

**REGIONAL METROPOLITAN UTILITY
AUTHORITY**

FINANCIAL REPORT
June 30, 2012 and 2011

Regional Metropolitan Utility Authority
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June 30, 2012 and 2011

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Independent Auditor's Report

Board of Trustees
Regional Metropolitan Utility Authority
Tulsa, Oklahoma

We have audited the accompanying basic financial statements of the Regional Metropolitan Utility Authority (Authority), as of and for the years ended June 30, 2012 and 2011, 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 audits.

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, 2012 and 2011, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

McGladrey LLP

Kansas City, Missouri
October 29, 2012

Regional Metropolitan Utility Authority

Management's Discussion and Analysis

Years ended June 30, 2012 and 2011

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 years ended June 30, 2012 and 2011. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements. All amounts in Management's Discussion and Analysis, 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 \$23,882. Of this amount, \$1,719 is unrestricted and may be used to meet the Authority's ongoing obligations.
- The Authority's net position increased from \$23,515 at June 30, 2011 to \$23,882 at June 30, 2012. During 2012, the Authority had an increase in net position of \$367 compared to a \$3,342 increase in net position during 2011.
- The Authority's cash and cash equivalents increased to \$1,401 at June 30, 2012, from \$1,043 at June 30, 2011.
- Accounts receivable increased to \$469 at June 30, 2012, from \$350 at June 30, 2011.

Overview of the Financial Statements

The Authority is a joint venture among the Cities of Tulsa (Tulsa Metropolitan Utility Authority, a component unit of the City 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 Wastewater Treatment Plant) and is conducting studies for future facilities.

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements. 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.

The Authority adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of resources, and Net Position*, in the current year. The adoption of this Statement changed the presentation of the basic financial statements to a statement of net position format.

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 Position 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 Position. 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.

Regional Metropolitan Utility Authority
Management's Discussion and Analysis, Continued
Years ended June 30, 2012 and 2011

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 Position

The Authority's net position increased to \$23,882 at June 30, 2012, from \$23,515 at June 30, 2011, and \$20,173 at June 30, 2010. The following table provides a summary of net position:

SUMMARY OF NET POSITION

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current assets	\$ 1,875	\$ 1,393	\$ 1,301
Capital assets, net	22,163	22,351	19,219
Total assets	<u>24,038</u>	<u>23,744</u>	<u>20,520</u>
Current liabilities	156	229	347
Total liabilities	<u>156</u>	<u>229</u>	<u>347</u>
Net investment in capital assets	22,163	22,351	19,219
Unrestricted	1,719	1,164	954
Total net position	<u>\$ 23,882</u>	<u>\$ 23,515</u>	<u>\$ 20,173</u>

In 2012, current assets increased \$482. The increase was the result of an increase in cash of \$358 and an increase in receivables of \$124. Unrestricted net assets increased \$555. The increase was the result of an increase in unrestricted current assets of \$482 and a decrease in unrestricted current liabilities of \$73.

In 2011, current assets increased \$92. The increase was the result of an increase in cash of \$220 and a decrease in receivables of \$128. Unrestricted net assets increased \$210. The increase was the result of an increase in unrestricted current assets of \$92 and a decrease in unrestricted current liabilities of \$118.

Regional Metropolitan Utility Authority
Management's Discussion and Analysis, Continued
Years ended June 30, 2012 and 2011

SUMMARY OF CHANGES IN NET POSITION

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 2,150	\$ 1,922	\$ 2,125
Nonoperating revenues (expenses)	<u>20</u>	<u>(4)</u>	<u>30</u>
Total revenues	<u>2,170</u>	<u>1,918</u>	<u>2,155</u>
Depreciation expense	748	601	623
Other operating expense	<u>1,871</u>	<u>1,760</u>	<u>1,841</u>
Total expenses	<u>2,619</u>	<u>2,361</u>	<u>2,464</u>
Loss before contributions	(449)	(443)	(309)
Capital contributions	<u>816</u>	<u>3,785</u>	<u>658</u>
Change in net position	367	3,342	349
Net position, beginning of year	<u>23,515</u>	<u>20,173</u>	<u>19,824</u>
Net position, end of year	<u>\$ 23,882</u>	<u>\$ 23,515</u>	<u>\$ 20,173</u>

