

STILLWATER UTILITIES AUTHORITY

**FINANCIAL STATEMENTS AND REPORT
OF INDEPENDENT ACCOUNTANTS**

JUNE 30, 2006

Prepared by:
Department of Finance

Marcy Alexander
Director of Finance

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

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Stillwater Utilities Authority
Stillwater, Oklahoma

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

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

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

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

September 28, 2006

BKD, LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

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

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

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

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

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

USING THIS ANNUAL REPORT

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

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

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

FINANCIAL ANALYSIS

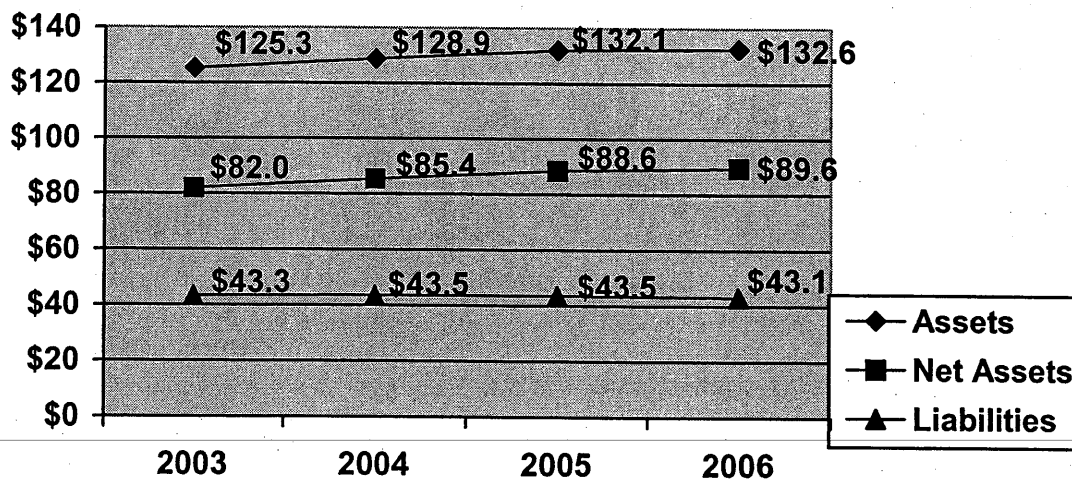
Net Assets

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

(in millions)

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

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

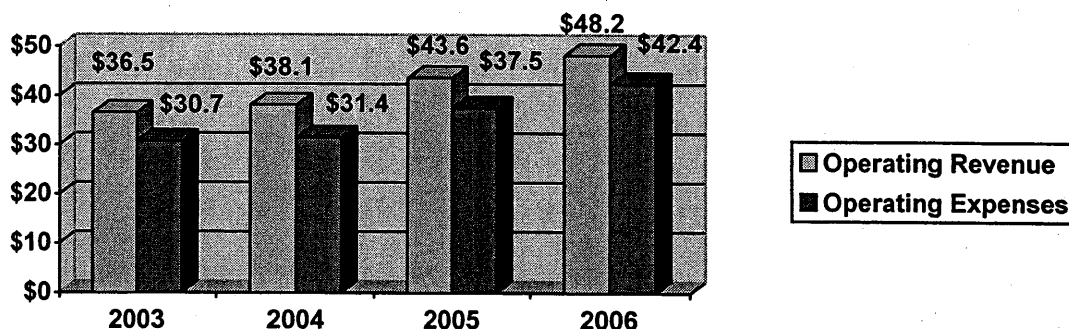


Changes in Net Assets

A comparative overview of the major components of the Statement of Revenues, Expenses, and Change in Net Assets for each of the years ended June 30 is shown below.

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

Operating Revenues and Expenses Comparison (in millions)



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

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

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

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

