

# **TULSA AUTHORITY FOR RECOVERY OF ENERGY**

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

**FINANCIAL STATEMENTS AND SUPPLEMENTAL  
INFORMATION**

**June 30, 2003 and 2002**

# TULSA AUTHORITY FOR RECOVERY OF ENERGY

## Index

June 30, 2003 and 2002

---

|  | <u>Page</u> |
|--|-------------|
| Report of Independent Auditors   | 1           |
| Management's Discussion and Analysis   | 2           |
| Basic Financial Statements:  |             |
| Statements of Net Assets   | 6           |
| Statements of Revenues, Expenses and<br>Changes in Net Assets  | 7           |
| Statements of Cash Flows   | 8           |
| Notes to Financial Statements  | 9           |
| Required Supplementary Information   | 16          |
| Independent Auditors' Report on Compliance and on<br>Internal Control Over Financial Reporting Based on an<br>Audit of Financial Statements Performed in<br>Accordance with <i>Government Auditing Standards</i> | 17          |

## **Report of Independent Auditors**

To the Board of Trustees  
Tulsa Authority for Recovery of Energy

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 Tulsa Authority for Recovery of Energy (the "Authority"), a component unit of the City of Tulsa, at June 30, 2003 and 2002 and the results of its operations 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 and other required supplementary information on pages 2 through 5 and 16, respectively, 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

# **TULSA AUTHORITY FOR RECOVERY OF ENERGY MANAGEMENT'S DISCUSSION AND ANALYSIS June 30, 2003 and 2002**

---

As management of the Tulsa Authority for Recovery of Energy (the "Authority"), a component unit of the City of Tulsa, Oklahoma (the "City"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the 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 current year by \$11,977. Of this amount, \$2,839 is invested in capital assets, \$3,000 is restricted and \$6,138 is unrestricted and may be used to meet the Authority's ongoing obligations.
- During 2003, the Authority's net assets declined \$2,762 to \$11,977. During 2002, the Authority's net assets declined \$2,031.
- The Authority's operating revenues decreased to \$34,367 in 2003 from \$35,465 in 2002, a 3.1% decrease.

## **Overview of the Financial Statements**

The Authority, a legally separate public trust, is reported by the City as a discretely presented component unit in the City's Comprehensive Annual Financial Report. The primary function of the Authority is to provide a system of collection, transportation and disposal of solid waste within and for the City.

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The basic financial statements include: 1) Statements of Net Assets, 2) Statements of Revenues, Expenses, and Changes in net assets, 3) Statements of Cash Flows and 4) Notes to the Financial Statements. The Authority also includes in this report additional information to supplement the basic financial statements.

## **Required Financial Statements**

The 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.

**TULSA AUTHORITY FOR RECOVERY OF ENERGY  
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued  
June 30, 2003 and 2002**

---

**Net Assets**

The Authority's net assets declined \$2,762 and 18.7% to \$11,977 at June 30, 2003. The following table provides a summary of net assets:

**SUMMARY OF NET ASSETS**

|                                | <u>2003</u>          | <u>2002</u>          | <u>Dollar<br/>Change</u> | <u>Percent<br/>Change</u> |
|--------------------------------|----------------------|----------------------|--------------------------|---------------------------|
| Current assets                 | \$ 8,236             | \$ 10,811            | \$ (2,575)               | (23.8%)                   |
| Restricted assets              | 3,000                | 3,000                | -                        | 0.0%                      |
| Capital assets, net            | <u>2,839</u>         | <u>3,048</u>         | <u>(209)</u>             | <u>(6.8%)</u>             |
| <br>Total assets               | <br><u>14,075</u>    | <br><u>16,859</u>    | <br><u>(2,784)</u>       | <br><u>(16.5%)</u>        |
| <br>Current liabilities        | <br>1,811            | <br>1,837            | <br>(26)                 | <br>(1.4%)                |
| Noncurrent liabilities         | <u>287</u>           | <u>283</u>           | <u>4</u>                 | <u>1.5%</u>               |
| <br>Total liabilities          | <br><u>2,098</u>     | <br><u>2,120</u>     | <br><u>(22)</u>          | <br><u>(1.0%)</u>         |
| <br>Invested in capital assets | <br>2,839            | <br>3,048            | <br>(209)                | <br>(6.8%)                |
| Restricted                     | 3,000                | 3,000                | -                        | 0.0%                      |
| Unrestricted                   | <u>6,138</u>         | <u>8,691</u>         | <u>(2,553)</u>           | <u>(29.4%)</u>            |
| <br>Total net assets           | <br><u>\$ 11,977</u> | <br><u>\$ 14,739</u> | <br><u>\$ (2,762)</u>    | <br><u>(18.7%)</u>        |

