TULSA DEVELOPMENT AUTHORITY

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

FINANCIAL REPORTS

June 30, 2012 and 2011

TULSA DEVELOPMENT AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
Index
Years Ended June 30, 2012 and 2011

McGladrey

Independent Auditor's Report

Board of Trustees
Tulsa Development Authority
Tulsa, Oklahoma

We have audited the accompanying basic financial statements of the Tulsa Development Authority (Authority), a component unit of the City of Tulsa, Oklahoma, 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 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 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 Tulsa Development 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.

In accordance with *Government Auditing Standards*, we have also issued our reports for the years ended June 30, 2012 and 2011 dated November 19, 2012 and December 6, 2011, respectively, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of those reports is 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 6 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
November 19, 2012

As the management of the Tulsa Development Authority (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 years ended June 30, 2012 and 2011. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements and notes as a whole. 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 $34,609. Of this amount, $312 is invested in capital assets, $21,627 is restricted for capital projects, $1,567 is restricted for other purposes, and $11,103 is unrestricted and may be used to meet the Authority's ongoing obligations. The assets of the Authority exceeded its liabilities at the close of 2011 by $35,982.

During 2012, the Authority's net assets decreased $1,283 to $34,609. During 2011, the Authority's net assets decreased $800.

The Authority's operating revenues increased to $1,842 in 2012 from $400 in 2011, a 360.5% increase. In 2011, the Authority's operating revenues decreased from $834 to $400, a 52.0% 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 benefit the City by the rehabilitation, conservation, redevelopment, or a combination thereof, of blighted areas to ensure the public health, safety, and welfare of its residents.

TDA 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 Authority uses fund accounting in its financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

The financial statements of the Authority report information using accounting methods similar to those used by private sector companies. These statements offer short-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 the 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. The primary purpose

Required Financial Statements, continued

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 the cash balance during the period.

The Authority's net position decreased $1,283 or 3.6% to $34,609 at June 30, 2012. The following table provides a summary of net position:

SUMMARY OF NET POSITION

	2012	2011	2010
Current assets	$ 3,260	$ 3,990	$ 5,477
Capital assets, net	312	349	3,674
Noncurrent assets	31,528	32,322	28,512
Total assets	35,100	36,661	37,663
Current liabilities	173	436	345
Noncurrent liabilities	318	333	626
Total liabilities	491	769	971
Net position:			
Net investment in capital assets	312	349	3,674
Restricted: Capital projects	21,627	20,072	18,599
Restricted: Other purposes	1,567	8,564	7,362
Unrestricted	11,103	6,907	7,057
Total net position	$ 34,609	$ 35,892	$ 36,692

In 2012, current assets decreased $730 primarily as a result of a $529 increase in cash and a $1,274 decrease in the receivable from other government related to reimbursements for construction costs on downtown residential development projects.

In 2012, current liabilities decreased $263 primarily as a result of a $267 decrease in accounts payable.

In 2011, current assets decreased $1,487 as a result of a $1,783 decrease in cash and cash equivalents and an increase of $441 in the receivable from other government related to reimbursements for construction costs on downtown residential development projects.

In 2011, current liabilities increased $91 primarily as a result of a $90 increase in accounts payable.

Required Financial Statements, continued

Noncurrent liabilities decreased $15 and $293 in 2012 and 2011, respectively. The 2012 decrease is primarily the result of the release of a $166 pollution remediation obligation. In addition, there were increases of $26 in the vested compensated absences long-term liability and $125 in escrow and security deposits. The decrease in 2011 is primarily the result of a $210 forgiveness of liability to primary government and a $94 decrease in advances from other government.

