
 <b>Net assets of governmental activities</b>	 <b><u>\$81,041,588</u></b>

See accompanying notes to the basic financial statements.

**CITY OF LAWTON, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2007**

**Changes in Fund Balances – Changes in Net Assets Reconciliation:**

**Net change in fund balances - total governmental funds** \$5,407,292

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	10,319,708
Loss on disposal of capital asset	(167,053)
Depreciation expense	(3,474,940)
	6,677,715

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	(461,326)
Judgment payments	542,093
Capital lease proceeds	(1,536,742)
Capital lease principal payments	192,012
General obligation bond principal payments	2,320,000
Net pension obligation increase	(468,048)
	587,989

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	134,396
Change in accrued compensated absences	(104,673)
Change in amortization of bond premium	9,696
Change in amortization of bond issue costs	(2,404)
Change in accrued worker's compensation claims	(305,327)
	(268,312)

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	(750,033)
	(750,033)

**Change in net assets of governmental activities** **\$11,654,651**

See accompanying notes to these reconciliations.

See accompanying notes to the basic financial statements.

**CITY OF LAWTON, OKLAHOMA  
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As of and for the Year Ended June 30, 2007**

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**BASIC FINANCIAL STATEMENTS - PROPRIETARY FUNDS**

**CITY OF LAWTON, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2007**

**Proprietary Funds Statement of Net Assets - June 30, 2007**

	<b>Enterprise Fund</b>	<b>Internal Service Funds</b>
<b>ASSETS:</b>		
Current Assets:		
Cash and cash equivalents	\$4,470,565	\$16,043
Investments	4,241,714	-
Interest receivable	65,565	-
Accounts receivable, net	3,604,796	911
Total current assets	12,382,640	16,954
Noncurrent Assets:		
Restricted Assets:		
Cash and cash equivalents	2,874,069	-
Investments	7,827,251	-
Unamortized bond and note issue costs	918,172	-
Land and construction in progress	9,687,480	-
Other capital assets, net	129,097,507	399,231
Total noncurrent assets	150,404,479	399,231
Total assets	162,787,119	416,185
<b>LIABILITIES:</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	483,015	468,463
Accrued wages payable	319,136	-
Accrued interest payable	805,336	-
Due to other funds	-	300,000
Accrued compensated absences	76,362	17,493
Claims liability	257,635	-
Contract payable - Waurika note	494,279	-
Settlement obligation	-	-
Capital lease obligations	-	-
Notes payable	2,855,350	-
Revenue bonds payable	1,320,000	-
Total current liabilities	6,611,113	785,956
Noncurrent liabilities:		
Accrued compensated absences	562,654	128,890
Claims liability	257,635	-
Landfill post closure liability	3,397,120	-
Contract payable	17,075,497	-
Notes payable	27,508,187	-
Revenue bonds payable, net	6,105,554	-
Total noncurrent liabilities	54,906,647	128,890
Total liabilities	61,517,760	914,846
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt	89,983,092	399,231
Restricted for debt service	5,013,515	-
Restricted for landfill financial assurance	719,156	-
Unrestricted	5,553,596	(897,892)
Total net assets	\$101,269,359	(\$498,661)

See accompanying notes to the basic financial statements.

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**Proprietary Funds Statement of Changes in Net Assets - Year Ended June 30, 2007**

	<u>Enterprise Fund</u>	<u>Internal Service Funds</u>
<b>Operating Revenues:</b>		
<b>Pledged as security for revenue bonds and notes:</b>		
Charges for services	\$31,279,556	-
<b>Unpledged revenues:</b>		
Charges for services	-	\$6,256,896
Fees, licenses and permits	-	-
Rentals	145,593	-
Other sources	761,969	-
 Total operating revenues	 <u>32,187,118</u>	 <u>6,256,896</u>
<b>Operating Expenses:</b>		
General government and claims	11,988,124	6,198,749
Public works operations	4,913,586	-
Computer service operations	-	988,440
Depreciation expense	5,366,161	130,787
Amortization expense	83,358	-
Landfill closure expense	201,563	-
 Total operating expenses	 <u>22,552,792</u>	 <u>7,317,976</u>
 Operating income (loss)	 9,634,326	 (1,061,080)
<b>Non-Operating Revenues (Expenses):</b>		
Investment income	738,602	10,509
Interest expense and fiscal charges	(3,153,303)	-
Non-capital grants	-	-
Gain (Loss) on asset retirement	4,000	538
Other non-operating revenue	-	-
 Total non-operating revenues (expenses)	 <u>(2,410,701)</u>	 <u>11,047</u>
 Net income (loss) before contributions and transfers	 7,223,625	 (1,050,033)
Capital contributions	10,445,277	-
Transfers in	27,174,206	300,000
Transfers out	(49,140,967)	-
 Change in net assets	 <u>(4,297,859)</u>	 <u>(750,033)</u>
 Total net assets - beginning	 105,567,218	 251,372
 Total net assets - ending	 <u>\$101,269,359</u>	 <u>(\$498,661)</u>

See accompanying notes to the basic financial statements.

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**Proprietary Funds Statement of Cash Flows - Year Ended June 30, 2007**

	<b>Enterprise Fund</b>	<b>Internal Service Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 32,422,937	\$ 6,345,040
Payments to suppliers	(6,185,635)	-
Payments to employees	(10,248,626)	(972,116)
Receipts from interfund loan	-	300,000
Claims and benefits paid	-	(6,355,563)
Net Cash Provided by Operating Activities	15,988,676	(682,639)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers from other funds	33,531,086	300,000
Transfers to other funds	(55,497,847)	-
Net Cash Provided by (Used in) Non-Capital Financing Activities	(21,966,761)	300,000
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from notes issued	14,894,888	-
Capital assets purchased	(439,922)	(12,452)
Principal paid on capital debt	(4,750,369)	-
Interest and fiscal charges paid on capital debt	(3,237,632)	-
Proceeds from sale of capital assets	48,284	12,452
Bond issue costs paid	(345,872)	-
Net Cash Provided by (Used in) Capital and Related Financing Activities	6,169,377	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of investments	946,574	-
Interest and dividends	715,155	10,509
Net Cash Provided by (Used in) Investing Activities	1,661,729	10,509
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	1,853,021	(372,130)
<b>Balances - beginning of the year</b>	5,491,613	388,173
<b>Balances - end of the year</b>	\$ 7,344,634	\$ 16,043
<b>Reconciliation to Statement of Net Assets:</b>		
Cash and cash equivalents	\$ 4,470,565	\$ 16,043
Restricted cash and cash equivalents	2,874,069	-
Total cash and cash equivalents	\$ 7,344,634	\$ 16,043
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>		
Operating income (loss)	\$9,634,325	\$ (1,061,080)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	5,366,161	130,787
Amortization expense	83,358	-
Landfill closure expense	201,563	-
Change in assets and liabilities:		
Receivables, net	235,818	88,144
Accounts payables	(9,238)	(156,814)
Claims liability	515,270	-
Settlement liability	(100,000)	-
Due to other funds	-	300,000
Accrued wages payable	85,552	-
Accrued compensated absences	(24,133)	16,324
Net Cash Provided by Operating Activities	\$ 15,988,676	\$ (682,639)
<b>Non-cash activity:</b>		
Non-cash capital contributions received	\$ 11,015,434	\$ -
Capital assets disposed	44,284	11,914

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, 2007**

	<b>City Employees Retirement Trust Fund</b>	<b>Agency Funds</b>
<b>ASSETS:</b>		
Cash and cash equivalents	\$633,227	\$561,097
Investments	1,079,274	705,529
Investments, at market value:		
United States government securities and agencies	29,030,308	-
United States government money market	340,479	-
Common stock	6,605,445	-
Interest receivable	62,132	14,814
Employer contributions receivable	49,265	-
Employee contributions receivable	31,530	-
Total assets	\$37,831,660	\$1,281,440
<b>LIABILITIES:</b>		
Due to depositors	-	1,221,407
Other payables	-	60,033
Total liabilities	-	\$1,281,440
<b>NET ASSETS:</b>		
Held in trust for pension benefits	\$37,831,660	

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, 2007**

	<b>City Employees Retirement Trust Fund</b>
<b>ADDITIONS:</b>	
Contributions:	
Members	\$ 902,502
Employer	1,412,087
Total Contributions	2,314,589
Investment Income (Loss):	
Net decrease in fair value of investments	312,264
Interest, dividends, and other	2,160,921
Total investment income (loss)	2,473,185
Less investment expense:	
Investment activity expense	(64,418)
Net investment income (loss)	2,408,767
Total Additions	4,723,356
<b>DEDUCTIONS:</b>	
Benefits paid to participants or beneficiaries	2,289,436
Refunds and transfers to other systems	639,289
Administrative expense	27,150
Total Deductions	2,955,875
Change in net assets held in trust for employees' pension benefits	1,767,481
Net assets--beginning	36,064,179
Net assets--ending	\$ 37,831,660

