

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

FINANCIAL REPORT
June 30, 2011 and 2010

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
INDEX
June 30, 2011 and 2010

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	2
Basic Financial Statements:	
Statements of Net Assets	7
Statements of Revenues, Expenses and Changes in Net Assets	9
Statements of Cash Flows	10
Notes to Basic Financial Statements	13



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 years ended June 30, 2011 and 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 an opinion on these financial statements based on our audit.

We conducted our audits 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 audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2011 and 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.

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
December 9, 2011

TULSA METROPOLITAN UTILITY AUTHORITY

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended June 30, 2011 and 2010

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, 2011 and 2010. 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 \$833,337. Of this amount, \$68,291 is unrestricted and may be used to meet the Authority's ongoing obligations.
- The Authority's net assets increased from \$811,189 at June 30, 2010 to \$833,337 at June 30, 2011. During 2011, the Authority generated an increase in net assets of \$22,148 compared to \$18,271 during 2010.
- The Authority's cash and cash equivalents at June 30, 2011, were \$64,270, representing a decrease of \$3,540 from June 30, 2010.

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
(A Component Unit of the City of Tulsa, Oklahoma)
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
Years Ended June 30, 2011 and 2010

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 \$22,148 for the year ended June 30, 2011 and \$18,271 for the year ended June 30, 2010. The following table provides a summary of Net Assets.

SUMMARY OF NET ASSETS

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current assets, unrestricted	\$ 77,372	\$ 65,840	\$ 71,722
Restricted assets	119,125	104,900	84,723
Capital assets, net	1,046,427	1,015,009	980,395
Other assets	<u>12,629</u>	<u>10,802</u>	<u>10,616</u>
Total assets	<u>1,255,553</u>	<u>1,196,551</u>	<u>1,147,456</u>
Current liabilities	7,228	5,444	10,594
Liabilities payable from restricted assets	43,481	39,763	35,631
Noncurrent liabilities	<u>371,507</u>	<u>340,155</u>	<u>308,313</u>
Total liabilities	<u>422,216</u>	<u>385,362</u>	<u>354,538</u>
Invested in capital assets, net of related debt	756,859	747,490	727,778
Restricted	8,187	7,689	9,339
Unrestricted	<u>68,291</u>	<u>56,010</u>	<u>55,801</u>
Total net assets	<u>\$ 833,337</u>	<u>\$ 811,189</u>	<u>\$ 792,918</u>

In 2011 total assets increased \$59,002. The increase in current assets of \$11,532 is related to increases in unrestricted cash of \$8,370, utilities receivables, net of \$3,088, inventory of \$159 and decrease in other receivable of \$85. The increase in restricted assets of \$14,225 is attributable to the proceeds of debt issued in the current year to fund capital expansion. The increase in capital assets of \$31,418 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 \$36,854, primarily due to debt issued in the current year.

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.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
Years Ended June 30, 2011 and 2010

SUMMARY OF CHANGES IN NET ASSETS

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenue	\$ 154,845	\$ 137,649	\$ 132,786
Nonoperating revenue	6,033	9,502	9,103
Investment income	1,729	2,315	4,020
Total revenues	<u>162,607</u>	<u>149,466</u>	<u>145,909</u>
Depreciation expense	28,887	23,817	24,274
Other operating expense	108,422	101,804	108,679
Nonoperating expense	9,270	6,864	5,145
Total expenses	<u>146,579</u>	<u>132,485</u>	<u>138,098</u>
Income before contributions	16,028	16,981	7,811
Capital contributions	2,284	1,290	4,145
Federal grant revenue	3,836	-	-
Change in net assets	<u>22,148</u>	<u>18,271</u>	<u>11,956</u>
Net assets, beginning of year	<u>811,189</u>	<u>792,918</u>	<u>780,962</u>
Net assets, end of year	<u>\$ 833,337</u>	<u>\$ 811,189</u>	<u>\$ 792,918</u>

In 2011 total revenues increased \$13,141 due primarily to increased operating revenue. Other operating expenses increased \$6,618 due primarily to increases in; salaries and wages \$847, material and supplies \$295, and utilities \$5,546. Nonoperating expenses increased \$2,406 primarily due to an increase in interest expense of \$1,933. Investment income decreased \$586 as a result of lower average investments and a decline in the return on investments. Capital contributions increased \$994. As a result, net assets increased \$22,148 during the year.