In 2012, the Authority's operating revenues increased \$228 and other operating expense increased \$111, as a result of the operating and maintenance contract which uses actual operator expenses plus 15%. Nonoperating revenue increased \$24 related to an increase in fair value of investments. The Authority received \$816 in capital contributions from the Cities of Tulsa and Broken Arrow to fund improvements to the Haikey Creek Wastewater Treatment Plant.

In 2011, the Authority's operating revenues decreased \$203 and other operating expense decreased \$81, as a result of the change in the operating and maintenance contract which uses actual operator expenses plus 15% as the basis for billing. Nonoperating revenue decreased \$34 related to a decrease in fair value of investments. The Authority received \$3,785 in capital contributions from the Cities of Tulsa and Broken Arrow to fund improvements to the Haikey Creek Wastewater Treatment Plant.

Regional Metropolitan Utility Authority
Management's Discussion and Analysis, Continued
June 30, 2012 and 2011

Capital Assets

The Authority's investment in capital assets as of June 30, 2012 was \$22,163 (net of accumulated depreciation). This investment in capital assets includes infrastructure, buildings, and construction-in-progress. Capital asset acquisitions during 2012 totaled \$561.

CAPITAL ASSETS

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Infrastructure	\$ 35,647	\$ 3,154	\$ 2,995
Building	951	26,497	26,427
Construction-in-progress	<u>346</u>	<u>6,732</u>	<u>3,229</u>
	36,944	36,383	32,651
Less accumulated depreciation	<u>(14,781)</u>	<u>(14,032)</u>	<u>(13,432)</u>
Capital assets, net	<u>\$ 22,163</u>	<u>\$ 22,351</u>	<u>\$ 19,219</u>

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 City of Tulsa, Office of the Controller, 175 E. Second Street, Tulsa, Oklahoma 74103.

Regional Metropolitan Utility Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	\$ 1,401,270	\$ 1,043,173
Accounts receivable - related parties	468,933	349,632
Interest receivable	4,585	591
	<u>1,874,788</u>	<u>1,393,396</u>
Noncurrent assets		
Nondepreciable capital assets	345,957	6,732,312
Depreciable capital assets, net	21,817,147	15,618,324
	<u>22,163,104</u>	<u>22,350,636</u>
Total noncurrent assets	<u>22,163,104</u>	<u>22,350,636</u>
Total assets	<u>24,037,892</u>	<u>23,744,032</u>
<u>LIABILITIES</u>		
Current liabilities		
Accounts payable	25,978	59,651
Retainage payable	129,617	169,762
	<u>155,595</u>	<u>229,413</u>
Total liabilities	<u>155,595</u>	<u>229,413</u>
<u>NET POSITION</u>		
Net investment in capital assets	22,163,104	22,350,636
Unrestricted	1,719,193	1,163,983
	<u>23,882,297</u>	<u>23,514,619</u>
Total net position	<u>\$ 23,882,297</u>	<u>\$ 23,514,619</u>

