STILLWATER UTILITIES AUTHORITY

Financial Statements

Fiscal Year ended June 30, 2010

CITY OF
stillwater

STILLWATER UTILITIES AUTHORITY

FINANCIAL STATEMENTS AND REPORTS OF INDEPENDENT ACCOUNTANTS

JUNE 30, 2010

Prepared by:
Department of Finance

Marcy Alexander
Director of Finance

STILLWATER UTILITIES AUTHORITY

A Component Unit of the City of Stillwater, Oklahoma

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Arledge
& Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Stillwater Utilities Authority

We have audited the accompanying statement of net assets of the Stillwater Utilities Authority (the "Authority"), a component unit of the City of Stillwater, Oklahoma, as of June 30, 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Stillwater Utility Authority as of June 30, 2010, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2010, on our consideration of the Authority's internal control over financial reporting and on our tests of 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 and Other Post-Employment Benefits Funding Schedule, as listed in the Table of Contents, are not a required part of the 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Arledge & Associates, P.C.

Edmond, Oklahoma
October 14, 2010

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STILLWATER UTILITIES AUTHORITY
A Component Unit of the City of Stillwater, Oklahoma
Management's Discussion and Analysis
June 30, 2010

As management of the Stillwater Utilities Authority (the "Authority"), we provide our readers this overview and analysis of the Authority's financial activities for the fiscal year ended June 30, 2010.

USING THE FINANCIAL STATEMENTS IN THIS ANNUAL REPORT

Statement of Net Assets and Statement of Revenues, Expenses and Change in Net Assets

The Statement of Net Assets and the Statement of Revenues, Expenses and Change in Net Assets includes all assets and liabilities of the Authority using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Authority's net assets and changes in them from the prior year. Net assets are the difference between assets and liabilities and are one way to measure the Authority's financial condition or position. Over time, increases or decreases in the Authority's net assets are indicators of the financial health of the Authority.

FINANCIAL ANALYSIS

Net Assets

A comparative overview of the major components of the Statement of Net Assets as of June 30 is shown below.

(in millions)	2009	2010
Current Assets	$ 38.5	$ 33.8
Noncurrent assets	100.7	107.2
Total assets	$ 139.2	$ 141.0
Current liabilities	$ 11.7	$ 11.1
Noncurrent liabilities	25.7	24.2
Total liabilities	$ 37.4	$ 35.3
Net assets -		
Invested in capital assets, net of related debt	$ 77.2	$ 78.6
Restricted for debt service	2.2	2.5
Restricted for capital projects	0.1	1.8
Unrestricted	22.3	22.8
Total net assets	$ 101.8	$ 105.7

At the end of the current and previous fiscal year, the Authority is able to report positive balances in each of its net asset classifications

The largest portion of the Authority's net assets (74.4%) reflects its investment in capital assets (e.g. land, buildings, improvements other than buildings, machinery and equipment, and infrastructure), plus unspent bond proceeds, less any related debt used to acquire those assets that is still outstanding. The SUA uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the Authority's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Authority's net assets (4.0%) represents resources that are subject to restrictions as to how they may be used. The remaining balance (21.6%) is unrestricted.

Changes in Net Assets
For the year ended June 30, 2010, the Authority's net assets increased by $4 million or 4%. Detail of the increase in net assets is presented below in a comparative overview of the major components of the Statement of Revenues, Expenses, and Change in Net Assets for each of the years ended June 30:

(in millions)	2009	2010
Operating revenues	$ 53.1	$ 56.3
Operating expenses	44.7	44.5
Operating income	8.4	11.8
Non-operating revenues (expenses)	(0.6)	(0.7)
Net income before contributions and transfers	7.8	11.1
Capital contributions	2.6	3.2
Transfers in	8.2	8.4
Transfers out	(14.5)	(18.8)
Increase (decrease) in net assets	$ 4.1	$ 3.9

Rate increases enacted for water and electric services contributed to the $3.4 million increase in operating revenues. Capital contributions increased $0.6 million due to the receipt of grant funds under the American Recovery and Reinvestment Act. These funds were used for water and sewer improvements. Transfers out increased by $4.3 million due to an increase in budgeted transfers out to the City of Stillwater General Fund as well as debt proceeds from the 2007 Revenue Note being transferred to the City of Stillwater as construction costs were incurred on the approved transportation improvement projects.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The following is a summary of changes in capital assets and debt administration for the year ended June 30, 2010. More detailed information on capital asset activity and long-term debt activity is contained in the accompanying notes to the financial statements on page 16 and pages 12-15, respectively.

Capital Assets
At June 30, 2010, the Authority had $101 million invested in capital assets including water and sewer lines, electric systems, and equipment.

Capital Assets, Net of Accumulated Depreciation – (in millions)

	2009	2010
Land	$ 0.7	$ 0.7
Water plant	34.3	34.0
Electric plant	31.4	28.1
Wastewater plant	29.7	29.2
Construction work in progress	3.9	7.6
General plant	0.8	1.4
Totals	$ 100.8	$ 101.0

Debt Administration

At June 30, 2010, the Authority had $27.8 million in bonds, notes, and long-term leases outstanding versus $29.2 million last year, a decrease of 4.8%. The decrease is the net effect of the addition of new long-term debt coupled with the extinguishment of existing debt through scheduled debt service payments.