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.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2011 and 2010

Capital Assets

The investment in capital assets as of June 30, 2011 and 2010 amounts to \$1,046,427 and \$1,015,009, respectively, (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and equipment. The Authority paid \$54,124 and \$54,688 during 2011 and 2010, respectively, related to the acquisition and purchase of capital assets.

CAPITAL ASSETS

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Buildings	\$ 241,893	\$ 235,308	\$ 232,991
Equipment	85,943	618,301	608,738
Water storage lease	9,593	9,567	9,567
Land improvements, water and sewer lines	<u>1,195,523</u>	<u>504,319</u>	<u>462,837</u>
	1,532,952	1,367,495	1,314,133
Less accumulated depreciation	(516,635)	(491,770)	(471,326)
Construction-in-progress	<u>30,110</u>	<u>139,284</u>	<u>137,588</u>
Capital assets, net	<u>\$ 1,046,427</u>	<u>\$ 1,015,009</u>	<u>\$ 980,395</u>

Debt

At June 30, 2011 and 2010, the Authority had outstanding general obligation bonded debt of \$51,326 and \$56,580, 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>2011</u>	<u>2010</u>	<u>2009</u>
General obligation bonds	\$ 51,326	\$ 56,580	\$ 63,205
Revenue bonds	160,437	143,176	135,317
Promissory notes	<u>157,414</u>	<u>134,658</u>	<u>104,801</u>
Total debt	<u>\$ 369,177</u>	<u>\$ 334,414</u>	<u>\$ 303,323</u>

During 2011, the Authority issued new debt to fund improvements to the water and wastewater systems. The Authority's debt increased \$34,763 or 10.4% during 2011. 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, 2011, the water fund had net assets of \$442,518 which represented an increase of \$10,183 from 2010 net assets of \$432,335. At

**TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2011 and 2010**

FUNDS, continued

June 30, 2011, the Sewer Fund had net assets of \$390,819 which represented an increase of \$11,965 from 2010 net assets of \$378,854.

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 6.7 percent at the end of 2011. 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 2012. The Authority approved a 7 percent increase in water fees and a 9 percent increase in sewer fees beginning in October 2011. 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, 2011 with Partial Financial Information for June 30, 2010

(In thousands of dollars)	2011			2010
	Water Fund	Sewer Fund	Business-type Activities Total	Business-type Activities Total
<u>ASSETS</u>				
Current assets:				
Unrestricted assets:				
Cash and cash equivalents	\$ 28,825	\$ 24,829	\$ 53,654	\$ 45,284
Accounts receivable:				
Utility services receivable, net	12,950	8,515	21,465	18,377
Other receivables	118	166	284	369
Inventories	1,713	256	1,969	1,810
Total unrestricted current assets	<u>43,606</u>	<u>33,766</u>	<u>77,372</u>	<u>65,840</u>
Noncurrent assets:				
Cash and cash equivalents, restricted	9,910	706	10,616	22,526
Investments, restricted	61,228	43,847	105,075	78,005
Interest receivable, restricted	173	104	277	192
Equity interest in joint venture	-	11,816	11,816	10,144
Advances to primary government, restricted	-	3,157	3,157	4,177
Non depreciable capital assets	25,694	45,333	71,027	179,562
Depreciable capital assets, net	497,465	477,935	975,400	835,447
Other	521	292	813	658
Total noncurrent assets	<u>594,991</u>	<u>583,190</u>	<u>1,178,181</u>	<u>1,130,711</u>
Total assets	<u>\$ 638,597</u>	<u>\$ 616,956</u>	<u>\$ 1,255,553</u>	<u>\$ 1,196,551</u>

(Continued)

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
STATEMENTS OF NET ASSETS, continued
June 30, 2011 with Partial Financial Information for June 30, 2010

(In thousands of dollars)

