

THE PERFORMETER®

A Financial Statement Analysis of
The City of Nichols Hills, Oklahoma
As of and for the year ended June 30, 2006



Crawford & Associates, P.C.

What is a Performer[®]?

An analysis that takes governmental financial statements and converts them into useful and understandable measures of financial performance

Financial ratios and a copyrighted analysis methodology are used to arrive at an overall rating of 1-10

The overall reading is a barometer of the City's financial health and performance

How to Use the Performer®

Use the individual ratios to identify financial warning signs – the ratios are combined into three categories

Financial position ratios – that measure financial health at year end

Financial performance - that measure changes in the financial position from the prior year

Financial capability ratios - that measure the ability to raise revenue or issue debt in the future, if needed

Use the overall rating as a collective benchmark of financial health and success of the City as a whole

Use the comparisons to prior years to monitor trends in financial indicators

Limitations of the Performer[®]

The Performer[®] should not be used as the only source of financial information to evaluate financial health and performance

The analysis is an overall rating of the City as a whole and not specific activities, funds or units

The Performer[®] is based on Crawford & Associates' professional judgment and is limited as to its intended use

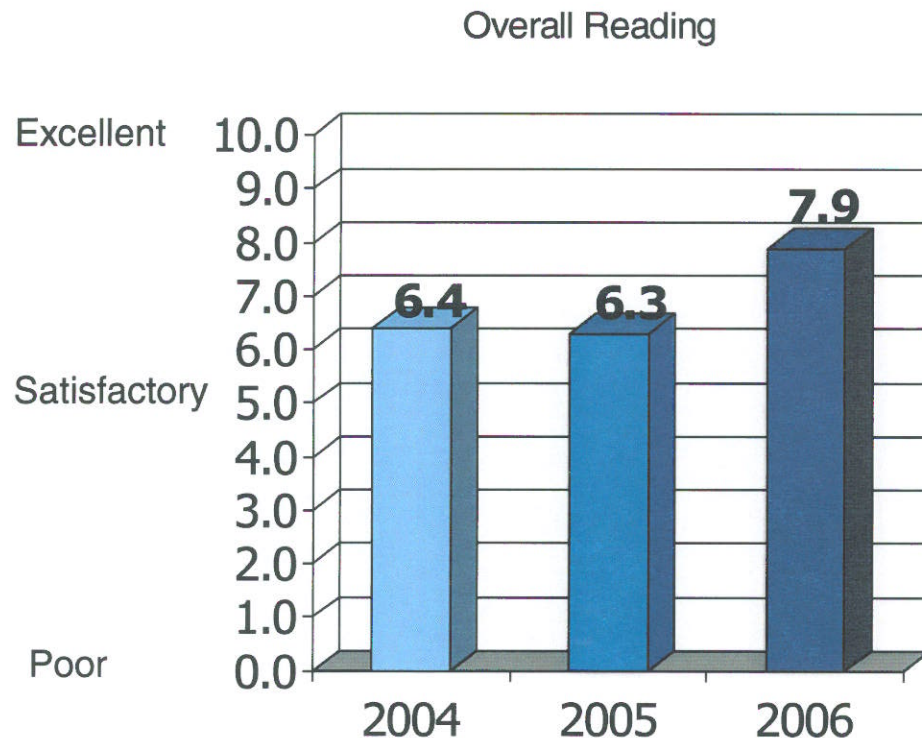
Performer[®] Reading

For the 2006 fiscal year, the readings by ratio category were as follows:

Financial Position 8.3

Financial Performance 10.0

Financial Capability 4.2



The City's financial position at June 30, 2006 and its financial performance over the year were the stronger components. The weakest component of the City's ratings is financial capability (resulting from the City's relatively high level of general obligation debt). The 2006 overall reading of **7.9** indicates the evaluator's opinion that Nichols Hills' overall financial health and performance improved over the past year and was well above satisfactory.

Performer[®] Ratios

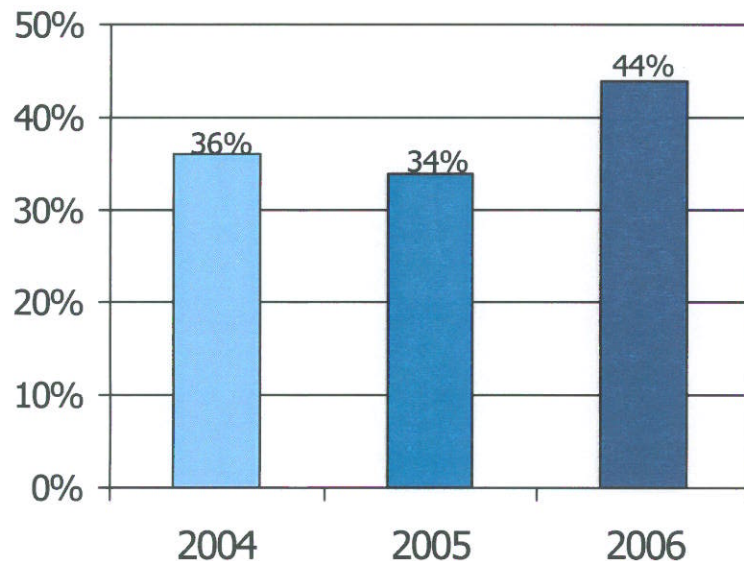
Financial Position Ratios

Unrestricted Net Assets	How do our total rainy day funds look?
Budgetary Fund Balance	How does our budgetary carryover position look?
Capital Asset Condition	How much life do we still have left in our capital assets?
Pension Plan Funding	Will we be able to pay our employees when they retire?
Assets to Debt	Who really owns the City?
Current Ratio	Will our employees and vendors be pleased with our ability to pay them on time?
Quick Ratio	How is our short-term cash position?