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, 2007**

	LAWTON METROPOLITAN AREA AIRPORT AUTHORITY	LAWTON ARTS AND HUMANITIES COUNCIL	MCMAHON AUDITORIUM AUTHORITY	MUSEUM OF THE GREAT PLAINS TRUST AUTHORITY	LAWTON ECONOMIC DEVELOPMENT AUTHORITY	TOTALS
<b>ASSETS</b>						
<b>Current Assets:</b>						
Cash, including time deposits	\$ 308,313	\$ 56,078	\$ 62,488	\$ 226,136	\$ -	\$ 653,015
Restricted cash	435,696	-	-	-	-	435,696
Investments	112,120	-	-	-	-	112,120
Accounts receivable	37,719	-	2,245	217	-	40,181
Inventory	-	-	-	34,654	-	34,654
Due from other governments	-	3,500	-	-	184,836	188,336
Earnest money	5,000	-	-	-	-	5,000
Restricted accrued interest receivable	6,019	-	-	-	-	6,019
Prepaid expenses	8,952	-	-	-	-	8,952
Other Assets	-	-	-	15,544	-	15,544
<b>Total current assets</b>	<b>913,819</b>	<b>59,578</b>	<b>64,733</b>	<b>276,551</b>	<b>184,836</b>	<b>1,499,517</b>
<b>Noncurrent Assets:</b>						
<b>Capital Assets:</b>						
Land and construction in progress	785,588	-	-	-	-	785,588
Depreciable, net of accumulated depreciation	12,801,175	6,593	61,679	1,271,186	-	14,140,633
Unamortized note issuance costs	-	-	-	-	119,250	119,250
<b>Total noncurrent assets</b>	<b>13,586,763</b>	<b>6,593</b>	<b>61,679</b>	<b>1,271,186</b>	<b>119,250</b>	<b>15,045,471</b>
<b>Total Assets</b>	<b>\$ 14,500,582</b>	<b>66,171</b>	<b>126,412</b>	<b>1,547,737</b>	<b>304,086</b>	<b>\$ 16,544,988</b>
<b>LIABILITIES</b>						
<b>Current Liabilities:</b>						
Accounts payable and accrued liabilities	28,258	-	2,577	31,082	-	61,917
Grants payable	-	3,500	-	-	-	3,500
Deferred revenue	-	6,000	775	-	-	6,775
<b>Total current liabilities</b>	<b>28,258</b>	<b>9,500</b>	<b>3,352</b>	<b>31,082</b>	<b>-</b>	<b>72,192</b>
<b>Noncurrent Liabilities:</b>						
Accrued compensated absences	2,470	-	-	29,900	-	32,370
Notes payable	-	-	-	-	119,250	119,250
<b>Total noncurrent liabilities</b>	<b>2,470</b>	<b>-</b>	<b>-</b>	<b>29,900</b>	<b>119,250</b>	<b>151,620</b>
<b>Total Liabilities</b>	<b>30,728</b>	<b>9,500</b>	<b>3,352</b>	<b>60,982</b>	<b>119,250</b>	<b>223,812</b>
<b>NET ASSETS</b>						
Investment in capital assets, net of related debt	13,586,763	6,593	61,679	1,271,186	-	14,926,221
Restricted for grant projects	-	-	-	105,248	-	105,248
Restricted for land lease	349,285	-	-	-	-	349,285
Restricted for debt service	92,430	-	-	-	-	92,430
Unrestricted	441,376	50,078	61,381	110,321	184,836	847,992
<b>Total Net Assets</b>	<b>\$ 14,469,854</b>	<b>\$ 56,671</b>	<b>\$ 123,060</b>	<b>\$ 1,486,755</b>	<b>\$ 184,836</b>	<b>\$ 16,321,176</b>

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, 2007**

	<u>LAWTON METROPOLITAN AREA AIRPORT AUTHORITY</u>	<u>LAWTON ARTS AND HUMANITIES COUNCIL</u>	<u>MCPMAHON AUDITORIUM AUTHORITY</u>	<u>MUSEUM OF THE GREAT PLAINS TRUST AUTHORITY</u>	<u>LAWTON ECONOMIC DEVELOPMENT AUTHORITY</u>	<u>TOTALS</u>
<b>Expenses:</b>						
Airport	\$ 2,042,916	\$ -	\$ -	\$ -	\$ -	\$ 2,042,916
Culture and recreation	-	65,196	52,107	702,102	-	819,405
<b>Total expenses</b>	<u>2,042,916</u>	<u>65,196</u>	<u>52,107</u>	<u>702,102</u>	<u>-</u>	<u>2,862,321</u>
<b>Program Revenues:</b>						
Charges for services	787,272	41,853	44,629	145,290	-	1,019,044
Operating grants and contributions	832,266	24,757	12,708	533,500	-	1,403,231
Capital grants and contributions	712,453	-	-	-	-	712,453
<b>Total program revenues</b>	<u>2,331,991</u>	<u>66,610</u>	<u>57,337</u>	<u>678,790</u>	<u>-</u>	<u>3,134,728</u>
<b>Net revenue (expense)</b>	289,075	1,414	5,230	(23,312)	-	272,407
<b>General Revenues:</b>						
Investment income	24,087	-	1,306	8,763	-	34,156
Transfer from primary government	-	-	-	-	184,836	184,836
<b>Total general revenues</b>	<u>24,087</u>	<u>-</u>	<u>1,306</u>	<u>8,763</u>	<u>184,836</u>	<u>218,992</u>
<b>Change in Net Assets</b>	313,162	1,414	6,536	(14,549)	184,836	491,399
<b>Net Assets, beginning of year</b>	<u>14,156,692</u>	<u>55,257</u>	<u>116,524</u>	<u>1,501,304</u>	<u>-</u>	<u>15,829,777</u>
<b>Net Assets, end of year</b>	<u>\$ 14,469,854</u>	<u>\$ 56,671</u>	<u>\$ 123,060</u>	<u>\$ 1,486,755</u>	<u>\$ 184,836</u>	<u>\$ 16,321,176</u>

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 and 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

**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** – 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

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Fund, Senior Crafts Fund, Animal License Fund, Elmer Thomas Park Rental Fund, State Landfill Fund, Police Sentinel Fund, Fire 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, Impact Fees Fund, Police and Fire Training Fund and TIF 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.

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**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, 2007 by these entities are as follows:

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**Schedule of Deposits and Investments by Type - June 30, 2007**

Type	Fair Value	Maturities in Years				
		On Demand	Less Than One	1 - 5	6 - 10	More than 10
Demand deposits	\$ 26,801,312	\$ 26,801,312	\$ -	\$ -	\$ -	\$ -
Time deposits	5,565,751	-	5,471,851	93,900	-	-
Government Money Market Accounts	338,724	338,724	-	-	-	-
U.S. Treasury Obligations	33,118,398	-	8,334,112	498,905	3,006,621	21,278,760
U.S. Agencies Obligations	16,568,962	-	11,310,680	1,012,260	-	4,246,022
Sub-Total	\$ 82,393,147	\$ 27,140,036	\$ 25,116,643	\$ 1,605,065	\$ 3,006,621	\$ 25,524,782
Mutual Fund Pooled U.S. Government Obligations	7,827,251					
Common Stock	6,607,200					
Other Investments	1,079,274					
Total Deposits and Investments	\$ 97,906,872					
<b>Reconciliation to Financial Statements:</b>						
Cash and cash equivalents	\$ 25,606,988					
Investments	33,344,525					
Retirement fund investments:						
Investments	1,079,274					
U.S. gov't security agencies	29,030,308					
U.S. gov't money market	340,479					
Common stock	6,605,445					
Retirement fund cash and cash equivalents	633,227					
Agency fund cash and cash equivalents	561,097					
Agency fund investments	705,529					
	\$ 97,906,872					

**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, 2007, the City was exposed to custodial credit risk as defined above totaling \$554,232.

**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;

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- 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;
- 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, 2007, the investments held by the City mature between 2008 through 2036.

