

STILLWATER UTILITIES AUTHORITY

**FINANCIAL STATEMENTS AND REPORT
OF INDEPENDENT ACCOUNTANTS**

JUNE 30, 2006

Prepared by:
Department of Finance

Marcy Alexander
Director of Finance

STILLWATER UTILITIES AUTHORITY
A Component Unit of the City of Stillwater, Oklahoma

Table of Contents

	Page No.
Independent Accountants' Report on Financial Statements and Supplementary Information	1
Management's Discussion and Analysis	2
Statement of Net Assets	6
Statement of Revenues, Expenses, and Change in Net Assets	7
Statement of Cash Flows	8
Notes to Financial Statements	9



Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Stillwater Utilities Authority
Stillwater, Oklahoma

We have audited the accompanying basic financial statements of Stillwater Utilities Authority, a component unit of the City of Stillwater, Oklahoma, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stillwater Utilities Authority as of June 30, 2006, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

September 28, 2006

BKD, LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Stillwater Utilities Authority's (SUA) financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2006.

FINANCIAL HIGHLIGHTS

Net Assets: The Authority's net assets increased by \$1 million or 1.1%. This increase indicates a level of activity is being maintained that is currently adequate to replace depreciating assets as needed.

Unrestricted Net Assets: Unrestricted net assets of the Authority decreased by \$2.3 million or 8.5%.

Revenues: The Authority's operating revenues increased by \$4.7 million or 10.8%. Non-operating revenues decreased by \$0.3 million dollars. A mid-year rate increase in the electric utility along with an increased customer count in all utilities contributed to the operating revenues increase. An increase in interest expense out paced an increase in interest income and resulted in the non-operating decrease.

Expenses: The Authority's operating expenses increased 13.4% from the previous year. Debt service interest and fees increased by \$.8 million. In the prior year, interest charges were related to construction and thus were capitalized. Current year interest charges relate to completed projects.

Transfers Out: The Authority transferred \$1 million more to other funds in the current year or an increase of 10.2%. While transfers to the primary government increased by \$2.8 million, the transfer to the Stillwater Public Golf Authority decreased by \$1.8 million. This decrease was due to the payoff of a higher interest rate loan, of which SUA was the guarantor during 2005, with the proceeds of the 2005 SUA revenue bond.

USING 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 include all assets and liabilities of the Authority using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid. These statements provide information about whether the entity is better or worse off as a result of the year's activities.

Net assets are the difference between the Authority's assets and liabilities. Over time, increases or decreases in the Authority's net assets provide one indicator of the financial health of the Authority.