Outstanding Debt, at fiscal year end - (in millions)

	2009	2010
2002 revenue bonds	$ 0.9	$ -
2005 revenue bonds	10.0	8.0
2007 revenue note	5.5	4.9
2002A&B notes-water treatment plant	2.1	2.0
2002C note - wastewater treatment plant	3.3	3.0
2005 OWRB fixed rate note	6.5	6.1
2009 OWRB DWSRF note	-	1.4
2009 OWRB CWSRF note	-	0.3
2009 BancFirst note	-	0.2
Long-term equipment leases	0.9	1.9
Totals	$ 29.2	$ 27.8

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES AND RATES

The customer base has increased slightly for the Stillwater Utilities Authority. Since June 30, 2009, the number of utility customers has increased an average of 1.2%.

Budgeting for the Authority is done in conjunction with budgeting for the City of Stillwater as a whole. Trends in rising operational costs led to the adoption of resolutions in June 2007 providing for annual rate increases for all utilities effective January 1 of each year equal to 3% or the most recent annual consumer price index for the south urban region as determined by the U.S. Bureau of Labor Statistics, whichever is less. Although the consumer price index in January 2010 did not warrant a rate increase, the Authority's Trustees approved a 3% increase in electric rates effective January 1, 2010 to offset rising purchased power costs.

In an effort to maintain the aging infrastructure of the water utility, the phasing in of a new rate structure began in Fiscal Year 2010. The first phase was made effective July 1, 2009 with the second phase being effective January 1, 2010. Additional phases of the water rate increase are included in the Fiscal Year 2011 budget and are effective July 1, 2010 and January 1, 2011.

Like the water utility, the wastewater utility is also facing increased costs to maintain its aging infrastructure. Additional rate increases effective July 1, 2010 and January 1, 2011 were included in the adoption of the Fiscal Year 2011 budget to aid in offsetting these costs.

CONTACTING THE STILLWATER UTILITIES AUTHORITY MANAGEMENT

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

STILLWATER UTILITIES AUTHORITY
A Component Unit of the City of Stillwater, Oklahoma
Statement of Net Assets
June 30, 2010

ASSETS	
Current assets:	
Cash and cash equivalents	$ 11,397,831
Cash and cash equivalents - internally designated	5,538,388
Restricted cash and cash equivalents	4,605,367
Accounts receivable, net of allowance for uncollectible accounts of $263,660	8,021,073
Due from City of Stillwater	273,246
Interest receivable	57,917
Inventories	3,878,419
Total current assets	33,772,241
Noncurrent assets:	
Restricted cash and cash equivalents	822,241
Investments	5,043,638
Unamortized bond expense	331,745
Capital assets: non depreciable	
Land	669,169
Construction work in progress	7,620,835
Capital assets: depreciable	
Water plant	73,641,246
Electric plant	73,284,155
Sewer plant	46,610,062
General plant assets	3,351,140
Less-accumulated depreciation	(104,132,353)
Total noncurrent assets	107,241,878
Total assets	141,014,119
LIABILITIES	
Current liabilities:	
Accounts payable	4,727,755
Accrued liabilities	307,098
Current portion of compensated absences	18,489
Accrued interest payable	264,852
Current portion of customer deposits payable	671,384
Current portion of long-term debt obligations, net	5,159,084
Total current liabilities	11,148,662
Noncurrent liabilities:	
Noncurrent portion of compensated absences	620,143
Noncurrent portion of customer deposits payable	488,658
Noncurrent portion of long-term debt obligations, net	22,649,751
Other postemployment benefits	404,916
Total noncurrent liabilities	24,163,468
Total liabilities	35,312,130
NET ASSETS	
Invested in capital assets, net of related debt	78,629,448
Restricted for debt service	2,440,346
Restricted for capital projects	1,827,220
Unrestricted	22,804,975
Total net assets	$ 105,701,989

The accompanying notes are an integral part of this statement.

STILLWATER UTILITIES AUTHORITY
A Component Unit of the City of Stillwater, Oklahoma
Statement of Revenues, Expenses and Change in Net Assets
For the Year Ended June 30, 2010

Operating revenues:		
Charges for services, net of bad debt expense	$	54,457,172
Other		1,883,701
Total operating revenues		56,340,873
Operating expenses:		
Operations and maintenance		38,911,807
Depreciation		5,622,836
Total operating expenses		44,534,643
Operating income		11,806,230
Nonoperating revenues (expenses):		
Investment income		142,271
Miscellaneous		31,263
Bond issuance costs		(76,330)
Interest expense and fiscal charges		(835,956)
Total nonoperating revenues (expenses)		(738,752)
Income before contributions and transfers		11,067,478
Capital contributions		3,191,053
Transfers in		8,394,601
Transfers out		(18,799,888)
Change in net assets		3,853,244
Total net assets, beginning of year		101,848,745
Total net assets, end of year	$	105,701,989

The accompanying notes are an integral part of this statement.

