TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)

FINANCIAL REPORT
June 30, 2012 and 2011

INDEX

Years Ended June 30, 2012 and 2011

McGladrey

Independent Auditor's Report

Board of Trustees
Tulsa Metropolitan Utility Authority
Tulsa, Oklahoma

We have audited the accompanying financial statements of the business-type activities and each major fund of the Tulsa Metropolitan Utility Authority (Authority), a component unit of the City of Tulsa, Oklahoma, as of and for the years ended June 30, 2012 and 2011, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions 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 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.

As described in Note 17 to the basic financial statements, the Authority adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which restated beginning net position for items previously reported as assets.

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 9, 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 management of the Tulsa Metropolitan Utility 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, which begin on page 7. 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 $853,767. Of this amount, $81,954 is unrestricted and may be used to meet the Authority's ongoing obligations.

- The Authority's net position increased from $832,524 at June 30, 2011 to $853,767 at June 30, 2012. During 2012, the Authority generated an increase in net position of $21,243 compared to $21,993 during 2011.

- The Authority's cash and cash equivalents at June 30, 2012, were $119,319, representing an increase of $55,049 from June 30, 2011.

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 for water delivery and wastewater utility systems.

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

The Authority adopted Governmental Accounting Standards Board 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 Authority has one fund type, proprietary, and reports two enterprise funds. Enterprise funds are used to report the functions presented as business-type activities.

The financial statements of the Authority report information using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Position includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for assessing the liquidity and financial flexibility of the Authority. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the financial success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges, profitability, and credit worthiness. The third required financial statement is the Statement of Cash Flows. 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 the cash balance during the period.

Net Position

The Authority's net position increased $21,243 for the year ended June 30, 2012 and $21,993 for the year ended June 30, 2011. The following table provides a summary of net position.

SUMMARY OF NET POSITION

	2012	2011	2010
Current assets, unrestricted	$ 95,659	$ 77,372	$ 65,840
Restricted assets	95,912	119,125	104,900
Capital assets, net	1,076,383	1,046,427	1,015,009
Other assets	12,000	11,816	10,144
Total assets	1,279,954	1,254,740	1,195,893
Total deferred outflow of resources	1,172	993	1,049
Current liabilities	11,465	7,228	5,444
Liabilities payable from restricted assets	44,937	43,481	39,763
Noncurrent liabilities	370,957	372,500	341,204
Total liabilities	427,359	423,209	386,411
Net investment in capital assets	760,517	756,859	747,490
Restricted	11,296	8,187	7,689
Unrestricted	81,954	67,478	55,352
Total net position	$ 853,767	$ 832,524	$ 810,531

Net Position, continued

In 2012 total assets increased $25,214. The increase in current assets of $18,287 is related to increases in unrestricted cash of $16,641, net utilities receivables of $1,594, inventory of $132 and a decrease in other receivable of $80. The decrease in restricted assets of $23,213 is attributable to the usage of debt proceeds to fund capital expansion. The increase in capital assets of $29,956 is consistent with the improvement and expansion of both utility systems and is necessary to provide adequate services to our customers and to assure compliance with all applicable laws and regulations. Total liabilities increased $4,150, the result of promissory notes issued in the current year and a decrease in general obligation debt.

In 2011 total assets increased $58,847. The decrease in current assets of $11,532 is related to increases in unrestricted cash of $8,370, utilities receivables, net of $3,088, inventory of $159 and decrease in other receivable of $85. The increase in restricted assets of $14,225 is attributable to the proceeds of debt issued in the current year to fund capital expansion. The increase in capital assets of $31,418 is consistent with the improvement and expansion of both utility systems and is necessary to provide adequate services to our customers and to assure compliance with all applicable laws and regulations. Total liabilities increased $36,798, primarily due to debt issued in the current year.

SUMMARY OF CHANGES IN NET POSITION

	2012	2011	2010
Operating revenue	$ 170,152	$ 154,845	$ 137,649
Nonoperating revenue	3,965	3,900	4,996
Investment income	1,071	1,729	2,315
Total revenues	175,188	160,474	144,960
Depreciation expense	33,495	28,887	23,817
Other operating expense	116,889	108,422	101,804
Nonoperating expense	11,023	9,425	7,522
Total expenses	161,407	146,734	133,143
Income before contributions	13,781	13,740	11,817
Capital contributions	2,705	2,284	1,290
Capital contributions	4,757	2,133	4,506
Federal grant revenue	-	3,836	-
Change in net position	21,243	21,993	17,613
Net position, beginning of year, as restated	832,524	810,531	792,918
Net position, end of year	$ 853,767	$ 832,524	$ 810,531

Net Position, continued

In 2012 total revenues increased $17,338, due primarily to increased operating revenue. Other operating expenses increased $8,467, due primarily to increases in; salaries and wages $3,220, material and supplies $957, and utilities $4,290. Nonoperating expenses increased $1,598, primarily due to an increase in interest expense of $1,369. Investment income decreased $658 as a result of lower average investments and a decline in the return on investments. Capital contributions increased $421. As a result, net position increased $21,243 during the year.

In 2011 total revenues increased $13,141 due primarily to increased operating revenue. Other operating expenses increased $6,618 due primarily to increases in salaries and wages $847, material and supplies $295, and utilities $5,546. Nonoperating expenses increased $2,406 primarily due to an increase in interest expense of $1,933. Investment income decreased $586 as a result of lower average investments and a decline in the return on investments. Capital contributions increased $994. As a result, net position increased $21,993 during the year.

Capital Assets

The Authority's investment in capital assets as of June 30, 2012 and 2011 was $1,076,383 and $1,046,427, respectively, (net of accumulated depreciation). This investment in capital assets includes land improvements, buildings and equipment. The Authority paid $59,848 and $55,460 during 2012 and 2011, respectively, related to the acquisition and purchase of capital assets.

CAPITAL ASSETS

	2012	2011	2010
Buildings	$ 47,755	$ 241,893	$ 235,308
Equipment	58,468	85,943	618,301
Water storage lease	9,593	9,593	9,567
Land improvements, water and sewer lines	1,444,164	1,195,523	504,319
	1,559,980	1,532,952	1,367,495
Less accumulated depreciation	(545,408)	(516,635)	(491,770)
Construction-in-progress	61,811	30,110	139,284
Capital assets, net	$ 1,076,383	$ 1,046,427	$ 1,015,009

Debt

At June 30, 2012 and 2011, the Authority had outstanding general obligation bonded debt of $46,085 and $51,326, respectively. These bonds are required to be fully paid within 25 years from the date of issue and are backed by the full faith and credit of the City. The City's Charter requires that not less than 50% of the annual principal and interest requirements on general obligation bonds issued for waterworks and wastewater be funded by water and wastewater revenues, respectively.

	2012	2011	2010
General obligation bonds	$ 46,085	$ 51,326	$ 56,580
Revenue bonds	153,530	161,430	144,225
Promissory notes	172,376	157,414	134,658
Total debt	$ 371,991	$ 370,170	$ 335,463

During 2012, the Authority issued new debt to fund improvements to the water and wastewater systems. The Authority's debt increased $1,821 or .5% during 2012. As an issuer of bonds, the Authority is subject to numerous covenants contained within the bond indentures. The Authority believes they are in full compliance with all of these covenants.

