

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
FINANCIAL REPORTS
June 30, 2010 and 2009

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
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June 30, 2010 and 2009

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Independent Auditor's Report

Board of Trustees
Tulsa Metropolitan Utility Authority
Tulsa, Oklahoma

We have audited the accompanying financial statements of the business-type activities and each major fund of the Tulsa Metropolitan Utility Authority (the "Authority"), a component unit of the City of Tulsa, Oklahoma, as of and for the year ended June 30, 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the Authority's June 30, 2009 basic financial statements before they were restated for the matter discussed in Note 16 to the financial statements, were audited by other auditors, whose report dated December 18, 2009 expressed an unqualified opinion on those statements.

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 the 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 opinions.

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

As described in Note 16, the Authority restated beginning net assets as a result of the implementation of Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting of Intangible Assets*.

We also audited the adjustments described in Note 16 that were applied to restate the June 30, 2009 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

The accompanying management's discussion and analysis on pages 2 through 6 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

McGladrey & Pullen, LLP

Kansas City, Missouri
November 30, 2010

TULSA METROPOLITAN UTILITY AUTHORITY

(A Component Unit of the City of Tulsa, Oklahoma)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended June 30, 2010 and 2009

As management of the Tulsa Metropolitan Utility Authority (the "Authority"), a component unit of the City of Tulsa, Oklahoma (the "City"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the years ended June 30, 2010 and 2009. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements, which begin on page 7. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the current year by \$811,189. Of this amount, \$56,010 is unrestricted and may be used to meet the Authority's ongoing obligations.
- The Authority's net assets increased from \$792,918 at June 30, 2009 to \$811,189 at June 30, 2010. During 2010, the Authority generated an increase in net assets of \$18,271 compared to \$11,956 during 2009.
- The Authority's cash and cash equivalents at June 30, 2010, were \$67,810, representing a decrease of \$10,836 from June 30, 2009.

Overview of the Financial Statements

The Authority, a legally separate public trust, is reported by the City as a discretely presented component unit in the City's Comprehensive Annual Financial Report. The primary function of the Authority is to provide for water delivery and wastewater utility systems.

This discussion and analysis is intended to serve as an introduction to the Authority's audit report. The audit report consists of two parts: management's discussion and analysis, and the financial statements. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The Authority uses fund accounting in its financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority has one fund type, proprietary, and reports two enterprise funds. Enterprise funds are used to report the functions presented as business-type activities.

The financial statements of the Authority report information using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for assessing the liquidity and financial flexibility of the Authority. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the financial success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness. The third required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and changes in cash resulting from operating, investing, and financing activities and provides answers to such questions as

TULSA METROPOLITAN UTILITY AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
Years Ended June 30, 2010 and 2009

Required Financial Statements, continued

where did cash come from, what was cash used for, and what was the change in the cash balance during the period.

Net Assets

The Authority's net assets increased \$18,271 for the year ended June 30, 2010 and \$11,956 for the year ended June 30, 2009. The following table provides a summary of Net Assets.

SUMMARY OF NET ASSETS

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current assets, unrestricted	\$ 65,840	\$ 71,722	\$ 91,587
Restricted assets	104,900	84,723	79,568
Capital assets, net	1,015,009	980,395	932,206
Other assets	<u>10,802</u>	<u>10,616</u>	<u>10,241</u>
Total assets	<u>1,196,551</u>	<u>1,147,456</u>	<u>1,113,602</u>
Current liabilities	5,444	10,594	9,167
Liabilities payable from restricted assets	39,763	35,631	37,692
Noncurrent liabilities	<u>340,155</u>	<u>308,313</u>	<u>285,781</u>
Total liabilities	<u>385,362</u>	<u>354,538</u>	<u>332,640</u>
Invested in capital assets, net of related debt	747,490	727,778	704,557
Restricted	7,689	9,339	8,479
Unrestricted	<u>56,010</u>	<u>55,801</u>	<u>67,926</u>
Total net assets	<u>\$ 811,189</u>	<u>\$ 792,918</u>	<u>\$ 780,962</u>

In 2010 total assets increased \$49,095. The decrease in current assets of \$5,882 is related to decreases in unrestricted cash of \$4,793, utilities receivables, net of \$770, other receivable of \$249 and inventory of \$70. The increase in restricted assets of \$20,177 is attributable to the proceeds of debt issued in the current year to fund capital expansion. The increase in capital assets of \$34,614 is consistent with the improvement and expansion of both utility systems and is necessary to provide adequate services to our customers and to assure compliance with all applicable laws and regulations. Total liabilities increased \$30,824, primarily due to debt issued in the current year.

In 2009 total assets increased \$33,854. The decrease in current assets of \$19,865 is related to decreases in unrestricted cash of \$21,387, other receivable of \$527 and inventory of \$172, with an increase in accounts receivable of \$2,221. The increase in restricted assets of \$5,155 is attributable to the proceeds of debt issued in the current year to fund capital expansion. The increase in capital assets of \$48,189 is consistent with the improvement and expansion of both utility systems and is necessary to provide adequate services to our customers and to assure compliance with all applicable laws and regulations. Total liabilities increased \$21,898, primarily due to debt issued in the current year.

TULSA METROPOLITAN UTILITY AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
Years Ended June 30, 2010 and 2009

SUMMARY OF CHANGES IN NET ASSETS

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating revenue	\$ 137,649	\$ 132,786	\$ 127,030
Nonoperating revenue	9,502	9,103	5,231
Investment income	2,315	4,020	6,301
Total revenues	<u>149,466</u>	<u>145,909</u>	<u>138,562</u>
Depreciation expense	23,817	24,274	26,995
Other operating expense	101,804	108,679	98,649
Nonoperating expense	6,864	5,145	1,757
Total expenses	<u>132,485</u>	<u>138,098</u>	<u>127,401</u>
Income before contributions	16,981	7,811	11,161
Capital contributions	1,290	4,145	6,507
Change in net assets	18,271	11,956	17,668
Net assets, beginning of year, as restated	<u>792,918</u>	<u>780,962</u>	<u>763,294</u>
Net assets, end of year	<u>\$ 811,189</u>	<u>\$ 792,918</u>	<u>\$ 780,962</u>

In 2010 total revenues increased \$3,557 due primarily to increased operating revenue. Other operating expenses decreased \$6,875 due primarily to decreases in; salaries and wages \$2,761, material and supplies \$818, and utilities \$3,537. Nonoperating expenses increased \$1,719 primarily due to increases in interest expense \$1,719. Investment income decreased \$1,705 as a result of lower average investments and a decline in the return on investments. Capital contributions decreased \$2,855. As a result, net assets increased \$18,271 during the year.

In 2009 total revenues increased \$7,347 due primarily to increased operating revenue. Other operating expenses increased \$10,030 due primarily to increases in; salaries and wages \$2,541, material and supplies \$1,560, line cleanings \$2,226 and utilities \$1,845. Nonoperating expenses increased \$3,388 primarily due to increases in interest expense \$3,395. Investment income decreased \$2,281 as a result of lower average investments and a decline in the return on investments. Capital contributions decreased \$2,362. As a result, net assets increased \$11,956 during the year.

TULSA METROPOLITAN UTILITY AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2010 and 2009

Capital Assets

The investment in capital assets as of June 30, 2010 and 2009 amounts to \$1,015,009 and \$980,395, respectively, (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and equipment. The Authority paid \$54,864 and \$63,885 during 2010 and 2009, respectively, related to the acquisition and purchase of capital assets.