**TULSA AUTHORITY FOR RECOVERY OF ENERGY  
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<br/>Change</u> | <u>Percent<br/>Change</u> |
|---|------------------|------------------|--------------------------|---------------------------|
| Operating revenues                          | \$ 34,367        | \$ 35,465        | \$ (1,098)               | (3.1%)                    |
| Investment income                           | 698              | 973              | (275)                    | (28.3%)                   |
| Total revenues                              | <u>35,065</u>    | <u>36,438</u>    | <u>(1,373)</u>           | (3.8%)                    |
| Depreciation expense                        | 439              | 529              | (90)                     | (16.9%)                   |
| Other operating expense                     | 37,134           | 37,808           | (674)                    | (1.8%)                    |
| Nonoperating expense                        | 67               | 132              | (65)                     | (49.3%)                   |
| Total expenses                              | <u>37,640</u>    | <u>38,469</u>    | <u>(829)</u>             | (2.2%)                    |
| Change in net assets                        | (2,575)          | (2,031)          | (543)                    | 26.7%                     |
| Net assets, beginning of year - as restated | <u>14,552</u>    | <u>16,770</u>    | <u>(2,218)</u>           | (13.2%)                   |
| Net assets, end of year                     | <u>\$ 11,977</u> | <u>\$ 14,739</u> | <u>\$ (2,762)</u>        | (18.7%)                   |

The Authority's revenues and expenses decreased 3.8% and 2.2%, respectively. The result of expenses exceeding revenues caused a decrease in net assets of 18.7%.

Operating revenues showed a decrease of \$1,098 or 3.1% as a result of several factors. Under an amended Service Agreement, the Authority received revenues for energy credits amounting to \$73, a decrease of \$753 from the previous year. The number of residential customers increased resulting in a \$219 increase in revenue from residential customers. Commercial refuse revenues decreased \$564 due to fewer container yards collected in the current year.

Investment income included in nonoperating revenues is \$275 less than the prior year due to a reduction in cash and cash equivalent balances.

Total expenses decreased 2.2%. The majority of the decrease is related to the \$90 reduction of depreciation expense and \$674 of other operating expenses for refuse collection.

**Capital Assets**

Effective for the year ending June 30, 2003, the Authority increased its capital asset threshold to \$5 from the previous threshold of \$1. The Authority has reported the amount of the change as a decrease to beginning net assets of \$187 for 2003.

The Authority's investment in capital assets as of June 30, 2003 amounts to \$2,839 (net of accumulated depreciation). This investment in capital assets includes building and equipment. Capital asset acquisitions during the year totaled \$499. The Authority removed \$452 of capital assets and \$265 of accumulated depreciation as a result of the change in the capital asset threshold policy.

**TULSA AUTHORITY FOR RECOVERY OF ENERGY  
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued  
June 30, 2003 and 2002**

---

**CAPITAL ASSETS**

|                               | <u>2003</u>     | <u>2002</u>     | <u>Dollar<br/>Change</u> | <u>Percent<br/>Change</u> |
|-------------------------------|-----------------|-----------------|--------------------------|---------------------------|
| Building                      | \$ 693          | \$ 693          | \$ -                     | 0.0%                      |
| Equipment                     | <u>5,166</u>    | <u>5,274</u>    | <u>(108)</u>             | <u>(2.0%)</u>             |
|                               | 5,859           | 5,967           | (108)                    | (1.8%)                    |
| Less accumulated depreciation | <u>(3,020)</u>  | <u>(2,919)</u>  | <u>(101)</u>             | <u>3.5%</u>               |
| Capital assets, net           | <u>\$ 2,839</u> | <u>\$ 3,048</u> | <u>\$ (209)</u>          | <u>(6.9%)</u>             |

**Noncurrent Liabilities**

At the end of the current year, the Authority's noncurrent liability for vested compensated absences was \$275, an increase of \$4 during the year. Also included in noncurrent liabilities is a \$12 deposit from the contractor for the residential curbside recycling program.