	2011			2010
	Water Fund	Sewer Fund	Business-type Activities Total	Business-type Activities Total
<u>LIABILITIES</u>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 1,587	\$ 2,066	\$ 3,653	\$ 3,151
Current portion of water main extension contracts	529	-	529	519
Current portion of vested compensated absences	1,628	1,172	2,800	1,536
Current portion of water storage lease	246	-	246	238
Total current liabilities payable from unrestricted assets	3,990	3,238	7,228	5,444
Liabilities payable from restricted assets:				
Accrued liabilities	3,740	8,539	12,279	11,009
Deposits subject to refund	8,746	752	9,498	9,990
Current portion of general obligation debt	-	5,316	5,316	5,254
Current portion of promissory notes	270	8,038	8,308	6,615
Current portion of revenue bonds	8,080	-	8,080	6,895
Total current liabilities payable from restricted assets	20,836	22,645	43,481	39,763
Total current liabilities	24,826	25,883	50,709	45,207
Noncurrent liabilities:				
General obligation debt	-	46,010	46,010	51,326
Unamortized bond premium	892	3,990	4,882	4,421
Revenue bonds, net	152,357	-	152,357	136,281
Unamortized bond discount	-	(106)	(106)	(127)
Promissory notes	2,238	146,868	149,106	128,043
Watermain extension contracts	6,542	-	6,542	7,625
Vested compensated absences	795	572	1,367	2,733
Other post-employment benefits	2,847	2,131	4,978	4,303
Water storage lease	4,529	-	4,529	4,775
Net pension obligation	1,053	788	1,841	765
Arbitrage, restricted	-	1	1	10
Total noncurrent liabilities	171,253	200,254	371,507	340,155
Total liabilities	196,079	226,137	422,216	385,362
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	409,179	347,680	756,859	747,490
Restricted for debt service	4,193	3,994	8,187	7,689
Unrestricted	29,146	39,145	68,291	56,010
Total net assets	\$ 442,518	\$ 390,819	\$ 833,337	\$ 811,189

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, 2011 with Partial Financial Information for the Year ended
June 30, 2010

(In thousands of dollars)	2011			2010
	Water Fund	Sewer Fund	Business-type Activities Total	Business-type Activities Total
Operating revenues:				
Water and sewer services	\$ 87,753	\$ 67,092	\$ 154,845	\$ 137,649
Operating expenses:				
Salaries and wages	25,365	19,532	44,897	44,050
Materials and supplies	7,876	4,214	12,090	11,864
Other services and charges	29,162	22,273	51,435	45,890
Depreciation	13,990	14,897	28,887	23,817
Total operating expenses	76,393	60,916	137,309	125,621
Operating income	11,360	6,176	17,536	12,028
Nonoperating revenues (expenses):				
Investment income	1,133	596	1,729	2,315
Interest expense	(4,217)	(4,624)	(8,841)	(6,864)
Ad valorem taxes	-	3,900	3,900	4,651
Other, net	(365)	(64)	(429)	345
Net nonoperating revenues (expenses)	(3,449)	(192)	(3,641)	447
Income before contributions	7,911	5,984	13,895	12,475
Capital contributions	557	1,727	2,284	1,290
Capital contributions from City of Tulsa	24	2,109	2,133	4,506
Federal grant revenue	1,691	2,145	3,836	-
	2,272	5,981	8,253	5,796
Change in net assets	10,183	11,965	22,148	18,271
Net assets, beginning of year	432,335	378,854	811,189	792,918
Net assets, end of year	\$ 442,518	\$ 390,819	\$ 833,337	\$ 811,189

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, 2011 with Partial Financial Information for the Year Ended June 30, 2010

(In thousands of dollars)

	2011			2010
	Water Fund	Sewer Fund	Business-type Activities Total	Business-type Activities Total
Cash flows from operating activities:				
Received from customers, including cash deposits	\$ 84,566	\$ 67,013	\$ 151,579	\$ 138,353
Payments to suppliers for goods and services	(30,650)	(20,233)	(50,883)	(48,088)
Payments to employees for services	(24,638)	(18,610)	(43,248)	(42,954)
Payments for quasi-external operating transactions including payments in lieu of taxes	(6,142)	(4,830)	(10,972)	(10,363)
Net cash provided by operating activities	<u>23,136</u>	<u>23,340</u>	<u>46,476</u>	<u>36,948</u>
Cash flows from non-capital and related financing activities:				
Payments to City of Tulsa	-	-	-	(129)
Collection of advances to City of Tulsa	-	1,020	1,020	6,432
Net cash provided by non-capital and related financing activities	<u>-</u>	<u>1,020</u>	<u>1,020</u>	<u>6,303</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(22,055)	(33,405)	(55,460)	(54,688)
Payments from City of Tulsa	24	2,109	2,133	4,506
Proceeds from sale of capital assets	231	59	290	804
Interest paid on long-term debt	(6,002)	(7,157)	(13,159)	(9,485)
Principal paid on long-term debt	(6,843)	(11,672)	(18,515)	(31,361)
Payment of bond issuance costs	(93)	(117)	(210)	(66)
Payment of water rights	(238)	-	(238)	(231)
Proceeds from the issuance of long-term debt	28,194	28,864	57,058	62,379
Premium received on debt issuance	23	976	999	44
Ad valorem taxes received	-	3,900	3,900	4,651
Payments on watermain extension contracts	(516)	-	(516)	(432)
Investment in joint venture	-	(1,892)	(1,892)	-
Net cash used in capital and related financing activities	<u>(7,275)</u>	<u>(18,335)</u>	<u>(25,610)</u>	<u>(23,879)</u>