Level of Unrestricted Net Assets

How do our total rainy day funds look?

Unrestricted Net Assets as a Percentage of Annual Revenues



The level of total unrestricted net assets is an indication of the amount of unexpended and available resources the City has at a point in time to fund emergencies, shortfalls or other unexpected needs. In our model, 50% is considered excellent, while 30% is considered a desired minimum.

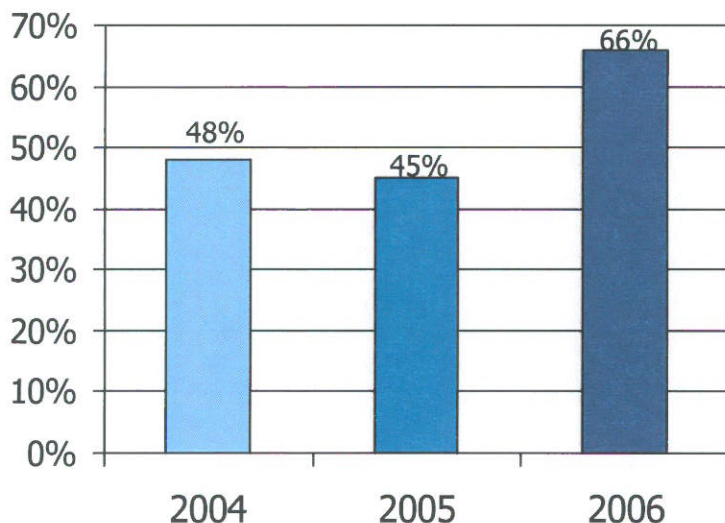
For the year ended June 30, 2006, the City's total unrestricted net assets approximated \$4.4 million or 44% of annual total revenues. This level is within our model's desired range as noted above and it represents an improvement over the past year.

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
36%	34%	44%							

Level of Budgetary Fund Balance

How does our budgetary carryover position look?

General Fund Budgetary Unreserved
Fund Balance as a Percentage of
Annual Revenues



The level of budgetary unreserved fund balance is an indication of the amount of unexpended, unencumbered and available resources the City has at a point in time to carryover into the next fiscal year to fund budgetary emergencies, shortfalls or other unexpected needs. In this analysis, only the General Fund is considered. In our model, 10% is considered a minimum responsible level, while 30% is considered desirable.

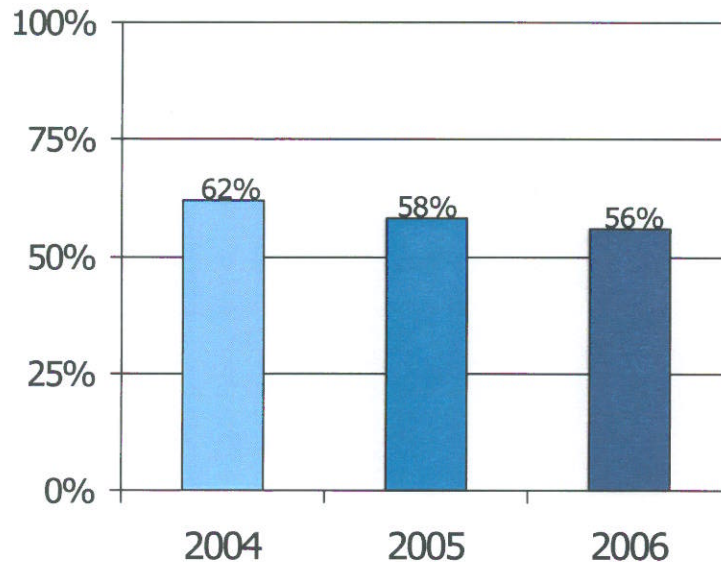
For the year ended June 30, 2006, the City's unreserved fund balance of the General Fund amounted to \$2.8 million or 66% of annual General Fund revenues which represents a significant increase over the past year and is above our model's suggested range.

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
48%	45%	66%							

Capital Asset Condition

How much useful life do we have left in our capital assets?

Percentage of Capital Assets' Useful Life Remaining



The capital asset condition ratio compares capital assets cost to accumulated depreciation to determine the overall percentage of useful life remaining. A low percentage could indicate an upcoming need to replace a significant amount of capital assets.

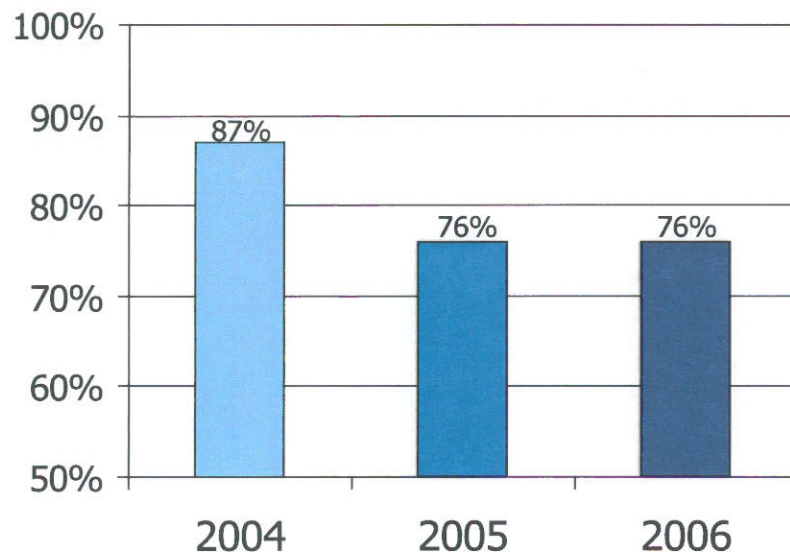
At June 30, 2006, the City's depreciable capital assets amounted to \$37.6 million while accumulated depreciation totaled \$16.4 million. This indicates that, on the average, the City's capital assets have more than half or 56% of their useful lives remaining. This is a satisfactory financial indicator in our model and is consistent with the prior years.