**Subsequent Event**

On Thursday, September 25, 2003, Covanta notified the Authority and the City of Tulsa that at the end of the day they would accept no additional deliveries of solid waste at the waste-to-energy facility. Since that time, all City of Tulsa residential and commercial solid waste has been diverted to the Waste Management/Quarry Landfill. The change in the disposal location has had virtually no effect on the services to the residential and commercial community.

As of April 1, 2002, Covanta Tulsa, Inc., the facility operator, entered Chapter 11 bankruptcy in the New York District Court. There continues to be uncertainty about the future status of the facility. The owner of the facility, CIT, has announced that another operator has agreed to step in, however as of September 25, 2003 there can be no assurance that another operator will resume operation of the facility.

**Requests for Information**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Controller, 200 Civic Center, Tulsa, Oklahoma 74103.

**TULSA AUTHORITY FOR RECOVERY OF ENERGY**  
**STATEMENTS OF NET ASSETS**  
**June 30, 2003 and 2002**

---

| <b><u>ASSETS</u></b>                 | <b><u>2003</u></b>    | <b><u>2002</u></b> |
|--------------------------------------|-----------------------|--------------------|
|                                      | <b>(In Thousands)</b> |                    |
| Current assets:                      |                       |                    |
| Cash and cash equivalents            | \$ 2,980              | \$ 5,299           |
| Refuse services receivable, net      | 5,217                 | 5,420              |
| Interest receivable                  | 39                    | 92                 |
| Total current assets                 | <u>8,236</u>          | <u>10,811</u>      |
| Restricted cash and cash equivalents | 3,000                 | 3,000              |
| Capital assets, net                  | <u>2,839</u>          | <u>3,048</u>       |
| Total assets                         | <u>14,075</u>         | <u>16,859</u>      |
| <b><u>LIABILITIES</u></b>            |                       |                    |
| Current liabilities:                 |                       |                    |
| Service fee payable                  | 1,080                 | 1,078              |
| Refuse collection payable            | 685                   | 684                |
| Accounts payable                     | 46                    | 75                 |
| Total current liabilities            | <u>1,811</u>          | <u>1,837</u>       |
| Noncurrent liabilities:              |                       |                    |
| Vested compensated absences          | 275                   | 271                |
| Deposit payable                      | 12                    | 12                 |
| Total noncurrent liabilities         | <u>287</u>            | <u>283</u>         |
| Total liabilities                    | <u>2,098</u>          | <u>2,120</u>       |
| <b><u>NET ASSETS</u></b>             |                       |                    |
| Invested in capital assets           | 2,839                 | 3,048              |
| Restricted                           | 3,000                 | 3,000              |
| Unrestricted                         | <u>6,138</u>          | <u>8,691</u>       |
| Total net assets                     | <u>\$ 11,977</u>      | <u>\$ 14,739</u>   |

The accompanying notes are an integral part of these financial statements.

**TULSA AUTHORITY FOR RECOVERY OF ENERGY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**Years Ended June 30, 2003 and 2002**

---

|  | <u>2003</u>      | <u>2002</u>      |
|--|------------------|------------------|
|  | (In Thousands)   |                  |
| Operating revenues:                                  |                  |                  |
| Refuse services                                      | \$ 34,294        | \$ 34,639        |
| Energy credits                                       | 73               | 826              |
|  | <u>34,367</u>    | <u>35,465</u>    |
| Operating expenses:                                  |                  |                  |
| Refuse collection                                    | 8,033            | 7,922            |
| Service agreement fee                                | 18,645           | 18,178           |
| Salaries and wages                                   | 3,367            | 3,397            |
| Other operating expenses                             | 7,089            | 8,311            |
| Depreciation   | 439              | 529              |
|  | <u>37,573</u>    | <u>38,337</u>    |
| Operating loss                                       | <u>(3,206)</u>   | <u>(2,872)</u>   |
| Nonoperating income (expense):                       |                  |                  |
| Investment income                                    | 698              | 973              |
| Other income (expense)                               | -                | (40)             |
| Loss on disposal of assets                           | (67)             | (92)             |
|  | <u>631</u>       | <u>841</u>       |
| Change in net assets                                 | <u>(2,575)</u>   | <u>(2,031)</u>   |
| Net assets, beginning of year - as originally stated | 14,739           | 16,770           |
| Effect of change in accounting policy                | (187)            | -                |
| Net assets, beginning of year - as restated          | <u>14,552</u>    | <u>16,770</u>    |
| Net assets, end of year                              | <u>\$ 11,977</u> | <u>\$ 14,739</u> |

The accompanying notes are an integral part of these financial statements.