Funds

The Authority has two funds, the Water Fund and the Sewer Fund. At June 30, 2012, the water fund had net position of $450,613 which represented an increase of $8,616 from a net position in 2011 of $441,997. At June 30, 2012, the Sewer Fund had a net position of $403,154 which represented an increase of $12,627 from a net position in 2011 of $390,527.

Economic factors and next year's budgets and rates

At the national level, unemployment remains above 8.2 percent. Unemployment in the City of Tulsa was 5.2 percent at the end of fiscal year 2012. The Authority's finances have been relatively unaffected by this economic downturn, as evidenced by its relatively consistent accounts receivable collection rates.

The Authority's appointed officials considered many factors when setting the fees that will be charged for water and sewer services in 2013. The Authority approved a 7 percent increase in water fees and a 9 percent increase in sewer fees beginning in October 2012. The fee increases are to fund operations, maintenance, debt service and capital outlays.

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, 175 E. Second Street, Tulsa, Oklahoma 74103.

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
STATEMENTS OF NET POSITION
June 30, 2012 with Partial Financial Information for June 30, 2011

(In thousands of dollars)	2012			2011
ASSETS	**Water Fund**	**Sewer Fund**	**Business-type Activities Total**	**Business-type Activities Total**
Current assets:				
Unrestricted assets:				
Cash and cash equivalents	$ 42,676	$ 27,619	$ 70,295	$ 53,654
Accounts receivable:				
Utility services receivable, net	14,735	8,324	23,059	21,465
Other receivables	141	63	204	284
Inventories	1,806	295	2,101	1,969
Total unrestricted current assets	59,358	36,301	95,659	77,372
Noncurrent assets:				
Cash and cash equivalents, restricted	31,657	17,367	49,024	10,616
Investments, restricted	24,408	21,188	45,596	105,075
Interest receivable, restricted	82	59	141	277
Equity interest in joint venture	-	12,000	12,000	11,816
Advances to primary government, restricted	-	1,151	1,151	3,157
Non-depreciable capital assets	40,655	62,613	103,268	71,027
Depreciable capital assets, net	485,435	487,680	973,115	975,400
Total noncurrent assets	582,237	602,058	1,184,295	1,177,368
Total assets	$ 641,595	$ 638,359	$ 1,279,954	$ 1,254,740
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	1,172	-	1,172	993
Total deferred outflows of resources	$ 1,172	$ -	$ 1,172	$ 993

(Continued)

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
STATEMENTS OF NET POSITION
June 30, 2012 with Partial Financial Information for June 30, 2011

(In thousands of dollars)	2012			2011
LIABILITIES	**Water Fund**	**Sewer Fund**	**Business-type Activities Total**	**Business-type Activities Total**
Current liabilities:				
Accounts payable and accrued liabilities	$ 2,922	$ 3,436	$ 6,358	$ 3,653
Current portion of watermain extension contracts	536	-	536	529
Current portion of vested compensated absences	1,842	1,477	3,319	2,800
Current portion of net pension obligation	598	478	1,076	-
Current portion of water storage lease	176	-	176	246
Total current liabilities payable from unrestricted assets	6,074	5,391	11,465	7,228
Liabilities payable from restricted assets:				
Accrued liabilities	4,016	6,733	10,749	12,279
Deposits subject to refund	8,408	818	9,226	9,498
Current portion of general obligation debt	-	5,469	5,469	5,316
Current portion of promissory notes	445	10,043	10,488	8,308
Current portion of revenue bonds	9,005	-	9,005	8,080
Total current liabilities payable from restricted assets	21,874	23,063	44,937	43,481
Total current liabilities	27,948	28,454	56,402	50,709
Noncurrent liabilities:				
General obligation debt	-	40,616	40,616	46,010
Promissory notes	3,782	158,106	161,888	149,106
Revenue bonds	144,525	-	144,525	153,350
Unamortized bond premium	780	4,466	5,246	4,882
Unamortized bond discount	-	(85)	(85)	(106)
Watermain extension contracts	5,866	-	5,866	6,542
Vested compensated absences	1,154	926	2,080	1,367
Other post-employment benefits	3,181	2,342	5,523	4,978
Net pension obligation	565	379	944	1,841
Water storage lease	4,353	-	4,353	4,529
Arbitrage, restricted	-	1	1	1
Total noncurrent liabilities	164,206	206,751	370,957	372,500
Total liabilities	192,154	235,205	427,359	423,209
NET POSITION				
Net investment in capital assets	402,932	357,585	760,517	756,859
Restricted for debt service	4,987	6,309	11,296	8,187
Unrestricted	42,694	39,260	81,954	67,478
Total net position	$ 450,613	$ 403,154	$ 853,767	$ 832,524

The accompanying notes are an integral part of the financial statements

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended June 30, 2012 with Partial Financial Information for the Year Ended June 30, 2011

(In thousands of dollars)	2012			2011
	Water Fund	Sewer Fund	Business-type Activities Total	Business-type Activities Total
Operating revenues:				
Water and sewer services	$ 98,817	$ 71,335	$ 170,152	$ 154,845
Operating expenses:				
Salaries and wages	27,159	20,958	48,117	44,897
Materials and supplies	9,066	3,981	13,047	12,090
Other services and charges	32,809	22,916	55,725	51,435
Depreciation	17,081	16,414	33,495	28,887
Total operating expenses	86,115	64,269	150,384	137,309
Operating income	12,702	7,066	19,768	17,536
Nonoperating revenues (expenses):				
Investment income	745	326	1,071	1,729
Interest expense	(5,503)	(5,520)	(11,023)	(8,996)
Ad valorem taxes	-	3,491	3,491	3,900
Other, net	514	(40)	474	(429)
Net nonoperating revenues (expenses)	(4,244)	(1,743)	(5,987)	(3,796)
Income before contributions	8,458	5,323	13,781	13,740
Capital contributions	158	2,547	2,705	2,284
Capital contributions from City of Tulsa	-	4,757	4,757	2,133
Federal grant revenue	-	-	-	3,836
	158	7,304	7,462	8,253
Change in net position	8,616	12,627	21,243	21,993
Net position, beginning of year, as restated	441,997	390,527	832,524	810,531
Net position, end of year	$ 450,613	$ 403,154	$ 853,767	$ 832,524

The accompanying notes are an integral part of the financial statements

TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma)
STATEMENTS OF CASH FLOWS
Year ended June 30, 2012 with Partial Financial Information for the Year Ended June 30, 2011