*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, 2007 are as follows:

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Pooled Cash Restricted for Debt Service	\$ 2,874,069
Investments:	
Landfill Financial Trust	\$ 148,503
Series 2001B Promissory Note Debt Service	105,776
Series 2001B Promissory Note Debt Reserve	344,500
Series 2003B OWRB Promissory Note Debt Service	108,375
Series 2003B OWRB Promissory Note Debt Reserve	223,320
Series 2003D OWRB Promissory Note Debt Service	62,769
Series 2003D OWRB Promissory Note Debt Reserve	127,152
Series 2004F OWRB Promissory Note Debt Service	80,911
Series 2004F OWRB Promissory Note Debt Reserve	154,147
Series 2004 Sales Tax & Utility Revenue Bonds:	
Construction Funds	5,638,800
Debt Service	832,998
	\$ 7,827,251

#### 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, 2007, capital assets balances changed as follows:

	(Restated) Balance at July 1, 2006	Additions	Transfers	Deductions	Balance at June 30, 2007
<b>PRIMARY GOVERNMENT:</b>					
<i>Governmental activities:</i>					
Capital assets not being depreciated:					
Land	\$ 3,641,438	\$ 410,000	\$ -	\$ -	\$ 4,051,438
Construction in progress	12,093,317	6,370,560	-	-	18,463,877
Total capital assets not being depreciated	15,734,755	6,780,560	-	-	22,515,315
Other capital assets:					
Buildings	16,390,590	7,966	-	995	16,397,561
Infrastructure	51,921,950	386,403	-	-	52,308,353
Machinery, furniture and equipment	26,727,577	3,157,230	-	1,894,079	27,990,728
Total other capital assets at historical cost	95,040,117	3,551,599	-	1,895,074	96,696,642
Less accumulated depreciation for:					
Buildings	11,456,028	549,678	-	730	12,004,976
Infrastructure	17,671,028	1,443,705	-	-	19,114,733
Machinery, furniture and equipment	19,128,114	1,612,344	-	1,715,376	19,025,082
Total accumulated depreciation	48,255,170	3,605,727	-	1,716,106	50,144,791
Other capital assets, net	46,784,947	(54,128)	-	178,968	46,551,851
Governmental activities capital assets, net	\$ 62,519,702	\$ 6,726,432	\$ -	\$ 178,968	\$ 69,067,166

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	Balance at July 1, 2006	Additions	Transfers	Deductions	Balance at June 30, 2007
<i>Business-type activities:</i>					
Capital assets not being depreciated:					
Land	\$ 1,405,554	\$ -	\$ -	\$ -	\$ 1,405,554
Construction in progress	4,471,635	9,726,461	(5,916,170)	-	8,281,926
Total capital assets not being depreciated	<u>5,877,189</u>	<u>9,726,461</u>	<u>(5,916,170)</u>	<u>-</u>	<u>9,687,480</u>
Other capital assets:					
Buildings and utility infrastructure	161,318,796	-	5,916,170	4,115	167,230,851
Machinery, furniture and equipment	11,956,457	1,158,739	-	392,301	12,722,895
Unamortized water rights	21,742,677	-	-	-	21,742,677
Total other capital assets at historical cost	<u>195,017,930</u>	<u>1,158,739</u>	<u>5,916,170</u>	<u>396,416</u>	<u>201,696,423</u>
Less accumulated depreciation for:					
Buildings and utility infrastructure	52,767,567	4,158,304	-	2,185	56,923,686
Machinery, furniture and equipment	9,599,078	990,430	-	349,947	10,239,561
Unamortized water rights	5,218,242	217,427	-	-	5,435,669
Total accumulated depreciation	<u>67,584,887</u>	<u>5,366,161</u>	<u>-</u>	<u>352,132</u>	<u>72,598,916</u>
Other capital assets, net	<u>127,433,043</u>	<u>(4,207,422)</u>	<u>5,916,170</u>	<u>44,284</u>	<u>129,097,507</u>
Business-type activities capital assets, net	<u>\$ 133,310,232</u>	<u>\$ 5,519,039</u>	<u>\$ -</u>	<u>\$ 44,284</u>	<u>\$ 138,784,987</u>

	Balance at July 1, 2005	Additions	Deductions	Balance at June 30, 2006
<b>COMPONENT UNITS:</b>				
<b>Lawton Metropolitan Area Airport Authority</b>				
Non-depreciable:				
Land	\$ 2,400	\$ -	\$ -	\$ 2,400
Construction-in-progress	4,250,027	-	3,466,839	783,188
Total non-depreciable assets at historical cost	<u>4,252,427</u>	<u>-</u>	<u>3,466,839</u>	<u>785,588</u>
Depreciable:				
Runways, ramps, and roads	14,661,306	4,346,301	-	19,007,607
Buildings and improvements	5,386,536	42,448	-	5,428,984
Equipment and fixtures	1,506,862	26,456	2,253	1,531,065
Furniture and equipment	113,594	5,717	-	119,311
Total depreciable assets at historical cost	<u>21,668,298</u>	<u>4,420,922</u>	<u>2,253</u>	<u>26,086,967</u>
Less accumulated depreciation				
Runways, ramps, and roads	9,317,256	660,321	-	9,977,577
Buildings and improvements	1,998,395	110,068	-	2,108,463
Equipment and fixtures	1,016,687	75,737	1,519	1,090,905
Furniture and equipment	107,076	1,771	-	108,847
Total accumulated depreciation	<u>12,439,414</u>	<u>847,897</u>	<u>1,519</u>	<u>13,285,792</u>
Other capital assets, net	<u>9,228,884</u>	<u>3,573,025</u>	<u>734</u>	<u>12,801,175</u>
Net depreciable assets	<u>\$ 13,481,311</u>	<u>\$ 3,573,025</u>	<u>\$ 3,467,573</u>	<u>\$ 13,586,763</u>

<b>Museum of the Great Plains Trust Authority</b>				
Depreciable:				
Furniture and equipment	\$ 289,899	\$ 8,103	\$ -	\$ 298,002
Displays	17,725	-	-	17,725
Leasehold improvements	120,092	-	-	120,092
Collections and exhibits	1,009,433	10,279	-	1,019,712
Total depreciable assets at historical cost	<u>1,437,149</u>	<u>18,382</u>	<u>-</u>	<u>1,455,531</u>
Less accumulated depreciation				
Total accumulated depreciation	<u>(155,385)</u>	<u>(28,960)</u>	<u>-</u>	<u>(184,345)</u>
Net depreciable assets	<u>\$ 1,281,764</u>	<u>\$ (10,578)</u>	<u>\$ -</u>	<u>\$ 1,271,186</u>

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	Balance at June 30, 2007
<b>Lawton Arts and Humanities Council</b>	
Machinery and equipment	\$ 18,456
Less accumulated depreciation	(11,863)
Net depreciable assets	\$ 6,593
 <b>McMahon Auditorium Authority</b>	
Furniture and fixtures	\$ 24,628
Machinery and equipment	6,500
Buildings and improvements	68,295
Total depreciable assets at historical cost	99,423
Less accumulated depreciation	(37,744)
Net depreciable assets	\$ 61,679

**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:

<b>Governmental Activities:</b>	
General Government	\$ 876,341
Public Safety	728,851
Public Works and Streets	1,356,882
Community Development	39,500
Culture and Recreation	473,366
Sub-total governmental funds depreciation	3,474,940
Allocated Internal Service Fund Depreciation	130,787
Total	\$ 3,605,727
 <b>Business-Type Activities:</b>	
Water	\$ 2,618,506
Sewer	1,787,224
Sanitation	960,431
Total depreciation	\$ 5,366,161

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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, 2007.

**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, 2007 were as follows:

Transfer In	Transfer Out	Amount	Nature of Interfund Transfer
General Fund	Enterprise Fund	98,000	Debt service
General Fund	Special Jail Fund	21,870	Jail fees
General Fund	Officer Training Fund	9,000	Court fines
General Fund	Insurance Proceeds Fund	20,000	Damage claim fees
General Fund	Officer Training Fund	5,006	Court Fines
General Fund	Court Credit Card Fund	352,000	Excess revenues
Officer Training	Court Credit Card Fund	83,000	Excess revenues
General Fund	Enterprise Fund	12,621,000	Excess utility payments
2005 CIP Fund	General Fund	13,207,434	Sales tax transfer
Mass Transit Fund	General Fund	350,000	Operating subsidy
Lakes Fund	General Fund	400,000	Operating subsidy
Capital Improvement Fund	General Fund	76,234	Capital purchases
E911 Fund	General Fund	1,000,000	Operating subsidy
Debt Service	Enterprise Fund	24,730,092	Debt service
Group Insurance Fund	General Fund	300,000	Operating subsidy
RSVP Fund	General Fund	53,256	Operating subsidy
2005 CIP Fund	Enterprise Fund	9,545,026	Debt proceeds drawn for capital projects
Enterprise Fund	2005 CIP Fund	2,019,114	Debt service
Capital Improvement Fund	McMahon Authority Grants	91,702	Transfer of funds for capital projects
Centennial Celebration Fund	General Fund	10,000	Fireworks
Federal Grant Fund	Reserve Fund	359,962	Capital projects
Officer Training	General Fund	7,660	Court fines
Capital Outlay Rolling Stock Fund	Enterprise Fund	2,492,722	Capital purchases
Enterprise Fund	General Fund	425,000	Operating subsidy
TIF Fund	General Fund	184,835	Operating subsidy
		<u>68,462,913</u>	

<u>Reconciliation to fund financial statements:</u>	Transfers to Other Funds	Transfers from Other Funds	Net Transfers
Governmental Funds	\$ (19,321,946)	\$ 40,988,707	\$ 21,666,761
Enterprise Funds	(49,140,967)	27,174,206	(21,966,761)
Internal Service Funds	-	300,000	300,000
Totals	<u>\$ (68,462,913)</u>	<u>\$ 68,462,913</u>	<u>\$ -</u>