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
62%	58%	56%							

Pension Plan Funding Ratio

Will we be able to pay our employees when they retire?

Pension Plan Assets as a Percentage of
Accrued Liability



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 and is therefore amortizing that unfunded amount over a period of time in future contributions.

At June 30, 2006, the City's pension plan assets were 76% of the actuarially accrued pension benefit liability, indicating the plan was not fully funded from an actuarial perspective at the last valuation date. However, it should be noted that at June 30, 2006, the plan assets exceeded the accumulated benefit obligation (the amount that would be due employees and retirees if the plan were discontinued).

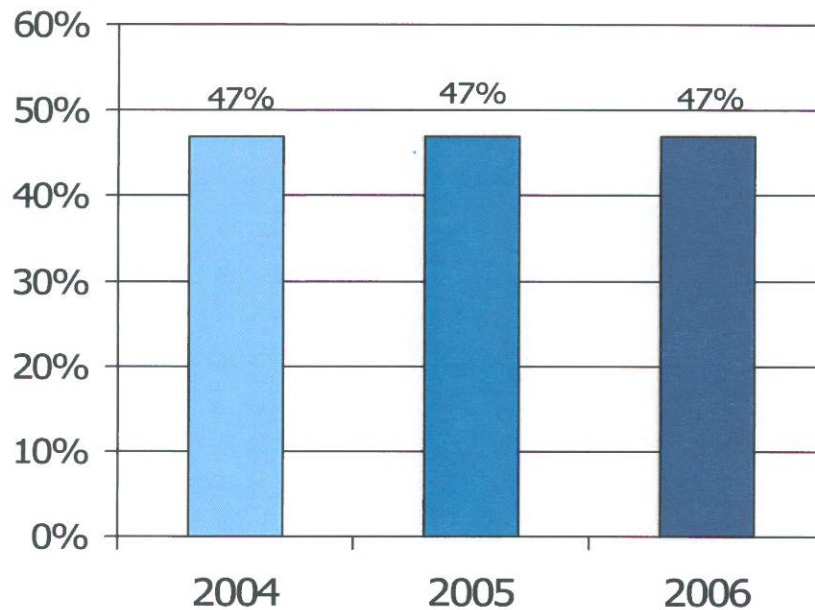
2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
87%	76%	76%							

* The actuarial accrued liability can vary based on the actuarial cost method used. This plan uses the Entry Age Normal cost method which provides a smoother cost pattern by pre-funding future plan costs. Therefore, the funded status in this graph is the result of the actuarial liability being greater than the current actual benefits which have been earned or accrued.

Assets to Debt

Who really owns the City?

Percentage of Equity in Assets



The assets to debt ratio measures the extent to which the City has funded its assets with debt. The higher the percentage, the more equity the City has in its assets.

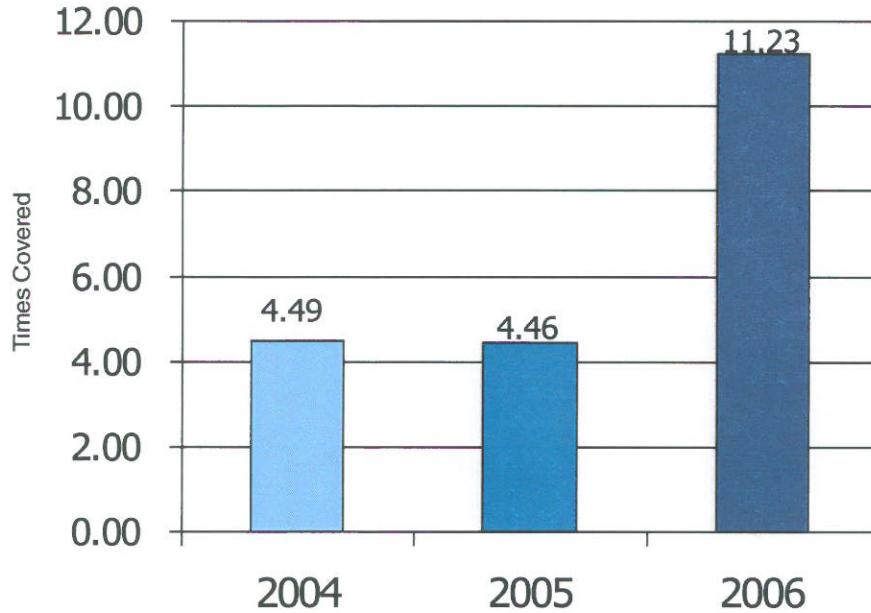
At June 30, 2006, more than half (53%) of the City's \$36.1 million of total assets were funded with debt or other obligations. In other words, the City had a 47% equity position in its assets. This is a relatively moderate financial indicator and indicates that for each dollar of City assets owned, it owes 53 cents of that dollar to others.

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
47%	47%	47%							

Current Ratio

Will our employees and vendors be pleased
with our ability to pay them on time?

Current Assets Compared to Current Liabilities



The current ratio is one measure of the City's ability to pay its short-term obligations. The current ratio compares total current assets and liabilities. A current ratio of 2.00 to 1 indicates good current liquidity and an ability to meet the short-term obligations.