CAPITAL ASSETS

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Buildings	\$ 235,308	\$ 232,991	\$ 231,519
Equipment	618,301	608,738	594,817
Water storage lease	9,567	9,567	9,567
Land improvements, water and sewer lines	<u>504,319</u>	<u>462,837</u>	<u>432,252</u>
	1,367,495	1,314,133	1,268,155
Less accumulated depreciation	(491,770)	(471,326)	(449,120)
Construction-in-progress	<u>139,284</u>	<u>137,588</u>	<u>113,170</u>
Capital assets, net	<u>\$ 1,015,009</u>	<u>\$ 980,395</u>	<u>\$ 932,205</u>

Debt

At June 30, 2010 and 2009, the Authority had outstanding general obligation bonded debt of \$56,580 and \$63,205, respectively. These bonds are required to be fully paid within 25 years from the date of issue and are backed by the full faith and credit of the City of Tulsa, Oklahoma. The City's Charter requires that not less than 50% of the annual principal and interest requirements on general obligation bonds issued for waterworks and wastewater be funded by water and wastewater revenues, respectively.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
General obligation bonds	\$ 56,580	\$ 63,205	\$ 64,980
Revenue bonds	143,176	135,317	119,923
Promissory notes	<u>134,658</u>	<u>104,801</u>	<u>97,234</u>
Total debt	<u>\$ 334,414</u>	<u>\$ 303,323</u>	<u>\$ 282,137</u>

During 2010, the Authority issued new debt to fund improvements to the water and wastewater systems. The Authority's debt increased \$31,091 or 10.3% during the 2010. As an issuer of bonds, the Authority is subject to numerous covenants contained within the bond indentures. The Authority believes they are in full compliance with all of these covenants.

Funds

The Authority has two funds, the Water Fund and the Sewer Fund. At June 30, 2010, the water fund had net assets of \$432,335 which represented an increase of \$5,781 from 2009 net assets of \$426,554. At

**TULSA METROPOLITAN UTILITY AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2010 and 2009**

FUNDS, continued

June 30, 2010, the Sewer Fund had net assets of \$378,854 which represented an increase of \$12,490 from 2009 net assets of \$366,364.

Economic factors and next year's budgets and rates

At the national level, unemployment remains above 9 percent. Unemployment in the City of Tulsa was 7.7 percent at the end of 2010. The Authority has experienced consistent collection rates, year over year, for accounts receivable during this economic downturn.

The Authority's appointed officials considered many factors when setting the fees that will be charged for water and sewer services in 2011. The Authority approved a 7 percent increase in water fees and a 10 percent increase in sewer fees beginning in November 2010. The fee increases are to fund operations, maintenance, debt service and capital outlays.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Controller, 175 E. Second Street, Tulsa, Oklahoma 74103.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
STATEMENTS OF NET ASSETS
June 30, 2010 with Partial Financial Information for June 30, 2009

(In thousands of dollars)	2010			2009
<u>ASSETS</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>	<u>Total</u>
Current assets:				
Unrestricted assets:				
Cash and cash equivalents	\$ 22,242	\$ 23,042	\$ 45,284	\$ 50,077
Accounts receivable:				
Utility services receivable, net	10,608	7,769	18,377	19,147
Other receivables	184	185	369	618
Inventories	1,715	95	1,810	1,880
Total unrestricted current assets	34,749	31,091	65,840	71,722
Restricted assets:				
Cash and cash equivalents	19,553	2,973	22,526	28,569
Investments	22,569	12,204	34,773	20,445
Interest receivable	97	95	192	131
Total restricted current assets	42,219	15,272	57,491	49,145
Total current assets	76,968	46,363	123,331	120,867
Noncurrent assets:				
Investments, restricted	18,681	24,551	43,232	25,098
Investment in joint venture	-	10,144	10,144	9,970
Advances to primary government, restricted	-	4,177	4,177	10,480
Non depreciable capital assets	103,590	75,972	179,562	177,747
Capital assets, net	413,150	422,297	835,447	802,648
Other	461	197	658	646
Total noncurrent assets	535,882	537,338	1,073,220	1,026,589
Total assets	\$ 612,850	\$ 583,701	\$ 1,196,551	\$ 1,147,456

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TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
STATEMENTS OF NET ASSETS, continued
June 30, 2010 with Partial Financial Information for June 30, 2009

(In thousands of dollars)	2010			2009
<u>LIABILITIES</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>	<u>Total</u>
Current liabilities:				
Accounts payable and accrued liabilities	\$ 1,204	\$ 1,947	\$ 3,151	\$ 8,021
Current portion of water main extension contracts	519	-	519	438
Current portion of vested compensated absences	929	607	1,536	1,904
Current portion of water storage lease	238	-	238	231
Total current liabilities payable from unrestricted assets	<u>2,890</u>	<u>2,554</u>	<u>5,444</u>	<u>10,594</u>
Liabilities payable from restricted assets:				
Accrued liabilities	6,595	4,414	11,009	8,082
Deposits subject to refund	9,796	194	9,990	10,214
Current portion of general obligation debt	-	5,254	5,254	5,052
Current portion of promissory notes	53	6,562	6,615	5,558
Current portion of revenue bonds	6,895	-	6,895	6,725
Total current liabilities payable from restricted assets	<u>23,339</u>	<u>16,424</u>	<u>39,763</u>	<u>35,631</u>
Total current liabilities	<u>26,229</u>	<u>18,978</u>	<u>45,207</u>	<u>46,225</u>
Noncurrent liabilities:				
General obligation debt	-	51,326	51,326	58,153
Unamortized bond premium	938	3,483	4,421	2,477
Revenue bonds, net	136,281	-	136,281	128,592
Unamortized bond discount	-	(127)	(127)	(148)
Promissory notes	-	128,043	128,043	99,243
Watermain extension contracts	7,625	-	7,625	8,366
Vested compensated absences	1,653	1,080	2,733	2,934
Other post-employment benefits	2,559	1,744	4,303	3,402
Water storage lease	4,775	-	4,775	5,013
Net pension obligation	455	310	765	-
Arbitrage, restricted	-	10	10	281
Total noncurrent liabilities	<u>154,286</u>	<u>185,869</u>	<u>340,155</u>	<u>308,313</u>
Total liabilities	<u>180,515</u>	<u>204,847</u>	<u>385,362</u>	<u>354,538</u>
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	407,624	339,866	747,490	727,778
Restricted for:				
Debt service	4,445	3,244	7,689	9,339
Unrestricted	20,266	35,744	56,010	55,801
Total net assets	<u>\$ 432,335</u>	<u>\$ 378,854</u>	<u>\$ 811,189</u>	<u>\$ 792,918</u>

The accompanying notes are an integral part of the financial statements

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended June 30, 2010 with Partial Financial Information for the Year ended
June 30, 2009

(In thousands of dollars)	2010			2009 Total
	Water Fund	Sewer Fund	Total	
Operating revenues:				
Water and sewer services	\$ 76,986	\$ 60,663	\$ 137,649	\$ 132,786
Operating expenses:				
Salaries and wages	25,933	18,117	44,050	46,811
Materials and supplies	7,615	4,249	11,864	12,682
Other services and charges	26,290	19,600	45,890	49,186
Depreciation	10,906	12,911	23,817	24,274
Total operating expenses	70,744	54,877	125,621	132,953
Operating income (loss)	6,242	5,786	12,028	(167)
Nonoperating revenues (expenses):				
Investment income	1,585	730	2,315	4,020
Interest expense	(2,437)	(4,427)	(6,864)	(5,145)
Ad valorem taxes	-	4,651	4,651	4,255
Other, net	148	197	345	85
Net nonoperating revenues (expenses)	(704)	1,151	447	3,215
Income before contributions	5,538	6,937	12,475	3,048
Capital contributions	243	1,047	1,290	4,145
Capital contributions from City of Tulsa	-	4,506	4,506	4,763
Transfers in	-	-	-	112
Transfers out	-	-	-	(112)
	243	5,553	5,796	8,908
Change in net assets	5,781	12,490	18,271	11,956
Net assets, beginning of year, as restated	426,554	366,364	792,918	780,962
Net assets, end of year	\$ 432,335	\$ 378,854	\$ 811,189	\$ 792,918