SUMMARY OF CHANGES IN NET POSITION

	2012	2011	2010
Operating revenues	$ 1,842	$ 400	$ 834
Investment income	193	266	302
Contributions	399	1,097	-
Payments from primary government	2,139	1,397	3,261
Intergovernmental revenue	-	1,892	833
Ad valorem tax and sales tax	1,393	1,131	920
Other income	5	357	662
Total revenues	5,971	6,540	6,812
Depreciation expense	11	11	100
Other operating expense	1,214	2,204	1,941
Payments to Tulsa Parking Authority	585	-	1,022
Loss on impairment of capital assets	-	1,066	-
Nonoperating expense	668	83	7
Total expenses	2,478	3,364	3,072
Capital contributions to primary government	(4,776)	(3,976)	(2,189)
Change in net position	(1,283)	(800)	1,551
Net position, beginning of year, as restated	35,892	36,692	35,141
Net position, end of year	$ 34,609	$ 35,892	$ 36,692

In 2012, revenues decreased $569 or 8.7% and expenses decreased $886 or 26.3%. The result of revenues exceeding expenses and a capital contribution of $4,776 was a net decrease in net position of 3.6%.

In 2012, operating revenues increased $1,442 or 360.5% primarily due to gains on sales of land held for resale.

Investment income decreased $73 in 2012.

In 2012, other operating expenses decreased $990 due to the nonrecurrence of the $1,066 impairment loss in 2011. In addition, relocation costs declined $265 in 2012.

CAPITAL ASSETS

The Authority's investment in capital assets as of June 30, 2012 was $312 (net of accumulated depreciation). This investment in capital assets includes buildings and equipment. There were no capital asset acquisitions during the year.

	2012	2011
Land	$ 35	$ 35
Construction in progress	-	26
Buildings	566	566
Equipment	122	152
Capital assets, total	723	779
Less accumulated depreciation	(411)	(430)
Capital assets, net	$ 312	$ 349

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Authority's appointed officials considered many factors when setting the 2013 budget and fees charged for business-type activities. At the national level, unemployment declined to 8.2 percent at the end of fiscal-year 2012. Unemployment in the City of Tulsa declined to 5.2 percent at the end of fiscal-year 2012. The Authority has not experienced a decline in collection rates for accounts receivable as the economy slowly recovers from the economic downturn.

Nationally, consumer spending since the recession has been weaker than in any post-World War II recovery. Economic activity in the state of Oklahoma remains below pre-recession levels. Oklahoma's growth in gross domestic product ranked 29th nationally for calendar year 2011.

The Authority acquires properties in Tulsa in order to rehabilitate, conserve, or redevelop blighted or underserved areas of Tulsa. The Authority remarkets the properties by offering loans at attractive rates funded by sales tax received from the City. The real estate market in Tulsa has not declined as dramatically as in other areas of the United States. The Authority did not experience any significant losses related to the remarketing of these properties.

Office vacancies in the City of Tulsa decreased approximately two percent from July 2011 through June 2012. The commercial real estate leasing environment in Tulsa remains improved slightly from the previous year. Vacant office space in Tulsa's central business district was approximately 21 percent at June 30, 2012. The Authority participates in several projects to convert vacant downtown office buildings to residential living units. Expenditures related to these projects are financed by the City of Tulsa from its sales tax collections.

The Authority uses sales tax and ad valorem tax collected in tax increment financing districts to fund park and street improvements in the City.

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 7413.

TULSA DEVELOPMENT AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
STATEMENTS OF NET POSITION
Years Ended June 30, 2012 and 2011

	2012	2011
ASSETS	(In thousands of dollars)	
Current assets:		
Cash and cash equivalents	$ 3,219	$ 2,690
Receivables	12	3
Prepaid expense	29	23
Due from other governments	-	1,274
Total current assets	3,260	3,990
Noncurrent assets:		
Cash and cash equivalents - restricted	12,266	10,476
Receivables - restricted	62	28
Land held for resale, net	4,279	4,092
Land held for resale, net - restricted	724	3,834
Non-depreciable capital assets	35	61
Depreciable capital assets, net	277	288
Notes receivable	4,000	3,679
Notes receivable - restricted, net	10,197	10,213
Total noncurrent assets	31,840	32,671
Total assets	35,100	36,661
LIABILITIES		
Current liabilities:		
Accounts payable	168	435
Vested compensated absences	5	1
Total current liabilities	173	436
Noncurrent liabilities:		
Unearned revenue	4	4
Escrow and security deposits	225	148
Escrow and security deposits - restricted	55	7
Vested compensated absences	34	8
Pollution remediation obligation	-	166
Total noncurrent liabilities	318	333
Total liabilities	491	769
NET POSTION		
Net investment in capital assets	312	349
Restricted for:		
Capital projects	21,627	20,072
Other purposes	1,567	8,564
Unrestricted net position	11,103	6,907
Total net position	$ 34,609	$ 35,892