Regional Metropolitan Utility Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues		
Wastewater services	\$ 2,150,454	\$ 1,922,204
Operating expenses		
Services and fees	1,870,848	1,760,349
Depreciation	747,971	601,328
Total operating expenses	<u>2,618,819</u>	<u>2,361,677</u>
Operating loss	<u>(468,365)</u>	<u>(439,473)</u>
Nonoperating revenues (expenses)		
Investment income (loss)	18,367	(4,754)
Land rental from property leased to third party	1,250	1,250
Total nonoperating revenues (expenses)	<u>19,617</u>	<u>(3,504)</u>
Loss before contributions	(448,748)	(442,977)
Capital contributions		
Capital contributions - City of Broken Arrow	408,213	1,892,166
Capital contributions - City of Tulsa	408,213	1,892,166
Total capital contributions	<u>816,426</u>	<u>3,784,332</u>
Change in net position	367,678	3,341,355
Net position, beginning of year	<u>23,514,619</u>	<u>20,173,264</u>
Net position, end of year	<u>\$ 23,882,297</u>	<u>\$ 23,514,619</u>

Regional Metropolitan Utility Authority
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Receipts from customers	\$ 2,073,380	\$ 1,949,017
Payments to suppliers of goods and services	<u>(1,885,859)</u>	<u>(1,745,504)</u>
Net cash provided by operating activities	<u>187,521</u>	<u>203,513</u>
Cash flows provided by noncapital and related financing activities		
Rental income	<u>1,250</u>	<u>1,250</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets	(619,246)	(3,864,990)
Capital contributions - City of Broken Arrow	356,655	1,880,524
Capital contributions - City of Tulsa	<u>417,544</u>	<u>2,003,333</u>
Net cash provided by capital and related financing activities	<u>154,953</u>	<u>18,867</u>
Cash flows provided by investing activities		
Investment income (loss)	<u>14,373</u>	<u>(3,211)</u>
Increase in cash and cash equivalents	358,097	220,419
Cash and cash equivalents, beginning of year	<u>1,043,173</u>	<u>822,754</u>
Cash and cash equivalents, end of year	<u>\$ 1,401,270</u>	<u>\$ 1,043,173</u>
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (468,365)	\$ (439,473)
Adjustments:		
Depreciation	747,971	601,328
(Increase) decrease in receivables	(77,074)	26,813
(Decrease) increase in payables	<u>(15,011)</u>	<u>14,845</u>
Net cash provided by operating activities	<u>\$ 187,521</u>	<u>\$ 203,513</u>
Supplemental cash flow information		
Capital asset additions included in accounts payable and retainage payable	<u>\$ 58,807</u>	<u>\$ 132,343</u>
Capital contributions included in accounts receivable	<u>\$ 223,895</u>	<u>\$ 181,668</u>
Appreciation (depreciation) in investment fair value	<u>\$ 2,896</u>	<u>\$ (18,712)</u>

Regional Metropolitan Utility Authority
Notes to the Basic Financial Statements
Years Ended June 30, 2012 and 2011

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

NATURE OF BUSINESS – The purpose of the Regional Metropolitan Utility Authority (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 owns a sewage treatment facility (Haikey Creek Wastewater Treatment Plant).

REPORTING ENTITY - 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 (through Tulsa Metropolitan Utility Authority, a discretely presented component unit of the City of Tulsa) and Broken Arrow currently hold equity interests in the Authority. The City of Tulsa provides staffing to and maintains the accounting records of the Authority, in addition to acting as a fiscal agent for the Authority’s cash and investment transactions.

BASIS OF ACCOUNTING - 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, land rental from property leased to a third party, 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 and financial reporting. 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 Authority adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of resources, and Net Position*, in the current year. The adoption of this Statement changed the presentation of the basic financial statements to a statement of net position format.

CASH AND CASH EQUIVALENTS – Cash and cash equivalents 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 the pooled portfolio to the total average daily pooled portfolio balance.

Regional Metropolitan Utility Authority
Notes to Basic Financial Statements
Years Ended June 30, 2012 and 2011

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

CASH AND CASH EQUIVALENTS, continued - 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.

CAPITAL ASSETS - Capital assets, with an initial cost of \$5,000 or more, are stated at cost. Included in capital assets is the interest capitalized during construction. There was no interest capitalized during the fiscal years 2012 and 2011. Capital assets placed in service are depreciated on a straight-line basis over the following estimated useful lives.