The accompanying notes are an integral part of the financial statements

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)

STATEMENTS OF CASH FLOWS

Year Ended June 30, 2010 with Partial Financial Information for the Year Ended June 30, 2009

(In thousands of dollars)

	2010			2009 Total
	Water Fund	Sewer Fund	Total	
Cash flows from operating activities:				
Received from customers, including cash deposits	\$ 78,355	\$ 59,998	\$ 138,353	\$ 132,270
Payments to suppliers for goods and services	(28,620)	(19,468)	(48,088)	(53,851)
Payments to employees for services	(25,488)	(17,466)	(42,954)	(44,179)
Payments for quasi-external operating transactions including payments in lieu of taxes	(5,807)	(4,556)	(10,363)	(9,662)
Net cash provided by operating activities	18,440	18,508	36,948	24,578
Cash flows from non-capital and related financing activities:				
Payments to City of Tulsa	-	(129)	(129)	(3,459)
Collection of advances to City of Tulsa	-	6,432	6,432	14,145
Net cash provided by non-capital and related financing activities	-	6,303	6,303	10,686
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(27,595)	(27,093)	(54,688)	(63,885)
Payments from City of Tulsa	-	4,506	4,506	4,763
Proceeds from sale of capital assets	586	218	804	230
Interest paid on long-term debt	(5,740)	(3,745)	(9,485)	(11,235)
Principal paid on long-term debt	(6,881)	(24,480)	(31,361)	(16,720)
Payment of bond issuance costs	(66)	-	(66)	(91)
Payment of water rights	(231)	-	(231)	(225)
Proceeds from the issuance of long-term debt	14,510	47,869	62,379	37,837
Premium received on debt issuance	44	-	44	260
Ad valorem taxes received	-	4,651	4,651	4,255
Payments on watermain extension contracts	(432)	-	(432)	(391)
Net cash provided by (used in) capital and related financing activities	(25,805)	1,926	(23,879)	(45,202)

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TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
STATEMENTS OF CASH FLOWS, continued
Year Ended June 30, 2010 with Partial Financial Information for the Year Ended
June 30, 2009

(In thousands of dollars)	2010			2009 Total
	Water Fund	Sewer Fund	Total	
Cash flows from investing activities:				
Interest received on investments	\$ 1,333	\$ 674	\$ 2,007	\$ 4,762
Sale or maturity of investments	33,605	1,332	34,937	45,422
Purchases of investments	(35,345)	(31,807)	(67,152)	(56,900)
Net cash used in investing activities	(407)	(29,801)	(30,208)	(6,716)
Net decrease in cash and cash equivalents	(7,772)	(3,064)	(10,836)	(17,053)
Cash and cash equivalents, beginning of year	49,567	29,079	78,646	95,300
Cash and cash equivalents, end of year	\$ 41,795	\$ 26,015	\$ 67,810	\$ 78,247
Reconciliation of cash and cash equivalents to the Statement of Net Assets:				
Current unrestricted cash and cash equivalents	\$ 22,242	\$ 23,042	\$ 45,284	\$ 50,077
Current restricted cash and cash equivalents	19,553	2,973	22,526	28,569
	\$ 41,795	\$ 26,015	\$ 67,810	\$ 78,646
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 6,242	\$ 5,786	\$ 12,028	\$ (167)
Adjustments:				
Depreciation	10,906	12,911	23,817	24,274
Decrease (increase) in accounts receivable	1,622	(603)	1,019	(2,179)
Decrease in inventories	46	24	70	172
Increase in joint venture	-	(174)	(174)	(329)
(Decrease) in accounts payable and other accrued liabilities	(1,093)	(161)	(1,254)	(648)
Increase in other post employment benefits	931	735	1,666	1,814
Increase (decrease) in deposits subject to refund	(214)	(10)	(224)	1,641
Net cash provided by operating activities	\$ 18,440	\$ 18,508	\$ 36,948	\$ 24,578

Noncash capital and related financing activities:

The Water Fund received noncash contributions of \$243 and \$1,206 from area developers and expiring watermain extension contracts of \$228 and \$655 during the years ended June 30, 2010 and 2009, respectively. The Water Fund also had non cash capital additions included in accounts payable and retainage of \$5,126 and \$4,919 at the years ended June 30, 2010 and 2009, respectively.

The Sewer Fund received noncash contributions of \$1,047 and \$2,939 from area developers during the years ended June 30, 2010 and 2009, respectively. The Sewer Fund also had non cash capital additions included in accounts payable and retainage of \$2,757 and \$4,483 at the years ended June 30, 2010 and 2009, respectively.

The accompanying notes are an integral part of the financial statements

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2010 and 2009

1. NATURE OF BUSINESS, REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS AND REPORTING ENTITY - The Tulsa Metropolitan Utility Authority (the "Authority" was created under the provisions of the Oklahoma Public Trust Act. The Trustees of the Authority consist of the Mayor of the City of Tulsa (the "City") and six other members appointed by the Mayor and confirmed by the City Council. The beneficiary of the Trust is the City. The Authority is included in the City's Comprehensive Annual Financial Report as a discretely presented component unit.

Upon the issuance of its revenue bonds, the Authority leased from the City all existing and subsequently acquired water systems and the rights to the gross revenues generated for a term of 50 years or until all indebtedness collateralized and payable from system revenues is retired.

The City covenanted and agreed to collect the revenue of the system, operate and maintain the water system and make all necessary additions, extensions, replacements and improvements in order to keep the water system in proper working and revenue producing order on behalf of the Authority.

The Authority covenanted and agreed to utilize the gross revenue generated from the water system in accordance with the terms of the Bond Indenture, to reimburse the City for payment of operations and maintenance expenses, issue bonds for financing certain improvements to the water system and to prepare and adopt a schedule of approved uniform and nondiscriminatory rates, fees and charges for use of the water system.

Effective July 1, 1989, the Authority entered into a Wastewater System Lease Agreement and Operation and Maintenance Contract with the City. The terms of the agreement provide for the lease of the City's revenue producing sanitary sewer and wastewater treatment, collection, transportation, processing, and disposal systems and facilities, along with the transfer of related liabilities, for a term of 50 years or until such time as all bonds or indebtedness collateralized by, and payable from, revenues from the wastewater system are paid.

The fund accounts for water and sewer utility fees and other revenue dedicated to the Authority's water and sewer systems.

BASIS OF ACCOUNTING AND PRESENTATION – The financial statements of the Authority have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Voluntary nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Investment income and voluntary nonexchange transactions are included in nonoperating revenues and expenses.

The financial statements of the Authority are prepared in accordance with generally accepted accounting principles ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the standard-setting body for governmental accounting

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1. NATURE OF BUSINESS, REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES, continued

and financial reporting. Pronouncements of the Financial Accounting Standards Board issued after November 30, 1989 are not applied in the preparation of the financial statements of proprietary funds in accordance with an election made by the Authority under GASB Statement

No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements, constitutes GAAP for governmental units. The more significant of these accounting policies are described below. All amounts, unless otherwise noted, are expressed in thousands.