(Continued)

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
STATEMENT OF CASH FLOWS, continued
Year Ended June 30, 2011 with Partial Financial Information for the Year Ended
June 30, 2010

(In thousands of dollars)	2011			2010
	Water Fund	Sewer Fund	Business-type Activities Total	Business-type Activities Total
Cash flows from investing activities:				
Interest received on investments	\$ 1,170	\$ 800	\$ 1,970	\$ 2,007
Sale or maturity of investments	38,909	12,224	51,133	34,937
Purchases of investments	(59,000)	(19,529)	(78,529)	(67,152)
Net cash used in investing activities	(18,921)	(6,505)	(25,426)	(30,208)
Net decrease in cash and cash equivalents	(3,060)	(480)	(3,540)	(10,836)
Cash and cash equivalents, beginning of year	41,795	26,015	67,810	78,646
Cash and cash equivalents, end of year	\$ 38,735	\$ 25,535	\$ 64,270	\$ 67,810
Reconciliation of cash and cash equivalents to the Statement of Net Assets:				
Current unrestricted cash and cash equivalents	\$ 28,825	\$ 24,829	\$ 53,654	\$ 45,284
Noncurrent restricted cash and cash equivalents	9,910	706	10,616	22,526
	\$ 38,735	\$ 25,535	\$ 64,270	\$ 67,810
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 11,360	\$ 6,176	\$ 17,536	\$ 12,028
Adjustments:				
Depreciation	13,990	14,897	28,887	23,817
Decrease (increase) in accounts receivable	(2,276)	(727)	(3,003)	1,019
Decrease (increase) in inventories	2	(161)	(159)	70
Decrease (increase) in joint venture	-	1,556	1,556	(174)
Increase (decrease) in accounts payable and other accrued liabilities	224	176	400	(1,254)
Increase in other post employment benefits	886	865	1,751	1,666
(Decrease) increase in deposits subject to refund	(1,050)	558	(492)	(224)
Net cash provided by operating activities	\$ 23,136	\$ 23,340	\$ 46,476	\$ 36,948

(Continued)

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
STATEMENT OF CASH FLOWS, continued
Year Ended June 30, 2011 with Partial Financial Information for the Year Ended
June 30, 2010

Noncash capital and related financing activities:

The Water Fund received noncash contributions of \$557 and \$243 from area developers and expiring watermain extension contracts of \$585 and \$228 during the years ended June 30, 2011 and 2010, respectively. The Water Fund also had non cash capital additions included in accounts payable and retainage of \$1,967 and \$5,126 at the years ended June 30, 2011 and 2010, respectively.

The Sewer Fund received noncash contributions of \$1,377 and \$1,047 from area developers during the years ended June 30, 2011 and 2010, respectively. The Sewer Fund also had non cash capital additions included in accounts payable and retainage of \$6,667 and \$2,758 at the years ended June 30, 2011 and 2010, respectively.

For the year ended June 30, 2011 the Water Fund and Sewer Fund received noncash principal debt forgiveness grants from the Environmental Protection Agency of \$1,586 and \$2,000, respectively.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2011 and 2010

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

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2011 and 2010

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

and financial reporting. 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, 2010, 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. Interest income in pooled cash and investments is allocated monthly based on the percentage of the Authority's average daily equity in the pooled portfolio to the total average daily pooled portfolio balance.

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 a decrease in the fair value of investments of approximately \$25 for the year ended June 30, 2011 and an increase of \$457 for the year ended 2010. 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 \$128 and \$357 as of June 30, 2011 and 2010, respectively.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2011 and 2010

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

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 in the capital assets is the interest capitalized during construction. Interest capitalized during fiscal years 2011 and 2010 was \$4,423 and \$4,659, 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. Accumulated sick leave is not paid out to employees upon separation from the Authority. 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.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2011 and 2010

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

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.

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 \$97,795 and \$84,086 as of June 30, 2011 and 2010, 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 lien 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.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2011 and 2010

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

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 2010 financial statements to conform to the 2011 financial presentation. These reclassifications had no effect on changes in net assets.

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, 2011 and 2010, the pooled cash and investments, which are reflected on the Authority's Statements of Net Assets within cash and cash equivalents, amounted to \$52,334 and \$50,535, respectively.