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

TULSA DEVELOPMENT AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2012 and 2011

	2012	2011
	(In thousands of dollars)	
Operating revenues:		
Property rentals	$ 235	$ 395
Other income, including gain on sale of land held for resale	1,607	5
Total operating revenues	1,842	400
Operating expenses:		
Salaries and wages	267	211
Materials and supplies	3	4
Other services and charges	856	870
Relocation and improvement	-	265
Unrealized loss on land held for resale	89	894
Depreciation	11	11
Provision for uncollectible accounts	(1)	(40)
Total operating expenses	1,225	2,215
Operating income (loss)	617	(1,815)
Nonoperating revenues (expenses):		
Investment income	193	266
Ad Valorem tax and sales tax revenue	1,393	1,131
Federal and state grant revenues	-	357
Contributions	399	1,097
Payments to Tulsa Parking Authority	(585)	-
Payments to primary government	(668)	(41)
Payments from primary government	2,139	1,397
Intergovernmental revenue	-	1,892
Gain/(Loss) on sale of capital assets	5	(42)
Loss on impairment of capital assets	-	(1,066)
Total nonoperating revenues	2,876	4,991
Income before contributions	3,493	3,176
Capital contributions to primary government	(4,776)	(3,976)
Change in net position	(1,283)	(800)
Net position, beginning of year	35,892	36,692
Net position, end of year	$ 34,609	$ 35,892

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

TULSA DEVELOPMENT AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
STATEMENT OF CASH FLOWS
Years Ended June 30, 2012 and 2011

	2012	2011
	(In thousands of dollars)	
Cash flows from operating activities:		
Receipts from customers	$ 2,637	$ 467
Payments to suppliers	(1,533)	(1,056)
Payments to employees	(237)	(202)
Net cash provided by (used for) operating activities	867	(791)
Cash flows from noncapital financing activities:		
Payments to Tulsa Parking Authority	(585)	-
Payments to primary government	(668)	(135)
Payments from primary government	2,139	1,337
Reimbursements	34	-
Noncapital transactions, including issuance of notes receivable	(304)	(1,582)
Operating grants and contributions	399	1,454
Intergovernmental revenue	1,274	1,451
Ad Valorem and sales tax receipts	1,393	1,131
Net cash provided by noncapital financing activities	3,682	3,656
Cash flows from capital and related financing activities:		
Acquisition of capital assets	-	(26)
Proceeds from sale of capital assets	31	-
Capital contributions to primary government	(2,420)	(3,976)
Net cash used for capital and related financing activities	(2,389)	(4,002)
Cash flows from investing activities:		
Investment income	159	276
Net cash provided by investing activities	159	276
Net increase (decrease) in cash and equivalents	2,319	(861)
Cash and cash equivalents, beginning of year	13,166	14,027
Cash and cash equivalents, end of year	$ 15,485	$ 13,166
Reconciliation of cash and cash equivalents to the Statements of Net Position:		
Current unrestricted cash and cash equivalents	$ 3,219	$ 2,690
Noncurrent restricted cash and cash equivalents	12,266	10,476
	$ 15,485	$ 13,166
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	$ 617	$ (1,815)
Adjustments		
Depreciation	11	11
Gain on sale and cost adjustments on land held for resale	352	956
Provision for uncollectible accounts	(1)	(40)
(Increase) in receivables and other assets	(15)	(5)
(Decrease) increase in payables and other liabilities	(112)	102
Net cash provided by (used for) operating activities	$ 852	$ (791)
Noncash noncapital financing activities:		
Forgiveness of liability to primary government	$ -	$ 210
Transfer of land held for resale	$ 2,356	$ -
Transfer of pollution remediation obligation to primary government	$ 166	$ -