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

CASH AND CASH EQUIVALENTS – For purposes of reporting cash flows, the Authority considers all highly liquid investments with an original maturity of three months or less when purchased, and any cash held by the City of Tulsa's internal pool, to be cash equivalents.

INVESTMENTS – Investments consist primarily of obligations of the U.S. Treasury and various federal agencies, and money market funds. These investments are held by bond trustees and invested in accordance with the requirements and terms of various bond indentures.

The Authority follows the provisions of GASB Statement No. 31, "Certain Investments and External Investment Pools," which requires governmental entities to report investments at fair value in the statement of net assets. The Authority experienced an increase in the fair value of investments of approximately \$457 and \$846 for the years ended June 30, 2010 and 2009, respectively. Realized gains and losses as well as changes in the fair market value of investments are reported in investment income in the combined statements of revenues, expenses and changes in net assets.

INVENTORIES – Inventories are stated at the lower of cost (first-in, first-out) or market.

RESTRICTED ASSETS – Certain assets of the Authority are restricted under the terms of its bond indentures or state statutes.

UTILITY SERVICES RECEIVABLE – This balance consists of amounts due from customers within and around the Tulsa metropolitan area for utility service. Unbilled revenue is accrued and included in utility services receivable for services that were provided, but not billed at year end. The Authority recorded an allowance for uncollectible accounts of \$357 and \$266 as of June 30, 2010 and 2009, respectively.

CAPITAL ASSETS – Capital assets purchased or acquired are carried at historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Included

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1. NATURE OF BUSINESS, REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES, continued

in the capital assets is the interest capitalized during construction. Interest capitalized during fiscal years 2010 and 2009 was \$4,659 and \$6,030, respectively.

DEPRECIATION – Capital assets placed in service are depreciated on the straight-line basis over the following estimated useful lives:

Land improvements	30 years
Buildings	50 years
Water and sewer lines	33 - 100 years
Equipment	3 - 20 years

Capital assets sold or disposed have their cost and accumulated depreciation removed from the Authority's records. The related gain or loss is recorded in the period of sale or disposal.

CAPITAL CONTRIBUTIONS – Capital contributions include payments made by developers for the construction of water and sewer lines and grants. The Authority follows the provisions of GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," (the "Statement") which establishes accounting and financial reporting standards to guide state and local governments' decisions about when and how to report the results of nonexchange transactions involving cash and other financial and capital resources.

VESTED COMPENSATED ABSENCES – Vacation and sick leave is granted to all regular and part-time employees. The annual amount of vacation time accrued varies from 13 to 24 days depending upon years of service. The maximum amount of vacation time that may be accumulated is twice the amount which may be earned in one calendar year. Accumulated vacation leave vests and the Authority is obligated to make payment even if the employee terminates. The liability for compensated absences attributable to the Authority is charged to expense currently and a corresponding liability is established.

OTHER POST EMPLOYMENT BENEFITS (OPEB) - Other post-employment 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 healthcare, are taken while the employees are in active service, whereas other benefits, including post-employment healthcare and other OPEB, are taken after the employees' services have ended. Nevertheless, both types of benefits constitute compensation for employee services. The Authority accounts for annual OPEB cost on an accrual basis, charging expenses in the period incurred with a corresponding liability for benefits paid in future periods.

DEFERRED BOND ISSUE COSTS – Deferred bond issue costs are capitalized and amortized over the life of the debt using the effective interest method.

UNAMORTIZED DISCOUNTS AND PREMIUMS – Original issue discounts and premiums on the Authority's revenue bonds are amortized over the lives of the bonds using the effective interest method.

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1. NATURE OF BUSINESS, REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES, continued

NET ASSETS – Net assets of the Authority represent the difference between assets and liabilities. Net assets invested in capital, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Net assets invested in capital assets, net of related debt, excludes unspent bond proceeds of \$84,086 and \$62,024 as of June 30, 2010 and 2009, respectively. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or, laws or regulations of other governments. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Authority first applies restricted resources. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested capital assets, net of related debt or restricted.

PROPERTY TAX REVENUE – Oklahoma statutes require that the City make a property tax levy for a sinking fund (Debt Service Fund) which shall, with cash and investments in the fund, be sufficient to pay all the bonded indebtedness, interest and one-third of all outstanding judgments coming due in the following fiscal year.

After review and approval by the City, the sinking fund estimates are submitted to the County Excise Board to determine the property tax levy. This submission is made by July 20th of each year. The County Assessor is required to file a tax roll report on or before October 1st each year with the County Treasurer indicating the net assessed valuation for all real and public service property.

The Oklahoma Tax Commission determines property assessed valuations. The assessment ratio in Tulsa County currently averages 11% of market value.

Property tax is levied each October 1st on the assessed valuation of non-exempt real property located in the City as of the preceding January 1st, the lien date. Property taxes are due on November 1st following the levy date, although they may be paid in two equal installments (if the first installment is paid prior to January 1st, the second installment is not delinquent until April 1st). Property taxes are collected by the County Treasurers of Tulsa, Wagoner and Osage Counties, Oklahoma, and are remitted to the City. Property tax revenue is recorded as revenue and taxes receivable on the levy date.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

INCOME TAXES – With regards to federal income taxes, the Authority is nontaxable as a political subdivision under Section 115(1) of the Internal Revenue Code.

RECLASSIFICATIONS – Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 financial presentation. These reclassifications had no effect on changes in net assets.

TULSA METROPOLITAN UTILITY AUTHORITY
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June 30, 2010 and 2009

2. CASH DEPOSITS AND INVESTMENTS

POOLED CASH AND INVESTMENTS – The Authority maintains a portion of its cash and investments with the City's pooled cash and investments account. Pooled cash and investments consist primarily of time deposits and other securities guaranteed by the United States Government or its agencies and are recorded at fair market value. At June 30, 2010 and 2009, the pooled cash and investments, which are reflected on the Authority's Statements of Net Assets within cash and cash equivalents, amounted to \$50,535 and \$61,814, respectively. The pooled cash and investments balances at June 30, 2010 and 2009, were represented by investments that were collateralized by securities that were held by the pledging financial institution, or by its trust department or agent, in the City's name.

NON-POOLED CASH AND INVESTMENTS – Non-pooled cash equivalents and investments are included in restricted cash and cash equivalents and investments on the accompanying Statements of Net Assets. Custodial credit risk 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 provisions of state law and that demand deposits be collateralized at least 110% of the amount that is not federally insured.

Investments are carried at fair value. The carrying amounts of the Authority's non-pooled cash equivalents and investments at June 30, 2010 and 2009, include:

	Fair Value	June 30, 2010	
		Maturities in years	
		Less than 1	1-5
U.S. Treasury Securities	\$ 68,740	\$ 34,772	\$ 33,968
U.S. Agency Obligations	9,266	-	9,266
Money Market Mutual Funds	17,274	17,274	-
	<u>\$ 95,280</u>	<u>\$ 52,046</u>	<u>\$ 43,234</u>

	Fair Value	June 30, 2009	
		Maturities in years	
		Less than 1	1-5
U.S. Treasury Securities	\$ 30,938	\$ 15,124	\$ 15,814
U.S. Agency Obligations	14,605	5,321	9,284
Money Market Mutual Funds	16,832	16,832	-
	<u>\$ 62,375</u>	<u>\$ 37,277</u>	<u>\$ 25,098</u>

Interest Rate Risk- For investments not restricted by bond requirements, the Authority utilizes the City of Tulsa investment policy as a means of limiting its exposure to fair value losses arising from rising interest rates. Bond requirements limit the type of restricted investments that can be acquired and unrestricted investments are in U.S. Treasury money market mutual funds. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk- Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Authority utilizes the City of Tulsa investment policy to limit its exposure to credit risks. At June 30, 2010 and 2009 the Authority's investments in U.S. agency obligations not directly guaranteed by the U.S. government and the money market mutual funds were rated AAA by Standard & Poor's and Moody's Investor Service.