STILLWATER UTILITIES AUTHORITY
A Component Unit of the City of Stillwater, Oklahoma
Statement of Cash Flows
For the Year Ended June 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers, including deposits	$	53,976,891
Payments to suppliers		(26,724,752)
Payments to employees		(9,741,828)
Internal activity-payments to other funds		(1,964,188)
Other receipts (payments)		1,883,701
Net cash provided by operating activities		17,429,824
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from noncapital debt		240,236
Transfers in from other funds		6,303,046
Operating subsidies and transfers to other funds		(19,976,642)
Interest paid on noncapital debt		(4,784)
Net cash used in noncapital financing activities		(13,438,144)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from capital debt		1,659,353
Capital contributions		1,702,449
Proceeds from sale of capital assets		5,782
Transfers in related to capital financing		1,575,762
Purchases of capital assets		(5,520,710)
Debt issue costs paid		(154,450)
Principal paid on capital debt		(4,626,685)
Interest paid on capital debt		(904,213)
Net cash used in capital and related financing activities		(6,262,712)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments		(5,000,000)
Investment income		40,716
Net cash used in investing activities		(4,959,284)
Net increase in cash and cash equivalents		(7,230,316)
Cash and cash equivalents, beginning of year		29,594,143
Cash and cash equivalents, end of year	$	22,363,827
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$	11,806,230
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		5,622,836
Changes in assets and liabilities:		
Receivables, net		(507,686)
Inventories		(784,553)
Accounts and other payables		1,112,614
Accrued liabilities		(26,820)
Other postemployment benefits		207,203
Net cash provided by operating activities	$	17,429,824
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVIITIES		
Principal forgiveness on debt		1,702,449
Capital assets contributed to the Authority		1,488,604
Borrowings under capital lease		1,287,601
Change in fair value of investments		43,638

The accompanying notes are an integral part of this statement.

STILLWATER UTILITIES AUTHORITY

A Component Unit of the City of Stillwater, Oklahoma

Notes to Financial Statements

June 30, 2010

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The financial statements of the Stillwater Utilities Authority (the "Authority") are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard setting body for governmental accounting and financial reporting. In accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting", the Authority has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions, issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The more significant accounting policies of the Authority are described below.

Nature of Operations and Reporting Entity

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

The Trust Indenture that established the Authority provides for transfers of surplus funds to the City at the sole discretion of the Trustees. Proceeds from the one cent sales tax (see Note 9) are not included in any such transfer since they are entirely exhausted on the Authority's monthly operations, maintenance, and bond payments.

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

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

Basis of Accounting

The financial statements of the Authority are prepared on the accrual basis of accounting using the economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Cash and Cash Equivalents

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

Investments
Investments with an original maturity of one year or less are recorded at amortized cost. Long term investments are recorded at fair value in accordance with GASB Statement No. 31, "Accounting and Reporting for Certain Investments and for External Investment Pools".

Assets Internally Designated
Assets internally designated consist of cash and cash equivalents set aside by the Board of Trustees in anticipation of future potential operating cost increases and/or future substantial capital expenditure requirements and at the Board's discretion may subsequently be used for other purposes. As of June 30, 2010, cash and cash equivalents in the amount of $5,538,388 have been internally designated by the Authority for this purpose.

Restricted Assets
Proceeds from debt and related sinking fund accounts and cash held for capital improvements in the rural water areas are classified as restricted assets, since their use is restricted by applicable bond indentures and agreements. Customer utility deposits held by the Authority are also classified as restricted assets.

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

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

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

Capitalized Interest
The Authority capitalizes net interest costs during the construction period on funds borrowed to finance the construction of significant property, plant, and equipment projects. Total interest expense incurred by the Authority during the year ended June 30, 2010 was $850,045. Of this amount, $14,089 was capitalized on construction in progress during 2010.

Unamortized Bond Discount, Premium and Issue Costs
Bond discount, premium, and issue costs are amortized using the straight-line method over the life of the applicable bonds. Amortized bond discount and premium are reported as a component of interest expense, while amortized bond issue costs are reported separately as non-operating expense.

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

Operating and Nonoperating Revenues
Operating revenues are those that result from providing services to customers. All revenues not meeting this definition are reported as nonoperating revenues.

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

Compensated Absences
Full-time employees of the Authority accumulate vacation and sick leave benefits each pay period at various rates depending upon tenure with the Authority. Employees may accumulate and carry over to subsequent years up to 25 days of vacation. Upon termination, employees are paid for unused vacation. Employees may accrue up to a maximum of 1,000 hours of sick leave. An employee with five or more years of service who retires or resigns receives 10% of the accumulated unused sick leave to be computed at the rate of pay being received by the employee at retirement or resignation date. Employees with ten to thirty years of service receive a percentage payment of their unused sick leave ranging from 12.5% to 30%. The liability for these compensated absences is recorded as noncurrent liabilities. The current portion of this liability is estimated based on historical trends using the amounts that would be payable if termination occurred at the end of the fiscal year.

Other Postemployment Benefits (OPEB)
Other postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Of the total benefits offered by employers to attract and retain qualified employees, some benefits, including salaries and active employee health care, are taken while the employees are in active service, whereas other benefits, including postemployment health care and other OPEB, are taken after the employees' services have ended. Nevertheless, both types of benefits constitute compensation for employee services. In accordance with GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", the Authority recognizes annual OPEB costs during the periods when employees render their services and provides disclosure of the actuarially accrued liabilities related to past services and the progress of funding the benefits. The requirements of GASB Statement No. 45 were implemented prospectively beginning July 1, 2008.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period; accordingly, actual results could differ from those estimates.