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, 2011 and 2010, include:

	June 30, 2011		
	Fair Value	Maturities in years	
		Less than 1	1-5
U.S. Treasury Securities	\$ 96,062	\$ 56,817	\$ 39,245
U.S. Agency Obligations	9,012	6,484	2,528
Money Market Mutual Funds	11,937	11,937	-
	<u>\$ 117,011</u>	<u>\$ 75,238</u>	<u>\$ 41,773</u>

	June 30, 2010		
	Fair Value	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>

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2011 and 2010

2. CASH DEPOSITS AND INVESTMENTS, continued

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.

Pooled investments – In accordance with the City’s investment policy, the City manages its interest rate risk by limiting the weighted average maturity of its investment portfolio to three years or less. No security, at the time of purchase, shall have a maturity exceeding five years. The weighted average maturity of the City’s pooled investment portfolio is 2.07 years.

Non-pooled investments – 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 and are not subject to interest rate risk.

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.

Pooled investments – The City’s investment policy prohibits purchasing any investments rated below AA at the time of purchase. As of June 30, 2011 and 2010, the U.S. agencies obligations included in the City’s pooled investment portfolio were rated Aaa and AAA by Moody’s and Standard & Poor’s, respectively.

Non-pooled investments – At June 30, 2011 and 2010 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.

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.

Pooled deposits and investments – The City’s investment policy requires that demand deposits be collateralized at least by 110% of the amount that is not federally insured. Securities pledged as collateral are held by a third party. Joint custody safekeeping receipts are held in the name of the depository institution, but pledged to the City. The securities cannot be released, substituted or sold without the City’s approval and release of the security. Certificates of deposit are, according to the City’s investment policy, to be collateralized at least by 102% of the amount that is not federally insured. As of June 30, 2011 and 2010, none of the deposits in the pooled portfolio was exposed to custodial credit risk. All safekeeping receipts for investment instruments are held in accounts in the City’s name and all securities are registered in the City’s name. Therefore, none of the Authority’s pooled investments as of June 30, 2011 and 2010 was exposed to custodial credit risk.

Non-pooled deposits and investments – All of the underlying securities for the Authority’s investments in U.S. agency obligations at June 30, 2011 and 2010 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 subject to custodial credit risks because the investment is not evidenced by securities that exist in physical or book entry form.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2011 and 2010

2. CASH DEPOSITS AND INVESTMENTS, continued

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.

Pooled investments – At June 30, 2011, the City’s investments in Federal Farm Credit Bank, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association constituted approximately 17%, 15%, 19%, and 13%, respectively, of its total pooled investment portfolio. At June 30, 2010, the City’s investments in Federal Farm Credit Bank, Federal Home Loan bank, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association constituted approximately 11%, 10%, 14%, and 10%, respectively, of its total pooled investment portfolio.

Non-pooled investments – At June 30, 2011 and 2010 the Authority’s investment in Federal Home Loan Bank Corporation was 8% and 10%, respectively, 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, 2011 and 2010, is as follows:

	<u>2011</u>	<u>2010</u>
Pooled cash and investments	\$ 52,334	\$ 50,535
Non-pooled cash, cash equivalents and investments	<u>117,011</u>	<u>95,280</u>
	<u>\$ 169,345</u>	<u>\$ 145,815</u>
Current unrestricted cash and cash equivalents	\$ 53,654	\$ 45,284
Noncurrent restricted cash and cash equivalents	10,616	22,526
Noncurrent restricted investments	<u>105,075</u>	<u>78,005</u>
	<u>\$ 169,345</u>	<u>\$ 145,815</u>

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2011 and 2010

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, 2011 and 2010, is as follows:

	<u>2011</u>	<u>2010</u>
General Obligation Bonds:		
Sinking funds	\$ 2,231	\$ 1,345
Advances to other funds	3,157	4,177
	<u>5,388</u>	<u>5,522</u>
Deposits subject to refund:		
Escrow deposits	9,498	9,990
Sewer Promissory Notes:		
Reserve fund	10,802	8,720
Debt fund	3,530	3,439
Construction fund	27,236	25,999
Earnings fund	1	1
Rebate fund	1	30
	<u>41,570</u>	<u>38,189</u>
Water Revenue Bonds:		
Construction account	40,709	30,945
Reserve account	15,891	14,245
Principal account	5,792	5,566
Rebate	-	251
	<u>62,392</u>	<u>51,007</u>
Interest receivable	<u>277</u>	<u>192</u>
Total restricted assets	<u>\$ 119,125</u>	<u>\$ 104,900</u>