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2. CASH DEPOSITS AND INVESTMENTS, continued

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. All of the underlying securities for the Authority's investments in U.S. agency obligations at June 30, 2010 and 2009 are insured or registered or securities held by the Authority or by its agent in the Authority's name. The Authority's investments in money market mutual funds are not categorized as to custodial credit risks because the investment is not evidenced by securities that exist in physical or book entry form.

Concentration of Credit Risk – The Authority utilizes the City of Tulsa investment policy to determine the amount that may be invested in any one issuer. At June 30, 2010, the Authority's investment in Federal Home Loan Bank Corporation was 10% of its total investments. At June 30, 2009, the Authority's investment in the Federal Home Loan Mortgage Company was 23% of its total investments.

RECONCILIATION TO STATEMENT OF NET ASSETS – A reconciliation of the pooled cash and investments, non-pooled deposits and non-pooled investments to the carrying amounts on the statement of net assets as of June 30, 2010 and 2009, is as follows:

	<u>2010</u>	<u>2009</u>
Pooled cash and investments	\$ 50,535	\$ 61,814
Non-pooled cash, cash equivalents and investments	<u>95,280</u>	<u>62,375</u>
	<u>\$ 145,815</u>	<u>\$ 124,189</u>
Current unrestricted cash and cash equivalents	\$ 45,284	\$ 50,077
Current restricted cash and cash equivalents	22,526	28,569
Current restricted investments	34,773	20,445
Noncurrent restricted investments	<u>43,232</u>	<u>25,098</u>
	<u>\$ 145,815</u>	<u>\$ 124,189</u>

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3. RESTRICTED ASSETS

Certain debt proceeds, as well as certain sources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants and they are maintained in separate bank accounts. A summary of the purpose for which these assets are restricted as of June 30, 2010 and 2009, is as follows:

	<u>2010</u>	<u>2009</u>
General Obligation Bonds:		
Sinking funds	\$ 1,345	\$ 2,626
Advances to other funds	4,177	10,480
	<u>5,522</u>	<u>13,106</u>
Deposits subject to refund:		
Escrow deposits	<u>9,990</u>	<u>10,214</u>
Sewer Promissory Notes:		
Reserve fund	8,720	6,357
Debt fund	3,439	3,713
Construction fund	25,999	(448)
Earnings fund	1	1
Rebate fund	30	30
	<u>38,189</u>	<u>9,653</u>
Water Revenue Bonds:		
Construction account	30,945	32,784
Reserve account	14,245	12,851
Principal account	5,566	5,733
Rebate	251	251
	<u>51,007</u>	<u>51,619</u>
Interest receivable	<u>192</u>	<u>131</u>
Total restricted assets	<u>\$ 104,900</u>	<u>\$ 84,723</u>

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4. CAPITAL ASSETS

The changes in capital assets are summarized as follows:

June 30, 2010	Beginning Balance, as restated	Increases	Decreases	Ending Balance
Non depreciable assets:				
Land	\$ 30,592	\$ 119	\$ -	\$ 30,711
Water rights	9,567	-	-	9,567
Construction-in-progress	137,588	47,178	(45,482)	139,284
Total non depreciable capital assets	<u>177,747</u>	<u>47,297</u>	<u>(45,482)</u>	<u>179,562</u>
Depreciable assets:				
Buildings	232,991	2,517	(200)	235,308
Equipment	608,738	13,193	(3,630)	618,301
Land improvements, water and sewer lines	432,245	41,363	-	473,608
Total depreciable capital assets	<u>1,273,974</u>	<u>57,073</u>	<u>(3,830)</u>	<u>1,327,217</u>
Accumulated depreciation:				
Buildings	(95,399)	(4,592)	200	(99,791)
Equipment	(246,998)	(15,070)	3,173	(258,895)
Land improvements, water and sewer lines	(128,929)	(4,155)	-	(133,084)
	<u>(471,326)</u>	<u>(23,817)</u>	<u>3,373</u>	<u>(491,770)</u>
Depreciable capital assets, net	<u>802,648</u>	<u>33,256</u>	<u>(457)</u>	<u>835,447</u>
Capital assets, net	<u>\$ 980,395</u>	<u>\$ 80,553</u>	<u>\$ (45,939)</u>	<u>\$ 1,015,009</u>
June 30, 2009	Beginning Balance, as restated	Increases	Decreases	Ending Balance
Non-depreciable assets:				
Land	\$ 30,160	\$ 432	\$ -	\$ 30,592
Water rights	9,567	-	-	9,567
Construction-in-progress	113,170	54,775	(30,357)	137,588
Total non-depreciable capital assets	<u>152,897</u>	<u>55,207</u>	<u>(30,357)</u>	<u>177,747</u>
Depreciable assets:				
Buildings	231,519	1,668	(196)	232,991
Equipment	594,817	15,940	(2,019)	608,738
Land improvements, water and sewer lines	402,092	30,153	-	432,245
Total depreciable capital assets	<u>1,228,428</u>	<u>47,761</u>	<u>(2,215)</u>	<u>1,273,974</u>
Accumulated depreciation:				
Buildings	(90,670)	(4,906)	177	(95,399)
Equipment	(234,376)	(14,512)	1,890	(246,998)
Land improvements, water and sewer lines	(124,074)	(4,855)	-	(128,929)
	<u>(449,120)</u>	<u>(24,273)</u>	<u>2,067</u>	<u>(471,326)</u>
Depreciable capital assets, net	<u>779,308</u>	<u>23,488</u>	<u>(148)</u>	<u>802,648</u>
Capital assets, net	<u>\$ 932,205</u>	<u>\$ 78,695</u>	<u>\$ (30,505)</u>	<u>\$ 980,395</u>

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4. CAPITAL ASSETS, continued

Increases and decreases in assets and accumulated depreciation include amounts applicable to reclassification of certain assets.

5. JOINT VENTURE

The Regional Metropolitan Utility Authority ("RMUA") was created to operate a sewage treatment facility. The Authority contributes approximately one-half of RMUA's operating and capital budget, operates a facility for RMUA, and leases the facility site to RMUA. The City appoints two of the ten trustees with the remaining trustees appointed two each by the four other participating cities. Services are provided approximately 50% each to the City and the City of Broken Arrow, Oklahoma. In accordance with the Trust Agreement, the Authority is entitled, on both an interim and final basis, to its pro-rata interest based on its contributions to RMUA.

The Authority's net investment was \$10,144 and \$9,970 as of June 30, 2010 and 2009, respectively. The Authority's other services and charges have been increased to reflect the change in the net investment by \$174 and \$329 for the years ended June 30, 2010 and 2009, respectively.

Request for an audited financial report or additional information concerning RMUA should be addressed to the Office of the Controller, 175 E. Second Street, Tulsa, Oklahoma 74103.

6. WATERMAIN EXTENSION CONTRACTS

The Authority contracts with developers for the construction of water mains to provide water service for areas under development. Such water mains are an extension of the City's existing water distribution system. Under such contracts, the contractor pays for all construction costs. The non-interest bearing repayments to contractors are payable over a ten year period and are generally limited to 40% of the collected revenues generated by the respective watermain extension, not to exceed the total cost as defined in the contract. The Authority has no liability after the ten year period if the contractor's portion of the respective revenues generated is insufficient to cover the contractor's costs.