(In thousands of dollars)	2012			2011
	Water Fund	Sewer Fund	Business-type Activities Total	Business-type Activities Total
Cash flows from operating activities:				
Received from customers, including cash deposits	$ 96,700	$ 71,553	$ 168,253	$ 151,579
Payments to suppliers for goods and services	(34,072)	(20,464)	(54,536)	(50,883)
Payments to employees for services	(26,142)	(20,019)	(46,161)	(43,248)
Payments for quasi-external operating transactions including payments in lieu of taxes	(6,590)	(4,880)	(11,470)	(10,972)
Net cash provided by operating activities	29,896	26,190	56,086	46,476
Cash flows from non-capital and related financing activities:				
Collection of advances to City of Tulsa	-	2,006	2,006	1,020
Net cash provided by non-capital and related financing activities	-	2,006	2,006	1,020
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(18,758)	(40,576)	(59,334)	(55,460)
Payments from City of Tulsa	-	4,601	4,601	2,133
Proceeds from sale of capital assets	674	87	761	290
Interest paid on long-term debt	(6,663)	(8,020)	(14,683)	(13,159)
Principal paid on long-term debt	(21,208)	(23,854)	(45,062)	(18,515)
Payment of bond issuance costs	-	-	-	(210)
Payment of water rights	-	-	-	(238)
Proceeds from the issuance of long-term debt	14,531	31,856	46,387	57,058
Premium received on debt issuance	-	1,049	1,049	999
Ad valorem taxes received	-	3,491	3,491	3,900
Payments on watermain extension contracts	(530)	-	(530)	(516)
Investment in joint venture	-	(409)	(409)	(1,892)
Net cash used in capital and related financing activities	$ (31,954)	$ (31,775)	$ (63,729)	$ (25,610)

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TULSA METROPOLITAN UTILITY AUTHORITY
(A Component Unit of the City of Tulsa, Oklahoma
STATEMENTS OF CASH FLOWS, continued
Year ended June 30, 2012 with Partial Financial Information for the Year Ended June 30, 2011

(In thousands of dollars)	2012			2011
	Water Fund	Sewer Fund	Business-type Activities Total	Business-type Activities Total
Cash flows from investing activities:				
Interest received on investments	$ 920	$ 406	$ 1,326	$ 1,970
Sale or maturity of investments	49,954	22,624	72,578	51,133
Purchases of investments	(13,218)	-	(13,218)	(78,529)
Net cash provided by (used in) investing activities	37,656	23,030	60,686	(25,426)
Net increase (decrease) in cash and cash equivalents	35,598	19,451	55,049	(3,540)
Cash and cash equivalents, beginning of year	38,735	25,535	64,270	67,810
Cash and cash equivalents, end of year	$ 74,333	$ 44,986	$ 119,319	$ 64,270
Reconciliation of cash and cash equivalents to the Statement of Net Position:				
Current unrestricted cash and cash equivalents	$ 42,676	$ 27,619	$ 70,295	$ 53,654
Noncurrent restricted cash and cash equivalents	31,657	17,367	49,024	10,616
	$ 74,333	$ 44,986	$ 119,319	$ 64,270
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	$ 12,702	$ 7,066	$ 19,768	$ 17,536
Adjustments:				
Depreciation	17,081	16,414	33,495	28,887
Decrease (increase) in accounts receivable	(1,808)	149	(1,659)	(3,003)
Increase in inventories	(93)	(39)	(132)	(159)
Decrease in joint venture	-	225	225	1,556
Increase in accounts payable and other accrued liabilities	1,908	2,029	3,937	400
Increase in other post employment benefits	444	280	724	1,751
(Decrease) increase in deposits subject to refund	(338)	66	(272)	(492)
Net cash provided by operating activities	$ 29,896	$ 26,190	$ 56,086	$ 46,476

(Continued)

Noncash capital and related financing activities:

The Water Fund received noncash contributions of $158 and $557 from area developers and expiring watermain extension contracts of $140 and $585 during the years ended June 30, 2012 and 2011, respectively. The Water Fund also had noncash capital additions included in accounts payable and retainage of $2,153 and $1,967 at the years ended June 30, 2012 and 2011, respectively.

The Sewer Fund received noncash contributions of $987 and $1,377 from area developers during the years ended June 30, 2012 and 2011, respectively. The Sewer Fund also had noncash capital additions included in accounts payable and retainage of $4,706 and $6,667 at the years ended June 30, 2012 and 2011, respectively.

For the year ended June 30, 2011 the Water Fund and Sewer Fund received noncash principal debt forgiveness grants from the Environmental Protection Agency of $1,586 and $2,000, respectively.

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

NATURE OF BUSINESS AND REPORTING ENTITY - The Tulsa Metropolitan Utility Authority (the "Authority") was created under the provisions of the Oklahoma Public Trust Act. The Trustees of the Authority consist of the Mayor of the City of Tulsa (the "City") and six other members appointed by the Mayor and confirmed by the City Council. The beneficiary of the Trust is the City. The Authority is included in the City's Comprehensive Annual Financial Report as a discretely presented component unit.

Upon the issuance of its revenue bonds, the Authority leased from the City all existing and subsequently acquired water systems and the rights to the gross revenues generated for a term of 50 years or until all indebtedness collateralized and payable from system revenues is retired.

The City covenanted and agreed to collect the revenue of the system, operate and maintain the water system and make all necessary additions, extensions, replacements and improvements in order to keep the water system in proper working and revenue producing order on behalf of the Authority.

The Authority covenanted and agreed to utilize the gross revenue generated from the water system in accordance with the terms of the Bond Indenture, to reimburse the City for payment of operations and maintenance expenses, issue bonds for financing certain improvements to the water system and to prepare and adopt a schedule of approved uniform and nondiscriminatory rates, fees and charges for use of the water system.

Effective July 1, 1989, the Authority entered into a Wastewater System Lease Agreement and Operation and Maintenance Contract with the City. The terms of the agreement provide for the lease of the City's revenue producing sanitary sewer and wastewater treatment, collection, transportation, processing, and disposal systems and facilities, along with the transfer of related liabilities, for a term of 50 years or until such time as all bonds or indebtedness collateralized by, and payable from, revenues from the wastewater system are paid.

The fund accounts for water and sewer utility fees and other revenue dedicated to the Authority's water and sewer systems.

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.

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

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, constitutes GAAP for governmental units. The more significant of these accounting policies are described below. All amounts, unless otherwise noted, are expressed in thousands.

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

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 – For purposes of reporting cash flows, the Authority considers all highly liquid investments 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. Interest income in 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.

INVESTMENTS – Investments consist primarily of obligations of the U.S. Treasury and various federal agencies, and money market funds. These investments are held by bond trustees and invested in accordance with the requirements and terms of various bond indentures.

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. The Authority experienced a decrease in the fair value of investments of approximately $25 for the year ended June 30, 2012 and a decrease of $25 for the year ended 2011. Realized gains and losses as well as changes in the fair market value of investments are reported in investment income in the combined statements of revenues, expenses and changes in net position.

INVENTORIES – Inventories are stated at cost (first-in, first-out).

RESTRICTED ASSETS – Certain assets of the Authority are restricted under the terms of its bond indentures or state statutes.

NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)

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

UTILITY SERVICES RECEIVABLE – This balance consists of amounts due from customers within and around the Tulsa metropolitan area for utility service. Unbilled revenue is accrued and included in utility services receivable for services that were provided, but not billed at year end. The Authority recorded an allowance for uncollectible accounts of $96 and $128 as of June 30, 2012 and 2011, 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 is expensed as incurred. Included in the capital assets is the interest capitalized during construction. Interest capitalized during fiscal years 2012 and 2011 was $3,312 and $4,423, respectively.

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

Land improvements	30 years
Buildings	50 years
Water and sewer lines	33 - 100 years
Equipment	3 - 20 years

Capital assets sold or disposed have their cost and accumulated depreciation removed from the Authority's records. The related gain or loss is recorded in the period of sale or disposal.