**TULSA AUTHORITY FOR RECOVERY OF ENERGY**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2003 and 2002**

---

|  | <u>2003</u>           | <u>2002</u>       |
|--|-----------------------|-------------------|
|  | <u>(In Thousands)</u> |                   |
| Cash flows from operating activities:                                      |                       |                   |
| Cash received from customers   | \$ 34,570             | \$ 35,610         |
| Cash payments to suppliers for goods and services                          | (33,793)              | (34,026)          |
| Cash payments to employees for services                                    | <u>(3,363)</u>        | <u>(3,361)</u>    |
| Net cash used in operating activities                                      | <u>(2,586)</u>        | <u>(1,777)</u>    |
| Cash flows from noncapital financing activities:                           |                       |                   |
| Payment to General Fund  | <u>-</u>              | <u>(40)</u>       |
| Cash flows from capital and related financing activities:                  |                       |                   |
| Acquisition of capital assets  | (499)                 | (352)             |
| Proceeds from sale of capital assets                                       | <u>14</u>             | <u>2</u>          |
| Net cash used in capital and related financing activities                  | <u>(485)</u>          | <u>(350)</u>      |
| Cash flows provided by investing activities:                               |                       |                   |
| Interest received  | <u>752</u>            | <u>1,237</u>      |
| Net change in cash and cash equivalents                                    | (2,319)               | (930)             |
| Cash and cash equivalents, beginning of year                               | <u>8,299</u>          | <u>9,229</u>      |
| Cash and cash equivalents, end of year                                     | <u>\$ 5,980</u>       | <u>\$ 8,299</u>   |
| Reconciliation of operating loss to net cash used in operating activities: |                       |                   |
| Operating loss   | \$ (3,206)            | \$ (2,872)        |
| Adjustments:   |                       |                   |
| Depreciation   | 439                   | 529               |
| Decrease in receivables  | 203                   | 145               |
| Increase (decrease) in accounts payable                                    | (26)                  | 385               |
| Increase in compensated absences   | <u>4</u>              | <u>36</u>         |
| Net cash used in operating activities                                      | <u>\$ (2,586)</u>     | <u>\$ (1,777)</u> |

The accompanying notes are an integral part of these financial statements.

# TULSA AUTHORITY FOR RECOVERY OF ENERGY

## NOTES TO FINANCIAL STATEMENTS

---

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Tulsa Authority for Recovery of Energy (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 AND PURPOSE** - The Authority was created on November 11, 1977, for the benefit of the City of Tulsa (the "City"), to provide for the collection, removal, transportation and disposal of solid waste within and for the City. Trustees for the Authority include the Mayor of the City and six individuals appointed by the Mayor and confirmed by City Council. The Authority is included as a component unit in the City's comprehensive annual financial report.

The various agreements between the Authority and other parties required the creation of a Residential Billing Fund to account for the transactions affecting the Authority's legal responsibility for the City's residential refuse, a Rate Stabilization Fund to provide funds to cover service fee deficits, a Service Agreement Fund to record transactions which arise pursuant to the terms of the Service Agreement (see Note 2), and an Operations Fund to account for the costs of operations for collection and disposal of municipal solid waste. All of these funds are combined for financial reporting purposes.

**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** - For purposes of reporting cash flows, the Authority considers all highly liquid debt instruments with an original maturity of three months or less when purchased to be cash equivalents.

**REFUSE SERVICES RECEIVABLE** - Consists of amounts receivable from customers within and around the Tulsa metropolitan area for residential municipal waste collection and disposal and commercial municipal solid waste disposal. Refuse services receivables include an amount for unbilled revenue of \$2,830,000 and \$2,900,000 at June 30, 2003 and 2002, respectively, for services provided but not billed to customers at year-end.