FINANCIAL ANALYSIS

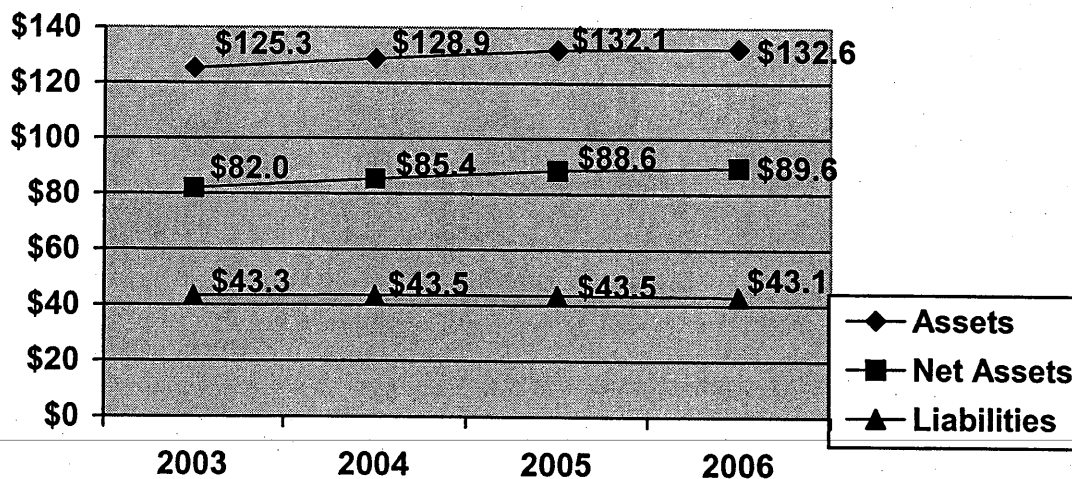
Net Assets

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

(in millions)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	Percentage Change <u>2005 to 2006</u>
Current and other assets	\$ 33.4	\$ 31.6	\$ 34.7	\$ 35.0	0.9%
Capital assets	91.9	97.3	97.4	97.6	0.2%
Total assets	125.3	128.9	132.1	132.6	0.4%
Total current liabilities	7.9	7.8	8.6	10.9	26.7%
Total noncurrent liabilities	35.4	35.7	34.9	32.2	-7.7%
Total liabilities	43.3	43.5	43.5	43.1	-0.9%
Net assets -					
Invested in capital assets, net of related debt	54.8	58.5	60.2	63.3	5.1%
Restricted for debt service	2.3	2.3	1.4	1.6	14.3%
Unrestricted	24.9	24.6	27.0	24.7	-8.5%
Total net assets	\$ 82.0	\$ 85.4	\$ 88.6	\$ 89.6	1.1%

Assets, Liabilities, and Net Assets at June 30 (in millions)

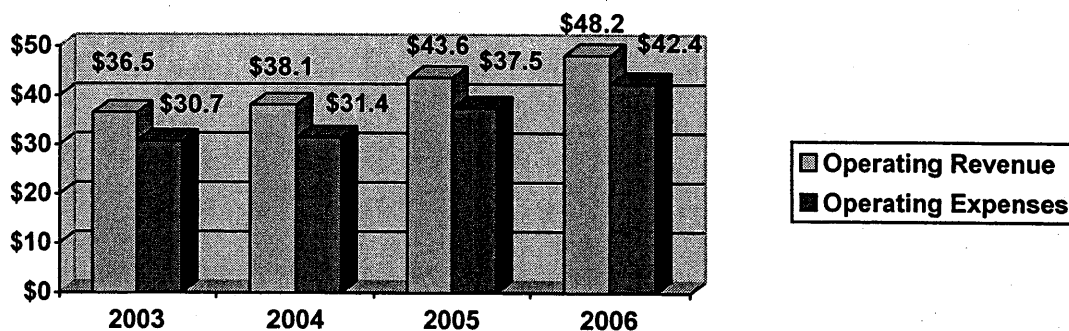


Changes in Net Assets

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 is shown below.

(in millions)	2003	2004	2005	2006	Percentage Change 2005 to 2006
Operating revenues	\$ 36.5	\$ 38.1	\$ 43.5	\$ 48.2	10.8%
Operating expenses	30.7	31.4	37.4	42.4	13.4%
Operating income	5.8	6.7	6.1	5.8	-4.9%
Non-operating revenues (expenses)	(0.2)	(0.1)	0.4	0.1	-75.0%
Net income before contributions and transfers	5.6	6.6	6.5	5.9	-9.2%
Capital contributions	5.4	6.1	0.2	0.7	250.0%
Transfers in			7.3	6.3	-13.7%
Transfers out	(13.2)	(9.3)	(10.8)	(11.9)	10.2%
Increase (decrease) in net assets	\$ (2.2)	\$ 3.4	\$ 3.2	\$ 1.0	-68.7%

Operating Revenues and Expenses Comparison (in millions)



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

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

	2003	2004	2005	2006
Land	\$ 0.4	\$ 0.4	\$ 0.6	\$ 0.6
Water plant	34.4	34.0	32.6	31.6
Electric plant	29.1	28.8	29.3	31.7
Wastewater plant	9.2	9.2	30.1	29.1
Construction work in progress	18.6	24.8	4.5	4.2
General plant	0.2	0.1	0.3	0.4
Totals	\$ 91.9	\$ 97.3	\$ 97.4	\$ 97.6

This year's major changes included the completion of the power plant start-up generator, water line replacement in a 36 block area, and work to repair a lid to a wastewater plant digester.

Debt Administration

At June 30, 2006, the Authority had \$34.8 million in bonds, notes, and long-term leases outstanding versus \$37.7 million last year, a decrease of 7.7%.