CAPITAL CONTRIBUTIONS – Capital contributions include payments made by developers for the construction of water and sewer lines and grants. The Authority follows the provisions of GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," which establishes accounting and financial reporting standards to guide state and local governments' decisions about when and how to report the results of nonexchange transactions involving cash and other financial and capital resources.

VESTED COMPENSATED ABSENCES – Vacation and sick 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 which may be earned in one calendar year. Accumulated vacation leave vests and the Authority is obligated to make payment even if the employee terminates. Accumulated sick leave is not paid out to employees upon separation from the Authority. The liability for compensated absences attributable to the Authority is charged to expense currently and a corresponding liability is established.

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

OTHER POST EMPLOYMENT BENEFITS (OPEB) - Other post-employment benefits are part of an exchange of salaries and benefits for employee services rendered. Of the total benefits offered by employers to attract and retain qualified employees, some benefits, including salaries and active-employee healthcare, are taken while the employees are in active service, whereas other benefits, including post-employment healthcare and other OPEB, are taken after the employees' services have ended. Nevertheless, both types of benefits constitute compensation for employee services. The Authority accounts for annual OPEB cost on an accrual basis, charging expenses in the period incurred with a corresponding liability for benefits paid in future periods.

UNAMORTIZED DISCOUNTS AND PREMIUMS – Original issue discounts and premiums on the Authority's revenue bonds are amortized over the lives of the bonds using the effective interest method.

NET POSITION – Net position of the Authority represents the difference between assets and liabilities and deferred inflows/outflows. Net investment in capital assets, consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Net investment in capital assets, excludes unspent bond proceeds of $71,500 and $97,795 as of June 30, 2012 and 2011, respectively. 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. Unrestricted net position is assets less liabilities that do not meet the definition of net investment in capital assets or restricted.

PROPERTY TAX REVENUE – Oklahoma statutes require that the City make a property tax levy for a sinking fund (Debt Service Fund) which shall, with cash and investments in the fund, be sufficient to pay all the bonded indebtedness, interest and one-third of all outstanding judgments coming due in the following fiscal year.

After review and approval by the City, the sinking fund estimates are submitted to the County Excise Board to determine the property tax levy. This submission is made by July 20th of each year. The County Assessor is required to file a tax roll report on or before October 1st each year with the County Treasurer indicating the net assessed valuation for all real and public service property.

The Oklahoma Tax Commission determines property assessed valuations. The assessment ratio in Tulsa County currently averages 11% of market value.

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

PROPERTY TAX REVENUE, continued – Property tax is levied each October 1st on the assessed valuation of non-exempt real property located in the City as of the preceding January 1st, the lien date. Property taxes are due on November 1st following the levy date, although they may be paid in two equal installments (if the first installment is paid prior to January 1st, the second installment is not delinquent until April 1st). Property taxes are collected by the County Treasurers of Tulsa, Wagoner and Osage Counties, Oklahoma, and are remitted to the City. Property tax revenue is recorded as revenue in the year in which it is budgeted for and collected by the Authority.

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.

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.

DEFERRED CHARGES ON REFUNDING - Deferred charges on refunding represents the difference in the reacquisition price and the net carrying amount of the old debt. These charges are presented as a deferred outflow of resources and recognized as a component of interest expense over the life of the old or new debt, whichever is shorter.

2. CASH DEPOSITS AND INVESTMENTS

POOLED CASH AND INVESTMENTS – The Authority maintains a portion of its cash and investments with 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 and are recorded at fair market value. At June 30, 2012 and 2011, the pooled cash and investments, which are reflected on the Authority's Statements of Net Position within cash and cash equivalents, amounted to $64,383 and $52,334, respectively.

NON-POOLED CASH AND INVESTMENTS – Non-pooled cash equivalents and investments are included in restricted cash and cash equivalents and investments on the accompanying Statements of Net Position. Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned. The Authority's deposit policy for custodial credit risk requires compliance with provisions of state law and that demand deposits be collateralized at least 110% of the amount that is not federally insured.

NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)

2. CASH DEPOSITS AND INVESTMENTS, continued

Investments are carried at fair value. The carrying amounts of the Authority's non-pooled cash equivalents and investments at June 30, 2012 and 2011, include:

		June 30, 2012 Maturities in years	
	Fair Value	**Less than 1**	**1-5**
U.S. Treasury Securities	$ 43,138	$ 32,000	$ 11,138
U.S. Agency Obligations	2,458	2,458	-
Money Market Mutual Funds	54,936	54,936	-
	$ 100,532	$ 89,394	$ 11,138

		June 30, 2011 Maturities in years	
	Fair Value	**Less than 1**	**1-5**
U.S. Treasury Securities	$ 96,062	$ 56,817	$ 39,245
U.S. Agency Obligations	9,012	6,484	2,528
Money Market Mutual Funds	11,937	11,937	-
	$ 117,011	$ 75,238	$ 41,773

Interest Rate Risk- For investments not restricted by bond requirements, the Authority utilizes the City's investment policy as a means of limiting its exposure to fair value losses arising from rising interest rates.

Pooled investments – 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.

Non-pooled investments – Bond requirements limit the type of restricted investments that can be acquired and unrestricted investments are in U.S. Treasury money market mutual funds. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately and are not subject to interest rate risk.

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 investment policy to limit its exposure to credit risks.

Pooled investments – 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 U.S. agencies obligations included in the City's pooled investment portfolio were rated Aaa and AAA by Moody's and Standard & Poor's, respectively.

2. CASH DEPOSITS AND INVESTMENTS, continued

Non-pooled investments – At June 30, 2012 and 2011 the Authority's investments in U.S. agency obligations not directly guaranteed by the U.S. government and the money market mutual funds were rated AAA by Standard & Poor's and Moody's Investor Service.

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.

Pooled deposits and investments – The City's investment policy requires that demand deposits be collateralized at least by 110% of the amount 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 was exposed to custodial credit risk. 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 pooled investments as of June 30, 2012 and 2011 was exposed to custodial credit risk.

Non-pooled deposits and investments – All of the underlying securities for the Authority's investments in U.S. agency obligations at June 30, 2012 and 2011 are insured or registered or securities held by the Authority or by its agent in the Authority's name. The Authority's investments in money market mutual funds are not subject to custodial credit risks because the investment is not evidenced by securities that exist in physical or book entry form.

Concentration of Credit Risk – The Authority utilizes the City of Tulsa investment policy to determine the amount that may be invested in any one issuer.

Pooled investments – 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.

Non-pooled investments – At June 30, 2012 and 2011 the Authority's investment in Federal Home Loan Bank Corporation was 2% and 8%, respectively, of its total investments.

NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)

2. CASH DEPOSITS AND INVESTMENTS, continued

RECONCILIATION TO STATEMENTS OF NET POSITION – A reconciliation of the pooled cash and investments, non-pooled deposits and non-pooled investments to the carrying amounts on the statements of net position as of June 30, 2012 and 2011, is as follows:

	2012	2011
Pooled cash and investments	$ 64,383	$ 52,334
Non-pooled cash, cash equivalents and investments	100,532	117,011
	$ 164,915	$ 169,345
Current unrestricted cash and cash equivalents	$ 70,295	$ 53,654
Noncurrent restricted cash and cash equivalents	49,024	10,616
Noncurrent restricted investments	45,596	105,075
	$ 164,915	$ 169,345

NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)

3. RESTRICTED ASSETS

Certain debt proceeds, as well as certain sources set aside for their repayment, are classified as restricted assets on the statements of net position because their use is limited by applicable bond covenants and they are maintained in separate bank accounts. A summary of the purpose for which these assets are restricted as of June 30, 2012 and 2011, is as follows:

	2012	2011
General Obligation Bonds:		
Sinking funds	$ 2,882	$ 2,231
Advances to primary government	1,151	3,157
	4,033	5,388
Deposits subject to refund:		
Escrow deposits	9,226	9,498
Sewer Promissory Notes:		
Reserve fund	10,412	10,802
Debt fund	5,392	3,530
Construction fund	19,049	27,236
Earnings fund	1	1
Rebate fund	1	1
	34,855	41,570
Water Revenue Bonds:		
Construction account	27,613	40,709
Reserve account	13,275	15,891
Principal account	6,769	5,792
	47,657	62,392
Interest receivable	141	277
Total restricted assets	$ 95,912	$ 119,125

NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)

4. CAPITAL ASSETS

The changes in capital assets are summarized as follows:

June 30, 2012	Beginning Balance	Increases	Decreases	Ending Balance
Non depreciable assets:				
Land	$ 31,324	$ -	$ 540	$ 31,864
Water rights	9,593	-	-	9,593
Construction-in-progress	30,110	53,743	(22,042)	61,811
Total non depreciable capital assets	71,027	53,743	(21,502)	103,268
Depreciable assets:				
Buildings	241,893	20	(194,158)	47,755
Equipment	85,943	3,517	(30,992)	58,468
Land improvements, water and sewer lines	1,164,199	4,772	243,329	1,412,300
Total depreciable capital assets	1,492,035	8,309	18,179	1,518,523
Accumulated depreciation:				
Buildings	(105,099)	(880)	76,978	(29,001)
Equipment	(41,781)	(3,456)	10,123	(35,114)
Land improvements, water and sewer lines	(369,755)	(29,159)	(82,379)	(481,293)
	(516,635)	(33,495)	4,722	(545,408)
Depreciable capital assets, net	975,400	(25,186)	22,901	973,115
Capital assets, net	$ 1,046,427	$ 28,557	$ 1,399	$ 1,076,383

June 30, 2011	Beginning Balance	Increases	Decreases	Ending Balance
Non-depreciable assets:				
Land	$ 30,711	$ 613	$ -	$ 31,324
Water rights	9,567	26	-	9,593
Construction-in-progress	139,284	49,023	(158,197)	30,110
Total non-depreciable capital assets	179,562	49,662	(158,197)	71,027
Depreciable assets:				
Buildings	235,308	6,585	-	241,893
Equipment	64,912	25,786	(4,755)	85,943
Land improvements, water and sewer lines	1,026,997	137,202	-	1,164,199
Total depreciable capital assets	1,327,217	169,573	(4,755)	1,492,035
Accumulated depreciation:				
Buildings	(99,791)	(5,308)	-	(105,099)
Equipment	(39,776)	(6,027)	4,022	(41,781)
Land improvements, water and sewer lines	(352,203)	(17,552)	-	(369,755)
	(491,770)	(28,887)	4,022	(516,635)
Depreciable capital assets, net	835,447	140,686	(733)	975,400
Capital assets, net	$ 1,015,009	$ 190,348	$ (158,930)	$ 1,046,427

5. JOINT VENTURE

The Regional Metropolitan Utility Authority ("RMUA") was created to operate a sewage treatment facility. The Authority contributes approximately one-half of RMUA's operating and capital budget, operates a facility for RMUA, and leases the facility site to RMUA. The City appoints two of the ten trustees with the remaining trustees appointed two each by the four other participating cities. Services are provided approximately 50% each to the City and the City of Broken Arrow, Oklahoma. In accordance with the Trust Agreement, the Authority is entitled, on both an interim and final basis, to its pro-rata interest based on its contributions to RMUA.

The Authority's net investment was $12,000 and $11,816 as of June 30, 2012 and 2011, respectively. The Authority's other services and charges have been increased to reflect the change in the net investment by $225 and $220 for the years ended June 30, 2012 and 2011, respectively. The Authority contributed $408 and $1,892 to RMUA for capital improvements during the year ended June 30, 2012 and 2011, respectively.

Request for an audited financial report or additional information concerning RMUA should be addressed to the Office of the Controller, 175 E. Second Street, Tulsa, Oklahoma 74103.

6. WATERMAIN EXTENSION CONTRACTS

The Authority contracts with developers for the construction of watermains to provide water service for areas under development. Such watermains are an extension of the City's existing water distribution system. Under such contracts, the contractor pays for all construction costs. The non-interest bearing repayments to contractors are payable over a ten year period and are generally limited to 40% of the collected revenues generated by the respective watermain extension, not to exceed the total cost as defined in the contract. The Authority has no liability after the ten year period if the contractor's portion of the respective revenues generated is insufficient to cover the contractor's costs.

Amounts due under the contracts were $6,402 and $7,071 at June 30, 2012 and 2011, respectively. The Authority estimates the current portion of the contractual liability based upon payments made during the year. The Authority made payments of $530 and $516 in accordance with these contracts for the years ended June 30, 2012 and 2011, respectively.

7. MUNICIPAL EMPLOYEES' PENSION PLAN

The Authority contributes to the Municipal Employees Pension System (the "System"), a cost sharing multiple employer defined benefit pension plan administered by the City. The pension plan was established by the City in accordance with the City Charter and State Statutes, and is reported in the City's Pension Trust Fund. Non-uniform, non-elected full-time employees of the Authority along with other employees of the City and certain related agencies participate in this plan immediately upon employment. Employees become 100% vested after five years of employment.

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.

7. MUNICIPAL EMPLOYEES' PENSION PLAN, continued

The authority to establish and amend requirements of plan members and the Authority is set forth in the City Charter and State Statutes and is vested in the plan's board of trustees, which are appointed by the mayor with approval of the City Council. Plan members are required to contribute a percentage of their annual covered salary; the percentage was 5.0%, 4.0% and 4.0% for the years ended 2012, 2011 and 2010, respectively. The Authority is required to contribute at an actuarially determined rate; the rate was 12.1%, 9.6% and 9.0% for the years ended 2012, 2011 and 2010, respectively. The Authority's contributions to the plan for the years ended June 30, 2012, 2011 and 2010 were $2,851, $1,856 and $1,674 respectively, which equaled 77%, 66% and 73% of the annual required contributions for each year. The difference between the required contributions to the Plan and the actual contributions made by the Authority was $865 and $972 as of June 30, 2012 and 2011, respectively.

The Plan is reported as a Pension Trust Fund in the City's 2012 Comprehensive Annual Financial Reports. 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.

8. OTHER POST EMPLOYMENT BENEFITS (OPEB)

The City provides post employment healthcare benefits for retired employees and their dependents through the City of Tulsa Postretirement Medical Plan (the "Plan"), a single-employer defined benefit health care plan. The benefits, coverage levels, employee contributions and employer contributions are governed by the City through its personnel and union contracts.