Amounts due under the contracts were \$8,144 and \$8,804 at June 30, 2010 and 2009, respectively. The Authority estimates the current portion of the contractual liability based upon payments made during the year. The Authority made payments of \$491 and \$391 in accordance with these contracts for the years ended June 30, 2010 and 2009, respectively.

7. MUNICIPAL EMPLOYEES' PENSION PLAN

The Authority contributes to the Municipal Employees Pension System (the "System"), a cost sharing multiple employer defined benefit pension plan administered by the City of Tulsa, Oklahoma. The pension plan was established by the City in accordance with the City Charter and State Statutes, and is reported in the City's Pension Trust Fund. Non-uniform, non-elected full-time employees of the Authority along with other employees of the City of Tulsa and certain related agencies participate in this plan immediately upon employment. Employees become 100% vested after five years of employment.

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7. MUNICIPAL EMPLOYEES' PENSION PLAN, continued

Pension provisions include death benefits for the surviving spouse. The Plan does not provide a monthly income for disabled participants; however, under certain conditions, employees who become disabled may be eligible to receive their full retirement at age 65 even though they were unable to work up to the retirement age.

The authority to establish and amend requirements of plan members and the Authority is set forth in the City Charter and State Statutes and is vested in the plan's board of trustees, which are appointed by the mayor with approval of the City Council. Plan members are required to contribute 4.0% of their annual covered salary. The Authority is required to contribute at an actuarially determined rate; the rate was 8.9%, 6.3% and 6.3% for the years ended 2010, 2009 and 2008, respectively. The Authority's contributions to the plan for the years ended June 30, 2010, 2009 and 2008 were \$1,674, \$1,914 and \$1,838 respectively, which equaled 73%, 100% and 100% of the annual required contributions for each year. The difference between the required contributions to the Plan and the actual contributions made by the Authority was \$765 and zero as of June 30, 2010 and 2009, respectively.

The Plan is reported as a Pension Trust Fund in the City's 2010 Comprehensive Annual Financial Reports. The Plan does not issue a stand-alone financial report and is not included in the report of a public employee retirement system or a report of another entity.

8. OTHER POST EMPLOYMENT BENEFITS (OPEB)

The City provides post employment healthcare benefits for retired employees and their dependents through the City of Tulsa Postretirement Medical Plan (the "Plan"), a single-employer defined benefit health care plan. The benefits, coverage levels, employee contributions and employer contributions are governed by the City through its personnel and union contracts.

All healthcare benefits are provided through the City's fully insured health plan. The benefit levels are the same as those offered to active employees. Benefits include general inpatient and outpatient medical services and prescriptions. General employees are eligible for membership in the plan if they retire from the City on or after age 55 with 5 years of service or with age and service totaling 80 points. Coverage ceases upon eligibility of the member (retiree or dependent) for Medicare. Coverage for dependents can continue upon the death of the retiree. Spouses of employees eligible for benefits and who die in active service can receive coverage.

The City's actuarial determined annual required contribution (ARC) for years ending June 30, 2010 and 2009 was \$3,239 and \$3,072, of which \$522 and \$285, was paid on a pay-as-you-go basis, respectively. The Authority was allocated \$4,303 and \$3,402 of the net obligation for the years ending June 30, 2010 and 2009, respectively, which has been reflected in the financial statements. The amount allocated to the Authority is based on the percentage of the Authority's payroll cost compared to the total payroll cost of the active eligible employees. The complete details of the plan are disclosed in the City's Comprehensive Annual Financial Report. The Authority's portion of the unfunded actuarial assessed liability is not separately determinable.

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9. RISK MANAGEMENT

The City's risk-management activities are recorded in the Employee Insurance Fund. The purpose of the fund is to administer the workers' compensation, health and dental insurance programs of the City. The Authority participates in the City's insurance programs through payment for services and assumes no liability. The City retains all risk of loss for workers' compensation while all other major insurance programs are covered by commercial insurance. There have been no significant reductions in insurance coverage for insured programs. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

10. NONCURRENT LIABILITIES

REVENUE BONDS - Revenue bonds outstanding consist of debt issued by the Authority. The debt does not constitute debt of the City and is payable solely from resources of the Authority. Revenue bonds are collateralized primarily by the trust estates and revenues derived there from.

Various bond indentures, loan agreements, and pledge and security agreements contain significant limitations and restrictions of annual debt requirements and flow of monies through various restricted accounts. The Authority has pledged future water revenues, net of operating expenses to repay \$144,225 of Utility Revenue Bonds. The bonds are to be paid solely from water net revenues and are payable through 2030. Annual principal and interest payments on the bonds have required an average 60-70 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$194,033. Principal and interest paid for the current year and water net revenues for the current year were \$12,621 and \$18,734, respectively.

Revenue bond activity was as follows:

June 30, 2010

<u>Bonds, Series and Maturity Dates</u>	<u>Issue Amount</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Utility Revenue Bonds, Series 2003, 2018	\$ 8,890	3.70-4.45%	\$ 6,345	\$ -	\$ (545)	\$ 5,800	\$ 560
Utility Revenue Bonds, Series 2004, 2019	17,695	3.50-4.60%	14,825	-	(755)	14,070	770
Utility Revenue Bonds, Series 2005, 2025	78,720	4.00-4.50%	69,655	-	(2,785)	66,870	2,900
Utility Revenue Bonds, Series 2007, 2027	27,815	4.00-4.50%	24,115	-	(2,000)	22,115	2,000
Utility Revenue Bonds, Series 2009, 2029	21,500	3.00-4.75%	21,500	-	(640)	20,860	665
Utility Revenue Bonds, Series 2010, 2030	14,510	2.00-4.00%	-	14,510	-	14,510	-
			136,440	14,510	(6,725)	144,225	6,895
Unamortized loss on refunding			(1,123)	-	74	(1,049)	-
			<u>\$ 135,317</u>	<u>\$ 14,510</u>	<u>\$ (6,651)</u>	<u>\$ 143,176</u>	<u>\$ 6,895</u>

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June 30, 2010 and 2009

10. NONCURRENT LIABILITIES, continued

Other long-term liabilities activity is as follows:

June 30, 2010	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Other long-term liabilities					
Water storage lease	\$ 5,244	\$ -	\$ (231)	\$ 5,013	\$ 238
Watermain extension contracts	8,804	243	(903)	8,144	519
Other postemployment benefits	3,402	901	-	4,303	-
Vested compensated absences	4,838	1,335	(1,904)	4,269	1,536
Net pension obligation	-	765	-	765	-
Total other long-term liabilities	<u>\$ 22,288</u>	<u>\$ 3,244</u>	<u>\$ (3,038)</u>	<u>\$ 22,494</u>	<u>\$ 2,293</u>

June 30, 2009

Bonds, Series and Maturity Dates	Issue Amount	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Within One Year
Utility Revenue Bonds, Series 2003, 2018	\$ 8,890	3.70-4.45%	\$ 6,875	\$ -	\$ (530)	\$ 6,345	\$ 545
Utility Revenue Bonds, Series 2004, 2019	17,695	3.50-4.60%	15,565	-	(740)	14,825	755
Utility Revenue Bonds, Series 2005, 2025	78,720	4.00-4.50%	72,660	-	(3,005)	69,655	2,785
Utility Revenue Bonds, Series 2007, 2027	27,815	4.00-4.50%	26,015	-	(1,900)	24,115	2,000
Utility Revenue Bonds, Series 2009, 2029	21,500	3.00-4.75%	-	21,500	-	21,500	640
			<u>121,115</u>	<u>21,500</u>	<u>(6,175)</u>	<u>136,440</u>	<u>6,725</u>
Unamortized loss on refunding			(1,192)	-	69	(1,123)	-
			<u>\$ 119,923</u>	<u>\$ 21,500</u>	<u>\$ (6,106)</u>	<u>\$ 135,317</u>	<u>\$ 6,725</u>

PROMISSORY NOTES - The Authority's outstanding loans with the Oklahoma Water Resources Board are collateralized by a first lien and security interest in the Authority's wastewater treatment system and the revenues derived there from and generally require semi-annual principal and interest payments.