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

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

NATURE OF BUSINESS

The Tulsa Development Authority (the "Authority") is accounted for as a special purpose government engaged solely in business-type activities. The Authority was created under the provisions of the Oklahoma Public Trust Act. The purpose of the Authority is to benefit the City of Tulsa (the "City") by the rehabilitation, conservation, redevelopment, or a combination thereof, of blighted areas to ensure the public health, safety, and welfare of its residents.

REPORTING ENTITY

The Authority is a discretely presented component unit of the City and is included in the City's comprehensive annual financial report.

BASIS OF ACCOUNTING AND PRESENTATION

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 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. All amounts are expressed in thousands unless otherwise noted.

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's cash and investments and are invested by the City'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.

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

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 and any cash held by the City's internal pool to be cash equivalents.

DUE FROM OTHER GOVERNMENTS

Due from other governments represents the amount to be reimbursed to the Authority by other local governments related to development projects. The balance of the due from other governments represents costs that have been incurred during the fiscal year that will be reimbursed in the following year.

NOTES RECEIVABLE - RESTRICTED

Notes receivable-restricted represents loans made by the Authority under the Community Development Block Grant and Home Investment Partnership programs of the United States Department of Housing and Urban Development (HUD). The loans are made to eligible participants for home rehabilitation subject to maximum amounts that can be loaned depending on the loan type. Rehabilitation is to bring the home up to City and HUD standards. The types of loans for home rehabilitation are Deferred Payment, Principal Repayment, and Standard Repayment. Terms vary from zero interest and deferred payment, zero interest with principal payment when participant is able, and interest of 4% with standard repayment terms.

Also included in restricted notes receivable are notes made to developers as a part of the Authority's Vision 2025 project. These loans are restricted as they are to be made to promote the economic vitality of the City's downtown. These notes are fully collateralized by the mortgages on the properties.

CAPITAL ASSETS

Capital assets, with an initial cost of $5 or more, are stated at cost. Donated assets are recorded at fair market value as of the date donated. Assets placed in service are depreciated on a straight-line basis over the estimated service life below:

	Estimated Service Life
Buildings	48 years
Equipment	3 to 15 years

LAND HELD FOR RESALE

Land acquired for neighborhood revitalization and held for resale by the Authority is recorded at the lower of cost or fair value.

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

VESTED COMPENSATED ABSENCES

Vacation and sick leave are granted to all regular employees. The annual amount of vacation and sick time is ten days per year, respectively. The maximum amount of vacation time that may be accumulated is twice the amount that may be earned in one calendar year.

Accumulated vacation and sick leave vests and the Authority is obligated to make payments even if the employee terminates. The amount of unpaid vacation and sick leave is charged to expense currently and a corresponding liability is established.

VESTED COMPENSATED ABSENCES:

2011	Additions	Deletions	2012	Due in one year
$ 9	$ 31	$ 1	$ 39	$ 5

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 their 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. As of June 30, 2012, $21,627 and $1,567 were restricted for capital projects and other purposes, respectively. Unrestricted net position is assets less liabilities that do not meet the definition of net investment in capital assets or restricted.

INCOME TAXES

With regards to federal income taxes, the Authority is nontaxable as a political subdivision 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.

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

REVENUE AND EXPENSES

Revenue is recognized when all applicable eligibility requirements, including time requirements are met. Resources received by the Authority before the eligibility requirements are met are reported as unearned revenue. Some grants consist of resources that are restricted for capital purposes – to purchase, construct, or renovate capital assets associated with a specific program. These are reported separately from grants that may be used for operating expenses.

Operating revenues consist of property rentals on single-family, multi-family and commercial properties held by the Authority.