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Kaw general obligation bonds	\$ 1.5	\$ 1.0	\$ 0.5	\$ -
2002 revenue bonds	11.0	9.5	7.9	6.4
2005 revenue bonds	-	-	13.6	12.8
Construction loan	2.6	6.7	-	-
2002A&B notes-water treatment plant	8.6	8.3	2.8	2.7
2002C note - wastewater treatment plant	12.7	12.3	4.3	4.0
2005 OWRB fixed rate note	-	-	7.6	7.3
Long-term equipment leases	1.1	1.3	1.0	1.6
Totals	<u>\$ 37.5</u>	<u>\$ 39.1</u>	<u>\$ 37.7</u>	<u>\$ 34.8</u>

The Kaw general obligation bonds were paid off in August 2005.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES AND RATES

The customer base has increased for the Stillwater Utilities Authority. The number of electric customers has increased 3.6% while the number of water customers has increased 6.15% since June 30, 2005. Housing starts, commercial construction, and industrial expansions would indicate the continuation of this trend into fiscal year 2007.

Budgeting for the Authority is done in conjunction with budgeting for the City of Stillwater as a whole. Increases in the cost of purchased power and materials led to the need for a mid-year rate increase in electric and water rates in 2006.

CONTACTING THE STILLWATER UTILITIES AUTHORITY MANAGEMENT

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

STILLWATER UTILITIES AUTHORITY
A Component Unit of the City of Stillwater, Oklahoma
Statement of Net Assets
June 30, 2006

ASSETS

Current assets:

Cash and cash equivalents	\$ 18,711,586
Restricted cash and cash equivalents	1,474,096
Accounts receivable, net of allowance for uncollectible accounts of \$140,894	7,638,797
Inventories	986,789
Total current assets	<u>28,811,268</u>

Noncurrent assets:

Restricted cash and cash equivalents	5,785,736
Unamortized bond expense	452,904
Capital assets: non depreciable	
Land	648,819
Construction work in progress	4,164,333
Capital assets: depreciable	
Water plant	64,032,606
Electric plant	68,578,387
Sewer plant	41,272,375
General plant assets	2,286,809
Less-accumulated depreciation	(83,397,596)
Total noncurrent assets	<u>103,824,373</u>
Total assets	<u>132,635,641</u>

LIABILITIES

Current liabilities:

Accounts payable	3,215,637
Accrued liabilities	218,095
Current portion of compensated absences	51,356
Due to other funds	2,844,110
Accrued interest payable	233,152
Current portion of customer deposits payable	516,030
Current portion of long-term obligations, net	3,793,763
Total current liabilities	<u>10,872,143</u>

Noncurrent liabilities:

Noncurrent portion of compensated absences	494,779
Noncurrent portion of customer deposits payable	722,725
Noncurrent portion of long-term obligations, net	30,963,910
Total noncurrent liabilities	<u>32,181,414</u>
Total liabilities	<u>43,053,557</u>

NET ASSETS

Invested in capital assets, net of related debt	63,280,963
Restricted for debt service	1,582,124
Unrestricted	24,718,997
Total net assets	<u>\$ 89,582,084</u>

See Notes to Financial Statements

STILLWATER UTILITIES AUTHORITY
A Component Unit of the City of Stillwater, Oklahoma
Statement of Revenues, Expenses and Change in Net Assets
For the Year Ended June 30, 2006

Operating revenues - pledged as security for revenue bonds:	
Charges for services, net of bad debt expense	\$ 47,166,772
Other	1,031,076
Total operating revenues	<u>48,197,848</u>
Operating expenses:	
Operations and maintenance	36,863,846
Depreciation and amortization	5,532,230
Total operating expenses	<u>42,396,076</u>
Operating income	<u>5,801,772</u>
Nonoperating revenues (expenses):	
Investment income	907,692
Miscellaneous	237,068
Interest expense and fiscal charges	(1,057,041)
Total nonoperating revenues (expenses)	<u>87,719</u>
Income before contributions and transfers	5,889,491
Capital contributions	689,334
Transfers in	6,268,146
Transfers out	<u>(11,852,642)</u>
Change in net assets	994,329
Total net assets, beginning of year	88,587,755
Total net assets, end of year	<u>\$ 89,582,084</u>

STILLWATER UTILITIES AUTHORITY
A Component Unit of the City of Stillwater, Oklahoma
Statement of Cash Flows
For the Year Ended June 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 46,257,478
Payments to suppliers	(27,268,529)
Payments to employees	(8,495,301)
Internal activity-payments to other funds	(1,102,491)
Other receipts (payments)	1,010,076
Net cash provided by operating activities	<u>10,401,233</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Operating subsidies and transfers to other funds	<u>(9,697,379)</u>
Net cash used in noncapital financing activities	<u>(9,697,379)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from capital debt	950,001
Transfers in related to capital financing	6,268,146
Purchases of capital assets	(4,954,282)
Principal paid on capital debt	(3,671,930)
Interest paid on capital debt	(963,672)
Net cash used in capital and related financing activities	<u>(2,371,737)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest	<u>907,692</u>
Net cash provided by investing activities	<u>907,692</u>