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

- Invested in capital assets, net of related debt – This component consists of capital assets including restricted assets, net of accumulated depreciation and reduced by the outstanding balance of bonds, notes, or long-term leases or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets – This component consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through ordinance or other enabling legislation.
- Unrestricted net assets – This component consists of all other net assets that do not meet the definitions of either "invested in capital assets, net of related debt" or "restricted".

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

2. DEPOSITS AND INVESTMENTS

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

Deposits
Custodial credit risk for deposits is the risk that in the event of a bank failure, a government's deposits may not be returned. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of state law. At June 30, 2010, the Authority was not exposed to custodial credit risk.

Investments
Oklahoma Statutes authorize municipalities to invest in obligations of the United States government, its agencies and instrumentalities; collateralized or insured certificates of deposits and other evidences of deposits at banks, savings banks, savings and loan associations, and credit unions located in this state, or fully insured certificates of deposits at banks, savings banks, savings and loan associations, and credit unions located out of state; negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings bank, a savings and loan association, or a state-licensed branch of a foreign bank; prime banker's acceptances which are eligible for purchase by the Federal Reserve System and which do not exceed 270 days' maturity; prime commercial paper which shall not have a maturity that exceeds 180 days nor represent more than 10% of the outstanding paper of an issuing corporation; repurchase agreements that have underlying collateral consisting of those items specified above; and money market funds regulated by the Securities and Exchange Commission and which investments consist of those items noted above.

As of June 30, 2010, the Authority had the following investments and maturities:

		Maturities in Years			
Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
U.S. Agencies	$ 5,043,638	$ -	$ -	$ -	$ 5,043,638
Certificates of Deposit	$ 4,006,142	$ 4,006,142	$ -	$ -	$ -
	$ 9,049,780	$ 4,006,142	$ -	$ -	$ 5,043,638

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy is to comply with the Oklahoma statutes listed above.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2010, the Authority's investment in U.S. Agencies were rated AAA by Standard & Poor's. The Authority's investment policy does not address credit risk.

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

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority's investment policy does not address custodial credit risk. As of June 30, 2010, the Authority's investments were not exposed to custodial credit risk as all of the Authority's investments were registered in the name of the Authority and held by a counterparty.

Deposits and investments presented in the statement of net assets are as follows:

Carrying amount:	
Deposits	$ 22,363,827
Investments	5,043,638
	$ 27,407,465
Statement of Net Assets amounts:	
Cash and cash equivalents:	
Unrestricted	$ 11,397,831
Internally designated	5,538,388
Restricted-current	4,605,367
Restricted-noncurrent	822,241
Investments:	
Unrestricted	5,043,638
	$ 27,407,465

3. LONG-TERM LIABILITIES

As of June 30, 2010, the Authority's outstanding debt consisted of the following:

Notes Payable	
2002 Oklahoma Water Resources Board (OWRB) SRF Note Payable dated February 28, 2002, original amount of $3,413,483, secured by utility revenues, no interest plus an administrative fee of 0.5%, semiannual installments of principal commencing March 15, 2002 through September 15, 2021.	$1,962,753
2002 OWRB SRF Note Payable dated December 19, 2002, original amount of $4,876,086, secured by utility revenues, no interest plus an administrative fee of 0.5%, semiannual installments of principal commencing March 15, 2003 through September 15, 2022.	3,047,554
2005 OWRB Fixed Rate Note Payable dated June 29, 2005, original amount of $7,620,000, secured by utility revenues, 2.6% interest plus an administrative fee of 0.5%, semiannual installments of principal and interest commencing September 15, 2005 through March 15, 2025	6,135,096
2007 Revenue Note dated December 5, 2007, original amount of $6,010,000, secured by dedicated ½ cent sales tax revenues, interest rate is 3.68%, semiannual installments of principal and interest commencing December 1, 2008 through December 1, 2016	4,870,000
2009 BancFirst Note dated September 16, 2009, original amount of $240,236, 2.5% interest, semiannual interest and annual principal installments commencing April 1, 2010 through October 1, 2011	240,236
2009 OWRB DWSRF Note Payable dated November 24, 2009, original amount of $11,645,000 of which $2,000,000 is eligible for principal forgiveness from American Recovery and Reinvestment Act grant funds, secured by utility revenues, semiannual principal installments commence no later than March 15, 2013, 2.84% interest plus an administrative fee of 0.5%	1,350,674
2009 OWRB CWSRF Note Payable dated November 24, 2009, not to exceed $1,875,000 of which $578,999 is eligible for principal forgiveness from American Recovery and Reinvestment Act grant funds, secured by utility revenues, semiannual principal installments commence no later than March 15, 2011, 2.34% interest plus an administrative fee of 0.5%	308,679
Total Notes Payable	$17,914,992
Current portion	$1,538,222
Non-current portion	16,376,770
Total Notes Payable	$17,914,992
Revenue Bonds	
2005 Refunding Series bonds dated May 11, 2005, original issue amount of $12,965,000, secured by utility revenues, interest rates range from 3.25% to 5.0%, semiannual interest and annual principal installments commencing October 1, 2005 through October 1, 2012.	$7,805,000
Plus: unamortized premium	220,041
Less: unamortized loss on defeasance	(35,693)
Total Revenue Bonds Payable	$7,989,348