<u>Reconciliation to Statement of Activities:</u>	
Net Transfers	\$ 21,666,761
Capital contributions transferred from governmental funds	(10,445,276)
Transfers - Internal Activity	<u>\$ 11,521,485</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, 2007, the City's long-term debt balances changed as follows:

**Primary Government:**

<u>Type of Debt</u>	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2007</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
General Obligation Bonds	\$ 21,340,000	\$ -	\$ 2,320,000	\$ 19,020,000	\$ 2,625,000
General Obligation Bond Premium	145,439	-	9,696	135,743	-
Judgments Payable	1,160,041	461,326	542,093	1,079,274	568,549
Capital Lease Obligations	-	1,536,742	192,012	1,344,730	549,921
Worker's Compensation	440,012	305,327	-	745,339	372,670
Accrued Compensated Absences	4,112,690	120,996	-	4,233,686	505,926
<b>Total Governmental Activities</b>	<b>\$ 27,198,182</b>	<b>\$ 2,424,391</b>	<b>\$ 3,063,801</b>	<b>\$ 26,558,772</b>	<b>\$ 4,622,066</b>
<b>Business-Type Activities:</b>					
Notes Payable	\$ 18,386,818	\$ 14,894,888	\$ 2,918,169	\$ 30,363,537	\$ 2,855,350
Revenue Bonds Payable	8,375,000	-	1,270,000	7,105,000	1,320,000
Revenue Bonds Premium	400,692	-	80,138	320,554	-
Contracts Payable	18,047,511	-	477,735	17,569,776	494,279
Capital Lease Obligations	84,465	-	84,465	-	-
Accrued Compensated Absences	663,148	-	24,132	639,016	76,362
Claims liability	-	515,270	-	515,270	257,635
Landfill Closure and Post-closure	3,195,557	201,563	-	3,397,120	-
<b>Total Business-Type Activities</b>	<b>\$ 49,153,191</b>	<b>\$ 15,611,721</b>	<b>\$ 4,854,639</b>	<b>\$ 59,910,273</b>	<b>\$ 5,003,626</b>

**Component Units:**

<u>Type of Debt</u>	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2007</u>	<u>Amount due in one year</u>
<b>Component Units:</b>					
<b>Lawton Metropolitan Area Airport Authority</b>					
Note payable-truck	\$ 8,077	\$ -	\$ 8,077	\$ -	\$ -
Capital lease - Building	1,200	-	1,200	-	-
Accrued Compensated Absences	4,411	-	1,941	2,470	-
<b>Total Debt</b>	<b>\$ 13,688</b>	<b>\$ -</b>	<b>\$ 11,218</b>	<b>\$ 2,470</b>	<b>\$ -</b>
<b>Lawton Economic Development Authority:</b>					
Note payable	\$ -	\$ 119,250	\$ -	\$ 119,250	\$ -
<b>Total Debt</b>	<b>\$ -</b>	<b>\$ 119,250</b>	<b>\$ -</b>	<b>\$ 119,250</b>	<b>\$ -</b>
<b>Museum of the Great Plains Trust Authority:</b>					
Accrued Compensated Absences	\$ 32,065	\$ -	\$ 2,165	\$ 29,900	\$ -
<b>Total Debt</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,165</b>	<b>\$ 29,900</b>	<b>\$ -</b>

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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	\$1,670,000
\$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	10,530,000
\$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	2,220,000
\$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>135,743</u>
Total General Obligation Bond, Net	1,635,743
\$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>600,000</u>
Total general obligation bonds	<u>\$19,155,743</u>

**Judgments Payable:**

Court-assessed judgments to be paid with ad valorem taxes with periods ranging from one to three years.	<u>\$1,079,274</u>
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**Capital Lease Obligation:**

\$245,808 capital lease obligation for the purchase of a gradall, matures June 2009 with a stated interest rate of 4.97%.	\$146,846
\$570,157 capital lease obligation for the purchase of a scraper, matures December 2008 with a stated interest rate of 5.7%.	477,107
\$720,777 capital lease obligation for the purchase of a pumper apparatus, matures September 2009 with a stated interest rate of 5.48%.	<u>720,777</u>
	<u>\$1,344,730</u>

*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:

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**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, 2007), 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") water, sanitary, and garbage collection and disposal systems.	\$4,296,699
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.	6,621,981
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.	3,157,462
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, 2007 only \$5,636,833 had been drawn on the note.	8,423,666
Series 2006A SRF for \$33,653,600 with interest rate of 3.05% 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, 2007 only \$9,258,055 had been drawn on the note.	<u>7,863,729</u>
<b>Total Notes Payable – Oklahoma Water Resources Board</b>	<b><u>\$30,363,537</u></b>

**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	\$7,105,000
Unamortized Revenue Bond Premium	<u>320,554</u>
Total Revenue Bonds, Net	<u>\$7,425,554</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)	<u>\$17,569,776</u>
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**Long-term debt service requirements to maturity are as follows:**

<b>Governmental-Type Activities</b>						
Year Ending June 30,	G.O. Bonds Payable		Judgments Payable		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	2,625,000	799,990	568,549	62,963	549,921	44,172
2009	2,625,000	690,606	356,950	28,208	548,492	45,601
2010	2,630,000	580,570	153,775	7,704	246,317	13,500
2011	2,070,000	471,583	-	-	-	-
2012	1,915,000	390,268	-	-	-	-
2013-2017	6,205,000	932,820	-	-	-	-
2018-2022	950,000	80,760	-	-	-	-
Total	<u>\$ 19,020,000</u>	<u>\$ 3,946,597</u>	<u>\$ 1,079,274</u>	<u>\$ 98,874</u>	<u>\$ 1,344,730</u>	<u>\$ 103,272</u>

<b>Business-Type Activities</b>						
Year Ending June 30,	Notes Payable		Revenue Bonds Payable		Contract Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	2,855,350	1,765,520	1,320,000	301,650	494,279	608,442
2009	2,869,950	1,682,230	1,360,000	262,050	511,396	591,324
2010	2,880,450	1,597,892	1,405,000	221,250	529,105	573,615
2011	2,906,749	1,512,424	1,475,000	151,000	547,428	555,292
2012	2,924,049	1,425,808	1,545,000	77,250	566,385	536,335
2013-2017	14,961,649	5,796,910	-	-	3,140,078	2,372,522
2018-2022	15,296,820	3,392,609	-	-	3,722,766	1,790,834
2023-2027	10,705,102	949,751	-	-	4,413,588	1,100,012
2028-2031	589,000	21,698	-	-	3,644,751	320,608
Total	<u>\$ 55,989,119</u>	<u>\$ 18,144,842</u>	<u>\$ 7,105,000</u>	<u>\$ 1,013,200</u>	<u>\$ 17,569,776</u>	<u>\$ 8,448,984</u>
Less remaining proceeds to be drawn	<u>(25,625,582)</u>					
Principal balance	<u>\$ 30,363,537</u>					

**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 \$3,397,120 reported as accrued landfill closure cost liability at June 30, 2007, represents the cumulative amount of such costs reported to date based on the use of 79% 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 \$881,334 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 2007. The City has \$148,903 set aside to fund the estimated landfill closure cost liability.

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**7. 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.
- 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	\$ 57,293,620
Add understatement of construction in progress capital assets	<u>12,093,317</u>
Beginning net assets, restated	<u>\$ 69,386,937</u>

**8. 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.

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**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, 2007, 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, 2007 was \$10.31.

**9. 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.

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**10. Retirement Plan Participation**

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

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	4.8%
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, 2007):**

Active members	503
Retired participants	127
Disabled participants	17
Beneficiaries	<u>33</u>
Total	<u>680</u>

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*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 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, 2007, 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, 2007. 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, 2007
Actuarial cost method	Entry age
Amortization method	Level dollar open
Remaining amortization period	30 years
Asset valuation method	Market value
Investment rate of return	7.5%
Projected salary increases	5.0%
Inflation rate	2.0%

*E. Trend Information*

Fiscal Year	Annual Pension Cost (APC)	Actual Employer Contribution	Percentage of APC Contributed	Net Pension Obligation
2005	1,797,664	1,189,519	65.7%	1,950,364
2006	1,770,047	1,259,042	76.0%	2,461,369
2007	1,764,637	1,412,087	76.0%	2,813,919

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*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.