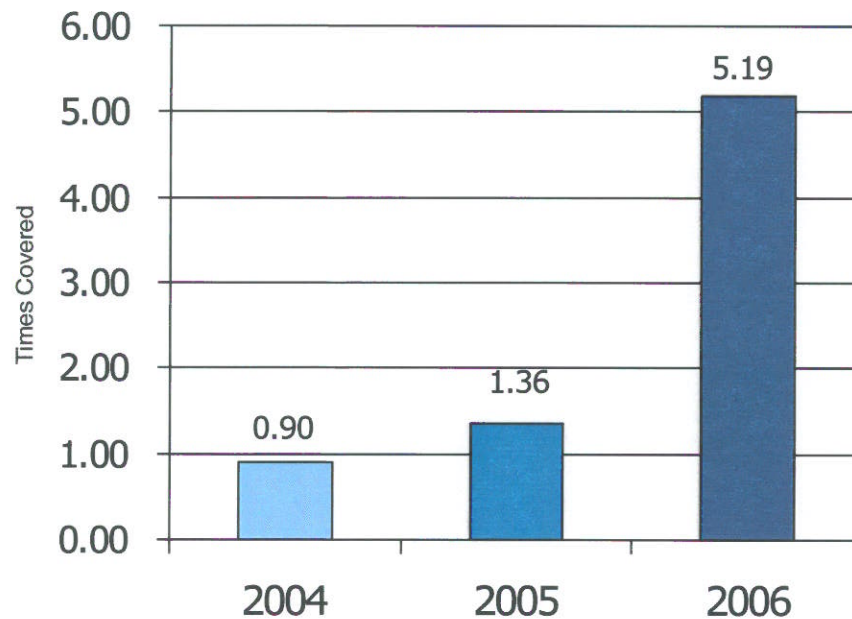
At June 30, 2006 the City had a government-wide ratio of current assets to current liabilities of 11.23 to 1. This indicates that the City had over eleven times the amount of current assets needed to pay current liabilities and is considered a favorable indicator of liquidity.

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
4.49	4.46	11.23							

Quick Ratio

How is our short-term cash position?

Cash and Cash Equivalents Compared to
Current Operating Liabilities



The quick ratio is another, more conservative, measure of the City's ability to pay its short-term obligations. The quick ratio compares total cash and short-term investments to current liabilities. A quick ratio of 1.00 to 1 indicates adequate current liquidity and an ability to meet the short-term obligations with cash.

At June 30, 2006, the City had a government-wide ratio of cash and cash equivalents to current liabilities of 5.19 to 1. This indicates that the City had almost five and a one fourth times the amount of cash and short-term investments needed to pay current liabilities, indicating that it has a strong ability to meet current obligations.

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
0.90	1.36	5.19							

Performer[®] Ratios

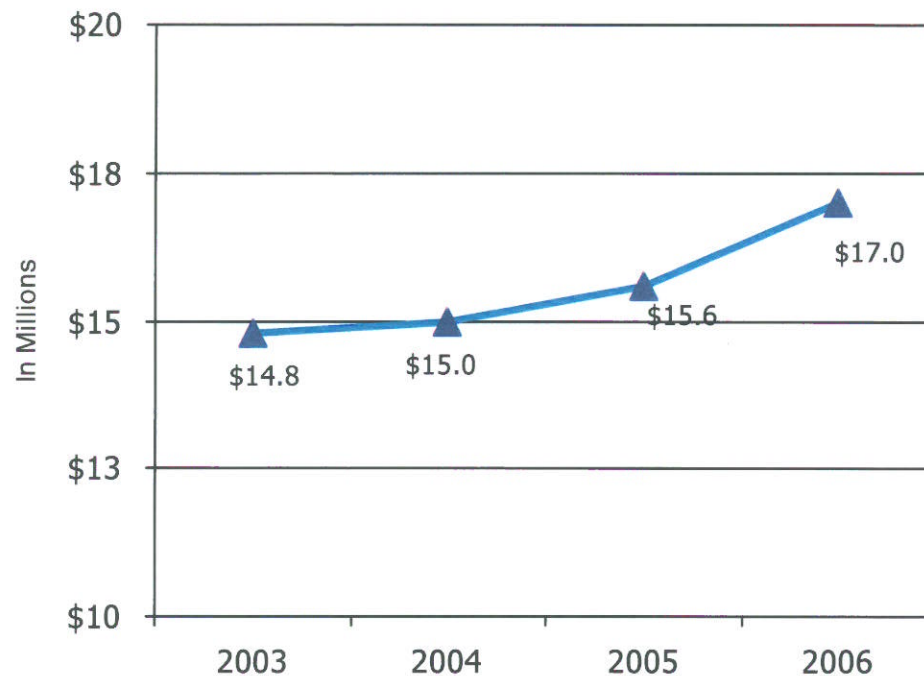
Financial Performance Ratios

Change in Net Assets	Did our overall financial condition improve, decline, or remain steady from the past year?
Interperiod Equity	Who paid for the costs of current year services – current, past, or future tax and rate payers?
BTA Self-Sufficiency	Did current year utility services and other business-type activities pay for themselves?
Debt Service Coverage	Were our revenue bond investors pleased with our ability to pay them on time?
Sales Tax Growth	What is the state of our local economy?

Change in Net Assets

Did our overall financial condition improve, decline or remain steady from the past year?

Net Assets at Year End



Net assets include all assets of the City, except for fiduciary funds held for the benefit of others. It is measured as the difference between total assets, including capital assets, and total liabilities, including long-term debt. Net assets increase as a result of earning more revenue than expenses incurred in the fiscal year.