# TULSA AUTHORITY FOR RECOVERY OF ENERGY

## NOTES TO FINANCIAL STATEMENTS

---

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The Authority recorded an allowance for uncollectible accounts against refuse services receivable of \$164,192 and \$184,000 as of June 30, 2003 and 2002, respectively.

**CAPITAL ASSETS** – Capital assets purchased or acquired are carried at historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets sold or disposed have their cost and related accumulated depreciation removed from the records. Any gain or loss is recorded as nonoperating income in the period of sale or disposal.

Effective for the year ending June 30, 2003, the Authority increased its capital asset threshold to \$5,000 from the previous threshold of \$1,000. The Authority is reporting the amount of the change as an adjustment to beginning net assets for 2003 resulting from a change in accounting policy.

**DEPRECIATION** – Capital assets placed in service are depreciated on a straight-line basis over the following estimated useful lives:

|           |            |
|-----------|------------|
| Buildings | 20 years   |
| Equipment | 5-20 years |

**ENERGY CREDITS** – Under the Amended Service Agreement with Covanta Energy (“Covanta”) as described in Note 2 and Note 8, the Authority is entitled to an Energy Credit equal to 25% of the revenues actually received by Covanta under the Sun Company Steam Sales Agreement (“Sun Agreement”) during any billing period the gas price is greater than the reference gas price. The Amended Service Agreement defines gas price as the weighted average of the steam price under the Sun Agreement during the contract year.

**REFUSE COLLECTION** - Refuse collection expense for residential customers is determined on the basis of a "headcount" (i.e., the number of customers) by type of service as of the tenth day of each month. This procedure is in accordance with the terms and conditions of the contract between the Authority and Tulsa Refuse, Inc.

**INCOME TAXES** - As a political subdivision, the Authority is exempt from federal income taxes under Section 115(1) of the Internal Revenue Code.

**VESTED COMPENSATED ABSENCES** - Vacation leave is granted to all regular and part-time employees. The annual amount of vacation time accrued varies from 13 to 24 days depending upon years of service. The maximum amount of vacation time that may be accumulated is twice the amount that may be earned in one calendar year. Accumulated vacation leave vests and the Authority is obligated to make payment even if the employee terminates. The amount of unpaid vacation is charged to expense currently and a corresponding liability established.

Payment for vested compensated absences is made only upon termination, therefore, it is the Authority’s policy to record all vested compensated absences as long-term liabilities.

# TULSA AUTHORITY FOR RECOVERY OF ENERGY

## NOTES TO FINANCIAL STATEMENTS

---

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

**RESTRICTED ASSETS AND RESTRICTED NET ASSETS** - Amounts included in restricted cash and cash equivalents and restricted net assets represent monies held in the rate stabilization fund. These amounts are classified as restricted assets on the Statements of Net Assets because their use is limited by applicable bond covenants.

### 2. SOLID WASTE RESOURCE RECOVERY FACILITY

In April, 1984, the Authority entered into a Service Agreement with Covanta, formerly known as Ogden Martin Systems of Tulsa, Inc., wherein Covanta agreed to finance, design, construct, equip, own, and operate a mass burn solid waste disposal, steam and electrical power generation and resource recovery facility (the "Facility"). The Service Agreement is for a period of 20 years from the effective date of the agreement. Construction of the Facility (units one and two) was completed and accepted by the Authority in October 1986. The third unit was completed and accepted by the Authority in October 1987.

The Tulsa Public Facilities Authority ("TPFA") financed a substantial portion of the cost of the Facility with two revenue bond issues in the aggregate amount of \$92,375,000. The proceeds were loaned to Covanta to construct the Facility. In addition, Covanta funded \$17,213,000 towards the completion of the Facility and contributed \$9,383,000 to the Rate Stabilization Fund. The bond issues are collateralized by a Loan Agreement between TPFA and the owner-trustee and by a Pledge and Security Agreement between TPFA and the Authority. Under the terms of the Pledge and Security Agreement, the Authority has assigned its rights and interests in other agreements made in connection with the financing and operation of the facility.