Current portion	$3,111,759
Non-current portion	4,877,589
Total Revenue Bonds Payable	$7,989,348

Capital Lease Obligations

Total cost of capital assets financed by capital lease obligations	$2,548,565
Less: accumulated depreciation	(626,913)
Net capital assets financed by leases	$1,921,652

$212,061 capital lease with Banc of America for equipment, fixed interest rate of 3.454%, semiannual installments commencing March 9, 2006 through September 9, 2010 (A)	$22,877
$184,633 capital lease with Banc of America for equipment, fixed interest rate of 4.0%, semiannual installments commencing November 12, 2006 through May 12, 2011 (A)	39,908
$553,307 capital lease with Banc of America for equipment, fixed interest rate of 4.09%, semiannual installments commencing December 15, 2006 through June 15, 2014 (A)	299,007
$104,420 capital lease with Banc of America for equipment, fixed interest rate of 3.9803%, semiannual installments commencing February 24, 2007 through August 24, 2011 (A)	33,513
$57,950 capital lease with Banc of America for equipment, fixed interest rate of 3.9535%, semiannual installments commencing September 2, 2007 through March 2, 2011 (A)	15,349
$96,543 capital lease with Bank of America for equipment, fixed interest rate of 2.4412%, monthly installments commencing April 15, 2010 through March 15, 2013 (B)	88,764
$20,161 capital lease with Bank of America for equipment, fixed interest rate of 3.0902%, monthly installments commencing April 15, 2010 through March 15, 2015 (B)	19,225
$391,032 capital lease with Bank of America for equipment, fixed interest rate of 3.1942%, monthly installments commencing April 30, 2010 through March 30, 2015 (B)	372,926
$29,700 capital lease with Bank of America for equipment, fixed interest rate of 2.5322%, monthly installments commencing April 30, 2010 through March 30, 2013 (B)	27,310
$481,057 capital lease with Bank of America for equipment, fixed interest rate of 3.2397%, monthly installments commencing May 15, 2010 through April 15, 2015 (B)	466,244
$201,802 capital lease with Bank of America for equipment, fixed interest rate of 3.1617%, monthly installments commencing June 15, 2010 through June 15, 2015 (B)	198,714
$54,783 capital lease with Bank of America for equipment, fixed interest rate of 3.1487%, monthly installments commencing June 15, 2010 through May 15, 2015 (B)	54,783

$12,524 capital lease with Bank of America for equipment, fixed interest rate of 2.9342%, monthly installments commencing July 30, 2010 through June 30, 2015 (B)	12,524
$218,439 capital lease with Empire Financial Services, Inc. for equipment, fixed interest rate of 4.49%, monthly installments Commencing July 7, 2008 through June 7, 2013	136,377
$185,760 capital lease with Capital One Public Funding, LLC for Equipment, fixed interest rate of 5.06%, semiannual installments commencing December 21, 2008 through June 21, 2013	116,974
Total Capital Leases	$1,904,495
Current portion	$509,103
Non-current portion	1,395,392
Total Capital Leases	$1,904,495

(A) Borrowings have been advanced pursuant to a credit agreement with Banc of America Leasing and Capital LLC that provides for the purchase of equipment until March 14, 2009. The maximum purchase price for equipment under the agreement is the lower of $7 million or the fair market value of the equipment with fixed interest rate calculations based on the term of the lease as well as the U.S. Treasury Bond Obligation rate in effect at the time of funding.

(B) Borrowings have been advanced pursuant to a credit agreement with Bank of America, N.A. that provides for the purchase of equipment until January 31, 2011. Total borrowings are limited to $1.8 million with a fixed interest rate determined at the time of funding.

Accrued Compensated Absences

Current portion	$18,489
Non-current portion	620,143
Total Accrued Compensated Absences	$638,632

Deposits Subject to Refund

Current portion	$671,384
Non-current portion	488,658
Total Deposits Subject to Refund	$1,160,042

Changes in Long-Term Liabilities

Changes in the long-term liabilities for the year ended June 30, 2010 are summarized below:

	Balance at July 1, 2009	Additions	Reductions	Balance at June 30, 2010	Amounts Due Within One Year
Notes Payable	$17,390,784	$ 3,602,038	$ 3,077,830	$ 17,914,992	$1,538,222
Revenue Bonds Payable, net	10,967,229	-	2,977,881	7,989,348	3,111,759
Capital Lease Obligations	938,197	1,287,601	321,303	1,904,495	509,103
Total Long-Term Debt Obligations	29,296,210	4,889,639	6,377,014	27,808,835	5,159,084
Accrued Compensated Absences	620,143	78,026	59,537	638,632	18,489
Deposits Subject to Refund	1,132,636	698,790	671,384	1,160,042	671,384
Total Long-Term Liabilities	$31,048,989	$ 5,666,455	$ 7,107,935	$ 29,607,509	$5,848,957

Applicability of Federal Arbitrage Regulations
Certain debt issuances of the Authority issued after the Tax Reform Act of 1986 are subject to the federal arbitrage regulations. The arbitrage rebate regulations require that all earnings from the investment of gross proceeds of an issue in excess of the amount that could have been earned had the yield on the investment been equal to the yield on the bonds be remitted to the federal government. These carry strict penalties for noncompliance including taxability of interest retroactive to the date of the issue. The Authority's management believes it is in compliance with these rules and regulations.