Net decrease in cash and cash equivalents	(760,191)
Cash and cash equivalents, beginning of year	26,731,609
Cash and cash equivalents, end of year	<u>\$ 25,971,418</u>

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 5,801,772
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	5,532,230
Gain on disposal of assets	(21,000)
Changes in assets and liabilities:	
Receivables, net	(1,041,294)
Inventories	(105,138)
Accounts and other payables	147,989
Accrued liabilities	86,674
Net cash provided by operating activities	<u>\$ 10,401,233</u>

Noncash investing, capital and financing activities:

Borrowings under capital lease	556,158
Capital assets contributed to the Authority	689,334

See Notes to Financial Statements

STILLWATER UTILITIES AUTHORITY
A Component Unit of the City of Stillwater, Oklahoma
Notes to Financial Statements
June 30, 2006

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

Nature of Operations and Reporting Entity

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

The Trust Indenture that established the Authority provides for transfers of surplus funds to the City at the sole discretion of the trustees. Surplus revenues generated by the transferred sales tax (see Note 8) may be used only for purchasing or redeeming bonds or other indebtedness of the City or the Authority prior to maturity, or any other lawful purpose of the Authority; however, proceeds from the transferred sales tax cannot be returned to the City's General Fund.

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

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

Proprietary Accounting Methodology

The Authority has implemented Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting". The Authority has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions, issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

Accounts Receivable

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

Inventories

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

Utility Plant

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

Capitalized Interest

The Authority capitalizes net interest costs during the construction period on funds borrowed to finance the construction of significant property, plant and equipment projects. Total interest expense incurred by the Authority during the year ended June 30, 2006 was \$1,012,134. This amount related to projects that were completed in prior years. No interest was capitalized for the year ended June 30, 2006.

Unamortized Bond Discount and Issue Costs

Bond discount and issue costs are amortized using the straight-line method over the life of the applicable bonds. Bond discount amortized is reported as a component of interest expense, while amortized bond issue costs are reported separately as non-operating expense.

Unamortized Loss Due to Bond Refunding

A non-cash gain or loss resulting from the refunding of bonds is amortized using the straight-line method over the original life of the defeased 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.

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 or one year or less are recorded at amortized cost. Long-term investments are recorded at fair value in accordance with GASB Statement 31.

Restricted Assets

Proceeds from debt and related sinking fund accounts are classified as restricted assets, since their use is restricted by applicable bond indentures. Customer utility deposits held by the Authority are also classified as restricted assets.

Monies set aside by the Board of Trustees in anticipation of future potential operating cost increases and/or future substantial capital expenditure requirements (rate stabilization assets) are classified as restricted assets.

Compensated Absences

Full-time employees of the Authority accumulate vacation and sick leave benefits each pay period at various rates depending upon tenure with the Authority. Employees may accumulate and carry over to subsequent years up to 25 days of vacation. Upon termination, employees are paid for unused vacation. Employees may accrue up to a maximum of 1,000 hours of sick leave. An employee with five or more years of service who retires or resigns receives 10% of the accumulated unused sick leave to be computed at the rate of pay being received by the employee at retirement or resignation date. Employees with ten to thirty years 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.

Use of Estimates

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

Equity Classifications

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

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

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

(2) 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 to it. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of state law. At June 30, 2006, 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, as 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.

The 2002 revenue bond and 2005 revenue bond escrow accounts which totaled \$1,582,124 at June 30, 2006, consisted of highly liquid money market mutual funds.

Interest Rate Risk – As of June 30, 2006, the Authority had the following investments and maturities:

<u>Type</u>	<u>Fair Value</u>	<u>Maturities in Years</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
Money market mutual funds	\$ 21,359,768	\$ 21,359,768	\$ -	\$ -	\$ -

Money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately. The Authority's investment policy is to comply with Oklahoma statutes.

