

REGIONAL METROPOLITAN UTILITY AUTHORITY

FINANCIAL STATEMENTS
June 30, 2003 and 2002

REGIONAL METROPOLITAN UTILITY AUTHORITY
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June 30, 2003 and 2002

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Report of Independent Auditors

To the Board of Trustees
Regional Metropolitan Utility Authority

In our opinion, the accompanying statements of net assets and the related statements of revenues, expenses and changes in net assets and of cash flows present fairly, in all material respects, the financial position of the Regional Metropolitan Utility Authority (the "Authority") as of June 30, 2003 and 2002, and the results of its activities and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. 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 audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with "Government Auditing Standards," we have also issued our report dated August 29, 2003, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants for the year ended June 30, 2003. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be read in conjunction with this report in considering the results of our audits.

The management's discussion and analysis on pages 2 through 5 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 supplementary information. However, we did not audit the information and express no opinion on it.

August 29, 2003

REGIONAL METROPOLITAN UTILITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2003 and 2002

As management of the Regional Metropolitan Utility Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements, which begin on page 6. 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 most recent year by \$20,484. Of this amount, \$311 is unrestricted and may be used to meet the Authority's ongoing obligations.
- The Authority's net assets decreased from \$21,591 at June 30, 2002 to \$20,484 at June 30, 2003. During 2003, the Authority had a decrease in net assets of \$1,107 compared to a decrease in net assets of \$1,013 during 2002.
- The Authority's cash and cash equivalents decreased to \$299 at June 30, 2003, from \$747 at June 30, 2002.

Overview of the Financial Statements

The Authority is a joint venture among the Cities of Tulsa, Broken Arrow, Jenks, Bixby and Owasso. The purpose of the Authority is to provide, operate and maintain water supply, wastewater and pollution control facilities for the benefit of the Cities of Tulsa and Broken Arrow. Currently, the Authority is operating a sewage treatment facility (Haikey Creek Sewage Treatment Plant) and is conducting studies for future facilities.

This discussion and analysis are intended to serve as an introduction to the Authority's audit report. This audit report consists of two parts: 1) management's discussion and analysis and 2) basic financial statements. The basic financial statements also include notes that explain in more detail some of the information in the financial statements.

**REGIONAL METROPOLITAN UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
June 30, 2003 and 2002**

Required Financial Statements

The basic financial statements of the Authority report information using accounting methods similar to those used by private sector companies. These statements offer short- 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 where did cash come from, what was cash used for, and what was the change in cash balance during the period.

Net Assets

The Authority's net assets decreased to \$20,484 at June 30, 2003 from \$21,591 at June 30, 2002. The following table provides a summary of net assets:

SUMMARY OF NET ASSETS

	<u>2003</u>	<u>2002</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current assets	\$ 311	\$ 757	\$ (446)	(58.9%)
Capital assets, net	<u>20,173</u>	<u>20,834</u>	<u>(661)</u>	<u>(3.2%)</u>
Total assets	<u>20,484</u>	<u>21,591</u>	<u>(1,107)</u>	<u>(5.1%)</u>
Invested in capital assets	20,173	20,834	(661)	(3.2%)
Unrestricted	<u>311</u>	<u>757</u>	<u>(446)</u>	<u>(58.9%)</u>
Total net assets	<u>\$ 20,484</u>	<u>\$ 21,591</u>	<u>\$ (1,107)</u>	<u>(5.1%)</u>

Current assets decreased \$446 because of a decrease in capital contributions necessary to fund improvement projects and the payment of partnership distributions to the joint venture partners.

REGIONAL METROPOLITAN UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
June 30, 2003 and 2002

SUMMARY OF CHANGES IN NET ASSETS

	<u>2003</u>	<u>2002</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating revenues	\$ 925	\$ 723	\$ 202	27.9%
Nonoperating revenues	<u>25</u>	<u>57</u>	<u>(32)</u>	(56.1%)
Total revenues	<u>950</u>	<u>780</u>	<u>170</u>	21.8%
Depreciation expense	664	664	-	0.0%
Other operating expense	<u>835</u>	<u>646</u>	<u>189</u>	29.3%
Total expenses	<u>1,499</u>	<u>1,310</u>	<u>189</u>	14.4%
Loss before contributions	(549)	(530)	(19)	3.6%
Capital contributions	-	182	(182)	(100.0%)
Capital distributions	<u>(558)</u>	<u>(665)</u>	<u>107</u>	(16.1%)
Change in net assets	(1,107)	(1,013)	(94)	9.3%
Net assets, beginning of year	<u>21,591</u>	<u>22,604</u>	<u>(1,013)</u>	(4.5%)
Net assets, end of year	<u>\$ 20,484</u>	<u>\$ 21,591</u>	<u>\$ (1,107)</u>	(5.1%)

