

REGIONAL METROPOLITAN UTILITY AUTHORITY

FINANCIAL REPORT **June 30, 2014 and 2013**

Regional Metropolitan Utility Authority
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June 30, 2014 and 2013

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Independent Auditor's Report

Board of Trustees
Regional Metropolitan Utility Authority
Tulsa, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the Regional Metropolitan Utility Authority (the "Authority"), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

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, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports for the years ended June 30, 2014 and 2013 dated October 27, 2014 and November 14, 2013, respectively, 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 grant agreements and other matters. The purpose of those reports are to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Kansas City, Missouri
October 27, 2014

Regional Metropolitan Utility Authority

Management's Discussion and Analysis

Years Ended June 30, 2014 and 2013

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, 2014 and 2013. 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 \$26,840. Of this amount, \$2,499 is unrestricted and may be used to meet the Authority's ongoing obligations.
- The Authority's net position increased from \$25,896 at June 30, 2013 to \$26,840 at June 30, 2014. During 2014, the Authority had an increase in net position of \$944 compared to a \$2,014 increase in net position during 2013.
- The Authority's cash and cash equivalents increased to \$2,057 at June 30, 2014, from \$1,515 at June 30, 2013.
- Accounts receivable decreased to \$532 at June 30, 2014, from \$1,288 at June 30, 2013.

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 wastewater treatment facility (Haikey Creek Wastewater Treatment Plant).

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.

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.

Regional Metropolitan Utility Authority
Management's Discussion and Analysis, Continued
Years Ended June 30, 2014 and 2013

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 Position

The Authority's net position increased to \$26,840 at June 30, 2014, from \$25,896 at June 30, 2013, and \$23,882 at June 30, 2012. The following table provides a summary of net position:

SUMMARY OF NET POSITION

	2014	2013	2012
Current assets	\$ 2,594	\$ 2,806	\$ 1,875
Capital assets, net	24,341	23,822	22,163
Total assets	26,935	26,628	24,038
Current liabilities	95	732	156
Investment in capital assets	24,341	23,822	22,163
Unrestricted	2,499	2,074	1,719
Total net position	\$ 26,840	\$ 25,896	\$ 23,882

In 2014, current assets decreased \$212. The decrease was the result of an increase in cash of \$542, and a net decrease in receivables of \$754 due for capital contributions on construction expenditures and interest. Unrestricted net position increased \$425. The net increase was the result of a decrease in current assets of \$212 and a decrease in current liabilities of \$637.

In 2013, current assets increased \$931. The increase was the result of an increase in cash of \$114, and a net increase in receivables of \$817 due for capital contributions on construction expenditures and interest. Unrestricted net position increased \$355. The increase was the result of an increase in current assets of \$931 and an increase in current liabilities of \$576.

Regional Metropolitan Utility Authority
Management's Discussion and Analysis, Continued
Years Ended June 30, 2014 and 2013

SUMMARY OF CHANGES IN NET POSITION

	2014	2013	2012
Operating revenues	\$ 2,507	\$ 2,559	\$ 2,150
Nonoperating revenues	20	5	20
Total revenues	<u>2,527</u>	<u>2,564</u>	<u>2,170</u>
Depreciation expense	853	853	748
Other operating expense	<u>2,180</u>	<u>2,258</u>	<u>1,871</u>
Total expenses	<u>3,033</u>	<u>3,111</u>	<u>2,619</u>
Loss before contributions	(506)	(547)	(449)
Capital contributions	<u>1,450</u>	<u>2,561</u>	<u>816</u>
Change in net position	944	2,014	367
Net position, beginning of year	<u>25,896</u>	<u>23,882</u>	<u>23,515</u>
Net position, end of year	<u>\$ 26,840</u>	<u>\$ 25,896</u>	<u>\$ 23,882</u>

In 2014, the Authority's operating revenues decreased \$52 and other operating expense decreased \$78, as a result of the operating and maintenance contract which allows for billing actual operator expenses plus 15%. Nonoperating revenue increased \$15 related to an increase in investment income. The Authority received \$1,450 in capital contributions from the Cities of Tulsa and Broken Arrow to fund improvements to the Haikey Creek Wastewater Treatment Plant.