Infrastructure	30 – 99 years
Buildings	50 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.

NET POSITION – Net position of the Authority represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on the 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 position is available, the Authority first applies restricted resources. Unrestricted net position is the remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted.

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

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.

2. **CASH DEPOSITS AND INVESTMENTS**

Cash and cash equivalents consist of time deposits and other securities guaranteed by the United States government or its agencies. At June 30, 2012 and 2011, the pooled cash and investments amounted to \$1,401,270 and \$1,043,173, respectively. These amounts were pooled with the City of Tulsa and were collateralized by securities that were held by the pledging financial institution or by its trust department or 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 position.

Regional Metropolitan Utility Authority
Notes to Basic Financial Statements
Years Ended June 30, 2012 and 2011

2. CASH DEPOSITS AND INVESTMENTS, continued

During the years ended June 30, 2012 and 2011, the Authority experienced a net increase in the fair value of investments of \$2,896 and a net decrease of \$18,712, respectively. These amounts are included in investment income in the Statements of Revenues, Expenses, and Changes in Net Position.

Interest Rate Risk - 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 1.80 years.

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's investment policy to limit its exposure to credit risks. The City's investment policy prohibits purchasing any investments rated below AA at the time of purchase. As of June 30, 2012 the U.S. agencies obligations included in the City's pooled investment portfolio were rated Aaa and AA+ by Moody's and Standard & Poor's, respectively. As of June 30, 2011 the ratings were Aaa and AAA by Moody's and Standard & Poor's, respectively.

Custodial Credit Risk – The City's investment policy requires that demand deposits be collateralized at least by 110% of the amounts 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, 2012 and 2011, none of the deposits in the pooled portfolio were exposed to custodial credit risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All 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 investments as of June 30, 2012 and 2011 were exposed to custodial credit risk.

Concentration of Credit Risk - The Authority utilizes the City's investment policy to determine the amount that may be invested in any one issuer. While the City may choose to maintain one-hundred percent of its investment portfolio in U.S. Treasury bills, notes and bonds, at no time will the portfolio be composed of more than seventy percent of related federal agencies. At June 30, 2012, 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%, 22%, and 21%, respectively of its total pooled investment portfolio. 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.

Regional Metropolitan Utility Authority
Notes to Basic Financial Statements
Years Ended June 30, 2012 and 2011

3. CAPITAL ASSETS

Capital asset activity for the years ended is as follows:

2012:	Beginning Balance	Increase	Decrease	Ending Balance
Nondepreciable capital assets:				
Construction-in-progress	\$ 6,732,312	\$ 560,564	\$ (6,946,919)	\$ 345,957
Depreciable capital assets:				
Infrastructure	3,154,086	32,492,388	-	35,646,474
Buildings	26,496,994	951,400	(26,496,994)	951,400
	<u>29,651,080</u>	<u>33,443,788</u>	<u>(26,496,994)</u>	<u>36,597,874</u>
Less accumulated depreciation for:				
Infrastructure	(1,404,524)	(13,362,328)	-	(14,766,852)
Buildings	(12,628,232)	(13,875)	12,628,232	(13,875)
Total accumulated depreciation	<u>(14,032,756)</u>	<u>(13,376,203)</u>	<u>12,628,232</u>	<u>(14,780,727)</u>
Total depreciable capital assets, net	<u>15,618,324</u>	<u>20,067,585</u>	<u>(13,868,762)</u>	<u>21,817,147</u>
Total capital assets, net	<u>\$ 22,350,636</u>	<u>\$ 20,628,149</u>	<u>\$ (20,815,681)</u>	<u>\$ 22,163,104</u>
2011:	Beginning Balance	Increase	Decrease	Ending Balance
Nondepreciable capital assets:				
Construction-in-progress	\$ 3,228,886	\$ 3,503,426	\$ -	\$ 6,732,312
Depreciable capital assets:				
Infrastructure	2,995,206	158,880	-	3,154,086
Buildings	26,426,653	70,341	-	26,496,994
	<u>29,421,859</u>	<u>229,221</u>	<u>-</u>	<u>29,651,080</u>
Less accumulated depreciation for:				
Infrastructure	(1,403,337)	(1,187)	-	(1,404,524)
Buildings	(12,028,091)	(600,141)	-	(12,628,232)
Total accumulated depreciation	<u>(13,431,428)</u>	<u>(601,328)</u>	<u>-</u>	<u>(14,032,756)</u>
Total depreciable capital assets, net	<u>15,990,431</u>	<u>(372,107)</u>	<u>-</u>	<u>15,618,324</u>
Total capital assets, net	<u>\$ 19,219,317</u>	<u>\$ 3,131,319</u>	<u>\$ -</u>	<u>\$ 22,350,636</u>