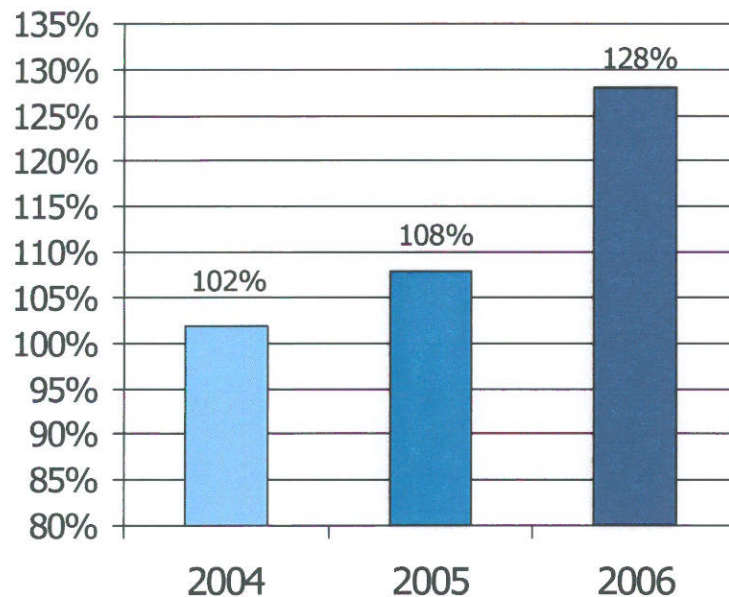
For the year ended June 30, 2006, total net assets increased by \$2.2 million or 15% from the prior year. This increase is the result of revenues exceeding expenses in the fiscal year for the city as a whole. The increase represents a continuing trend of overall financial condition improvement over the past two years.

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1%	4%	15%							

Interperiod Equity

Who paid for the costs of current year services
– current, past or future tax and rate payers?

Current Year Revenues as a Percentage
of Current Year Costs



Interperiod equity is achieved when the cost of current services are paid by current year tax and rate payers. When current year costs are subsidized by prior year resources carried over or from debt proceeds, it can be said that interperiod equity was not achieved, and either past or future tax and rate payers helped fund the costs of current year services.

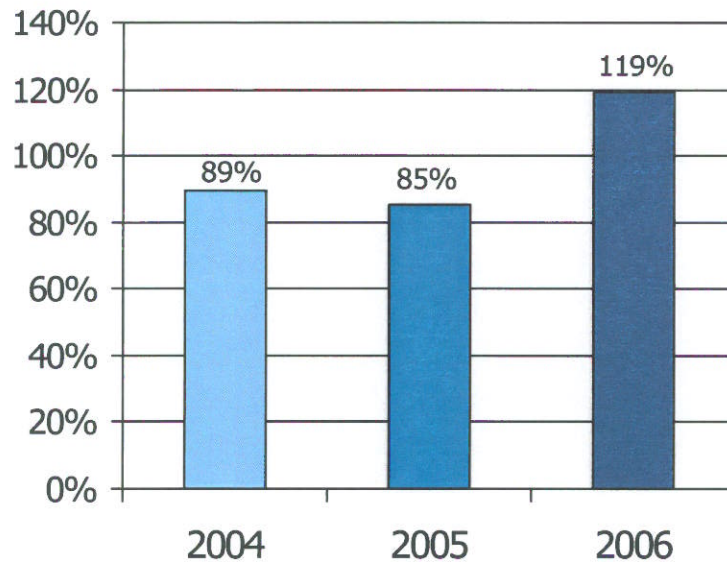
For the year ended June 30, 2006, the City's 128% funding percentage indicates the City's total costs were fully funded by current year tax and rate payers, with current year revenues, covering all current year costs and generating additional resources for future periods.

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
102%	108%	128%							

BTA Self-Sufficiency

_____ Did current year business-type activities, such as utilities, pay for themselves?

Percentage of BTA Expenses Covered
By BTA Revenues



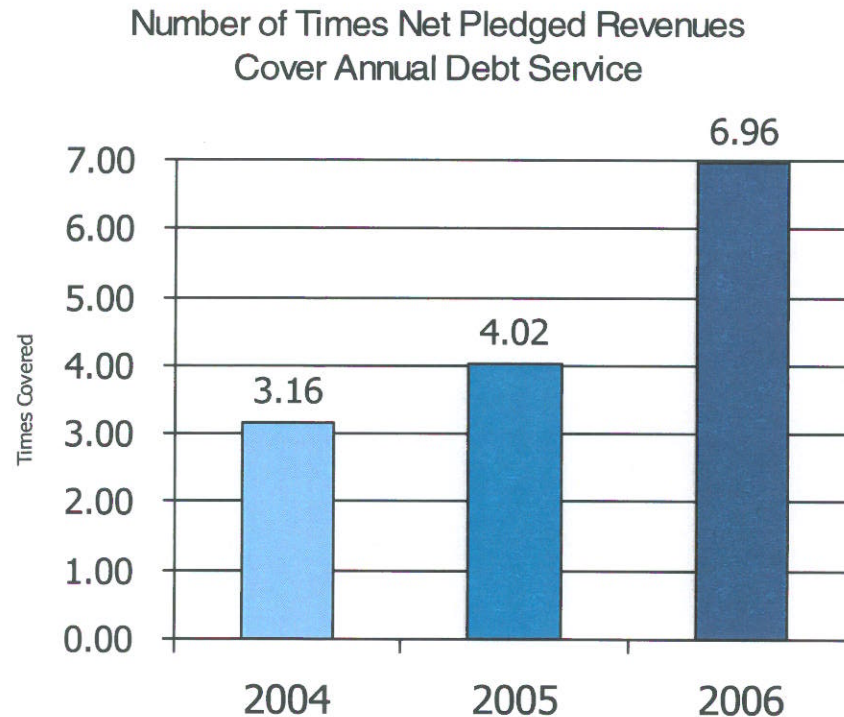
The self-sufficiency ratio indicates the level at which business-type activities (utilities) covered their current costs with current year revenues, without having to rely on subsidies or use of prior year reserves.