Operating expenses consist of all costs incurred to administer the acquisition, maintenance and resale of properties targeted for redevelopment. All revenues and expenses not meeting these descriptions are considered nonoperating revenues and expenses.

Nonoperating revenue consists of interest earned on contributions, payments from primary government, grant revenue from other governmental entities, contributions, and ad valorem and sales tax revenue. Ad valorem taxes are collected by the Tulsa County Treasurer and are remitted to the City. Ad valorem tax revenue is recorded as revenue in the year in which it is budgeted for and collected by the Authority. The Authority receives ad valorem tax on real property located within certain tax-increment financing districts.

Nonoperating expenses include payments to the primary government and other related entities, as well as any impairment losses on capital assets.

2 – 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 U.S. Government or its agencies. These amounts were pooled with 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.

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.

2 – CASH DEPOSITS AND INVESTMENTS, continued

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'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.

3 – PAYMENTS BETWEEN THE PRIMARY GOVERNMENT (THE CITY) AND THE AUTHORITY

The Authority records, as nonoperating revenue, payments from the City that are primarily provided to subsidize expenditures associated with the Authority's purpose. This revenue may be sub-grants from the U.S. Government, payments from the City designated for specific projects, or other payments. Payments from the Authority to the primary government are for the return of program income on the CDBG grant and are reported as nonoperating expenses. The Authority records, as capital contributions to the primary government, street improvements, land related to properties that have been acquired and the buildings and structures have been demolished by the Authority.

(in thousands of dollars)

4 – NOTES RECEIVABLE – RESTRICTED

Restricted notes receivable as of June 30, 2012 and 2011 consisted of the following:

	2012	2011
HUD rehabilitation notes	$ 734	$ 759
Notes to developers	9,955	9,947
	10,689	10,706
Less allowance	(492)	(493)
Notes receivable restricted, net	$ 10,197	$ 10,213

In addition to the notes listed above, the Authority has $13,019 of HUD Deferred Payment Loans which the Authority has fully reserved; therefore, are not reflected in the Authority's financial statements.

5 – LAND HELD FOR RESALE

The cost of land acquired and held for resale was $6,165 and $8,267 at June 30, 2012, and 2011, respectively, and was reduced to lower of cost or market value of $5,003 and $7,926 for the years ended June 30, 2012, and 2011, respectively. A decrease in the fair value of land held for sale of $89 and $894 is recognized in the statement of revenues, expenses, and changes in net position for the years ended June 30, 2012, and 2011, respectively.

6– CAPITAL ASSETS

2012:	**Beginning Balance**	**Increases**	**Decreases**	**Ending Balance**
Non-depreciable capital assets:				
Land	$ 35	$ -	$ -	$ 35
Construction in progress	26	-	26	-
Total non-depreciable capital assets	61	-	26	35
Depreciable capital assets:				
Buildings	566	-	-	566
Equipment	152	-	30	122
Total depreciable capital assets	718	-	30	688
Less accumulated depreciation:				
Buildings	(277)	(11)	-	(288)
Equipment	(153)	-	(30)	(123)
Total accumulated depreciation	(430)	(11)	(30)	(411)
Total depreciable capital assets, net	288	(11)	-	277
Capital assets, net	$ 349	$ (11)	$ 26	$ 312

(in thousands of dollars)

6– CAPITAL ASSETS (continued)

2011:	**Beginning Balance**	**Increases**	**Decreases**	**Ending Balance**
Non-depreciable capital assets:				
Land	$ 928	$ -	$ 893	$ 35
Construction in progress	-	26	-	26
Total non-depreciable capital assets	928	26	893	61
Depreciable capital assets:				
Buildings	3,810	-	3,244	566
Equipment	218	-	66	152
Total depreciable capital assets	4,028	-	3,310	718
Less accumulated depreciation:				
Buildings	(1,067)	(11)	(801)	(277)
Equipment	(215)	-	(62)	(153)
Total accumulated depreciation	(1,282)	(11)	(863)	(430)
Total depreciable capital assets, net	2,746	(11)	2,447	288
Capital assets, net	$ 3,674	$ 15	$ 3,340	$ 349

In the prior year, management of the Authority made the decision to permanently vacate the Hartford building, which had previously been used in operations. As a result of this decision, the property was written down to the estimated market value and transferred to land held for resale, net. As a result of this, the Authority recognized a loss on impairment of capital assets of $1,066, which has been reported as nonoperating expense on the statement of revenues, expenses and changes in net position for the year ended June 30, 2011.