Maturities of Long-term Debt
The debt service maturities for long-term indebtedness in the coming years are as follows:

Year ending	Notes Payable		2005 Revenue Bonds		Capital Leases	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 1,538,222	$ 446,727	$ 3,030,000	$ 314,500	$ 509,103	$ 60,266
2012	1,580,777	406,586	3,190,000	159,000	438,937	43,033
2013	1,535,548	365,510	1,585,000	39,625	429,713	27,018
2014	1,610,303	323,335	-	-	319,511	13,256
2015	1,651,639	279,144	-	-	207,231	3,096
2016-2020	5,755,573	850,652	-	-	-	-
2021-2025	3,651,543	349,596	-	-	-	-
2026-2030	414,840	66,333			-	-
2031-2035	176,547	8,568				
Total	$ 17,914,992	$ 3,096,451	$ 7,805,000	$ 513,125	$ 1,904,495	$ 146,669

4. RESTRICTED ASSETS

Certain assets of the Authority are restricted in their use by bond and note indentures. Cash and cash equivalents, classified as current, in the amount of $2,440,346 at June 30, 2010 have been restricted in use to the service of debt.

Proceeds received from the 2007 Revenue Note issue are restricted in their use to finance transportation improvement projects identified in the 2006 Transportation Sales Tax Ordinance. As of June 30, 2010 cash and cash equivalents, classified as current, in the amount of $1,493,637 were restricted for this purpose.

Certain cash and cash equivalents of the Authority are restricted by agreement for the purpose of acquiring necessary easements related to water line upgrades for an area of service purchased from a rural water district. As of June 30, 2010 cash and cash equivalents, classified as non-current, in the amount of $54,756 were restricted for this purpose.

Cash and cash equivalents received from Rural Water Corporation No. 3 are restricted by agreement for the purpose of completing upgrades, improvements, and/or expansions of the water distribution system in specified areas. As of June 30, 2010 cash and cash equivalents, classified as non-current, in the amount of $278,827 were restricted for this purpose.

Customer deposits received for water or electric service are restricted in their use toward the customer's final bill. As of June 30, 2010 cash and cash equivalents in the amount of $1,160,042, of which $671,384 is classified as current and $488,658 is classified as non-current, have been restricted for customer deposits.

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

	Balance at June 30, 2009	Additions, Net of Transfers	Deletions, Net of Transfers	Balance at June 30, 2010
Capital assets not being depreciated:				
Land	$ 669,169	$ -	$ -	$ 669,169
Construction work in progress	3,868,020	5,158,544	1,405,729	7,620,835
Total capital assets not being depreciated	4,537,189	5,158,544	1,405,729	8,290,004
Other capital assets:				
Buildings	6,921,449	592,383	-	7,513,832
Improvements other than buildings	170,126,980	2,234,577	2,011,484	170,350,073
Machinery and equipment	17,869,954	1,476,905	324,161	19,022,698
Total other capital assets at historical cost	194,918,383	4,303,865	2,335,645	196,886,603
Less accumulated depreciation for:				
Buildings	1,526,957	249,683	-	1,776,640
Improvements other than buildings	84,233,383	4,649,000	29,965	88,852,418
Machinery and equipment	12,938,765	724,153	159,623	13,503,295
Total accumulated depreciation	98,699,105	5,622,836	189,588	104,132,353
Other capital assets, net	96,219,278	(1,318,971)	2,146,057	92,754,250
Total capital assets, net	$ 100,756,467	$ 3,839,573	$ 3,551,786	$ 101,044,254

Contributed Capital Assets
For the year ended June 30, 2010, the Authority accepted and received water and sewer lines that were installed by developers amounting to $1,152,650. The Authority also received sewer improvements amounting to $335,954 from the City that were funded with Community Development Block Grants.

6. PENSION PLAN

All full time City employees are provided pension benefits through a defined contribution plan administered by the Oklahoma Municipal Retirement Fund. The employee begins participation at the date of employment. Employees are required to contribute a minimum of 3% of their salary with an optional maximum of up to 100% of their salary, subject to IRS limitations. The City Council determines the City's contribution each year. The City's contributions for each employee begin vesting after 5 years and are fully vested after 10 years. If an employee terminates before becoming fully vested, the employer's contributions that are forfeited may be used to reduce the City's current-period contributions requirement. The Authority reimburses the City for all related costs of the pension plan.

The Authority's total payroll in fiscal year 2010 was $7,389,769. Covered payroll (for employees covered under the plan) was $7,226,028. The employees' contributions amounted to $436,021 or 6.0% of covered payroll in fiscal year 2010. The City made contributions of $427,375 in 2010, which was 5.9% of the fiscal year covered payroll resulting in total contributions of $863,396 for the year ended June 30, 2010.