Regional Metropolitan Utility Authority
Notes to Basic Financial Statements
Years Ended June 30, 2012 and 2011

4. JOINT VENTURE EQUITY INTERESTS

The equity owners' interests at June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
City of Tulsa	\$ 11,999,493	\$ 11,816,237
City of Broken Arrow	<u>11,882,804</u>	<u>11,698,382</u>
	<u>\$ 23,882,297</u>	<u>\$ 23,514,619</u>

The Authority received and accrued contributions from the City of Broken Arrow and the City of Tulsa to purchase capital improvements for the Haikey Creek Wastewater Treatment Plant of \$816,426 and \$3,784,332 for the years ended June 30, 2012 and 2011, respectively.

5. OPERATING AGREEMENTS

The equity owners entered into a five-year operating agreement in 2004 with the City of Tulsa which was extended through June 30, 2010. The City of Tulsa agreed to operate and maintain the Haikey Creek Wastewater Treatment Plant on a fixed fee basis. Operating costs were shared between the City of Broken Arrow and the City of Tulsa in relation to the measured flow of wastewater in to the facility.

In June 2010, the Authority entered into a new operations and maintenance contract with the City of Tulsa. The contract went into effect July 1, 2010 and will automatically renew for a one-year term on June 30th of each year unless 90 days notice is given by either party to cancel. The agreement provides for capital costs to be billed to the equity owners. Operating costs continue to be shared between the City of Broken Arrow and the City of Tulsa in relation to their measured flow of wastewater into the facility.

The Authority and the City of Tulsa entered into a 50 year lease agreement in 1973 for the Haikey Creek land. The Authority agreed to use the land for a lift station, forced main and treatment plant. There is no financial obligation to the City under the terms of the lease.

Regional Metropolitan Utility Authority
Notes to Basic Financial Statements
Years Ended June 30, 2012 and 2011

6. RELATED PARTY TRANSACTIONS

During the years ended June 30, 2012 and 2011, the Authority conducted the following transactions with the City of Tulsa and the City of Broken Arrow:

	<u>2012</u>	<u>2011</u>
Plant operator fees paid under operating agreement - City of Tulsa	\$ 1,863,396	\$ 1,703,959
Accounts receivable - City of Tulsa	\$ 12,989	\$ 22,320
Accounts receivable - City of Broken Arrow	\$ 455,944	\$ 327,312
Revenue from the user fees charged to the City of Broken Arrow and the Tulsa Metropolitan Utility Authority	<u>\$ 2,150,454</u>	<u>\$ 1,922,204</u>

7. 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 net position, changes in net position and cash flows of the Authority.

8. RISK MANAGEMENT

The Authority participates in the City of Tulsa's insurance programs through payment for services. The City of Tulsa retains all risk of loss. Significant losses are covered by commercial insurance for all major programs except workers' compensation, for which the City of Tulsa retains all risk of loss. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

9. COMMITMENTS

As of June 30, 2012, the Authority had open commitments for construction projects of approximately \$952,556.