	<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
2005	904,289	100%	2005	771,981	100%
2006	942,314	100%	2006	802,798	100%
2007	1,014,119	100%	2007	853,848	100%

**11. Commitments and Contingencies**

**Construction Contracts Outstanding**

The following construction contracts were outstanding at June 30, 2007:

Landfill expansion	\$ 105,680
67th Street	14,580
Ellsworth ByPass	673,963
Library Reroof	233,883
SE Water Treatment Plant	22,296,129
NW Hunter/72nd Street	558,226
Water storage	472,830

**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 2007, 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**

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**Budgetary Comparison Schedules – Year Ended June 30, 2007**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Original</b>	<b>Final</b>	<b>(Budget basis)</b>	<b>Positive (Negative)</b>
<b>Beginning Budgetary Fund Balance:</b>	\$5,053,000	\$5,053,000	\$5,676,886	623,886
<b>Resources (Inflows):</b>				
Taxes and assessments	35,119,103	\$ 35,119,103	36,023,582	904,479
Fees, licenses and permits	1,039,110	1,039,110	1,043,493	4,383
Rentals and sales of property	185,384	186,219	153,886	(32,333)
Fines and forfeitures	2,885,390	2,885,390	2,869,758	(15,632)
Interest earned	324,217	324,217	644,380	320,163
Other sources	572,807	572,807	512,459	(60,348)
Intergovernmental	901,525	901,525	788,163	(113,362)
Grants	249,200	249,200	119,967	(129,233)
<b>Total Resources (Inflows)</b>	<u>41,276,736</u>	<u>41,277,571</u>	<u>42,155,688</u>	<u>878,117</u>
<b>Amounts available for appropriation</b>	<u>46,329,736</u>	<u>46,330,571</u>	<u>47,832,574</u>	<u>1,502,003</u>
<b>Charges to Appropriations (Outflows):</b>				
General Government	8,707,522	\$ 7,479,920	\$ 6,678,187	\$ 801,733
Public Safety	22,982,285	22,443,229	22,443,229	-
Public Works and Streets	8,820,934	7,411,112	7,094,263	316,849
Culture and Recreation	4,820,192	5,379,148	5,215,990	163,158
<b>Total Charges to Appropriations</b>	<u>\$ 45,330,933</u>	<u>\$ 42,713,409</u>	<u>\$ 41,431,669</u>	<u>\$ 1,281,740</u>
<b>Other financing sources (uses)</b>				
Prior year obligation expense	-	-	32,775	32,775
Transfers from other funds	350,000	12,314,821	12,853,876	539,055
Transfers to other funds	-	(14,453,149)	(15,829,584)	(1,376,435)
<b>Total other financing sources (uses)</b>	<u>350,000</u>	<u>(2,138,328)</u>	<u>(2,942,933)</u>	<u>(804,605)</u>
<b>Ending Budgetary Fund Balance</b>	<u>\$ 1,348,803</u>	<u>\$ 1,478,834</u>	<u>\$ 3,457,972</u>	<u>\$ 1,979,138</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:

	<u>Fund Balance June 30, 2006</u>	<u>Net Change in Fund Balance</u>	<u>Fund Balance June 30, 2007</u>
<b>Budget to GAAP Reconciliation:</b>			
<b>Fund Balance - GAAP Basis</b>	10,156,067	(2,139,962)	8,016,105
<b>Increases (Decreases):</b>			
<b>Revenues:</b>			
Taxes receivable	(5,349,784)	(189,179)	(5,538,963)
Accounts receivable	(586)	(18,628)	(19,214)
Accrued interest	(77,684)	28,000	(49,684)
Fair value adjustment	(8,105)	7,485	(620)
<b>Expenditures:</b>			
Accrued payroll	876,242	137,078	1,013,320
Encumbrances	(282,703)	15,427	(267,276)
Other expenditures	363,439	(59,135)	304,304
<b>Fund Balance - Budgetary Basis</b>	<u>\$5,676,886</u>	<u>(\$2,218,914)</u>	<u>\$3,457,972</u>

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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, 2007	36,850,006	53,258,078	EAN	(16,408,072)	69.2%	18,344,200	89.4%
July 1, 2007	36,850,006	49,038,912	PUC	(12,188,906)	75.1%	18,344,200	66.4%
July 1, 2005	38,405,760	47,101,375	PUC	(8,695,615)	81.5%	15,889,024	54.7%
July 1, 2003	34,278,831	38,738,865	PUC	(4,460,034)	88.5%	14,583,355	30.6%
July 1, 2001	30,861,366	37,391,605	PUC	(6,530,239)	82.5%	14,627,470	44.6%
July 1, 1999	25,660,421	30,041,920	PUC	(4,381,499)	85.4%	12,032,296	36.4%
July 1, 1997	22,446,867	23,154,791	PUC	(707,924)	96.9%	10,652,523	6.6%
July 1, 1995	18,707,013	19,280,903	PUC	(573,890)	97.0%	9,644,285	6.0%

Note: Prior to 7/1/2007 the actuarial accrued liability was reported using the Projected Unit Credit cost method (PUC)

Paragraph 37 of GASB 25 requires that the actuarial cost method used for funding the plan (which is the Entry Age Normal cost method EAN) can be used for this purpose.

For the 7/1/2007 valuation both costs methods are shown; the second line (EAN) is the official value (the PUC value is only shown for comparative purposes)

The unfunded actuarial accrued liability was affected by the following new actuarial assumptions:

- A new mortality table (RP 2000: the most recent mortality table for US active workers and pensioners)
- New turnover assumption based on the actual demographic experience of other cities in Oklahoma (specifically the experience of 120 municipalities participating in the Oklahoma Municipal Retirement Fund)
- New retirement rates determined by reverse engineering retirement rates from the actual ages at retirement of the current group of retirees.
- Increase in discount rate from 7.0% to 7.5%. This change reflects the more liberal investment policy that has recently been adopted for the plan

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**OTHER SUPPLEMENTARY INFORMATION**

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**Schedule of Expenditures of Federal Awards – Year Ended June 30, 2007**

<u>Federal Grantor/ Pass-through Grantor/Program Title</u>	<u>Federal C.F.D.A. Number</u>	<u>Grant I.D. Number</u>	<u>Grant Period</u>	<u>Grant Amount</u>	<u>Expenditures</u>
<u>U.S. Dept of Housing &amp; Urban Development</u>					
Community Development Block Grant	14.218	B-04-MC-40-0003	07/01/04 to 06/30/05	1,056,000	209,289
	14.218	B-05-MC-40-0004	07/01/05 to 06/30/06	999,437	783,273
	14.218	B-06-MC-40-0005	07/01/06 to 06/30/07	888,531	-
Sub-total CFDA 14.218					<u>992,562</u>
<u>Home Investment in Affordable Housing</u>					
	14.239	M-00-MC-40-0201	07/01/00 to 06/30/01	511,000	156
	14.239	M-02-MC-40-0201	07/01/02 to 06/30/03	569,000	4,771
	14.239	M-04-MC-40-0201	07/01/04 to 06/30/05	556,544	183,475
	14.239	M-05-MC-40-0201	07/01/05 to 06/30/06	531,586	364,618
	14.239	M-06-MC-40-0201	07/01/06 to 06/30/07	498,645	-
Sub-total CFDA 14.239					<u>553,020</u>
Total US Department of Housing and Urban Development					<u>1,545,582</u>
<u>U.S. Department of Justice</u>					
Edward Byrnes Memorial Grant	16.579	2005-DJ-BX-0801		54,710	1,000
Bullet Proof Vests	16.607	2004-BUBX04023433			7,098
Total US Department of Justice					<u>8,098</u>
<u>National Community Service Agency</u>					
Retired Senior Volunteer Program	94.002	04SRWOK011	07/01/04 to 06/30/07	27,368	27,368
<u>Federal Emergency Management Agency</u>					
Hazard Mitigation Grant	97.039	FEMA-1355-DR-OK		5,825	5,825
<u>US Federal Highway Administration</u>					
Pass through Oklahoma Highway Safety Department					
Lawton Traffic Enforcement Project	20.600	PT-06-03-13-03	11/01/03 TO 9/30/06	82,000	41,723
Lawton Traffic Enforcement Project	20.600	PT-07-03-14-04	11/01/03 TO 9/30/07	82,000	50,364
Total US Federal Highway Administration					<u>92,087</u>
<u>Federal Transit</u>					
Urban Area Formula Program	20.507	OK-90-X077-00	2006	863,571	450,464
Urban Area Formula Program	20.507	OK-90-X082-00	2007	905,008	596,988
Total Federal Transit					<u>1,047,452</u>
<u>Department of Health and Human Services</u>					
Emergency Medical Grant	97.042	US25G03059-01-1	2005		5,250
Medical Reserve Corps	93.008	US25G03059-01-1	2006	50,000	20,078
Medical Reserve Corps	93.008	US25G03059-01-1	2007	50,000	39,246
					<u>64,574</u>
<u>Homeland Security</u>					
Critical Infrastructure Target Hardening Grant	35.36	OKFREP32.07	2007	70,000	70,000
<u>Environmental Protection Agency</u>					
STAG grant	66.806	XP-976164-01-1		1,940,000	760,999
<u>Department of Defense</u>					
Oklahoma Economic Adjustment Grant	12.607	RA06105-06-01	4-1-06 to 3-31-07	109,580	74,698
<u>US Department of Transportation</u>					
Intermodal Transportation Enhancement Project	20.205	STP-116E(130)EH	2007	400,000	34,120
Total Federal Awards				<u>\$ 10,250,805</u>	<u>\$ 3,730,803</u>