On August 2, 1986, Covanta sold the Facility, subject to outstanding indebtedness, for \$91,000,000 which was equal to its fair market value as determined by an independent appraisal, to the Bank of Oklahoma, Tulsa, N.A. as owner-trustee acting on behalf of an institutional equity investor ("owner participant"). As a part of the same transaction, the owner-trustee leased units one and two of the Facility back to Covanta under a leverage lease arrangement and leased the third unit to Covanta pursuant to a financing lease which provided for the repurchase of the third unit at the end of the lease term for a nominal price. The owner-trustee had the option to purchase Covanta's leasehold interest and enter into a leverage lease arrangement for the third unit; this option was exercised in September 1987.

In December 1995, the Environmental Protection Agency issued regulations, which required certain capital improvements to the Facility by December 2000 in order to achieve compliance with those regulations. In August 1998, the Authority authorized Covanta, pursuant to the Service Agreement, to solicit bids for the construction of the capital improvements to the Facility for an estimated cost of \$26 million. The Service Agreement required the Authority to pay a substantial portion of the retrofit improvements. As a result of a negotiation, effective April 1, 1999, the Authority and Covanta entered into an Amended and Restated Service Agreement.

Prior to April 1, 1999, the Service Agreement required the Authority to deliver to the Facility a minimum annual quantity of 292,000 tons of acceptable waste and to pay a service fee for its processing. The service fee was based on a formula whereby the Authority paid to Covanta 10% of steam and materials revenues, operating and maintenance expenses, pass-through costs, debt service requirements on the loan, and other related costs.

# TULSA AUTHORITY FOR RECOVERY OF ENERGY

## NOTES TO FINANCIAL STATEMENTS

### 2. SOLID WASTE RESOURCE RECOVERY FACILITY, Continued

Beginning on April 1, 1999, the Amended Service Agreement requires the Authority to deliver to the Facility a minimum annual quantity of 340,000 tons of acceptable waste. The Amended Service Agreement restructured the service fee formula whereby the Authority pays Covanta a tipping fee per ton of waste and debt service requirements on the loan. The total service fee for the years ended June 30, 2003 and 2002 was approximately \$18,645,000 and \$18,178,000, respectively. See Note 8.

In connection with its obligations under the Service Agreement, the Authority established the Rate Stabilization Fund which may be used to cover service fee deficits and minimize or eliminate the necessity for changes in residential refuse rates due to changes in the service fee. During the years ended June 30, 2003 and 2002, there were no transfers from the Rate Stabilization Fund to the Service Agreement Fund to cover service fee deficits.

### 3. CASH DEPOSITS AND INVESTMENTS

Cash deposits of the Authority are maintained within the City's pooled cash and investments account. Pooled cash and investments consist primarily of time deposits and other securities guaranteed by the United States Government or its agencies. At June 30, 2003 and 2002, the pooled cash and investments amounted to \$5,979,945 and \$8,298,946 respectively. The amounts pooled with the City at June 30, 2003 and 2002 were represented by investments which were insured or registered or securities held by the City or its 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 assets. An appreciation in fair value of \$16,780 is recognized and reported in investment income for the year ended June 30, 2003. For the year ended June 30, 2002, the Authority experienced an appreciation in fair value of \$43,000, which also is recognized and reported in investment income of the respective year.

### 4. CAPITAL ASSETS

The change in capital assets during 2003 is summarized as follows (in thousands):

|  | <u>Beginning<br/>Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|--|------------------------------|------------------|------------------|---------------------------|
| Capital assets being depreciated:      |                              |                  |                  |                           |
| Buildings                              | \$ 693                       | \$ -             | \$ -             | \$ 693                    |
| Equipment                              | 5,274                        | 499              | 607              | 5,166                     |
| Total capital assets being depreciated | <u>5,967</u>                 | <u>499</u>       | <u>607</u>       | <u>5,859</u>              |
| Less accumulated depreciation:         |                              |                  |                  |                           |
| Buildings                              | (631)                        | (2)              | -                | \$ (633)                  |
| Equipment                              | (2,288)                      | (437)            | (338)            | \$ (2,387)                |
| Total accumulated depreciation         | <u>(2,919)</u>               | <u>(438)</u>     | <u>(338)</u>     | <u>(3,020)</u>            |
| Capital assets, net                    | <u>\$ 3,048</u>              | <u>\$ 61</u>     | <u>\$ 268</u>    | <u>\$ 2,839</u>           |

**TULSA AUTHORITY FOR RECOVERY OF ENERGY**  
**NOTES TO FINANCIAL STATEMENTS**

---

4. **CAPITAL ASSETS**, Continued

The Authority removed \$451,691 of capital assets and \$264,006 of accumulated depreciation as a result of the change in the capital asset threshold policy.