For the year ended June 30, 2006, the City's utility operations were fully self-sufficient in total. This indicates that all of the current year utility systems' costs were funded by current year revenues.

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
89%	85%	119%							

Debt Service Coverage

Were our revenue bond investors pleased
with our ability to pay them on time?



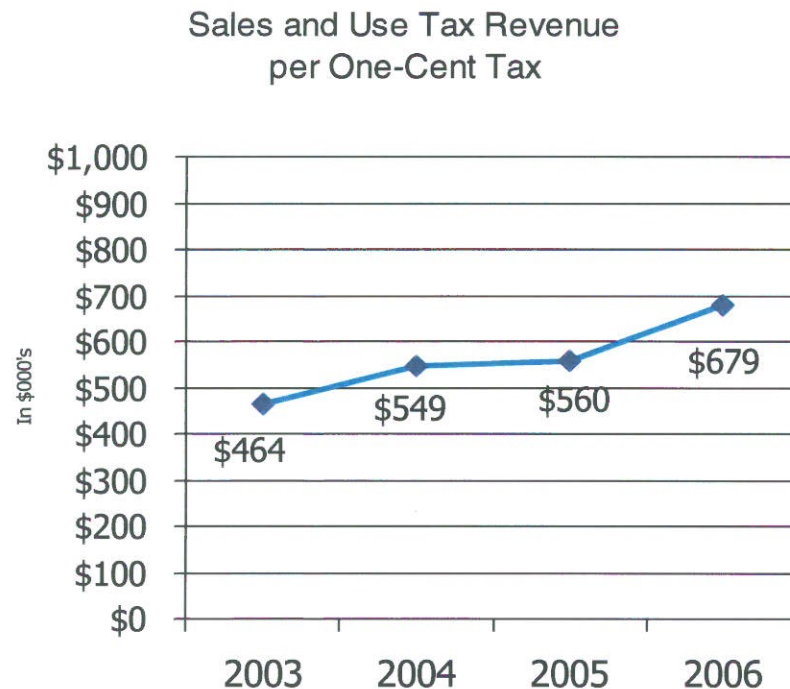
The debt service coverage ratio compares the City's debt service requirements on revenue bonds to the net operating cash generated by the revenue streams pledged for payment. A debt service ratio of greater than 1.00 indicates a sufficient ability to make the debt service payments from net revenue from operations.

For the year ended June 30, 2006, the City experienced a favorable debt service coverage ratio of 6.96. This indicates the City generated almost seven times the amount of cash necessary to pay the debt service requirements on its notes.

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
3.16	4.02	6.96							

Sales Tax Growth

What is the state of our local economy?



Due to the inability of Oklahoma cities and towns to levy a property tax for operations, the City is highly dependent on sales and use tax revenue to fund its annual governmental activities. Sales and use tax growth is a measure of the change in the local economy from the prior year in terms of the change per one-cent tax collected.

For the year ended June 30, 2006, the City experienced an increase in sales and use tax per one-cent tax of 21% from the prior year which translates into an increase in taxable sales of over \$12.5 million compared to the past year.

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
18%	2%	21%							

Performer® Ratios

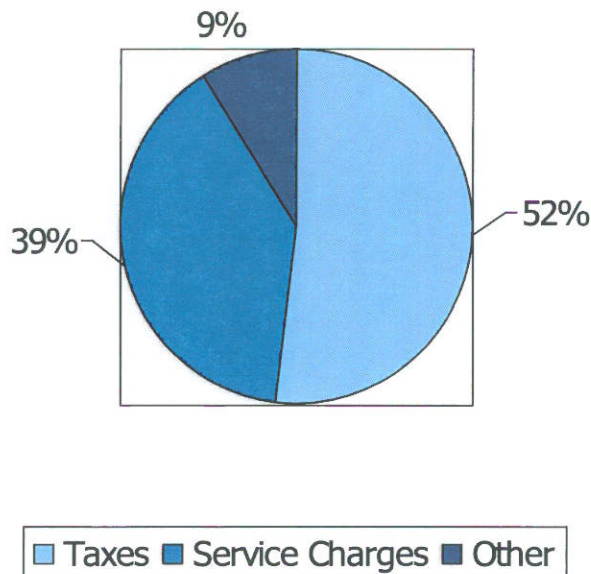
Financial Capability Ratios

Revenue Dispersion	How much of our revenue is beyond our direct control?
Debt Service Load	How heavily is our budget loaded with payments to retire long-term debt?
Bonded Debt Per Capita	What is the debt burden on our property tax payers?
Legal Debt Limit Remaining	Will we be legally able to issue more long-term debt if needed?
Property Taxes Per Capita	Will our citizens be willing to approve property tax increases if needed?
Local Sales Tax Rate	Will our citizens be willing to approve sales tax increases if needed?

Revenue Dispersion

How heavily are we relying on revenue sources beyond our direct control?

2006 Revenue Percentages by Source



The percentage dispersion of revenue by source indicates 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 or revenues from other governments such as grants, the less favorable the dispersion.

For the year ended June 30, 2006, the City had direct control over 39% (service charges) of its revenues. This ratio indicates the City has moderate exposure to financial difficulties due to reliance (61%) on taxes that require voter approval and on grants, contributions and other revenue.