**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, 2007**

Fund	Fund Balance 7/1/2006	Changes in Fund Balance	Fund Balance 6/30/2007
<b>Special Revenue Funds:</b>			
Real Property Proceeds	\$ 2,275	\$ -	\$ 2,275
RSVP	10,969	4,292	15,261
Public Library	4,552	(224)	4,328
Small Business Loan	161,871	8,194	170,065
CDBG	-	(38,382)	(38,382)
HOME Investment CDBG	-	-	-
Lawton Urban Housing	215	11	226
Police Grant	28,396	(16,067)	12,329
Park Fee Fund	57,541	15,109	72,650
Hunting & Fishing Permits	18,513	(41,553)	(23,040)
Narcotics Fund	49,086	(2,398)	46,688
Animal Sterilization Fund	181,918	20,687	202,605
Insurance Proceeds	54,253	(13,309)	40,944
Emergency 911	25,891	(68,517)	(42,626)
Adult Softball	11,204	689	11,893
Cemetery Care	172,423	13,491	185,914
Officers Training	355	76,463	76,818
Court Credit Card Maintenance	298,532	(121,946)	176,586
Lawton Parking Authority	1,191	-	1,191
Senior Crafts Fund	86	-	86
Animal License Fund	94,174	81,308	175,482
Elmer Thomas Park	-	2,450	2,450
State Landfill Fund	39,471	18,425	57,896
Police Sentinel	537	499	1,036
Fire Prevention Education	5,162	750	5,912
Park Fund	1,489	70	1,559
McMahon Authority Grants	154,692	(120,339)	34,353
Drainage Maintenance Fund	121,632	74,518	196,150
Animal Donation Fund	2,024	3,713	5,737
Application Fees Fund	9,154	(624)	8,530
Capital Outlay Rolling Stock	620,768	939,934	1,560,702
Cemetery Reward	5,500	-	5,500
Centennial Fund	25,205	5,236	30,441
Hotel/Motel Tax Fund	155,832	82,125	237,957
Project Impact	36,214	5,826	42,040
Mass Transit Fund	92,195	(71,932)	20,263
Reserve Fund	421,138	(359,962)	61,176
Federal Grant Fund	292,579	134,213	426,792
Special Jail Fund	8,900	6,321	15,221
Cellular Service Fee Fund	65,621	220,408	286,029
Stormwater Mitigation	116,712	10,760	127,472
Police and Fire Training Fund	-	37,727	37,727
Impact Fees	268,322	239,605	507,927
<b>Capital Project:</b>			
CIP	529,918	23,731	553,649
Ad Valorem	2,444,033	(1,047,063)	1,396,970
CIP 2000	4,922,182	(871,824)	4,050,358
<b>Debt Service</b>			
Prior to 1972	1,162,351	(534,361)	627,990
Ad Valorem 2005	1,653,085	(25,024)	1,628,061
<b>Total</b>	<b>\$ 14,328,161</b>	<b>\$ (1,306,970)</b>	<b>13,021,191</b>

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.

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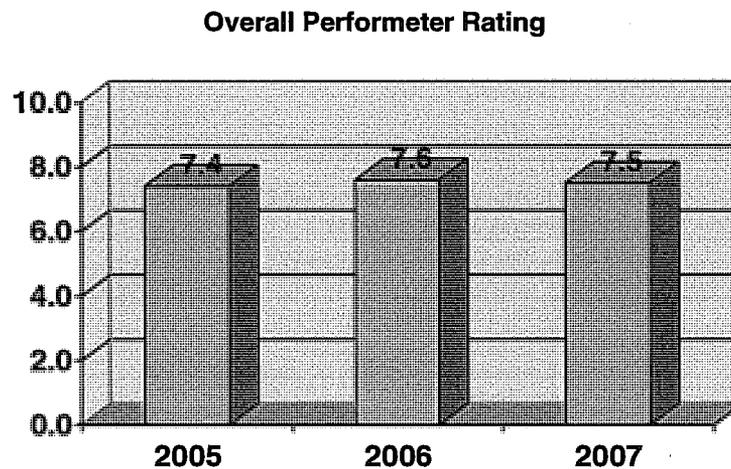
**Debt Service Coverage Schedule - Year Ended June 30, 2007**

<b>DEBT SERVICE COVERAGE:</b>	<b>OWRB Series 2001A, 2003A, 2004A, 2005 &amp; 2006A <u>Promissory Notes</u></b>
<b>GROSS REVENUE AVAILABLE:</b>	
Charges for services (all utility revenues)	\$31,280,525
Investment income	738,602
<b>Total Gross Revenue Available</b>	<b><u>32,019,127</u></b>
<b>OPERATING EXPENSES:</b>	
Total Operating Expenses	<u>25,706,095</u>
Net Revenue Available for Debt Service	<b><u><u>\$6,313,032</u></u></b>
Maximum Annual Debt Service on all Obligations Payable From Revenues of the System	<b><u><u>\$4,620,870</u></u></b>
Computed Coverage	<b><u><u>137%</u></u></b>
Coverage Requirement	<b><u><u>125%</u></u></b>

## 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, 2007, the City's Overall Performer® Rating was **7.5**. This represents the evaluator's opinion that the City's overall financial health and performance was above satisfactory in 2007 and slightly improved over 2005.<sup>1</sup>



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.

<sup>1</sup> 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, 2007, the annual report reflects the following Performer® ratios.

<b>Performer® Ratio</b>	<b>What Does the Ratio Mean?</b>	<b>Performer® Minimum Goal</b>	<b>2006 Ratio</b>	<b>2007 Ratio</b>
<b>Financial Position Ratios</b>				
Unrestricted Net Assets	How do our unrestricted and expendable rainy day funds look?	30-50% of annual revenue	23%	9%
General Fund Budgetary Fund Balance	How does our General Fund budgetary carryover position look?	10-30% of fund revenue	15%	18%
Capital Asset Condition	How much useful life do we have left in our capital assets?	At least 50% remaining	60%	59%
Debt to Assets	Who really owns the City?	At least 50% ownership	66%	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	10.2 times
Pension Plan Funding Status	Will our employees be pleased with us when they retire?	At least 95% funded	82%	75%
<b>Financial Performance Ratios</b>				
Change in Net Assets	Did our overall financial condition improve, decline, or remain steady over the past year?	0% change	+4%	+4%
Interperiod Equity	Who paid for the cost of operating the City, current, past or future tax and rate payers?	95-100% current	107%	109%
Sales Tax Growth	What is the state of our local economy?	1% growth	+6.6%	+4.4%
BTA Self Sufficiency	Did our current year utility services pay for themselves?	At least 95%	100%	122%
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	2.09 times
<b>Financial Capability Ratios</b>				
Revenue Dispersion	How dependent are we on revenue sources we cannot directly control?	Less than 50%	58%	57%
Bonded Debt Per Capita	What is our long-term general obligation debt burden on our taxpayers?	Less than \$500	\$230	\$205
Available Legal Debt Limit	Will we be able to issues more long-term general bonded debt, if needed?	At least 50% available	39%	46%
Property Taxes Per Capita	What is our property tax burden on our taxpayers?	Less than \$50	\$39	\$37
Sales Tax Rate	Will our citizens be likely to approve an increase in sales tax rates, if needed?	3.5% or less	3.25%	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%	16%

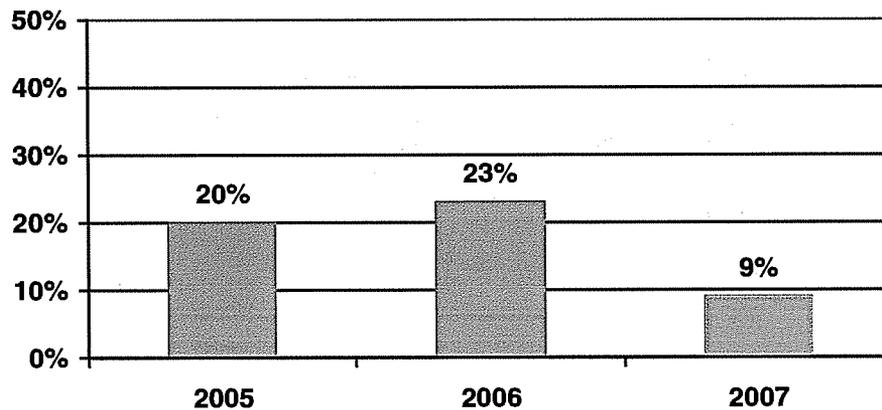
<b>Ratio Category</b>	<b>Performer® Rating</b>
Financial Position	6.8
Financial Performance	9.2
Financial Capability	5.8
<b>Overall Rating</b>	<b>7.5</b>

**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	2007
% of Revenue	20%	23%	9%

At June 30, 2007, the total City-wide amount of unrestricted, expendable rainy days funds approximated \$7.8 million or 9% of annual revenues. While governmental activities reported unrestricted net assets at 4% of annual revenues, the business-type activities held 17% 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.