The Authority's operating revenues and operating expenses increased 27.9% and 14.4% respectively. Both increases were related to contractual increases in plant operations costs.

Nonoperating revenue decreased \$32 due to a decrease in investment income related to smaller cash balances. Capital contributions decreased \$182 due to the completion of improvement projects. During 2003, the joint venture partners took capital distributions to satisfy their receivables related to usage of the plant. The result of the net increase in revenues and capital changes caused a decrease in net assets of 5.1%.

**REGIONAL METROPOLITAN UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
June 30, 2003 and 2002**

Capital Assets

The Authority's investment in capital assets as of June 30, 2003 amounts to \$20,173 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings, equipment, and construction-in-progress. Capital asset acquisitions during the year totaled \$3.

CAPITAL ASSETS

	<u>2003</u>	<u>2002</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Land improvements	\$ 198	\$ 198	\$ -	0.0%
Building	24,346	24,346	-	0.0%
Equipment	2,823	2,823	-	0.0%
Construction-in-progress	<u>1,797</u>	<u>1,794</u>	<u>3</u>	0.2%
	29,164	29,161	3	0.0%
Less accumulated depreciation	<u>(8,991)</u>	<u>(8,327)</u>	<u>(664)</u>	8.0%
Capital assets, net	<u>\$ 20,173</u>	<u>\$ 20,834</u>	<u>\$ (661)</u>	(3.2%)

Requests for Information

The 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, 200 Civic Center, Tulsa, Oklahoma 74103.

REGIONAL METROPOLITAN UTILITY AUTHORITY
STATEMENTS OF NET ASSETS
June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 298,767	\$ 746,959
Accounts receivable	9,404	-
Interest receivable	2,564	9,399
	<u>310,735</u>	<u>756,358</u>
Total current assets		
Capital assets, net	<u>20,172,877</u>	<u>20,834,291</u>
Total assets	<u>20,483,612</u>	<u>21,590,649</u>
 <u>NET ASSETS</u>		
Invested in capital assets	20,172,877	20,834,291
Unrestricted	<u>310,735</u>	<u>756,358</u>
Total net assets	<u>\$ 20,483,612</u>	<u>\$ 21,590,649</u>

REGIONAL METROPOLITAN UTILITY AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Wastewater services	\$ 925,419	\$ 723,030
Operating expenses:		
Services and fees	834,682	646,106
Depreciation	663,853	663,582
Total operating expenses	<u>1,498,535</u>	<u>1,309,688</u>
Operating loss	<u>(573,116)</u>	<u>(586,658)</u>
Nonoperating revenues (expenses):		
Investment income	23,300	52,713
Gain on disposal of capital assets	-	2,500
Land rental from property leased to third party	1,250	1,250
Net nonoperating revenues	<u>24,550</u>	<u>56,463</u>
Loss before other revenues	(548,566)	(530,195)
Other revenues (expenses):		
Capital contributions - City of Broken Arrow	-	138,476
Capital distribution - City of Broken Arrow	(276,470)	(332,362)
Capital contributions - City of Tulsa	-	43,517
Capital distribution - City of Tulsa	(282,001)	(332,362)
	<u>(558,471)</u>	<u>(482,731)</u>
Change in net assets	(1,107,037)	(1,012,926)
Net assets, beginning of year	<u>21,590,649</u>	<u>22,603,575</u>
Net assets, end of year	<u>\$ 20,483,612</u>	<u>\$ 21,590,649</u>