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, 2006, the Authority's money market mutual funds were rated AAA by Standard & Poors. 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 Investments – 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 investments of 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, 2006, 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	\$ 4,611,650
Investments	21,359,768
	<u>\$ 25,971,418</u>

Statement of Net Assets amounts:	
Cash and cash equivalents:	
Unrestricted	\$ 18,711,586
Restricted-current	1,474,096
Restricted-noncurrent	5,785,736
	<u>\$ 25,971,418</u>

(3) LONG-TERM LIABILITIES

As of June 30, 2006, the Authority's outstanding debt consisted of the following:

Notes Payable

2002 OWRB SRF Note Payable dated February 28, 2002, original amount of \$3,413,483 with no interest plus an administrative fee of 0.5%, semiannual installments of principal commencing March 15, 2002 through September 15, 2021.	\$ 2,645,450
2002 OWRB SRF Note Payable dated December 19, 2002, original amount of \$4,876,086 with no interest plus an administrative fee of 0.5%, semiannual installments of principal commencing March 15, 2003 through September 15, 2022.	4,022,771
2005 OWRB Fixed Rate Note Payable dated June 29, 2005, original amount of \$7,620,000 with 2.6% interest plus an administrative fee of 0.5%, semiannual installments of principal and interest commencing September 15, 2005 through March 15, 2025	<u>7,341,129</u>
Total Notes Payable	<u>\$14,009,350</u>
Current portion	\$ 702,183
Non-current portion	<u>13,307,167</u>
Total Notes Payable	<u>\$14,009,350</u>

Revenue Bonds

2002 Refunding Series bonds dated September 16, 2002, original issue amount of \$11,825,000, secured by utility revenues, interest rates range from 2.1% to 3.2%, semiannual interest and annual principal installments commencing December 1, 2002 through December 1, 2009	\$ 6,640,000
Less: Unamortized discount	(565)
Unamortized loss on defeasance	<u>271,019</u>
Net 2002 Revenue Bonds Payable	<u>6,368,416</u>

2005 Refunding Series bonds dated May 11, 2005, original issue amount of \$12,965,000, secured by utility revenues, interest rates range from 3.25% to 5.0%, semiannual interest and annual principal installments commencing October 1, 2005 through October 1, 2012.	12,305,000
Plus: Unamortized premium	610,660
Less: Unamortized loss on defeasance	<u>(99,058)</u>
Net 2005 Revenue Bonds Payable	<u>12,816,602</u>
Total Revenue Bonds Payable	<u>\$19,185,018</u>
Current portion	\$ 2,627,522
Non-current portion	<u>16,557,496</u>
Total Revenue Bonds Payable	<u>\$19,185,018</u>
<u>Capital Lease Obligations</u>	
Total cost of capital assets financed by capital lease obligations	\$ 2,516,818
Less: accumulated depreciation	<u>(673,041)</u>
Net capital assets financed by leases	<u>\$ 1,843,777</u>
\$622,000 capital lease with Banc of America for equipment, fixed interest rate of 4.16%, semiannual installments commencing June 15, 2002 through December 15, 2006.	\$ 68,118
\$711,000 capital lease with Banc of America for equipment, fixed interest rate of 3.244%, semiannual installments commencing April 4, 2003 through October 4, 2007.	244,459
\$400,880 capital lease with Banc of America for equipment, fixed interest rate of 2.804%, semiannual installments commencing September 8, 2004 through March 8, 2009.	247,192
\$102,148 capital lease with Banc of America for equipment fixed interest rate of 3.116%, semiannual installments commencing June 10, 2005 through December 10, 2009	73,144
\$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	192,452
\$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	184,633
\$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	<u>553,307</u>
Total Capital Leases	<u>\$ 1,563,305</u>
Current portion	\$ 464,058
Non-current portion	<u>1,099,247</u>
Total Capital Leases	<u>\$ 1,563,305</u>

Accrued Compensated Absences

Current portion	\$ 51,356
Non-current portion	<u>494,779</u>
Total Accrued Compensated Absences	<u>\$ 546,135</u>

Deposits Subject to Refund

Current portion	\$ 516,030
Non-current portion	<u>722,725</u>
Total Deposits Subject to Refund	<u>\$ 1,238,755</u>

Changes in Long-Term Liabilities

The following is a summary of changes in the Authority's long-term liabilities for the year ended June 30, 2006:

	Balance at July 1, 2005	Additions	Reductions	Balance at June 30, 2006	Amounts Due Within One Year
Notes Payable	\$ 14,702,699	\$ -	\$ 693,349	\$ 14,009,350	\$ 702,183
General Obligation Bonds	505,000	-	505,000	-	-
Revenue Bonds Payable, net	21,492,541	-	2,307,523	19,185,018	2,627,522
Capital Lease Payable	1,018,953	950,001	405,649	1,563,305	464,058
Accrued Compensated Absences	494,779	116,484	65,128	546,135	51,356
Deposits Subject to Refund	1,106,755	648,030	516,030	1,238,755	516,030
Total	<u>\$ 39,320,727</u>	<u>\$ 1,714,515</u>	<u>\$ 4,492,679</u>	<u>\$ 36,542,563</u>	<u>\$ 4,361,149</u>

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.