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
60%	63%	61%							

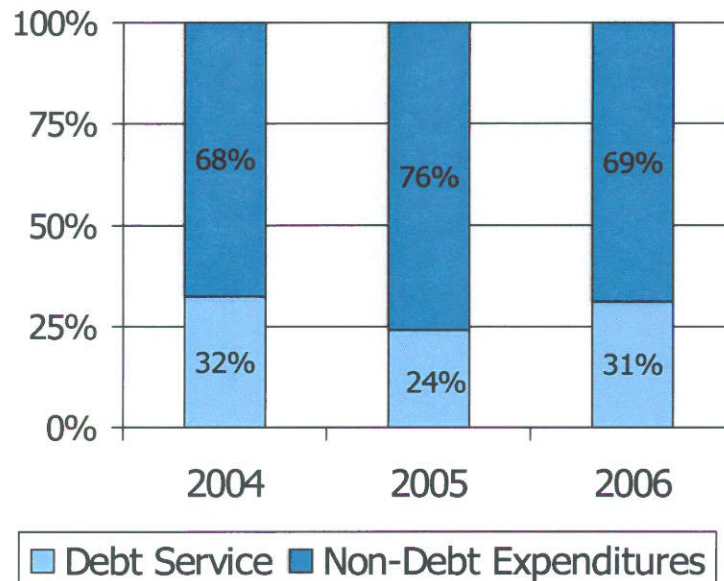
Debt Service Load

How much of our annual budget is loaded with disbursements to pay off long-term debt?

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.

For the year ended June 30, 2006, the City's total non-capital expenditures amounted to \$8.2 million of which \$2.5 million (or 31%) were payments for principal and interest on long-term debt. This is an indicator of moderate solvency and indicates that for every dollar the City spent on non-capital items only 31 cents of that dollar was used for debt service.

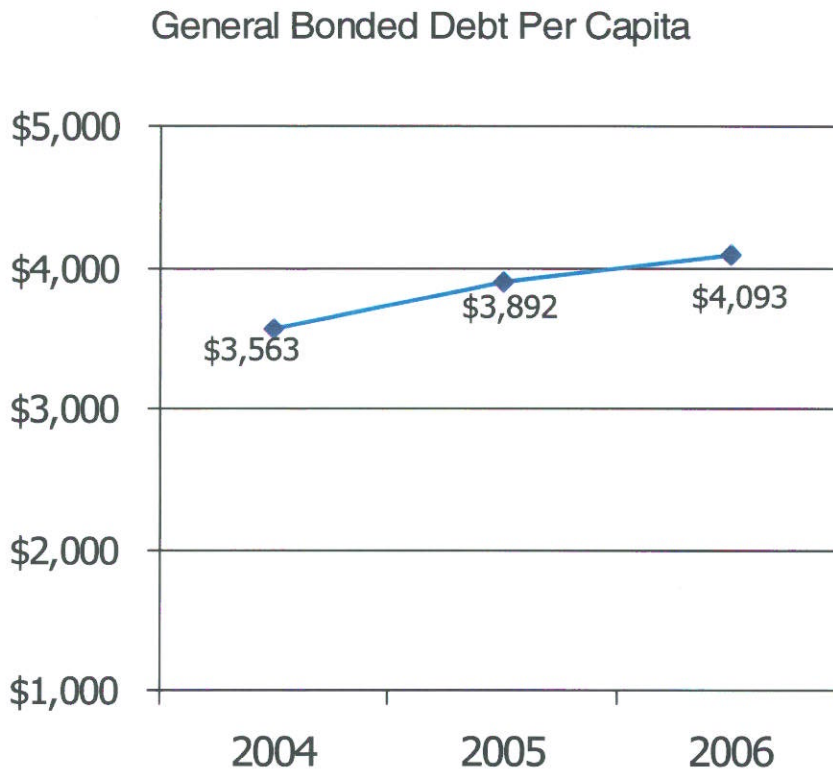
Percentage of Debt Service and Non-Debt Expenditures



2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
32%	24%	31%							

Bonded Debt Per Capita

What is the debt burden on our property tax payers?



The financial ratio of general bonded debt per capita is an indication of the City's debt burden on its citizens and other taxpayers related to general obligation debt payable from property taxes. The ratio does not consider debt payable from enterprise activities or alternate revenues.

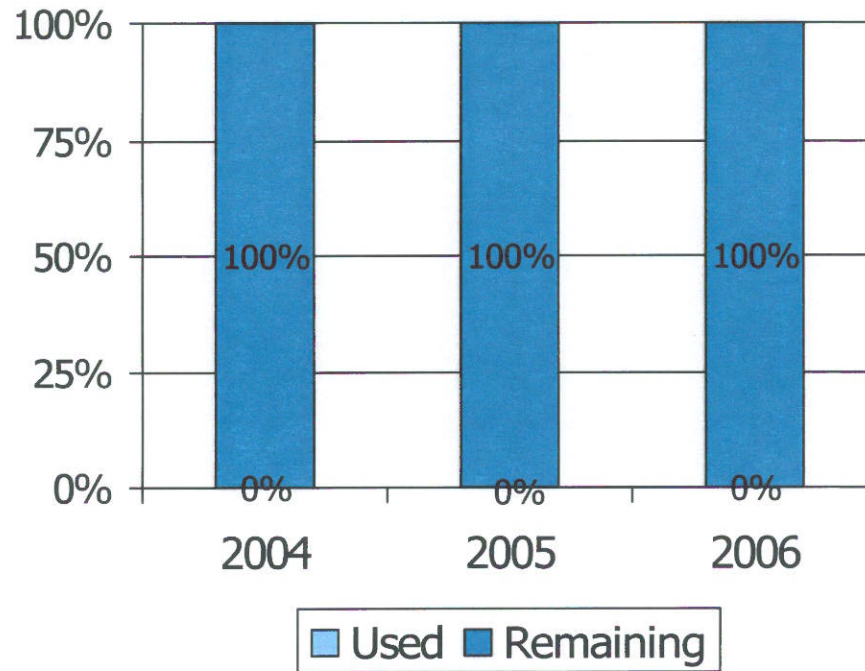
For the year ended June 30, 2006, the City had \$16.6 million in general obligation bonds outstanding. As a result, the City's general bonded debt per capita is \$4,093. This is considered a relatively high debt burden in our model.