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2011 and 2010

4. CAPITAL ASSETS

The changes in capital assets are summarized as follows:

June 30, 2011	Beginning Balance	Increases	Decreases	Ending Balance
Non depreciable assets:				
Land	\$ 30,711	\$ 613	\$ -	\$ 31,324
Water rights	9,567	26	-	9,593
Construction-in-progress	139,284	49,023	(158,197)	30,110
Total non depreciable capital assets	179,562	49,662	(158,197)	71,027
Depreciable assets:				
Buildings	235,308	6,585	-	241,893
Equipment	64,912	25,786	(4,755)	85,943
Land improvements, water and sewer lines	1,026,997	137,202	-	1,164,199
Total depreciable capital assets	1,327,217	169,573	(4,755)	1,492,035
Accumulated depreciation:				
Buildings	(99,791)	(5,308)	-	(105,099)
Equipment	(39,776)	(6,027)	4,022	(41,781)
Land improvements, water and sewer lines	(352,203)	(17,552)	-	(369,755)
	(491,770)	(28,887)	4,022	(516,635)
Depreciable capital assets, net	835,447	140,686	(733)	975,400
Capital assets, net	\$ 1,015,009	\$ 190,348	\$ (158,930)	\$ 1,046,427
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	177,747	47,297	(45,482)	179,562
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	1,273,974	57,073	(3,830)	1,327,217
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)
	(471,326)	(23,817)	3,373	(491,770)
Depreciable capital assets, net	802,648	33,256	(457)	835,447
Capital assets, net	\$ 980,395	\$ 80,553	\$ (45,939)	\$ 1,015,009

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2011 and 2010

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 \$11,816 and \$10,144 as of June 30, 2011 and 2010, respectively. The Authority's other services and charges have been increased to reflect the change in the net investment by \$220 and \$174 for the years ended June 30, 2011 and 2010, respectively. The Authority contributed \$1,892 and \$329 to RMUA for capital improvements during the year ended June 30, 2011 and 2010, 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 \$7,071 and \$8,144 at June 30, 2011 and 2010, respectively. The Authority estimates the current portion of the contractual liability based upon payments made during the year. The Authority made payments of \$516 and \$491 in accordance with these contracts for the years ended June 30, 2011 and 2010, 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.

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.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2011 and 2010

7. MUNICIPAL EMPLOYEES' PENSION PLAN, continued

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 9.6%, 9.0% and 6.3% for the years ended 2011, 2010 and 2009, respectively. The Authority's contributions to the plan for the years ended June 30, 2011, 2010 and 2009 were \$1,856, \$1,674 and \$1,914 respectively, which equaled 66%, 73% 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 \$972 and \$765 as of June 30, 2011 and 2010, respectively.

The Plan is reported as a Pension Trust Fund in the City's 2011 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, 2011 and 2010 was \$3,219 and \$3,239, of which \$537 and \$522, was paid on a pay-as-you-go basis, respectively. The Authority was allocated \$4,978 and \$4,303 of the net obligation for the years ending June 30, 2011 and 2010, 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.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2011 and 2010

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 \$161,430 of Utility Revenue Bonds. The bonds are to be paid solely from water net revenues and are payable through 2031. 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 \$224,219. Principal and interest paid for the current year and water net revenues for the current year were \$12,845 and \$26,483, respectively.

Revenue bond activity was as follows:

June 30, 2011

<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%	\$ 5,800	\$ -	\$ (560)	\$ 5,240	\$ 580
Utility Revenue Bonds, Series 2004, 2019	17,695	3.50-4.60%	14,070	-	(770)	13,300	795
Utility Revenue Bonds, Series 2005, 2025	78,720	4.00-4.50%	66,870	-	(2,900)	63,970	3,015
Utility Revenue Bonds, Series 2007, 2027	27,815	4.00-4.50%	22,115	-	(2,000)	20,115	2,100
Utility Revenue Bonds, Series 2009, 2029	21,500	3.00-4.75%	20,860	-	(665)	20,195	690
Utility Revenue Bonds, Series 2010, 2030	14,510	2.00-4.00%	14,510	-	-	14,510	-
Utility Revenue Bonds, Series 2011, 2031	24,100	2.00-4.375%	-	24,100	-	24,100	900
			144,225	24,100	(6,895)	161,430	8,080
Unamortized loss on refunding			(1,049)	-	56	(993)	-
			<u>\$ 143,176</u>	<u>\$ 24,100</u>	<u>\$ (6,839)</u>	<u>\$ 160,437</u>	<u>\$ 8,080</u>