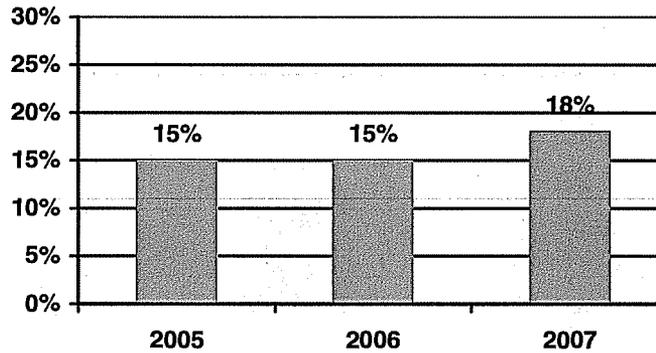
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**Performer® Ratio – Budgetary Fund Balance**

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	2007
Unreserved %	15%	15%	18%

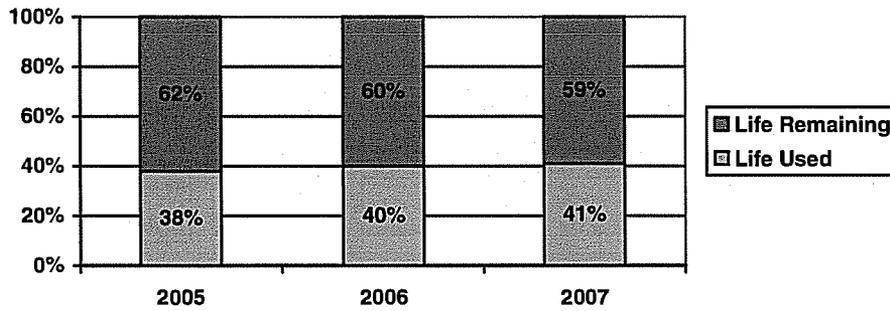
At June 30, 2007, the General Fund’s total unreserved fund balance on the modified accrual basis of accounting amounted to \$7.7 million or 18% of total General Fund revenues. The unreserved fund balance of 18% level is below the desired level of 30% but is in the range considered by management to be fiscally responsible.

**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	2007
% of Remaining Useful Life	62%	60%	59%

At June 30, 2007, the City owned \$298.4 million of depreciable capital assets with accumulated depreciation on such assets of \$122.7 million. This indicates that on the average, the City’s capital assets have approximately 59% of the useful life remaining.

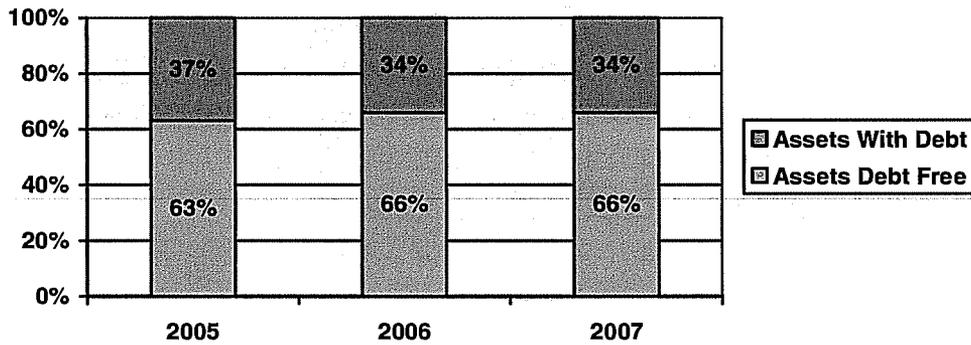
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**Performer® Ratio – Debt to Asset Solvency**

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	2007
% of Assets Debt Free	63%	66%	66%

The June 30, 2007 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.

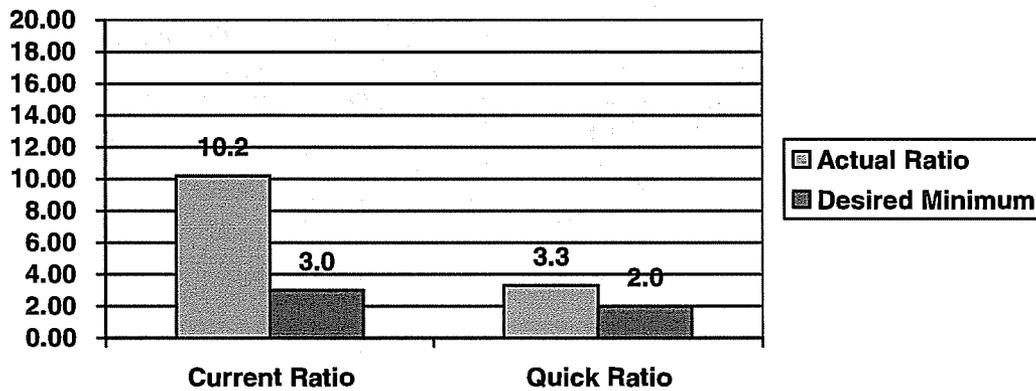
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**Performer® Ratio – Liquidity Ratios**

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	2007
Current ratio	14.7	13.8	10.2
Quick ratio	5.4	4.5	3.3

For the year ended June 30, 2007, the City’s liquidity was quite strong with current and quick ratios well in excess of the benchmark levels.

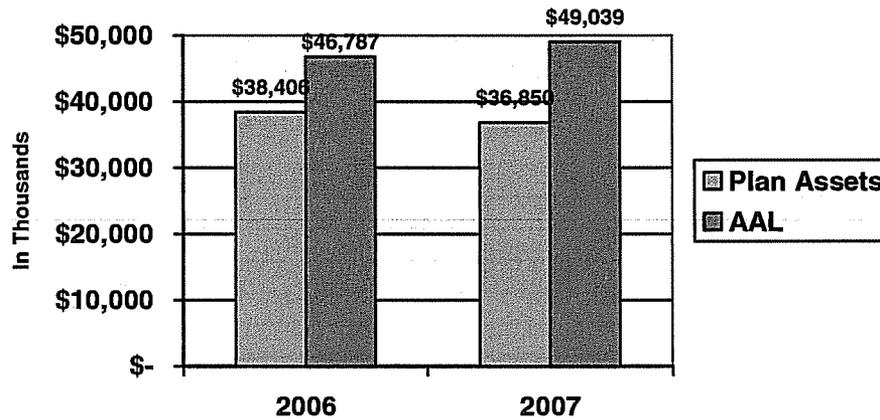
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**Performer® Ratio – Pension Plan Funding Status of the City’s Single-Employer Defined Benefit Plan**

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	2007
Funded %	82%	75%

At June 30, 2007, the City’s defined benefit pension plan was 75% 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, 2007, 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 \$2.8 million.

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**Performer® Ratio – Change in Net Assets**

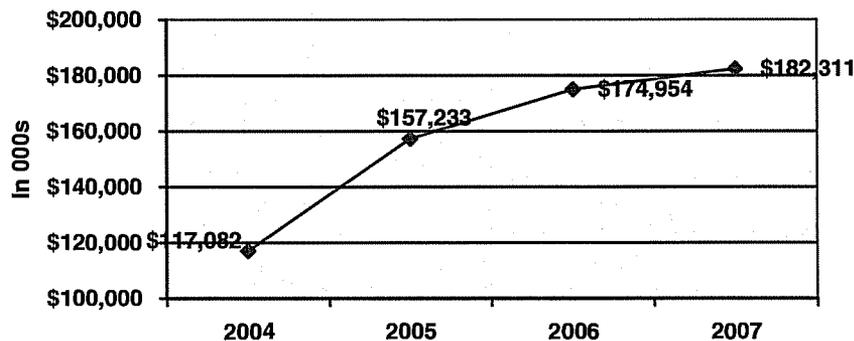
The primary financial indicator in evaluating the overall change in the City’s financial condition is the Change in Net Assets ratio. This ratio measures the dollar and percentage change in the City’s net assets (the difference between total assets and total liabilities) from the prior year.

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	2007
% Change	+12.6%	+4%	+4.2%

For the year ended June 30, 2007, the City experienced a \$7.4 million or 4.2% 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 \$11.7 million increase in net assets, while business-type activities net assets decreased by \$4.3 million.

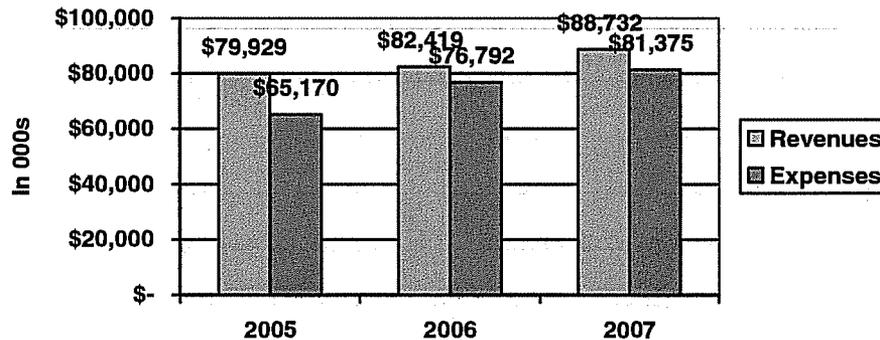
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**Performer® Ratio – Interperiod Equity**

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	2007
% Current Funded	123%	107%	109%

For the year ended June 30, 2007, 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 109%.