All healthcare benefits are provided through the City's fully insured health plan. The benefit levels are the same as those offered to active employees. Benefits include general inpatient and outpatient medical services and prescriptions. General employees are eligible for membership in the plan if they retire from the City on or after age 55 with 5 years of service or with age and service totaling 80 points. Coverage ceases upon eligibility of the member (retiree or dependent) for Medicare. Coverage for dependents can continue upon the death of the retiree. Spouses of employees eligible for benefits and who die in active service can receive coverage.

The City's actuarial determined annual required contribution (ARC) for years ending June 30, 2012 and 2011 was $2,769 and $3,219, of which $1,208 and $537, was paid on a pay-as-you-go basis, respectively. The Authority was allocated $5,523 and $4,978 of the net obligation for the years ending June 30, 2012 and 2011, respectively, which has been reflected in the financial statements. The amount allocated to the Authority is based on the percentage of the Authority's payroll cost compared to the total payroll cost of the active eligible employees. The complete details of the plan are disclosed in the City's Comprehensive Annual Financial Report.

The Authority's portion of the unfunded actuarial assessed liability is not separately determinable.

9. 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 and assumes no liability. The City retains all risk of loss for workers' compensation while all other major insurance programs are covered by commercial insurance. There have been no significant reductions in insurance coverage for insured programs. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

10. NONCURRENT LIABILITIES

REVENUE BONDS - Revenue bonds outstanding consist of debt issued by the Authority. The debt does not constitute debt of the City and is payable solely from resources of the Authority. Revenue bonds are collateralized primarily by the trust estates and revenues derived there from.

Various bond indentures, loan agreements, and pledge and security agreements contain significant limitations and restrictions of annual debt requirements and flow of monies through various restricted accounts. The Authority has pledged future water revenues, net of operating expenses to repay $153,530 of outstanding Utility Revenue Bonds. The bonds are to be paid solely from water net revenues and are payable through 2031. Annual principal and interest payments on the bonds have required an average 60-70 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $207,968. Principal and interest paid for the current year and water net revenues for the current year were $27,620 and $37,117, respectively.

NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)

10. NONCURRENT LIABILITIES, continued

Revenue bond activity during 2012 was as follows:

June 30, 2012

Bonds, Series and Maturity Dates	Issue Amount	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Utility Revenue Bonds, Series 2003, 2018	$ 8,890	3.75-4.45%	$ 5,240	$ -	$ (580)	$ 4,660	$ 600
Utility Revenue Bonds, Series 2004, 2019	17,695	4.00-4.60%	13,300	-	(13,300)	-	-
Utility Revenue Bonds, Series 2005, 2025	78,720	4.00-4.50%	63,970	-	(3,015)	60,955	3,145
Utility Revenue Bonds, Series 2007, 2027	27,815	4.00-4.50%	20,115	-	(2,100)	18,015	2,200
Utility Revenue Bonds, Series 2009, 2029	21,500	3.00-4.75%	20,195	-	(690)	19,505	715
Utility Revenue Bonds, Series 2010, 2030	14,510	2.00-4.00%	14,510	-	-	14,510	550
Utility Revenue Bonds, Series 2011, 2031	24,100	2.00-4.375%	24,100	-	(900)	23,200	830
Utility Revenue Bonds, Series 2012, 2025	12,685	2.00-2.65%	-	12,685	-	12,685	965
			$ 161,430	$ 12,685	$ (20,585)	$ 153,530	$ 9,005

June 30, 2012	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Other long-term liabilities					
Water storage lease	$ 4,775	$ -	$ (246)	$ 4,529	$ 176
Watermain extension contracts	7,071	-	(669)	6,402	536
Other postemployment benefits	4,978	545	-	5,523	-
Vested compensated absences	4,167	4,389	(3,157)	5,399	3,319
Net pension obligation	1,841	944	(765)	2,020	1,076
Total other long-term liabilities	$ 22,832	$ 5,878	$ (4,837)	$ 23,873	$ 5,107

NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)

10. NONCURRENT LIABILITIES, continued

Revenue bond activity during 2011 was as follows:

June 30, 2011

Bonds, Series and Maturity Dates	Issue Amount	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Utility Revenue Bonds, Series 2003, 2018	$ 8,890	3.70-4.45%	$ 5,800	$ -	$ (560)	$ 5,240	$ 580
Utility Revenue Bonds, Series 2004, 2019	17,695	3.50-4.60%	14,070	-	(770)	13,300	795
Utility Revenue Bonds, Series 2005, 2025	78,720	4.00-4.50%	66,870	-	(2,900)	63,970	3,015
Utility Revenue Bonds, Series 2007, 2027	27,815	4.00-4.50%	22,115	-	(2,000)	20,115	2,100
Utility Revenue Bonds, Series 2009, 2029	21,500	3.00-4.75%	20,860	-	(665)	20,195	690
Utility Revenue Bonds, Series 2010, 2030	14,510	2.00-4.00%	14,510	-	-	14,510	-
Utility Revenue Bonds, Series 2011, 2031	24,100	2.00-4.375%	-	24,100		24,100	900
			$ 144,225	$ 24,100	$ (6,895)	$ 161,430	$ 8,080

June 30, 2011	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Other long-term liabilities					
Water storage lease	$ 5,013	$ -	$ (238)	$ 4,775	$ 246
Watermain extension contracts	8,144	-	(1,073)	7,071	529
Other postemplyment benefits	4,303	675	-	4,978	-
Vested compensated absences	4,269	3,501	(3,603)	4,167	2,800
Net pension obligation	765	1,076	-	1,841	-
Total other long-term liabilities	$ 22,494	$ 5,252	$ (4,914)	$ 22,832	$ 3,575

10. NONCURRENT LIABILITIES, continued

PROMISSORY NOTES - The Authority's outstanding promissory notes with the Oklahoma Water Resources Board are collateralized by a first lien and security interest in the Authority's wastewater treatment system and the revenues derived from the entire system and generally require semi-annual principal and interest payments.

The Authority has pledged future sewer and water revenue, net of operating expenses to repay $163,575 and $4,227 of promissory notes respectively. The promissory notes are to be paid solely from sewer and water net revenues and are payable through 2031. Annual principal and interest payments on the promissory notes have required on average 35-68 percent of net revenues. The total principal and interest remaining to be paid on the promissory notes is $229,871. Principal and interest paid for the current year and sewer and water combined net revenues for the current year were $14,128 and $64,682, respectively.

The promissory notes contain certain covenants. The covenants require that net revenues of the wastewater system, as defined by the debt agreement, provide for minimums of 100% of the maximum debt service on all notes and 125% of the maximum debt service on senior notes.

NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)

10. NONCURRENT LIABILITIES, continued

Loan activity during 2012 was as follows:

Promissory Notes and Maturity Dates	Issue Amount	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Sewer:							
Series 1992A - 2012	$ 4,299	0.50%	$ 322	$ -	$ (215)	$ 107	$ 107
Series 1997A - 2016	4,035	0.50%	1,134	-	(207)	927	206
Series 1998B - 2017	4,392	0.50%	1,490	-	(229)	1,261	229
Series 1998C - 2017	8,500	4.95%	3,980	-	(490)	3,490	515
Series 2001B - 2020	4,996	0.50%	2,366	-	(263)	2,103	263
Series 2002D - 2022	6,813	0.50%	3,670	-	(350)	3,320	349
Series 2003 - 2012	4,310	3.05%	1,025	-	(505)	520	520
Series 2004B - 2023	1,560	0.50%	1,000	-	(80)	920	80
Series 2005B - 2027	7,900	3.10%	6,715	-	(396)	6,319	395
Series 2005C - 2025	1,203	0.50%	872	-	(60)	812	60
Series 2006A - 2028	3,130	3.10%	2,436	74	(156)	2,354	157
Series 2006B - 2016	835	1.55%	452	-	(85)	367	91
Series 2006C - 2027	17,825	3.10%	15,816	214	(891)	15,139	891
Series 2006 - 2025	52,585	4.15%	44,674	-	(2,179)	42,495	2,265
Series 2007A - 2026	5,131	0.50%	4,079	-	(264)	3,815	263
Series 2007B - 2026	8,365	4.15%	7,284	-	(331)	6,953	344
Series 2009A - 2032	11,320	3.22%	7,445	605	(283)	7,767	566
Series 2009B - 2032	7,350	2.91%	4,217	592	-	4,809	268
Series 2010A - 2032	27,757	2.89%	2,274	8,442	-	10,716	694
Series 2010B - 2030	32,000	0.65-5.15%	29,380	-	(1,055)	28,325	1,060
Series 2011B - 2032	14,275	.545-5.145%	14,275	-	-	14,275	500
Series 2012B - 2033	12,000	3.162%	-	11,355	-	11,355	220
			154,906	21,282	(8,039)	168,149	10,043
Water:							
Series 2008A - 2013	1,250	2.03%	228	738	(313)	653	313
Series 2009C - 2032	5,225	2.82%	2,280	1,359	(65)	3,574	132
			$ 157,414	$ 23,379	$ (8,417)	$ 172,376	$ 10,488

During the year ended June 30, 2012, the Authority issued the Series 2011C promissory note for $16,700. There was no outstanding balance on the promissory note at June 30, 2012.

During the year ended June 30, 2012, the Authority authorized the Series 2012C promissory note for $2,450 to refund the Series 1998C. The promissory note was issued in August 2012.

NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)

10. NONCURRENT LIABILITIES, continued

Loan activity during 2011 was as follows:

Promissory Notes and Maturity Dates	Issue Amount	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Sewer:							
Series 1992A - 2012	$ 4,299	0.50%	$ 537	$ -	$ (215)	$ 322	$ 215
Series 1997A - 2016	4,035	0.50%	1,340	-	(206)	1,134	206
Series 1998B - 2017	4,392	0.50%	1,719	-	(229)	1,490	229
Series 1998C - 2017	8,500	4.95%	4,445	-	(465)	3,980	490
Series 2001B - 2020	4,996	0.50%	2,629	-	(263)	2,366	263
Series 2002D - 2022	6,813	0.50%	4,019	-	(349)	3,670	349
Series 2003 - 2012	4,310	3.05%	1,515	-	(490)	1,025	505
Series 2004B - 2023	1,560	0.50%	1,080	-	(80)	1,000	80
Series 2005B - 2027	7,900	3.10%	7,082	28	(395)	6,715	395
Series 2005C - 2025	1,203	0.50%	932	-	(60)	872	60
Series 2006A - 2028	3,130	3.10%	2,495	98	(157)	2,436	157
Series 2006B - 2016	835	1.55%	534	-	(82)	452	86
Series 2006C - 2027	17,835	3.10%	15,305	1,402	(891)	15,816	891
Series 2006 - 2025	52,585	4.15%	46,770	-	(2,096)	44,674	2,180
Series 2007A - 2026	5,131	0.50%	4,342	-	(263)	4,079	263
Series 2007B - 2026	8,365	4.15%	7,606	-	(322)	7,284	331
Series 2009A - 2032	2,875	3.22%	2,875	4,570	-	7,445	283
Series 2009B - 2032	7,350	2.41%	-	6,217	(2,000)	4,217	-
Series 2010A - 2032	27,757	2.39%	-	2,274	-	2,274	-
Series 2010B - 2030	29,380	0.65-5.15%	29,380	-	-	29,380	1,055
Series 2011B - 2032	29,380	0.545-5.145%	-	14,275	-	14,275	-
			134,605	28,864	(8,563)	154,906	8,038
Water:							
Series 2008A - 2026	1,250	2.30%	53	228	(53)	228	156
Series 2009C - 2032	5,225	2.82%	-	3,866	(1,586)	2,280	114
			$ 134,658	$ 32,958	$ (10,202)	$ 157,414	$ 8,308

NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)

10. NONCURRENT LIABILITIES, continued

GENERAL LONG-TERM DEBT – General long-term debt of the Authority consists of general obligation bonds approved by the voters and issued by the City for water and wastewater capital assets. These bonds are required to be fully paid within 25 years from the date of issue and are backed by the full faith and credit of the City. The City's Charter requires not less than 50% of the annual principal and interest requirements on general obligation bonds issued for waterworks and wastewater be funded by water and wastewater revenues, respectively. General obligation bond activity during 2012 and 2011 was as follows:

2012

Bonds and Maturity Dates	Issue Amount	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Series 2002C - 2017	28,000	4.0-5.0%	$ 12,600	$ -	$ (12,600)	$ -	$ -
Series 2004A- 2016	949	3.0-5.0%	396	-	(76)	320	79
Series 2004B- 2015	1,038	3.00-5.0%	461	-	(114)	347	115
Series 2005- 2025	13,219	3.25-5.0%	9,732	-	(701)	9,031	698
Series 2006- 2026	817	3.75-4.5%	645	-	(44)	601	43
Series 2007- 2027	6,757	3.75-4.25%	6,004	-	(374)	5,630	376
Series 2008- 2028	8,659	4.00-4.75%	7,745	-	(457)	7,288	457
Series 2009- 2030	3,347	2.50-4.25%	3,169	-	(178)	2,991	178
Series 2009A- 2019	5,532	3.00-4.00%	4,865	-	(652)	4,213	636
Series 2009B- 2021	6,340	3.00-5.00%	5,709	-	(620)	5,089	607
Series 2012A- 2017	10,575	4.00%	-	10,575	-	10,575	2,280
			$ 51,326	$ 10,575	$ (15,816)	$ 46,085	$ 5,469

2011

Bonds and Maturity Dates	Issue Amount	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Series 2002C - 2017	28,000	4.0-5.0%	$ 14,700	$ -	$ (2,100)	$ 12,600	$ 2,100
Series 2004A- 2016	949	3.0-5.0%	475	-	(79)	396	79
Series 2004B- 2015	1,038	3.00-5.0%	486	-	(25)	461	115
Series 2005- 2025	13,219	3.25-5.0%	10,430	-	(698)	9,732	698
Series 2006- 2026	817	3.75-4.5%	688	-	(43)	645	43
Series 2007- 2027	6,757	3.75-4.25%	6,380	-	(376)	6,004	376
Series 2008- 2028	8,659	4.00-4.75%	8,202	-	(457)	7,745	457
Series 2009- 2030	3,347	2.50-4.25%	3,347	-	(178)	3,169	178
Series 2009A- 2019	5,532	3.00-4.00%	5,532	-	(667)	4,865	651
Series 2009B- 2021	6,340	3.00-5.00%	6,340	-	(631)	5,709	619
			$ 56,580	$ -	$ (5,254)	$ 51,326	$ 5,316

NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)

10. NONCURRENT LIABILITIES, continued

ECONOMIC GAIN/LOSS ON REFUNDING

On April 18, 2012, the Authority issued $12,685 in Series 2012 Refunding Utility Revenue Bonds. The proceeds of these issues were used to currently refund the Series 2004 Utility Revenue Bonds. This transaction will reduce debt service payments by $1,267 over the next 13 years and result in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $889. The refunding resulted in a deferred charge of $250 which will be amortized over the life of the new bonds. The amortization and related deferred charge are reported in the financial statements.