The Authority has pledged future sewer and water revenue, net of operating expenses to repay \$134,605 and \$53 of promissory notes respectively. The promissory notes are to be paid solely from sewer and water net revenues are payable through 2032. Annual principal and interest payments on the promissory notes have required on average 20-30 percent of net revenues. The total principal and interest remaining to be paid on the promissory notes is \$170,699. Principal and interest paid for the current year and sewer and water combined net revenues for the current year were \$9,771 and \$38,160, respectively.

The promissory notes contain certain covenants. The covenants require that net revenues of the wastewater system, as defined by the debt agreement, provide for a minimum of 125% of the maximum debt service of the notes.

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10. NONCURRENT LIABILITIES, continued

Loan activity during 2010 was as follows:

<u>Promissory Notes and Maturity Dates</u>	<u>Issue Amount</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Sewer:							
Series 1992A - 2012	\$ 4,299	0.50%	\$ 752	\$ -	\$ (215)	\$ 537	\$ 215
Series 1997A - 2016	4,035	0.50%	1,546	-	(206)	1,340	206
Series 1998B - 2017	4,392	0.50%	1,948	-	(229)	1,719	229
Series 1998C - 2017	8,500	4.95%	4,890	-	(445)	4,445	465
Series 2001B - 2020	4,996	0.50%	2,892	-	(263)	2,629	263
Series 2002D - 2022	6,813	0.50%	4,368	-	(349)	4,019	349
Series 2003 - 2012	4,310	3.05%	1,990	-	(475)	1,515	490
Series 2004B - 2023	1,560	0.50%	1,160	-	(80)	1,080	80
Series 2005B - 2027	7,900	3.10%	6,536	941	(395)	7,082	395
Series 2005C - 2025	1,203	0.50%	992	-	(60)	932	60
Series 2006A - 2028	3,130	3.10%	2,099	553	(157)	2,495	157
Series 2006B - 2016	835	2.62%	611	-	(77)	534	81
Series 2006C - 2027	17,835	3.10%	13,503	2,248	(446)	15,305	891
Series 2006 - 2025	52,585	4.15%	48,785	-	(2,015)	46,770	2,095
Series 2007A - 2026	5,131	0.50%	4,605	-	(263)	4,342	263
Series 2007B - 2026	8,365	4.15%	7,915	-	(309)	7,606	323
Series 2009A - 2032	2,875	3.22%	-	2,875	-	2,875	-
Series 2010B - 2030	29,380	0.65-5.15%	-	29,380	-	29,380	-
			<u>104,592</u>	<u>35,997</u>	<u>(5,984)</u>	<u>134,605</u>	<u>6,562</u>
Water:							
Series 2008A - 2026	1,250	2.30%	209	-	(156)	53	53
			<u>\$ 104,801</u>	<u>\$ 35,997</u>	<u>\$ (6,140)</u>	<u>\$ 134,658</u>	<u>\$ 6,615</u>

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10. NONCURRENT LIABILITIES, continued.

Loan activity during 2009 was as follows:

<u>Promissory Notes and Maturity Dates</u>	<u>Issue Amount</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Within One Year</u>
Sewer:							
Series 1992A - 2012	\$ 4,299	0.50%	\$ 967	\$ -	\$ (215)	\$ 752	\$ 215
Series 1997A - 2016	4,035	0.50%	1,752	-	(206)	1,546	206
Series 1998B - 2017	4,392	0.50%	2,177	-	(229)	1,948	229
Series 1998C - 2017	8,500	4.95%	5,315	-	(425)	4,890	445
Series 2001B - 2020	4,996	0.50%	3,155	-	(263)	2,892	263
Series 2002D - 2022	6,813	0.50%	4,717	-	(349)	4,368	349
Series 2003 - 2012	4,310	3.05%	2,450	-	(460)	1,990	475
Series 2004B - 2023	1,560	0.50%	1,240	-	(80)	1,160	80
Series 2005B - 2027	7,900	3.10%	5,924	1,007	(395)	6,536	416
Series 2005C - 2025	1,203	0.50%	1,052	-	(60)	992	60
Series 2006A - 2028	3,130	3.10%	956	1,300	(157)	2,099	157
Series 2006B - 2016	835	4.15%	702	-	(91)	611	76
Series 2006C - 2027	17,835	3.10%	3,029	10,474	-	13,503	-
Series 2006 - 2025	52,585	4.15%	50,720	-	(1,935)	48,785	2,015
Series 2007A - 2026	5,131	0.50%	4,868	-	(263)	4,605	263
Series 2007B - 2026	8,365	4.15%	8,210	-	(295)	7,915	309
			<u>97,234</u>	<u>12,781</u>	<u>(5,423)</u>	<u>104,592</u>	<u>5,558</u>
Water:							
Series 2008A - 2026	1,250	4.15%	-	209	-	209	-
			<u>\$ 97,234</u>	<u>\$ 12,990</u>	<u>\$ (5,423)</u>	<u>\$ 104,801</u>	<u>\$ 5,558</u>

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10. NONCURRENT LIABILITIES, continued

GENERAL LONG-TERM DEBT – General long-term debt of the Authority consists of general obligation bonds approved by the voters and issued by the City for water and wastewater capital assets. These bonds are required to be fully paid within 25 years from the date of issue and are backed by the full faith and credit of the City. The City’s Charter requires not less than 50% of the annual principal and interest requirements on general obligation bonds issued for waterworks and wastewater be funded by water and wastewater revenues, respectively. General obligation bond activity during 2010 and 2009 was as follows:

2010

Bonds and Maturity Dates	Issue Amount	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Series 1999 - 2019	\$ 12,050	5.25-5.63%	\$ 6,988	\$ -	\$ (6,988)	\$ -	\$ -
Series 2001 - 2021	12,225	4.25-5.0%	7,731	-	(7,731)	-	-
Series 2002C - 2017	28,000	4.0-5.0%	16,800	-	(2,100)	14,700	2,100
Series 2004A- 2016	949	3.0-5.0%	554	-	(79)	475	79
Series 2004B- 2015	1,038	3.00-5.0%	511	-	(25)	486	25
Series 2005- 2025	13,219	3.25-5.0%	11,128	-	(698)	10,430	698
Series 2006- 2026	817	3.75-4.5%	731	-	(43)	688	43
Series 2007- 2027	6,757	3.75-4.25%	6,756	-	(376)	6,380	376
Series 2008- 2028	8,659	4.00-4.75%	8,659	-	(457)	8,202	457
Series 2009- 2030	3,347	2.50-4.25%	3,347	-	-	3,347	178
Series 2009A- 2019	5,532	3.00-4.00%	-	5,532	-	5,532	667
Series 2009B- 2021	6,340	3.00-5.00%	-	6,340	-	6,340	631
			<u>\$ 63,205</u>	<u>\$ 11,872</u>	<u>\$ (18,497)</u>	<u>\$ 56,580</u>	<u>\$ 5,254</u>