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

The City sponsors and administers a self-funded, single-employer defined benefit plan providing postemployment healthcare benefits. The plan is reported in the City's Comprehensive Annual Financial Report (CAFR). All employees who retire from the City on or after attaining age 55 with at least 10 years of service are eligible to participate in the plan. The election to participate must be made at the time of separation from service. The City requires a monthly premium contribution from the retiree based on City-wide claim trends of the previous fiscal year. Upon payment of this premium, the City covers all medical expenses just as for active employees on a pay-as-you-go basis. Coverage is available until the first day of the month in which the retiree reaches Medicare eligibility age (currently 65). If the spouse of a retiree is covered at the time the retiree becomes ineligible for the plan at age 65, the spouse becomes COBRA-eligible until age 65 or for 36 months, whichever is less.

Funding Policy

The City funds healthcare benefits on a pay-as-you-go basis utilizing a third party administrator, Blue Cross Blue Shield of Oklahoma. Eligible employees are required to pay set premiums for a portion of the cost, with the City subsidizing the remaining costs. Contribution requirements of active employees are established and amended as needed by the City Council. Premium rates for retirees and COBRA participants are set by City management upon recommendations provided by the third party administrator and the City's re-insurance agent. The required monthly contribution rates for plan members for fiscal year 2010 range from $0 to $100 for active employees, $435 to $1,304 for retired participants, and $443 to $1,330 for COBRA participants.

Annual OPEB Cost and Net OPEB Obligation

The annual OPEB cost is equal to the annual required contribution (ARC) plus an adjustment if the ARC is not funded each year. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year plus any unfunded actuarial liabilities as amortized using a level dollar amortization over thirty years.

As reported in the City's CAFR, the City's actuarial determined annual required contribution (ARC) for fiscal year ending June 30, 2010 was $918,366 of which $77,985 was paid on a pay-as-you-go basis. The Authority's allocation of the City's total OPEB obligation is based on the percentage of eligible Authority employees at June 30, 2010 and is presented in the table below:

Annual required contribution	$	235,102
Interest on prior year net OPEB obligation		8,098
Adjustment to annual required contribution		(16,035)
Annual OPEB cost		227,165
Employer contributions		19,962
Increase in net OPEB obligation		207,203
Beginning OPEB obligation		197,713
Ending OPEB obligation	$	404,916

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current and prior years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	N/A	N/A	N/A
2009	$ 217,293	9.0%	$ 197,713
2010	$ 227,165	8.8%	$ 404,916

Funding Status and Funding Progress
The unfunded actuarial liability is being amortized using a level dollar amortization over 30 years, beginning July 1, 2008. As of June 30, 2010, the funded status of the retiree health plan was as follows:

Actuarial accrued liability (AAL)	$	1,738,878
Actuarial value of plan assets (AVA)		-
Unfunded actuarial accrued liability (UAAL)	$	1,738,878
Funded ratio (AVA/AAL)		0.0%
Annual covered payroll (active plan members)		N/A
UAAL as a percentage of annual covered payroll		N/A

The required supplementary information schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing.over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions
Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the annual required contribution are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

In the actuarial valuation as of July 1, 2009, the projected unit credit (PUC) actuarial cost method was used to measure accruing costs. Under the principals of the PUC method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated pro-rata to each year of service between entry age and assumed exit. The actuarial valuation utilized several significant assumptions affecting the valuation results including the medical claims costs assumptions, the medical trend assumptions, and the discount rate. The resulting annual required contribution was based on a 4.8% discount rate and a medical trend rate beginning at 7% in 2009 and grading to 5% in 2013. Additionally, it was assumed that 50% of future retired participants would opt for retiree healthcare coverage. It was also assumed that 50% of future retirees who opt for healthcare coverage would cover a spouse at retirement.

8. RELATED PARTY TRANSACTIONS

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

The Authority leases the electric, water and sewer systems from the City under a 50-year lease agreement which expires in 2029, with an option to renew the lease until all Authority bond obligations are redeemed or a provision for redemption of the obligations has been made. The annual lease rental is a nominal amount. The leased utility plant is included in the Authority's financial statements, as it is the City's intent under the lease agreement for the Authority to operate the utilities indefinitely.

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

Administrative and general expenses incurred by the City benefiting the Authority in the amount of $1,964,188 for the year ended June 30, 2010 have been proportionately allocated and reflected in the Authority's financial statements as expenses.

9. TRANSFERS IN

City General Fund

One cent of the City's three cent general-use sales tax is designated for the Authority. The sales tax transfer is received by the City monthly from the State of Oklahoma and is appropriated and transferred to the Authority. The sales tax may be used, at the Authority's discretion, for capital expenditures, operating and maintenance expenses or any other lawful purpose of the Authority including the purchase or redemption of bonds or other indebtedness of the Authority prior to maturity. It may also be transferred to the City's sinking fund for the repayment of general obligation debt of the City. For the year ended June 30, 2010 the transfers to the Authority related to this sales tax were $6,303,046.

City Transportation Improvement Fund

One half of the City's one-half cent transportation sales tax is transferred to the Authority. The sales tax transfer is received by the City monthly from the State of Oklahoma and is appropriated and transferred to the Authority. The Authority uses the sales tax transfer to meet the debt service requirements of the 2007 revenue note. For the year ended June 30, 2010 the transfers to the Authority related to this sales tax were $1,575,762.