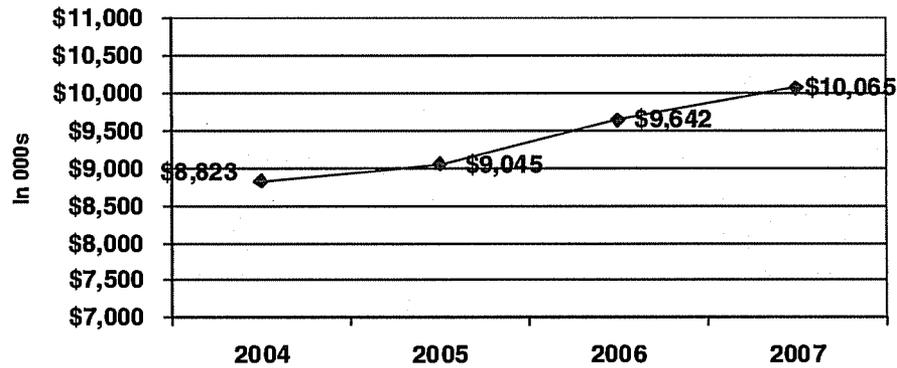
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**Performer® Ratio – Sales Tax Growth**

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	2007
Total Tax Collected (in 000s)	\$28.7	\$29.4	\$31.3	\$32.7
Average Tax Rate	3.25%	3.25%	3.25%	3.25%
Collected per One Cent (in 000s)	\$8.8	\$9.0	\$9.6	\$10.1
% Change per One Cent	-	+2.5%	+6.6%	+4.4%

For the year ended June 30, 2007, the City's sales and use tax collections increased by approximately \$1.4 million or 4.4% from the prior year. Considering the City's 3.25 cents on the dollar rate in effect for both years, the \$1.4 million increase in sales and use tax collections in 2007 translates into an increase in taxable sales over 2006 of \$42.4 million.

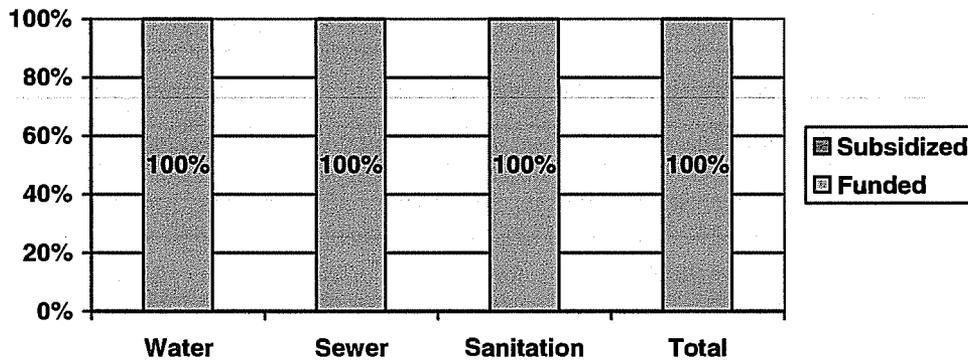
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**Performer® Ratio – Business-Type Activities (BTA) Self-Sufficiency**

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	2007
% Self-Sufficient	100%	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 \$7.2 million. 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.

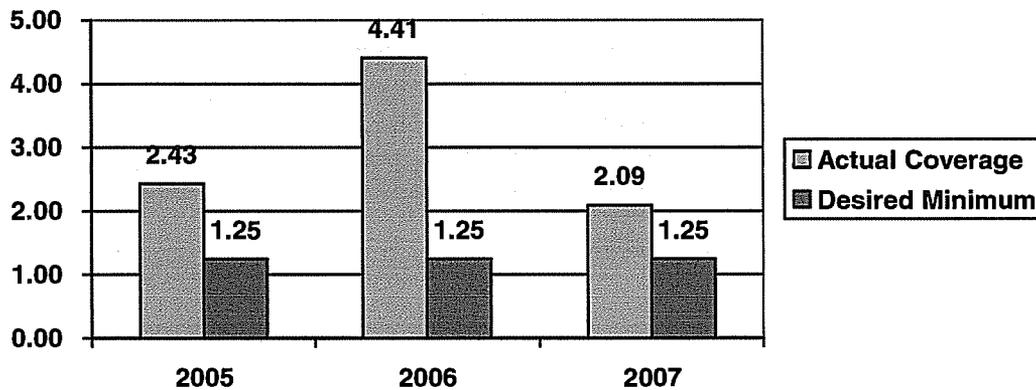
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**Performer® Ratio – Debt Service Coverage**

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	2007
Number of Times Covered	2.43	4.41	2.09

For the year ended June 30, 2007, the City’s net revenues from utility rates and other pledged revenues were 2.09 times the year’s debt service. This is a favorable indication of solvency.

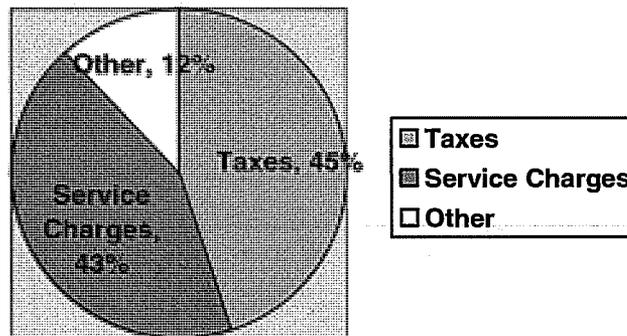
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**Performer® Ratio – Revenue Dispersion**

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	2007
% Not Subject to Direct Control	59%	58%	57%

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 (57% in 2007) 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 43% of its annual revenues in 2007 in the form of service charges. This indicates the presence of some exposure to financial difficulties resulting from the reliance on economy based taxes.

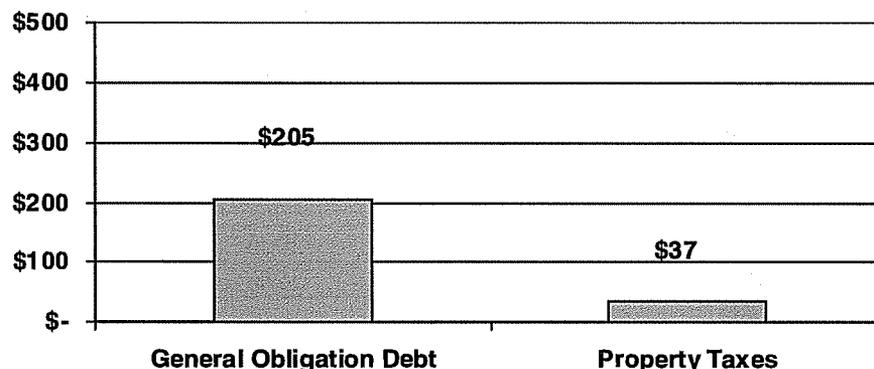
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**Performer® Ratios – General Obligation Debt and Property Taxes**

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	2007
General Bonded Debt /Judgments	\$19.0 mil.
Taxes per \$1000 of Net Assessed Value	\$10.38
Property Taxes Levied (in 000s)	\$3,441
Population	92,757
General Bonded Debt per Capita	\$205
Property Taxes per Capita	\$37
Legal Debt Margin Remaining	46%

As noted in the table above, at June 30, 2007, the City had \$19.0 million in general bonded debt outstanding, \$3,440,644 property taxes levied, and 46% 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.

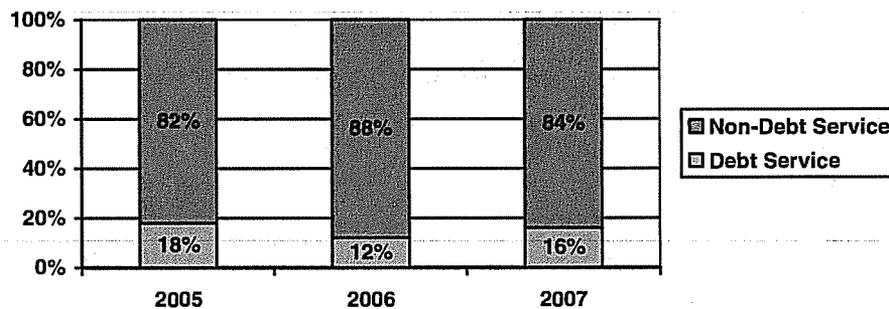
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**Performer® Ratio – Debt Service Load**

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	2007
% Debt Service	18%	12%	16%

In 2007, approximately \$12.2 million of the \$77.1 million of non-capital expenditures (or 16%) 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 16 cents of that dollar was needed to pay principal and interest on the City’s long-term debt.