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2011 and 2010

10. NONCURRENT LIABILITIES, continued

June 30, 2011	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Other long-term liabilities					
Water storage lease	\$ 5,013	\$ -	\$ (238)	\$ 4,775	\$ 246
Watermain extension contracts	8,144	-	(1,073)	7,071	529
Other postemployment benefits	4,303	675	-	4,978	-
Vested compensated absences	4,269	3,501	(3,603)	4,167	2,800
Net pension obligation	765	1,076	-	1,841	-
Total other long-term liabilities	<u>\$ 22,494</u>	<u>\$ 5,252</u>	<u>\$ (4,914)</u>	<u>\$ 22,832</u>	<u>\$ 3,575</u>

June 30, 2010			Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds, Series and Maturity Dates	Issue Amount	Interest Rate					
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	-
			<u>136,440</u>	<u>14,510</u>	<u>(6,725)</u>	<u>144,225</u>	<u>6,895</u>
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>

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 from the entire system and generally require semi-annual principal and interest payments.

The Authority has pledged future sewer and water revenue, net of operating expenses to repay \$154,906 and \$2,508 of promissory notes respectively. The promissory notes are to be paid solely from sewer and water net revenues and 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 \$213,916. Principal and interest paid for the current year and sewer and water combined net revenues for the current year were \$11,598 and \$47,972, 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.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2011 and 2010

10. NONCURRENT LIABILITIES, continued

Loan activity during 2011 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%	\$ 537	\$ -	\$ (215)	\$ 322	\$ 215
Series 1997A - 2016	4,035	0.50%	1,340	-	(206)	1,134	206
Series 1998B - 2017	4,392	0.50%	1,719	-	(229)	1,490	229
Series 1998C - 2017	8,500	4.95%	4,445	-	(465)	3,980	490
Series 2001B - 2020	4,996	0.50%	2,629	-	(263)	2,366	263
Series 2002D - 2022	6,813	0.50%	4,019	-	(349)	3,670	349
Series 2003 - 2012	4,310	3.05%	1,515	-	(490)	1,025	505
Series 2004B - 2023	1,560	0.50%	1,080	-	(80)	1,000	80
Series 2005B - 2027	7,900	3.10%	7,082	28	(395)	6,715	395
Series 2005C - 2025	1,203	0.50%	932	-	(60)	872	60
Series 2006A - 2028	3,130	3.10%	2,495	98	(157)	2,436	157
Series 2006B - 2016	835	2.62%	534	-	(82)	452	86
Series 2006C - 2027	17,825	3.10%	15,305	1,402	(891)	15,816	891
Series 2006 - 2025	52,585	4.15%	46,770	-	(2,096)	44,674	2,180
Series 2007A - 2026	5,131	0.50%	4,342	-	(263)	4,079	263
Series 2007B - 2026	8,365	4.15%	7,606	-	(322)	7,284	331
Series 2009A - 2032	11,320	3.22%	2,875	4,570	-	7,445	283
Series 2009B - 2032	7,350	2.41%	-	6,217	(2,000)	4,217	-
Series 2010A - 2032	27,757	2.39%	-	2,274	-	2,274	-
Series 2010B - 2030	32,000	0.65-5.15%	29,380	-	-	29,380	1,055
Series 2011B - 2032	14,275	.545-5.145%	-	14,275	-	14,275	-
			<u>134,605</u>	<u>28,864</u>	<u>(8,563)</u>	<u>154,906</u>	<u>8,038</u>
Water:							
Series 2008A - 2013	1,250	2.03%	53	228	(53)	228	156
Series 2009C - 2032	5,225	2.82%	-	3,866	(1,586)	2,280	114
			<u>134,658</u>	<u>32,958</u>	<u>(10,202)</u>	<u>157,414</u>	<u>8,308</u>

During the year ended June 30, 2011, the Authority authorized the Series 2011C Sewer Promissory Note for \$16,700, which will be issued in December 2011.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2011 and 2010

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>

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2011 and 2010

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 2011 and 2010 was as follows:

2011

Bonds and Maturity Dates	Issue Amount	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Series 2002C - 2017	28,000	4.0-5.0%	14,700	-	(2,100)	12,600	2,100
Series 2004A- 2016	949	3.0-5.0%	475	-	(79)	396	79
Series 2004B- 2015	1,038	3.00-5.0%	486	-	(25)	461	115
Series 2005- 2025	13,219	3.25-5.0%	10,430	-	(698)	9,732	698
Series 2006- 2026	817	3.75-4.5%	688	-	(43)	645	43
Series 2007- 2027	6,757	3.75-4.25%	6,380	-	(376)	6,004	376
Series 2008- 2028	8,659	4.00-4.75%	8,202	-	(457)	7,745	457
Series 2009- 2030	3,347	2.50-4.25%	3,347	-	(178)	3,169	178
Series 2009A- 2019	5,532	3.00-4.00%	5,532	-	(667)	4,865	651
Series 2009B- 2021	6,340	3.00-5.00%	6,340	-	(631)	5,709	619
			<u>\$ 56,580</u>	<u>\$ -</u>	<u>\$ (5,254)</u>	<u>\$ 51,326</u>	<u>\$ 5,316</u>

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>

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2011 and 2010

10. NONCURRENT LIABILITIES, continued

ECONOMIC LOSS ON REFUNDING

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:

	Revenue Bonds		Promissory Notes		General Long-Term Debt	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 8,080	6,354	\$ 8,308	\$ 5,580	\$ 5,316	\$ 2,243
2013	8,860	6,138	10,010	5,537	5,289	2,041
2014	9,305	5,816	10,178	5,236	5,263	1,815
2015	9,650	5,476	9,160	4,926	5,239	1,590
2016	9,040	5,121	9,139	4,634	5,104	1,358
2017-2021	44,385	20,501	44,560	18,468	15,338	4,030
2022-2026	50,900	10,717	45,575	9,687	8,013	1,424
2027-2031	21,210	2,666	19,424	2,405	1,764	119
2032-2036	-	-	1,060	29	-	-
	\$ 161,430	\$ 62,789	\$ 157,414	\$ 56,502	\$ 51,326	\$ 14,620

Variable Rate Terms – At June 30, 2011 the variable rate included in the above requirements is 2.115%, which includes program costs of 1.465% and an interest rate of 0.65%.

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, 2011 and 2010, is computed as follows:

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2011 and 2010

11. RESERVE FOR BOND AND LOAN RETIREMENT, continued

	<u>2011</u>	<u>2010</u>
Levies for principal to June 30	\$ 25,136	\$ 30,625
Bond maturities to June 30	<u>23,331</u>	<u>30,182</u>
Bond reserve	1,805	443
Interest reserve	389	422
Final interest reserve	<u>37</u>	<u>12</u>
Total general obligation bonds reserve	<u>\$ 2,231</u>	<u>\$ 877</u>

The Authority established reserves for the retirement of revenue bond debt, the assets of which are held by the trustee and totaled \$15,891 and \$14,245 at June 30, 2011 and 2010, respectively. Further, the Authority established reserves for the retirement of the Promissory Notes, the assets of which are held by the trustee and totaled \$14,332 and \$12,159 at June 30, 2011 and 2010, 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>
2012	\$ 246	\$ 153	\$ 195	\$ 594
2013	177	145	169	491
2014	182	140	169	491
2015	188	135	169	491
2016	194	129	169	491
2017-2021	1,068	544	844	2,457
2022-2026	1,252	360	844	2,457
2027-2031	<u>1,468</u>	<u>145</u>	<u>844</u>	<u>2,457</u>
	<u>\$ 4,775</u>	<u>\$ 1,751</u>	<u>\$ 3,403</u>	<u>\$ 9,929</u>

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)
June 30, 2011 and 2010

13. RELATED PARTY TRANSACTIONS

During the years ended June 30, 2011 and 2010, the Authority conducted the following transactions with related entities:

	<u>2011</u>	<u>2010</u>
Indirect cost reimbursement paid to City of Tulsa	\$ 3,620	\$ 5,312
Payment in lieu of taxes to City of Tulsa	\$ 10,973	\$ 9,910
Payments from City of Tulsa	\$ 2,133	\$ 4,506
Charges for utility services paid by the City of Tulsa	\$ 1,569	\$ 1,185
Charges for maintenance of equipment paid to the City of Tulsa	\$ 3,481	\$ 3,371
Charges for office rent paid to the City of Tulsa	\$ -	\$ 433
Ad valorem taxes from City of Tulsa	\$ 3,900	\$ 4,651

The Authority has outstanding advances of unspent bonds proceeds in the amount of \$3,157 and \$4,177 as of June 30, 2011 and 2010, 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 to 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, 2011, the Authority had open commitments for construction projects of approximately \$33,505.