City General and Other Governmental Funds

For the year ended June 30, 2010, the Authority recorded a transfer in of $515,793 from the City's General and Other Governmental Funds.

10. TRANSFERS OUT

City General Fund

The Authority annually transfers surplus funds in an amount determined by the Authority Trustees to the City's General Fund as provided for in the Authority's Trust Indenture. For the year ended June 30, 2010, the transfer amount was $15,819,877.

During the year ended June 30, 2010, the Authority transferred $240,236 of available proceeds from the 2009 BancFirst debt issuance to the City's General Fund. This transfer was reimbursement of costs associated with the purchase of fire equipment as provided for in Resolution No. SUA-2009-10.

City Transportation Improvement Fund

During the year ended June 30, 2010, the Authority transferred $2,739,775 of available 2007 Revenue Note proceeds to the City's Transportation Improvement Fund. This transfer was reimbursement of eligible construction costs as defined in the Note Indenture.

11. RISK MANAGEMENT

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

12. REVENUES PLEDGED

The Authority has pledged future sales tax revenues to repay a $6,010,000 note issued in December 2007 to finance transportation improvement projects identified in the 2006 Transportation Sales Tax Ordinance. The note is payable solely from sales tax revenue equal to one half of the one-half cent transportation sales tax collected by the City and transferred to the Authority by way of the Sales Tax Agreement. Sales taxes are projected to produce 100 percent of the debt service requirements over the life of the note. Total principal and interest remaining on the note is $5,522,372, payable semiannually commencing December 2008 and concluding December 2016. For the current year, total sales tax revenues were $1,575,762.

The Authority has pledged future sales tax revenues and future utility revenues, net of operating and maintenance expenses, to repay debt obligations. Proceeds from the debt issues financed water and wastewater construction projects, the refunding of prior debt obligations of the Authority and the Stillwater Public Golf Authority, and refinanced outstanding balances of notes to the OWRB. The debt obligations are payable from the one cent sales tax revenue dedicated to the Authority by City Ordinance No. 1835 and from net revenues derived from the existence and operation of the utility system. Pledged revenues are projected to produce 125 percent of the debt service requirements over the life of the debt. For the current year, sales tax revenues were $6,303,046 and net revenues were $17,429,066. The following is a summary of the debt issues included in this pledge of revenues:

Debt Issue	Issue Amount	Issue Date	Maturity Date	Remaining Principal and Interest	Current Year Principal and Interest
2002 Refunding Series Bonds	$ 11,825,000	Sept 2002	Dec 2009	$ -	$ 863,600
2005 Refunding Series Bonds	$ 12,965,000	May 2005	Oct 2012	$ 8,318,125	$ 2,506,650
2002 OWRB SRF Note	$ 3,413,483	Feb 2002	Sept 2021	$ 2,022,517	$ 181,213
2002 OWRB SRF Note	$ 4,876,086	Dec 2002	Sept 2022	$ 3,148,079	$ 260,088
2005 OWRB Fixed Rate Note	$ 7,620,000	Jun 2005	Mar 2025	$ 7,743,457	$ 515,093
2009 OWRB DWSRF Note	$ 11,645,000	Nov 2009	Sept 2032	$ 1,925,862	$ 2,732
2009 OWRB CWSRF Note	$ 1,875,000	Nov 2009	Sept 2030	$ 402,920	$ 834

13. COMMITMENTS

Included in the July 2006 purchase agreement between the Authority and Rural Water Corporation No. 3, the Authority agreed to consolidate the two water distribution systems. This consolidation includes making improvements and upgrades to pump stations and adding additional water lines to specified areas within the system. The improvements and upgrades are to be completed by the Authority within five years of system acquisition.

In September 2010, the Rural Water Advisory Board, the Rural Water Corporation No. 3 Board, and the Authority's Trustees approved amendment of the initial July 2006 purchase agreement. The amended agreement identifies more specific improvements and upgrades to be made to the system and provides a revised timeline for completion.

14. LITIGATION

A taxpayer suit against the City and the Authority alleges unlawful diversion of earmarked tax revenues into the City's general fund. A trial date is set for November 1, 2010. Although the Plaintiffs seek return of $43 million to the Authority, management believes it to be unreasonable to anticipate any such order. Management believes this suit results from a misunderstanding of the facts and intends to vigorously defend this action.

REQUIRED SUPPLEMENTARY INFORMATION

STILLWATER UTILITIES AUTHORITY
A Component Unit of the City of Stillwater, Oklahoma
Required Supplementary Information
June 30, 2010

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (b/a)	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2009	$ 1,738,878	$ -	1,738,878	0.0%	N/A	N/A
7/1/2008	1,660,783	-	1,660,783	0.0%	N/A	N/A

OTHER REPORTS

a[2] Arledge
& Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Trustees of
Stillwater Utilities Authority

We have audited the financial statements of the Stillwater Utilities Authority (the "Authority") as of and for the year ended June 30, 2010, and have issued our report thereon dated October 14, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identity all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the governing body and management and is not intended to be and should not be used by anyone other than these specified parties.

Arledge & Associates, P.C.

Edmond, Oklahoma
October 14, 2010