REGIONAL METROPOLITAN UTILITY AUTHORITY
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Cash receipts from customers	\$ 357,544	\$ 147,944
Cash payments to suppliers of goods and services	<u>(834,682)</u>	<u>(801,227)</u>
Net cash used in operating activities	<u>(477,138)</u>	<u>(653,283)</u>
Cash flows provided by noncapital and related financing activities:		
Miscellaneous income	<u>1,250</u>	<u>1,250</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(2,439)	(90,241)
Capital contribution - City of Broken Arrow	-	138,476
Capital contribution - City of Tulsa	-	43,517
Proceeds from sale of assets	<u>-</u>	<u>2,500</u>
Net cash provided by (used in) capital and related financing activities	<u>(2,439)</u>	<u>94,252</u>
Cash flows provided by investing activities:		
Interest received	<u>30,135</u>	<u>75,787</u>
Decrease in cash and cash equivalents	(448,192)	(481,994)
Cash and cash equivalents, beginning of year	<u>746,959</u>	<u>1,228,953</u>
Cash and cash equivalents, end of year	<u>\$ 298,767</u>	<u>\$ 746,959</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (573,116)	\$ (586,658)
Adjustments:		
Depreciation	663,853	663,582
(Increase) decrease in receivables	(9,404)	89,638
Decrease in payables	-	(155,121)
Non cash capital distribution to settle wastewater service receivables	<u>(558,471)</u>	<u>(664,724)</u>
Net cash used in operating activities	<u>\$ (477,138)</u>	<u>\$ (653,283)</u>

REGIONAL METROPOLITAN UTILITY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Regional Metropolitan Utility Authority (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 and financial reporting. Pronouncements of the Financial Accounting Standards Board ("FASB") 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 (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

In March 2003, the Governmental Accounting Standards Board issued Statement 40 "Deposit and Investment Risk Disclosures" ("GASB 40") which is effective for periods beginning after June 15, 2004. The Authority elected to early implement the provisions of GASB 40 in the current year financial statements. The disclosure requirements of GASB 40 had no effect on the disclosures of the Authority for the current year.

Risk disclosures in previous financial statements (under GASB 3) focused on custodial credit risk. The objective of GASB 40 is to update the custodial credit risk disclosure requirements of GASB 3 and to establish more comprehensive disclosure requirements addressing other common risks of the deposits and investments of state and local governments.

ORGANIZATION - The Authority is a public trust created under the provisions of the Oklahoma Trust Act. Ownership of the Authority's assets is retained by the Authority for the beneficiaries of the trust. Upon termination of the trust, the net assets will be distributed to the beneficiaries based upon their pro rata interest. The current beneficiaries are the Cities of Tulsa, Broken Arrow, Jenks, Bixby and Owasso; however, only the Cities of Tulsa and Broken Arrow currently hold equity interests in the Authority.

OPERATIONS - The purpose of the Authority, as set out in the declaration of trust, is to provide, operate and maintain water supply, wastewater and pollution control facilities for the benefit of various governmental entities. Currently, the Authority is providing a wastewater facility (Haikey Creek Sewage Treatment Plant) and is conducting studies for future facilities.

BASIS OF ACCOUNTING - The Authority uses the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recorded when incurred.

CASH AND CASH EQUIVALENTS - Cash balances, other than petty cash, are pooled with the City of Tulsa's cash and invested by the City of Tulsa's Treasurer. Interest income on pooled cash and investments is allocated monthly based on the percentage of the Authority's average daily equity in pooled cash and investments to the total average daily pooled equity in pooled cash and investments.

For purposes of the statement of cash flows, the Authority considers pooled cash and investments, demand deposits with banks, and investments with an original maturity of three months or less to be cash equivalents.

REGIONAL METROPOLITAN UTILITY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

CAPITAL ASSETS – Capital assets are stated at cost. Effective for the year ending June 30, 2003, the Authority increased its capitalization threshold to \$5,000 from the previous threshold of \$1,000. There was no effect on the Authority as a result of this change. Capital assets placed in service are depreciated on a straight-line basis over the following estimated useful lives.

Land improvements	20 – 75 years
Buildings	48 years
Equipment	5 – 15 years

Cost and related accumulated depreciation are removed from the records when capital assets are sold or abandoned. The related gain or loss is recorded in the period of sale or disposal.