5. **MUNICIPAL EMPLOYEES' PENSION PLAN**

Each qualified employee of the Authority is included in the City of Tulsa's Municipal Employees' Retirement Plan (the "Plan") which is a cost sharing multiple employer defined benefit pension plan. The Plan was established by the City in accordance with the City Charter and State Statutes. A separate board of trustees administers the Plan and a local bank holds the Plan assets in custody. Employees of the Authority are eligible to participate in the Plan on the first day of the month which coincides with, or next following, their first day of employment. Employees become 100% vested after five years of employment.

The amount of normal retirement income is equal to 2.3% of final average earnings up to covered compensation times years of service. Final average earnings are defined as the average monthly earnings of a participant during the 36 consecutive months in which the participant's aggregate earnings shall have been the highest, selected from the last 60 months prior to termination.

Any participant whose years of continuous employment, when added to the participant's age equals or exceeds 80, may retire without a reduction in the monthly benefit. Pension provisions include death benefits for the surviving spouse. The Plan does not provide a monthly income for disabled participants; however, under certain conditions, employees who become disabled may be eligible to receive their full retirement at age 65 even though they were unable to work up to the retirement age.

The annual required contribution for the current year was determined as part of the January 1, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. Actuarial assumptions include the use of an 8% discount rate, a projected salary increase of 6% a year to retirement age, and an inflation component of 3.5%. Information regarding contributions by the Authority and employees for the years ended June 30, 2003 and 2002 is presented below.

|                                     | <u>2003</u>  | <u>2002</u>  |
|-------------------------------------|--------------|--------------|
| Covered payroll                     | \$ 2,464,000 | \$ 2,544,000 |
| Total payroll                       | \$ 2,489,000 | \$ 2,552,000 |
| Actuarially determined contribution | \$ 254,000   | \$ 262,000   |
| Employee contribution %             | 4.0%         | 4.0%         |
| Employee contribution               | \$ 99,000    | \$ 102,000   |
| Employer contribution %             | 6.3%         | 6.3%         |
| Employer contribution               | \$ 155,000   | \$ 160,000   |

The Plan is reported as a Pension Trust Fund in the City's 2003 Comprehensive Annual Financial Report. The Plan does not issue a stand-alone financial report and is not included in the report of a public employee retirement system or a report of another entity.

**TULSA AUTHORITY FOR RECOVERY OF ENERGY**  
**NOTES TO FINANCIAL STATEMENTS**

---

5. **MUNICIPAL EMPLOYEES' PENSION PLAN**, Continued

Presented, as Required Supplementary Information, are the Schedule of Funding Progress, Schedule of Employer Contributions and Notes to the Required Supplementary Information of the Plan. The amounts are based on a standardized measure established by GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." There are no assets legally reserved for purposes other than the payment of pension benefits. Annual pension cost trend information for the Plan is presented below:

| <u>Fiscal Year</u> | <u>Annual Pension Cost</u> | <u>Percentage Contributed</u> | <u>Net Pension Obligation</u> |
|--------------------|----------------------------|-------------------------------|-------------------------------|
| 2003               | \$ 5,863,000               | 100%                          | -                             |
| 2002               | \$ 5,998,000               | 100%                          | -                             |
| 2001               | \$ 5,933,000               | 100%                          | -                             |

6. **RISK MANAGEMENT**

The City's risk management activities are recorded in the Employee Insurance Fund. The purpose of the fund is to administer the workers' compensation, health and dental insurance programs of the City. The Authority participates in the City's insurance programs through payment for services. The Authority assumes no liability. The City retains all risk of loss for workers' compensation, while all other major insurance programs are covered by commercial insurance. 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.