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
\$3,563	\$3,892	\$4,093							

Legal Debt Limit Remaining

Will we be legally able to issue more long-term debt, if needed?

Percentage of Legal Debt Limit Used
Versus Remaining



Oklahoma law limits certain types of general obligation debt to no more than 10% of the City's net assessed valuation of taxable property of \$76 million.

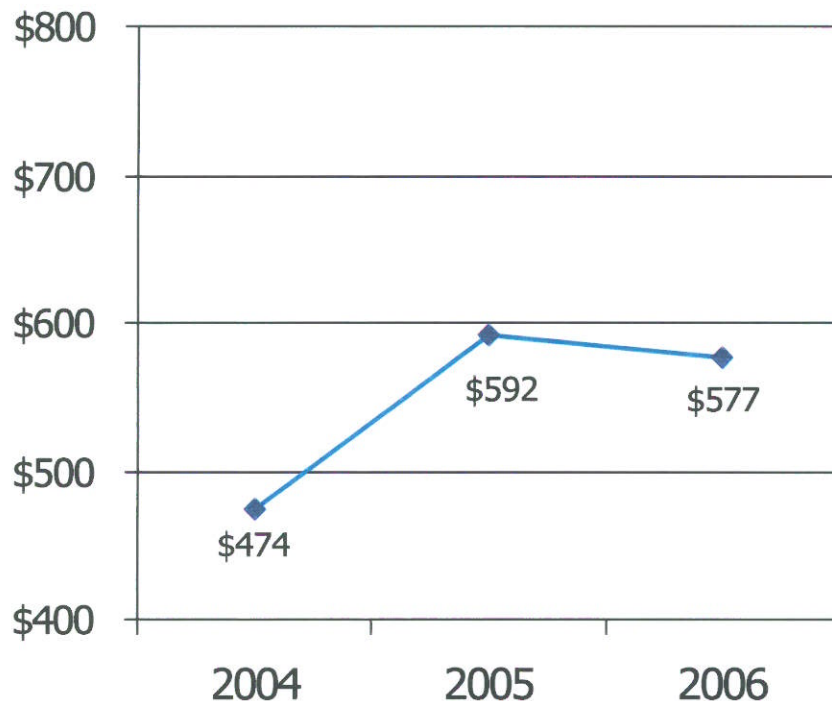
For the year ended June 30, 2006, none of the City's \$16.6 million of general obligation debt was applicable to this legal debt limit. This means that at June 30, 2006, the City had \$7.6 million or 100% of its general bonded debt legal limit remaining.

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
100%	100%	100%							

Property Taxes Per Capita

Will our citizens be willing to approve property tax increases, if needed?

Total Property Taxes Per Capita



The financial ratio of property taxes per capita is an indication of the City's property tax burden on its citizens and other taxpayers.

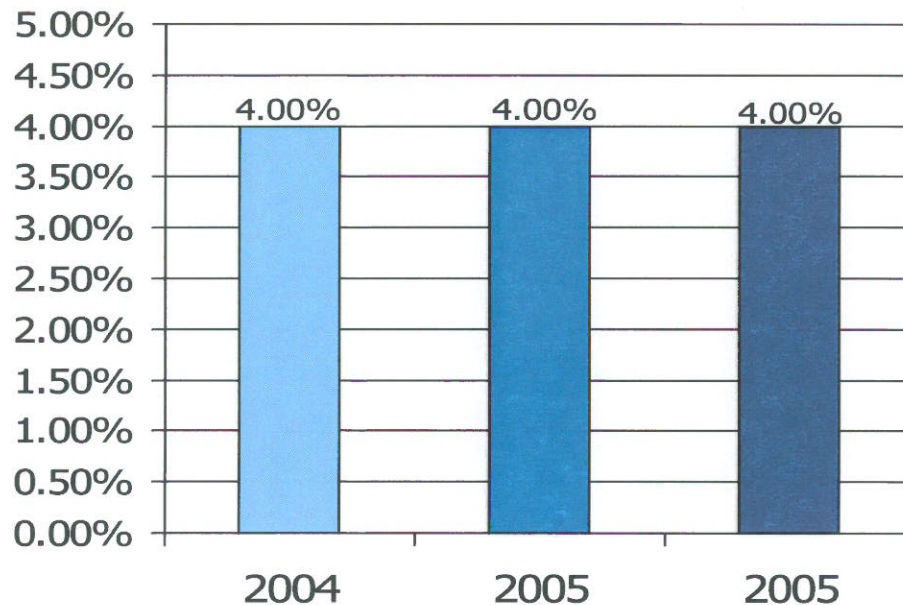
For the year ended June 30, 2006, total property taxes amounted to \$2.4 million or \$577 per capita. This indicates a relatively high property tax burden in our model, but is slightly lower than the prior year per capita amount.

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
\$474	\$592	\$577							

Local Sales Tax Rate

Will our citizens be willing to approve sales tax increases, if needed?

Sales Tax Rate



For Oklahoma municipalities, sales tax is the primary source of funding for general government operations. Sales tax rates cannot be increased without voter approval. In our model, a 2% tax rate is considered excellent from the financing margin perspective, while 5% rate is considered a high rate and therefore weaker in terms of increase ability margin.

For the year ended June 30, 2006, as has been the case for all years presented, the City's sales tax rate in effect was 4.0%.

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Rate	4.0%	4.0%	4.0%							
Taxes in millions	\$2.2	\$2.2	\$2.7							

Thank You

We would like to commend and thank the City of Nichols Hills management and its governing body for allowing us to present this financial analysis. We hope it serves as a useful and understandable compliment to your annual financial report.

Visit our website at crawfordcpas.com for other useful tools for state and local governments.