In 2013, the Authority's operating revenues increased \$409 and other operating expense increased \$387, as a result of the operating and maintenance contract which allows for billing actual operator expenses plus 15%. Nonoperating revenue decreased \$15 related to a decrease in investment income. The Authority received \$2,561 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
Years Ended June 30, 2014 and 2013

Capital Assets

The Authority's investment in capital assets as of June 30, 2014 was \$24,341 (net of accumulated depreciation). This investment in capital assets includes infrastructure, buildings, and construction-in-progress. Capital asset acquisitions during 2014 totaled \$1,372.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Infrastructure	\$ 35,647	\$ 35,647	\$ 35,647
Building	951	951	951
Construction-in-progress	<u>4,230</u>	<u>2,858</u>	<u>346</u>
	40,828	39,456	36,944
Less accumulated depreciation	<u>(16,487)</u>	<u>(15,634)</u>	<u>(14,781)</u>
Capital assets, net	<u>\$ 24,341</u>	<u>\$ 23,822</u>	<u>\$ 22,163</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 Net Position
Years Ended June 30, 2014 and 2013

	2014	2013
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	\$ 2,057,401	\$ 1,515,412
Accounts receivable - related parties	532,139	1,288,022
Interest receivable	4,365	2,745
	<hr/>	<hr/>
Total current assets	2,593,905	2,806,179
	<hr/>	<hr/>
Noncurrent assets		
Nondepreciable capital assets	4,230,112	2,858,369
Depreciable capital assets, net	20,110,896	20,964,022
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Total noncurrent assets	24,341,008	23,822,391
	<hr/>	<hr/>
Total assets	26,934,913	26,628,570
	<hr/>	<hr/>
<u>LIABILITIES</u>		
Current liabilities		
Accounts payable	95,467	654,848
Retainage payable	-	77,964
	<hr/>	<hr/>
Total liabilities	95,467	732,812
	<hr/>	<hr/>
<u>NET POSITION</u>		
Investment in capital assets	24,341,008	23,822,391
Unrestricted	2,498,438	2,073,367
	<hr/>	<hr/>
Total net position	\$ 26,839,446	\$ 25,895,758
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The accompanying notes are an integral part of the financial statements

Regional Metropolitan Utility Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues		
Wastewater services	\$ 2,507,156	\$ 2,558,998
Operating expenses		
Services and fees	2,179,985	2,258,239
Depreciation	853,126	853,125
Total operating expenses	3,033,111	3,111,364
Operating loss	(525,955)	(552,366)
Nonoperating revenues		
Investment income	18,685	4,031
Land rental from property leased to third party	1,250	1,250
Total nonoperating revenues	19,935	5,281
Loss before contributions	(506,020)	(547,085)
Capital contributions		
Capital contributions - City of Broken Arrow	724,854	1,280,273
Capital contributions - City of Tulsa	724,854	1,280,273
Total capital contributions	1,449,708	2,560,546
Change in net position	943,688	2,013,461
Net position, beginning of year	25,895,758	23,882,297
Net position, end of year	\$ 26,839,446	\$ 25,895,758

The accompanying notes are an integral part of the financial statements

Regional Metropolitan Utility Authority
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Receipts from customers	\$ 2,592,949	\$ 2,491,802
Payments to suppliers of goods and services	(2,179,985)	(2,258,239)
Net cash provided by operating activities	<u>412,964</u>	<u>233,563</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	(2,009,088)	(1,935,195)
Capital contributions - City of Broken Arrow	1,433,404	525,398
Capital contributions - City of Tulsa	<u>686,394</u>	<u>1,283,255</u>
Net cash provided (used) by capital and related financing activities	<u>110,710</u>	<u>(126,542)</u>
Cash flows provided by investing activities		
Investment income	<u>17,065</u>	<u>5,871</u>
Increase in cash and cash equivalents	541,989	114,142
Cash and cash equivalents, beginning of year	<u>1,515,412</u>	<u>1,401,270</u>
Cash and cash equivalents, end of year	<u>\$ 2,057,401</u>	<u>\$ 1,515,412</u>
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (525,955)	\$ (552,366)
Adjustments:		
Depreciation	853,126	853,125
Decrease (increase) in receivables	<u>85,793</u>	<u>(67,196)</u>
Net cash provided by operating activities	<u>\$ 412,964</u>	<u>\$ 233,563</u>
Supplemental cash flow information		
Capital asset additions included in accounts payable and retainage payable	<u>\$ 95,467</u>	<u>\$ 732,812</u>
Capital contributions included in accounts receivable	<u>\$ 305,699</u>	<u>\$ 975,789</u>

The accompanying notes are an integral part of the financial statements

Regional Metropolitan Utility Authority
Notes to Basic Financial Statements
Years Ended June 30, 2014 and 2013

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 position 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.

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, 2014 and 2013

1. NATURE OF BUSINESS, REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES, 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. 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. 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 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 position during the reporting period. Actual results could differ from those estimates.

Regional Metropolitan Utility Authority
Notes to Basic Financial Statements
Years Ended June 30, 2014 and 2013

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, 2014 and 2013, the pooled cash and investments amounted to \$2,057,401 and \$1,515,412, respectively. These amounts were pooled with the City of Tulsa ("the City") and were collateralized by securities that were held by the pledging financial institution or by its trust department or agent in the City'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.