2009

Bonds and Maturity Dates	Issue Amount	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Series 1999 - 2019	\$ 12,050	5.25-5.63%	\$ 7,621	\$ -	\$ (633)	\$ 6,988	\$ 633
Series 2001 - 2021	12,225	4.25-5.0%	8,373	-	(642)	7,731	642
Series 2002C - 2017	28,000	4.0-5.0%	18,900	-	(2,100)	16,800	2,100
Series 2003A - 2009	5,577	2.0-5.0%	904	-	(904)	-	-
Series 2004A- 2016	949	3.0-5.0%	633	-	(79)	554	79
Series 2004B- 2015	1,038	3.0-5.0%	536	-	(25)	511	25
Series 2005- 2025	13,219	3.25-5.0%	11,824	-	(696)	11,128	698
Series 2006- 2026	817	3.75-4.5%	774	-	(43)	731	43
Series 2007 - 2027	6,757	3.75-4.25%	6,756	-	-	6,756	375
Series 2008 - 2028	8,659	4.0-4.75%	8,659	-	-	8,659	457
Series 2009 - 2030	3,347	2.5-4.25%	-	3,347	-	3,347	-
			<u>\$ 64,980</u>	<u>\$ 3,347</u>	<u>\$ (5,122)</u>	<u>\$ 63,205</u>	<u>\$ 5,052</u>

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10. NONCURRENT LIABILITIES, continued

ECONOMIC LOSS ON REFUDNING

On October 22, 2009, the City issued \$35,430 in Series 2009A and 2009B Refunding General Obligation Bonds. The proceeds of these issues along with \$6,881 from the Debt Service Fund were used to currently refund the City's Series 1999 and Series 2001 General Obligation Bonds of which the Authority's portion was \$11,872. The funds were temporarily held in escrow until December 1, 2009 and March 1, 2010, respectively, at which time the refundings took place.

This transaction will reduce debt service payments by \$230 over the next 12 years and result in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,424. The refunding resulted in a deferred accounting loss of \$131 which will be amortized over the life of the new bonds.

PRINCIPAL AND INTEREST PAYMENTS IN SUBSEQUENT YEARS – Principal and interest payments in subsequent years are as follows:

	<u>Revenue Bonds</u>		<u>Promissory Notes</u>		<u>General Long-Term Debt</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 6,895	\$ 5,309	\$ 6,615	\$ 4,686	\$ 5,254	\$ 2,447
2012	7,180	5,041	8,038	4,849	5,318	2,245
2013	8,030	4,759	8,362	3,274	5,289	2,041
2014	8,465	4,465	7,903	3,071	5,263	1,815
2015	8,795	4,153	8,067	2,858	5,239	1,590
2016-2020	39,630	16,207	38,169	11,218	18,137	4,837
2021-2025	44,290	8,352	37,186	5,540	9,269	1,849
2026-2030	20,940	1,522	18,177	492	2,811	245
2031-2035	-	-	2,141	53	-	-
	<u>\$ 144,225</u>	<u>\$ 49,808</u>	<u>\$ 134,658</u>	<u>\$ 36,041</u>	<u>\$ 56,580</u>	<u>\$ 17,069</u>

Variable Rate Terms – At June 30, 2010 the variable rate included in the above requirements is 3.10%, which includes program costs of .50% and an interest rate of 2.60%.

11. RESERVE FOR BOND AND LOAN RETIREMENT

The City levies the ad valorem taxes for the retirement of 50% of general obligation bonds issued for the wastewater disposal system. Such levies are computed by dividing the original principal amount of bonds by the number of years the bonds will be outstanding. A reserve for bond retirement is established at the City, which as of June 30, 2010 and 2009, is computed as follows:

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11. RESERVE FOR BOND AND LOAN RETIREMENT, continued

	<u>2010</u>	<u>2009</u>
Levies for principal to June 30	\$ 30,625	\$ 31,150
Bond maturities to June 30	<u>30,182</u>	<u>29,432</u>
Bond reserve	443	1,718
Interest reserve	422	419
Final interest reserve	<u>12</u>	<u>45</u>
Total general obligation bonds reserve	<u>\$ 877</u>	<u>\$ 2,182</u>

The Authority established reserves for the retirement of revenue bond debt, the assets of which are held by the trustee, totaled \$14,245 and \$12,851 at June 30, 2010 and 2009, respectively. Further, the Authority established reserves for the retirement of the Promissory Notes, the assets of which are held by the trustee, totaled \$12,159 and \$10,070 at June 30, 2010 and 2009, respectively.

12. NONCANCELABLE CAPITAL LEASE

On December 2, 1984, the Authority entered a contract with the United States of America to utilize storage of the Oologah Lake as a source of a municipal and industrial water supply. Interest rates for the contract were determined by the Secretary of the Treasury. For the initial development stage, the interest rate is 2.5 percent, and for the ultimate development stage, it is 3.225 percent. There is an outlet works and four storage spaces referenced in the contract. Payment terms are annual. The maturity date and interest rate for the outlet work and storage space one are 2012 and 2.5 percent, respectively. The maturity date and interest rate for the remaining three storage spaces are 2031 and 3.225 percent, respectively. There are also annual operation and maintenance expenses included.

The Authority leases water storage space at Lake Oologah and the lease payments are subject to a consumer price index adjustment. The minimum lease payments under the lease are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Operating Expense</u>	<u>Total</u>
2011	\$ 238	\$ 161	\$ 195	\$ 594
2012	246	153	195	594
2013	176	146	169	491
2014	182	140	169	491
2015	188	134	169	491
2016-2020	1,035	578	844	2,457
2021-2025	1,213	399	844	2,457
2026-2030	1,422	191	844	2,457
2031	<u>313</u>	<u>10</u>	<u>169</u>	<u>491</u>
	<u>\$ 5,013</u>	<u>\$ 1,912</u>	<u>\$ 3,598</u>	<u>\$ 10,523</u>

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13. RELATED PARTY TRANSACTIONS

During the years ended June 30, 2010 and 2009, the Authority conducted the following transactions with related entities:

	<u>2010</u>	<u>2009</u>
Indirect cost reimbursement paid to City of Tulsa	\$ 5,312	\$ 4,973
Payment in lieu of taxes to City of Tulsa	\$ 9,910	\$ 9,229
Payments from City of Tulsa	\$ 4,506	\$ 4,763
Charges for utility services paid by the City of Tulsa	\$ 1,185	\$ 1,062
Charges for maintenance of equipment paid to the City of Tulsa	\$ 3,371	\$ 3,424
Charges for office rent paid to the City of Tulsa	\$ 433	\$ 139
Ad valorem taxes from City of Tulsa	\$ 4,651	\$ 4,763

The Authority has outstanding advances of unspent bonds proceeds in the amount of \$4,177 and \$10,480 as of June 30, 2010 and 2009, respectively, held by the City of Tulsa. As a result, there is a noncurrent asset – advance to primary government recorded in the statements of net assets equal to these amounts.

14. GENERAL LITIGATION

The Authority is subject claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, changes in financial position and cash flows of the Authority.

15. COMMITMENTS

As of June 30, 2010, the Authority had open commitments for construction projects of approximately \$23,587,000.

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16. RESTATEMENT

The Authority adopted GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, in the current year. As a result, the affect on fiscal year 2009 is as follows:

	2009		2009
	Previously		Restated
	Presented	Restatement	
Non depreciable capital assets	\$ 168,180	\$ 9,567	\$ 177,747
Water storage lease	-	5,244	5,244
Net assets, invested in capital			
assets net of related debt	723,455	4,323	727,778
Operating expenses	133,352	(399)	132,953
Interest Expense	4,971	174	5,145
Change in net assets	\$ 11,731	\$ 225	\$ 11,956