City's General Obligation Bonds Redeemed

During the year ended June 30, 2006, the Authority redeemed the remaining \$505,000 of the City's outstanding *Series 1993 General Obligation Refunding Bonds* which refunded the City's *Series 1980 General Obligation Bonds* which were issued to finance the costs of certain water, sewer and electric facilities of the Authority. The Authority had accepted the obligation to pay the principal and interest of such city general obligation bonds.

Maturities of Long-term Debt

The debt service maturities for the Authority's long-term indebtedness for the coming years are as follows:

Year ending June 30,	2002 Revenue Bonds		2005 Revenue Bonds	
	Principal	Interest	Principal	Interest
2007	\$ 1,875,000	\$ 163,318	\$ 750,000	\$ 529,513
2008	1,930,000	114,280	800,000	504,324
2009	1,985,000	57,471	870,000	477,187
2010	850,000	13,600	2,080,000	426,650
2011	-	-	3,030,000	314,500
2012	-	-	3,190,000	159,000
2013	-	-	1,585,000	39,625
Total	\$ 6,640,000	\$ 348,669	\$ 12,305,000	\$ 2,450,799

Year ending June 30,	Notes Payable		Capital Leases	
	Principal	Interest	Principal	Interest
2007	\$ 702,183	\$ 261,809	\$ 464,058	\$ 51,920
2008	710,702	251,273	325,223	37,076
2009	720,681	239,109	250,853	27,302
2010	730,380	227,308	161,380	19,177
2011	740,387	215,200	133,060	13,114
2012-2016	3,862,581	883,937	228,731	16,648
2017-2021	4,165,350	528,555	-	-
2022-2025	2,377,086	140,957	-	-
Total	\$ 14,009,350	\$ 2,748,148	\$ 1,563,305	\$ 165,237

(4) RESTRICTED ASSETS

Certain assets of the Authority are restricted in their use by bond and note indentures. Cash and cash equivalents in the amount of \$1,582,124 at June 30, 2006 have been restricted in use to the service of debt.

Certain cash and cash equivalents of the Authority are restricted by agreement for the purpose of acquiring necessary easements related to water line upgrades for an area of service purchased from a rural water district. As of June 30, 2006 cash and cash equivalents of \$54,756 were restricted for this purpose.

Customer deposits received for water or electric service are restricted in their use toward the customer's final bill. Cash and cash equivalents in the amount of \$1,238,755 at June 30, 2006 have been restricted for customer deposits.

In anticipation of future potential operating cost increases and/or future substantial capital expenditure requirements, the Authority deemed it prudent to reserve a portion of its assets. As of June 30, 2006 cash and cash equivalents of \$4,384,197 were restricted for these purposes.

(5) CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance at			Balance at	
	July 1, 2005	Additions	Deletions	June 30, 2006	
Capital assets not being depreciated:					
Land	\$ 648,706	\$ 113	\$ -	\$ 648,819	
Construction work in progress	4,481,332	4,304,088	4,621,087	4,164,333	
Total capital assets not being depreciated	5,130,038	4,304,201	4,621,087	4,813,152	
Other capital assets:					
Buildings	2,081,360	-	-	2,081,360	
Improvements other than buildings	152,099,377	4,529,811	23,601	156,605,587	
Machinery and equipment	16,320,532	1,497,641	334,943	17,483,230	
Total other capital assets at historical cost	170,501,269	6,027,452	358,544	176,170,177	
Less accumulated depreciation for:					
Buildings	1,023,875	75,732	-	1,099,607	
Improvements other than buildings	65,700,594	4,524,185	-	70,224,779	
Machinery and equipment	11,533,215	898,539	358,544	12,073,210	
Total accumulated depreciation	78,257,684	5,498,456	358,544	83,397,596	
Other capital assets, net	92,243,585	528,996	-	92,772,581	
Total capital assets, net	\$97,373,623	\$ 4,833,197	\$ 4,621,087	\$ 97,585,733	

Contributed Capital Assets

For the year ended June 30, 2006, the Authority accepted and received water and sewer lines that were installed by developers amounting to \$614,334.