During the years ended June 30, 2014 and 2013, the Authority experienced a net increase in the fair value of investments of \$2,045 and a net decrease in the fair value of investments of \$12,930, 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 2.31 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, 2014 and 2013, 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.

Custodial Credit Risk – The City's investment policy requires that demand deposits be collateralized at least by 110% of the amounts that are 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, 2014 and 2013, 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, 2014 and 2013 were exposed to custodial credit risk.

Regional Metropolitan Utility Authority
Notes to Basic Financial Statements
Years Ended June 30, 2014 and 2013

2. CASH DEPOSITS AND INVESTMENTS, continued

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, 2014, 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 19%, 18%, 19%, and 18%, respectively of its total pooled investment portfolio. At June 30, 2013, 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 18%, 22%, 19%, and 22%, respectively of its total pooled investment portfolio.

Regional Metropolitan Utility Authority
Notes to Basic Financial Statements
Years Ended June 30, 2014 and 2013

3. CAPITAL ASSETS

Capital asset activity for the years ended is as follows:

2014:	Beginning Balance	Increase	Decrease	Ending Balance
Nondepreciable capital assets:				
Construction-in-progress	\$ 2,858,369	\$ 1,371,743	\$ -	\$ 4,230,112
Depreciable capital assets:				
Infrastructure	35,646,474	-	-	35,646,474
Buildings	951,400	-	-	951,400
	<u>36,597,874</u>	<u>-</u>	<u>-</u>	<u>36,597,874</u>
Less accumulated depreciation for:				
Infrastructure	(15,596,192)	(829,341)	-	(16,425,533)
Buildings	(37,660)	(23,785)	-	(61,445)
Total accumulated depreciation	<u>(15,633,852)</u>	<u>(853,126)</u>	<u>-</u>	<u>(16,486,978)</u>
Total depreciable capital assets, net	<u>20,964,022</u>	<u>(853,126)</u>	<u>-</u>	<u>20,110,896</u>
Total capital assets, net	<u>\$ 23,822,391</u>	<u>\$ 518,617</u>	<u>\$ -</u>	<u>\$ 24,341,008</u>
2013:	Beginning Balance	Increase	Decrease	Ending Balance
Nondepreciable capital assets:				
Construction-in-progress	\$ 345,957	\$ 2,512,623	\$ (211)	\$ 2,858,369
Depreciable capital assets:				
Infrastructure	35,646,474	-	-	35,646,474
Buildings	951,400	-	-	951,400
	<u>36,597,874</u>	<u>-</u>	<u>-</u>	<u>36,597,874</u>
Less accumulated depreciation for:				
Infrastructure	(14,766,852)	(829,340)	-	(15,596,192)
Buildings	(13,875)	(23,785)	-	(37,660)
Total accumulated depreciation	<u>(14,780,727)</u>	<u>(853,125)</u>	<u>-</u>	<u>(15,633,852)</u>
Total depreciable capital assets, net	<u>21,817,147</u>	<u>(853,125)</u>	<u>-</u>	<u>20,964,022</u>
Total capital assets, net	<u>\$ 22,163,104</u>	<u>\$ 1,659,498</u>	<u>\$ (211)</u>	<u>\$ 23,822,391</u>

Regional Metropolitan Utility Authority
Notes to Basic Financial Statements
Years Ended June 30, 2014 and 2013

4. JOINT VENTURE EQUITY INTERESTS

The equity owners' interests at June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
City of Tulsa	\$ 13,478,072	\$ 13,006,507
City of Broken Arrow	<u>13,361,374</u>	<u>12,889,251</u>
	<u>\$ 26,839,446</u>	<u>\$ 25,895,758</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 \$1,449,708 and \$2,560,546 for the years ended June 30, 2014 and 2013, respectively.

5. OPERATING AGREEMENTS

The equity owners entered into an operations and maintenance contract in 2010 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 are 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.

6. RELATED PARTY TRANSACTIONS

During the years ended June 30, 2014 and 2013, the Authority conducted the following transactions with the City of Tulsa and the City of Broken Arrow:

	<u>2014</u>	<u>2013</u>
Plant operator fees paid under operating agreement - City of Tulsa	<u>\$ 2,173,860</u>	<u>\$ 2,219,402</u>
Accounts receivable - City of Tulsa	<u>\$ 48,468</u>	<u>\$ 10,007</u>
Accounts receivable - City of Broken Arrow	<u>\$ 483,671</u>	<u>\$ 1,278,015</u>
Revenue from the user fees charged to the City of Broken Arrow and the Tulsa Metropolitan Utility Authority	<u>\$ 2,507,156</u>	<u>\$ 2,558,998</u>

Regional Metropolitan Utility Authority
Notes to Basic Financial Statements
Years Ended June 30, 2014 and 2013

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, 2014, the Authority had open commitments for construction projects of approximately \$1,873,051.