On June 1, 2012 the City issued its General Obligation Series 2012A Refunding Bonds in the amount of $10,575, in order to currently refund its Series 2002C General Obligation Bonds. This transaction will reduce debt service payments by $263 over the next five years and result in an economic gain (difference between the present values of the debt service payments on the old and the new debt) of $252.

PRINICIPAL AND INTEREST PAYMENTS IN SUBSEQUENT YEARS – Principal and interest payments in subsequent years are as follows:

	Revenue Bonds		Promissory Notes		General Long-Term Debt	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 9,005	5,888	$ 10,488	$ 6,032	$ 5,469	$ 1,939
2014	9,425	5,569	10,948	5,884	5,358	1,727
2015	9,750	5,244	10,852	5,559	5,250	1,519
2016	9,115	4,904	11,004	5,221	5,039	1,307
2017	8,540	4,579	11,040	4,870	4,852	1,105
2018-2022	45,380	18,026	51,467	18,762	12,092	3,343
2023-2027	45,590	8,483	45,748	9,035	7,269	1,059
2028-2032	16,725	1,745	20,104	2,108	756	40
2033-2037	-	-	725	24	-	-
	$ 153,530	$ 54,438	$ 172,376	$ 57,495	$ 46,085	$ 12,039

Variable Rate Terms – At June 30, 2012 the variable rate included in the above requirements is 1.55%, which includes program costs of 1.20% and an interest rate of 0.35%.

11. RESERVE FOR BOND AND LOAN RETIREMENT

The City levies the ad valorem taxes for the retirement of 50% of general obligation bonds issued for the wastewater disposal system. Such levies are computed by dividing the original principal amount of bonds by the number of years the bonds will be outstanding. A reserve for bond retirement is established at the City, which as of June 30, 2012 and 2011, is computed as follows:

NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)

11. RESERVE FOR BOND AND LOAN RETIREMENT, continued

	2012	2011
Levies for principal to June 30	$ 30,424	$ 25,136
Bond maturities to June 30	28,647	23,331
Bond reserve	1,777	1,805
Interest reserve	1,071	389
Final interest reserve	37	37
Total general obligation bonds reserve	$ 2,885	$ 2,231

The Authority established reserves for the retirement of revenue bond debt, the assets of which are held by the trustee and totaled $13,275 and $15,891 at June 30, 2012 and 2011, respectively. Further, the Authority established reserves for the retirement of the Promissory Notes, the assets of which are held by the trustee and totaled $15,804 and $14,332 at June 30, 2012 and 2011, respectively.

12. NONCANCELABLE CAPITAL LEASE

On December 2, 1984, the Authority entered a contract with the United States of America to utilize storage of the Oologah Lake as a source of a municipal and industrial water supply. Interest rates for the contract were determined by the Secretary of the Treasury. For the initial development stage, the interest rate is 2.5 percent, and for the ultimate development stage, it is 3.225 percent. There is an outlet works and four storage spaces referenced in the contract. Payment terms are annual. The maturity date and interest rate for the outlet work and storage space one are 2012 and 2.5 percent, respectively. The maturity date and interest rate for the remaining three storage spaces are 2031 and 3.225 percent, respectively. There are also annual operation and maintenance expenses included.

The Authority leases water storage space at Lake Oologah and the lease payments are subject to a consumer price index adjustment. The minimum lease payments under the lease are as follows:

	Principal	Interest	Operating Expense	Total
2013	$ 176	$ 146	$ 169	$ 491
2014	182	140	169	491
2015	188	134	169	491
2016	194	128	169	491
2017	200	122	169	491
2018-2022	1,103	510	844	2,457
2022-2026	1,293	320	844	2,457
2027-2031	1,193	99	674	1,966
	$ 4,529	$ 1,599	$ 3,207	$ 9,335

NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)

13. RELATED PARTY TRANSACTIONS

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

	2012	2011
Indirect cost reimbursement paid to the City of Tulsa	$ 5,588	$ 3,620
Payment in lieu of taxes to the City of Tulsa	$ 11,471	$ 10,973
Payments from the City of Tulsa	$ 4,757	$ 2,133
Charges for utility services paid by the City of Tulsa	$ 1,979	$ 1,569
Charges for maintenance of equipment paid to the City of Tulsa	$ 3,998	$ 3,481
Ad valorem taxes from the City of Tulsa	$ 3,491	$ 3,900

The Authority has outstanding advances of unspent bonds proceeds in the amount of $1,151 and $3,157 as of June 30, 2012 and 2011, respectively, held by the City. As a result, there is a noncurrent asset – advance to primary government, restricted, recorded in the statements of net position equal to these amounts.

14. 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.

15. COMMITMENTS

As of June 30, 2012, the Authority had open commitments for construction projects of approximately $28,623.

16. FUTURE CHANGES IN ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* the scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

NOTES TO BASIC FINANCIAL STATEMENTS (In thousands of dollars)

16. FUTURE CHANGES IN ACCOUNTING PRONOUNCEMENTS, continued

The provisions of Statement 68 are effective for the fiscal year ending June 30, 2015. The Authority is currently evaluating the impact of adopting this Statement.

17. RESTATEMENT

The Authority adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in the current year. As a result, the effect on fiscal year 2011 is as follows:

Water Fund:	**2011 Previously Presented**	**Restatement**	**2011 Restated**
Deferred charge on refunding	$ -	$ 993	$ 993
Other, unamortized bond issue costs	521	(521)	-
Revenue bonds	152,357	993	153,350
Net position, unrestricted	29,146	(521)	28,625
Interest and amortization expense	4,217	60	4,277
Change in net position	10,183	(60)	10,123
Net position, beginning of year	432,335	(461)	431,874

Sewer Fund:	**2011 Previously Presented**	**Restatement**	**2011 Restated**
Other, unamortized bond issue costs	$ 292	$ (292)	$ -
Net position, unrestricted	39,145	(292)	38,853
Interest and amortization expense	4,624	95	4,719
Change in net position	11,965	(95)	11,870
Net position, beginning of year	378,854	(197)	378,657

Business-Type Activities:	**2011 Previously Presented**	**Restatement**	**2011 Restated**
Deferred charge on refunding	$ -	$ 993	$ 993
Other, unamortized bond issue costs	813	(813)	-
Revenue bonds	152,357	993	153,350
Net position, unrestricted	68,291	(813)	67,478
Interest and amortization expense	8,841	155	8,996
Change in net position	22,148	(155)	21,993
Net position, beginning of year	811,189	(658)	810,531