(6) PENSION PLAN

All full time City employees are provided pension benefits through a defined contribution plan administered by the Oklahoma Municipal Retirement Fund. The employee begins participation at the date of employment. Employees contribute a minimum of 3% of their salary with an optional maximum of up to 14% of their salary. The City Commission determines the City's contribution each year. The City's contributions for each employee begin vesting after 5 years and are fully vested after 10 years. If an employee terminates before becoming fully vested, the part of the employer's contributions that are forfeited may be used to reduce the City's current-period contributions requirement. The Authority reimburses the City for all related costs of the pension plan.

The Authority's total payroll in fiscal year 2006 was \$7,092,898. Covered payroll (for employees covered under the plan) was \$6,934,155. The employees' contribution amounted to \$409,328 or 5.90% of covered payroll in fiscal year 2006. The City made contributions of \$416,500 in 2006, which was 6.0% of the fiscal year covered payroll resulting in total contributions of \$825,828 for the year ended June 30, 2006.

(7) RELATED PARTY TRANSACTIONS

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

The Authority leases the electric, water and sewer systems from the City under a 50-year lease agreement 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 \$1,102,491 for the year ended June 30, 2006 have been proportionately allocated and reflected in the Authority's financial statements as expenses.

(8) TRANSFERS IN

City Debt Service Fund

The Authority recorded a capital contribution of levied ad valorem tax from the City's Debt Service Fund of \$516,890 in fiscal year 2006; an amount sufficient to pay the annual debt service on the 1993 General Obligation Bonds of the City for which the Authority has assumed the obligation for repayment.

City General Fund

One cent of the City's three-cent general-use sales tax is designated for the Authority. The sales tax transfer is received by the City monthly from the State of Oklahoma and is appropriated and transferred to the Authority. The Authority uses the sales tax transfer to meet the debt service requirements of the 2005 and 2002 revenue bonds. The sales tax may also 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 sinking fund for the repayment of general obligation debt of the City. For the year ended June 30, 2006 the sales tax related transfers to the Authority were \$5,751,256.

(9) 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, 2006, the transfer amount was \$11,576,233.

Stillwater Public Golf Authority

During the year ended June 30, 2006, the Authority transferred \$276,409 to the Stillwater Public Golf Authority. This transfer arose as the result of the payment of vendor and payroll claims made on behalf of the Stillwater Public Golf Authority, an Authority of the City of Stillwater.

(10) DUE TO OTHER FUNDS

The Authority routinely makes payments to the City to cover payroll costs, vendor payments, health insurance costs, workers' compensation costs and other operating costs of the Authority. In

addition, certain funds are collected routinely by the Authority on behalf of the City. When these activities occur before they are paid by the Authority, they are shown on the Authority Statement of Net Assets as "Due to Other Funds". Generally these charges are paid to the City within a month of their occurrence and are therefore considered to be short-term loans. At the end of the year ended June 30, 2006 the Authority owed \$2,895,491 for such items including a portion of the transfers to the City General Fund.

(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 for, general liability and property damage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

(12) SUBSEQUENT EVENT

The City and the Authority, together, have entered into an agreement with the directors of the Rural Water Corporation No.3 (Corporation) to consolidate their rural water distribution system with the Authority's distribution system. Per the agreement, the City and the Authority will be responsible for maintenance and upkeep of the system and the quality of water delivered. The agreement stipulates that the approximately 1,115 members of the Corporation will each receive a \$1,000 payment from the City or Authority for partial reimbursement of membership fees within 90 days of October 1, 2006. The Corporation will transfer assets and certain liabilities to the City and Authority on the effective date of the agreement. The consolidation is pending approval of the Oklahoma Water Resources Board. Assets to be transferred include the water distribution system, equipment, inventory, recorded/unrecorded easements and some cash. As of June 30, 2006, the book value of the net assets to be transferred as part of this agreement is \$1,592,482. It is the intent of the City and the Authority that the Authority will receive the transfer of assets and liabilities from the Corporation, provide maintenance and upkeep of the consolidated distribution system, and reimburse the members of the Corporation for the membership fees.