7 – JOINT VENTURE

A joint venture is a legal entity or other organization that results from a contractual agreement and is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest, or an ongoing financial responsibility.

Prior to fiscal year 2010, the Authority participated in a joint venture through its wholly owned subsidiaries, Tulsa Uptown Redevelopment Corporation (TURC) and Tribune Building Redevelopment Corporation (TBRC). The Authority owned 100% of TURC with a $3.3 million initial investment. TURC in turn owned 50% of Tulsa Uptown Associates, LLC, a joint venture. Tulsa Uptown Associates was formed July 2, 1997 for the construction and management of an apartment complex in downtown Tulsa, the Renaissance Uptown Apartments. In February 2008, TURC sold its interest in the related joint venture. In consideration for the sale, TURC received $1.3 million in cash and a $2 million promissory

7 – JOINT VENTURE, continued

note, due February 2011, which is reflected as a note receivable on the statement of net position. In 2010, this note was amended and combined with an additional note for the construction of a residential apartment. TBRC can draw up to an additional $2 million to fund this project. The balance of this note as of June 30, 2012 and 2011 was $4,000 and $3,679 respectively. Repayment terms are $1,000 due on October 15, 2014 and the remaining balance due on October 15, 2020, or ten years after the last date on which an advance is made on the note.

8 – RESTRICTED ASSETS

Certain assets relating to the Authority's participation in the Community Development Block Grant and Home Investment Partnership programs of HUD as well as resources from the Authority's rehabilitation loan programs are reported as restricted on the statement of net position because their use is to meet guidelines of original grant programs.

9 – POLLUTION REMEDIATION

In June 2010, the Authority conducted an environmental site assessment of the EVANS-FINTUBE location in Tulsa, OK. The assessment indicates there was evidence of groundwater contamination, asbestos, and lead paint on the subject property. The estimated cost to remediate the asbestos was $8. The estimated cost to remediate the lead paint ranged from $109 to $207. The Authority is unable to estimate the remediation cost related to the groundwater contamination. The Authority recorded an estimated liability of $166 to recognize the estimated pollution remediation costs, using the weighted probability of expected cash flows in accordance with GASB Statement No. 49. The Authority transferred this property to the City in the current fiscal year. The City accepted responsibility for the pollution remediation costs.

10 – RISK MANAGEMENT

The Authority participates in the City's insurance programs through payment for services. The City retains all risk of loss. Significant losses are covered by commercial insurance for all major programs except workers' compensation, for which the City 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.

11 – GENERAL LITIGATION

The Authority is subject to claims and lawsuits that arise primarily in the course of ordinary 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.

(in thousands of dollars)

12 – RELATED-PARTY TRANSACTIONS

During the years ended June 30, 2012 and 2011, the Authority conducted the following transactions with related parties:

	2012	2011
Payments to Tulsa Parking Authority for capital improvements	$ 585	$ -
Payments from City for subsidizing expenditures of the Authority	2,139	1,397
Payments to City for CDBG program income	668	41
Capital contributions to City	4,776	3,976

13 –PENSION PLAN

The Tulsa Development Authority Pension Plan (the "Plan") is a defined contribution plan outlined by Internal Revenue Code Section 403(b). The Plan provides benefits at retirement to the employees of the Authority. The Plan was adopted by the Authority on November 12, 2009. Employees may contribute the lesser of forty nine thousand dollars or 100% of their annual compensation. At June 30, 2012, there were two plan members.

14 – COMMITMENTS

The Authority has construction commitments outstanding of $8,127 as of June 30, 2012, related to sales tax and tax increment financing projects.