CONTRIBUTIONS / DISTRIBUTIONS - 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. As it relates to the Authority, the Statement requires that payments made by the Cities of Tulsa and Broken Arrow for the purchase of capital assets by the Authority be reported as revenue. During 2003 the joint venture partners took capital distributions to satisfy their receivables related to usage of the plant

INCOME TAXES - The Authority, as a political subdivision, is excluded from taxation under Section 115(1) of the Internal Revenue Code.

2. CASH DEPOSITS AND INVESTMENT

Cash deposits of the Authority are maintained within the City of Tulsa'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. At June 30, 2003 and 2002, the pooled cash and investments amounted to \$298,767 and \$746,959, respectively. The amounts pooled with the City of Tulsa at June 30, 2003 and 2002 were represented by investments which were insured or registered or securities held by the City of Tulsa or its agent in the City of Tulsa's name.

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. During the year ended June 30, 2003, the Authority experienced a net increase in the fair value of investments of \$13,778, compared to a net increase of \$4,247 for the year ended June 30, 2002. These amounts are included in investment income in the Statements of Revenues, Expenses and Changes in Net Assets.

REGIONAL METROPOLITAN UTILITY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

3. CAPITAL ASSETS

The changes in capital assets during 2003 are summarized as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Construction-in-progress	\$ 1,793,887	\$ 2,439	\$ -	\$ 1,796,326
Capital assets being depreciated:				
Land improvements	197,926	-	-	197,926
Buildings	24,345,916	-	-	24,345,916
Equipment	2,823,474	-	-	2,823,474
Total capital assets being depreciated	<u>27,367,316</u>	<u>-</u>	<u>-</u>	<u>27,367,316</u>
Less accumulated depreciation for:				
Land improvements	(36,781)	(4,123)	-	(40,904)
Buildings	(7,387,514)	(601,544)	-	(7,989,058)
Equipment	(902,617)	(58,186)	-	(960,803)
Total accumulated depreciation	<u>(8,326,912)</u>	<u>(663,853)</u>	<u>-</u>	<u>(8,990,765)</u>
Total capital assets being depreciated, net	<u>19,040,404</u>	<u>(663,853)</u>	<u>-</u>	<u>18,376,551</u>
Total capital assets, net	<u>\$ 20,834,291</u>	<u>\$ (661,414)</u>	<u>\$ -</u>	<u>\$ 20,172,877</u>

4. JOINT VENTURE EQUITY INTEREST

The joint venture equity interest at June 30, 2003 and 2002 are as follows:

	<u>2003</u>	<u>2002</u>
Tulsa	\$ 10,306,288	\$ 10,866,444
Broken Arrow	<u>10,177,324</u>	<u>10,724,205</u>
	<u>\$ 20,483,612</u>	<u>\$ 21,590,649</u>

5. COMMITMENTS

At June 30, 2003, the Authority had \$89,100 in open construction commitments related to the Haikey Creek Wastewater Treatment Plant. These commitments will be funded by additional capital contributions from the City of Tulsa and the City of Broken Arrow.

6. OPERATING AGREEMENTS

In May 1999, the Authority entered into a five-year operating agreement with the City of Tulsa by which they agreed to operate and maintain the Haikey Creek Wastewater Treatment Plant on a fixed fee basis. The contract may be terminated at any time, upon 90 days prior written notice to the other party.

At June 30, 2003, the Authority had \$611,894 remaining to be paid to the City of Tulsa in 2004 under the terms of the operating agreement.

REGIONAL METROPOLITAN UTILITY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

7. RELATED PARTY TRANSACTIONS

During the years ended June 30, 2003 and 2002, the Authority conducted the following transactions with the City of Tulsa and other related entities:

	<u>2003</u>	<u>2002</u>
Fees paid under operating agreement - City of Tulsa	\$ 804,713	\$ 628,283
Accounts receivable - City of Broken Arrow	\$ 9,404	\$ -
Charges for user fees paid by the City of Broken Arrow and Tulsa Metropolitan Utility Authority	\$ 925,419	\$ 723,030

**Independent Auditors' Report on Compliance
And on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

To the Board of Trustees
Regional Metropolitan Utility Authority

We have audited the financial statements of the Regional Metropolitan Utility Authority (the "Authority") as of and for the year ended June 30, 2003, and have issued our report thereon dated August 29, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States of America.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Trustees and the Authority's management and is not intended to be and should not be used by anyone other than these specified parties.

August 29, 2003