7. **RELATED PARTY TRANSACTIONS**

During the years ended June 30, 2003 and 2002, the Authority conducted the following transactions with related parties.

|  | <u>2003</u>           | <u>2002</u> |
|--|-----------------------|-------------|
|  | <u>(In Thousands)</u> |             |
| Payments in lieu of taxes to City of Tulsa                 | \$ 1,901              | \$ 1,886    |
| Indirect cost reimbursement to City of Tulsa               | \$ 605                | \$ 618      |
| Refuse service revenue from City of Tulsa                  | \$ 300                | \$ 301      |
| Charges for maintenance of equipment paid to City of Tulsa | \$ 643                | \$ 686      |
| Payments for FEMA refund to City of Tulsa                  | \$ -                  | \$ 40       |

8. **SUBSEQUENT EVENT**

On Thursday, September 25, 2003, Covanta notified the Authority and the City of Tulsa that at the end of the day they would accept no additional deliveries of solid waste at the waste-to-energy facility. Since that time, all City of Tulsa residential and commercial solid waste has been diverted to the Waste Management/Quarry Landfill. The change in the disposal location has had

# TULSA AUTHORITY FOR RECOVERY OF ENERGY

## NOTES TO FINANCIAL STATEMENTS

---

### 9. **SUBSEQUENT EVENT**, continued

virtually no effect on the services to the residential and commercial community. The Authority and the City of Tulsa have a contract with Waste Management/Quarry Landfill for solid waste disposal services dated July 1, 1998. The contract includes a term of twenty years and includes a five-year extension option.

As of April 1, 2002, Covanta Tulsa, Inc., the facility operator, entered Chapter 11 bankruptcy in the New York District Court. There continues to be uncertainty about the future status of the facility. The owner of the facility, CIT, has announced that another operator has agreed to step in, however as of September 25, 2003 there can be no assurance that another operator will resume operation of the facility.

**TULSA AUTHORITY FOR RECOVERY OF ENERGY**  
**REQUIRED SUPPLEMENTARY INFORMATION**

---

**MUNICIPAL EMPLOYEES' PENSION TRUST**  
**(dollars in thousands)**

**I. SCHEDULE OF FUNDING PROGRESS**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Liability (AAL) Entry Age (b) | Accrued Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------|-------------------------------|---|-----------------------------------|--------------------|---------------------|---|
| 1/1/03                   | \$296,866                     | \$303,091                               | \$6,225                           | 97.95%             | \$93,070            | 6.69%   |
| 1/1/02                   | 287,065                       | 279,264                                 | (7,801)                           | 102.8%             | 92,639              | (8.4%)  |
| 1/1/01                   | 268,577                       | 257,103                                 | (11,474)                          | 104.5%             | 89,507              | (12.8%)   |
| 1/1/00                   | 245,248                       | 230,787                                 | (14,461)                          | 106.3%             | 87,371              | (16.60%)  |
| 1/1/99                   | 218,723                       | 209,357                                 | (9,366)                           | 104.5%             | 80,997              | (11.56%)  |
| 1/1/98                   | 191,263                       | 192,391                                 | 1,128                             | 99.41%             | 75,335              | 1.50%   |

**II. SCHEDULE OF EMPLOYER CONTRIBUTIONS**

| Year | Annual Required Contribution | Percentage Contributed |
|------|------------------------------|------------------------|
| 2003 | \$5,863                      | 100%                   |
| 2002 | 5,836                        | 100%                   |
| 2001 | 5,933                        | 100%                   |
| 2000 | 5,707                        | 100%                   |
| 1999 | 5,419                        | 100%                   |
| 1998 | 5,202                        | 100%                   |

**III. NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

|                                  |                                 |
|----------------------------------|---------------------------------|
| Valuation date                   | January 1, 2003                 |
| Actuarial cost method            | Entry Age Normal Cost Method    |
| Amortization method              | Level dollar amortization, open |
| Remaining amortization period    | 6 years                         |
| Actuarial asset valuation method | 5 year smoothed market value    |
| Actuarial assumptions:           |                                 |
| Investment rate of return*       | 8%                              |
| Projected salary increases*      | 6%                              |
| Cost of living adjustments       | None                            |
| *Includes inflation at           | 3.5%                            |

**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  
Tulsa Authority for Recovery of Energy

We have audited the financial statements of the Tulsa Authority for Recovery of Energy (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 combined 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 Authority management and is not intended to be and should not be used by anyone other than those specified parties.

August 29, 2003