



Financial Statements
June 30, 2012 and

City of Tulsa - Rogers County Port Authority

City of Tulsa - Rogers County Port Authority

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Independent Auditor's Report

To the Board of Directors
City of Tulsa - Rogers County Port Authority
Catoosa, Oklahoma

We have audited the accompanying statements of net assets of the City of Tulsa - Rogers County Port Authority (the Port Authority) as of June 30, 2012 and 2011 and the related statements of revenues, expenses, and changes in net assets, and the statements of cash flows for the years then ended. These financial statements are the responsibility of the Port 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 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 opinion.

As discussed in Note 1, the financial statements present only the City of Tulsa - Rogers County Port Authority and do not purport to, and do not present fairly, the financial position of the City of Tulsa, Oklahoma, as of June 30, 2012 and 2011, and the changes in its financial position or, where applicable, its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Tulsa - Rogers County Port Authority as of June 30, 2012 and 2011 and the changes in financial position and cash flows for the years 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 report dated October 3, 2012 on our consideration of the City of Tulsa - Rogers County Port 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 that report 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.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audits 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.

Eide Bailly LLP

Tulsa, Oklahoma
October 3, 2012



Management's Discussion and Analysis
June 30, 2012 and

City of Tulsa - Rogers County Port Authority

Our discussion and analysis of the financial performance of the City of Tulsa - Rogers County Port Authority, (the Port Authority), d/b/a Tulsa Port of Catoosa (the Port), provides an overview of the Port Authority's financial activities for the years ended June 30, 2012 and . This discussion should be read in conjunction with the financial statements and other information to better understand the financial condition and performance of the Port Authority. Prior fiscal year information is presented for comparative purposes.

Financial Highlights

- The Port Authority's net assets increased by \$2,509,587 for the year ended June 30, 2012. The majority of the increase can be attributed to land lease income, capital grant funds received, and investment return from the Port's treasury notes. Capital grant funds received in the amount of \$400,000 were for the laying of two-lane pavement adjacent to the existing Main Parkway roadway to create a divided four-lane roadway.

The Port Authority's net assets increased by \$2,139,444 for the year ended June 30, 2011. The majority of the increase can be attributed to income from operations and capital grant funds received. Capital grant funds received in the amount of \$134,467 were for the installation of railroad signals and crossing arms on Main Parkway.

- Total revenues for year ended June 30, 2012 increased by \$168,746. Land lease revenue increased by \$336,028 due to new leases and rental rate adjustments on existing leases. Operations revenues decreased by \$165,851. Much of the decline was due to less rail traffic and switching fees.

Total revenues for year ended June 30, 2011 increased by \$865,303. Much of the increase was due to increased barge shipments of agricultural products, dry bulk, and steel. Railroad operations also increased by \$323,771 as a result of additional rail traffic and switching fees. Land lease revenue increased by \$158,890 due to new leases and rental rate adjustments on existing leases.

- For the year ended June 30, 2012, actual financial operations of the Port were favorable compared to the operating budget prepared and approved by the Port Authority. Land lease and operating revenues of the Port Authority exceeded the budget expectations. Expenses were below planned levels in the categories of depreciation, personnel, and general and administrative, which in turn offset actual increases in operating expenses. Depreciation expenses were over budget due to construction projects being completed more quickly than anticipated. The Port budget also included a sale in the Riverview Business Park that did not occur.

For the year ended June 30, 2011, actual financial operations of the Port were favorable compared to the operating budget prepared and approved by the Port Authority. Operating revenues of the Port Authority exceeded the budget expectations. Expenses were below planned levels in the categories of depreciation, personnel, and general and administrative, which in turn offset actual increases in operating expenses. The Port budget also included a sale in the Riverview Business Park that did not occur.

Overview of the Financial Statements

These financial statements consist of two sections: Management's Discussion and Analysis (this section) and the basic financial statements (including the notes to the financial statements).

Financial Statements

The statements of net assets present information on all of the Port Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of the Port Authority is improving or deteriorating.

Condensed Statements of Net Assets
June 30, 2012, , and

	2012	2011	2010
Assets			
Current Assets	\$ 11,531,511	\$ 9,446,056	\$ 11,341,874
Capital Assets, Net	35,259,751	32,152,623	28,274,843
Assets Held for Sale	239,645	239,645	239,645
Total assets	\$ 47,030,907	\$ 41,838,324	\$ 39,856,362
Liabilities and Net Assets			
Current Liabilities	\$ 1,183,476	\$ 1,236,905	\$ 1,137,711
Non-current Liabilities	4,256,252	1,519,827	1,776,503
Total liabilities	5,439,728	2,756,732	2,914,214
Net Assets			
Invested in capital assets, net of related debt	34,144,501	30,778,623	26,625,363
Unrestricted	7,446,678	8,302,969	10,316,785
Total net assets	41,591,179	39,081,592	36,942,148
	\$ 47,030,907	\$ 41,838,324	\$ 39,856,362

City of Tulsa - Rogers County Port Authority
Management's Discussion and Analysis (Unaudited)
June 30, 2012 and 2011

The statement of revenues, expenses, and changes in net assets shows the business-type activity of the Port Authority and provides information regarding income and expenses, both operating and non-operating, that affect net assets.

Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2012, and

	2012	2011	2010
Revenues			
Operating Revenues			
Agricultural	\$ 225,413	\$ 283,758	\$ 219,720
Liquid bulk	339,266	186,982	200,402
Dry bulk	159,067	160,048	145,064
General cargo	10,219	10,219	5,337
Low water wharf	53,431	56,767	70,607
Stevedoring	533,891	374,871	109,026
Barge and towboat	407,586	477,592	404,430
Railroad	1,330,872	1,156,982	989,447
Railroad switching	657,557	1,175,934	1,019,698
Total operating revenues	3,717,302	3,883,153	3,163,731
Other Revenues			
Lease	3,435,625	3,099,597	2,940,707
Other revenues	20,590	22,021	35,030
Total other revenues	3,456,215	3,121,618	2,975,737
Total revenues	7,173,517	7,004,771	6,139,468
Expenses			
Operating Expenses			
Personnel	955,720	923,856	918,545
General and administrative	333,970	482,865	372,675
Operations	1,773,698	1,771,008	1,504,526
Depreciation	2,258,881	1,930,019	1,898,935
Total operating expenses	5,322,269	5,107,748	4,694,681

City of Tulsa - Rogers County Port Authority
Management's Discussion and Analysis (Unaudited)
June 30, 2012 and 2011

Non-operating Revenue (Expense)			
Investment income	167,499	242,483	321,119
Investment return	164,007	(49,361)	136,649
Interest expense	<u>(73,167)</u>	<u>(85,168)</u>	<u>(98,092)</u>
Total non-operating revenue (expense)	<u>258,339</u>	<u>107,954</u>	<u>359,676</u>
Change in Net Assets Before Capital Grants	2,109,587	2,004,977	1,804,463
Capital Grants, Net	<u>400,000</u>	<u>134,467</u>	<u>234,563</u>
Change in Net Assets	2,509,587	2,139,444	2,039,026
Net Assets, Beginning of Year	<u>39,081,592</u>	<u>36,942,148</u>	<u>34,903,122</u>
Net Assets, End of Year	<u>\$ 41,591,179</u>	<u>\$ 39,081,592</u>	<u>\$ 36,942,148</u>

These statements contain the income and expenses of the Port Authority's operations.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found starting on page 11 of this report.

Financial Analysis

Changes in net assets over time may serve as a useful indicator of the Port Authority's financial position. The Port Authority's assets exceeded liabilities by \$41,591,179 at June 30, 2012 and by \$39,081,592 at June 30, 2011.

By far, the largest portion of the Port Authority's net assets reflect its investment in capital assets comprised of land, streets, utilities, docks, and waterway channel improvements, net of related outstanding debt used to acquire those assets. The Port Authority uses these capital assets to operate the Port, enabling it to provide transportation and other services and to develop land for lease to industries for the creation of jobs and area economic development. Various Port Authority property included in capital assets generates both operating income and non-operating income.

Funds reserved by the Board of Directors for construction of capital improvements represent investments held in U.S. Treasury Notes fully guaranteed by the U.S. government. At June 30, 2012 and 2011, restricted funds were approximately \$4,444,000 and \$7,799,000 respectively.

Capital Asset and Debt Administration

Capital Assets

The largest portion of the Port Authority's total assets reflects its investment in capital assets of \$35,259,751 or 75% of total assets and \$32,152,623 or 77% of total assets at June 30, 2012 and 2011, respectively. This investment in capital assets includes land, buildings, infrastructure of streets, utilities, railroad, docks and waterway channel improvements, and machinery and equipment.

Long-Term Debt

At June 30, 2012 and 2011, the Port Authority had total debt outstanding of \$1,354,895 and \$1,613,645, respectively, representing Community Development Block Grant loans for the wharf cut, completed in approximately November 2006, construction of offsite infrastructure improvements leased to a port tenant, and a note payable to a bank for the purchase of 525 acres adjacent to the south boundary of the port. In January 2011, the Port Authority paid off a Community Development Block Grant Loan for a sewer line extension to provide sanitary sewer service along Port property that fronts on State Highway 167.

Other Development

The Port Authority was a defendant in a lawsuit arising from the July 2001 release of arsine gas by Air Products and Chemicals, Inc. (Air Products), a tenant the Port. The suit was brought by Air Products seeking injunctive relief from any efforts by the Port Authority to ban arsine gas from their site. As a result of mediation discussions with Air Products and the Port Authority, conducted by a magistrate in Federal Court, the lawsuit was settled with no material effect on the Port Authority in fiscal year 2011.

Economic Factors and Next Year's Budget

The Port Authority is the landlord developer of a 2,000-acre water port and industrial park. The Authority has entered into long-term lease agreements with approximately 75 tenant industries and operators. Payments for current land leases and operating agreements for leasing Port improvements are scheduled to generate annual revenues of \$3,475,856, \$3,221,955 and \$2,662,621 for the fiscal years 2013, 2014, and 2015, respectively. It is expected that expiring leases will be renewed at higher rates. The Port Authority earns additional revenues from railroad and barge shipping activities and, in certain agreements, revenues earned by operators of Port Authority facilities.

The Port Authority approves its operating budget each year in June. The budget for the fiscal year ending June 30, 2013 projects total revenues of \$6,041,723, total expenses of \$4,303,903, including depreciation of \$2,295,954, and net income of \$1,737,820. Income for land leases is projected to be \$3,673,543 and income from operations to be \$2,027,180.

Requests for Information

This financial report is designed to provide a general overview of the Port Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Tulsa Port of Catoosa, 5350 Cimarron Road, Catoosa, OK 74015-3027.

City of Tulsa - Rogers County Port Authority
 Statements of Net Assets
 June 30, 2012 and 2011

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,957,215	\$ 551,192
Investments	4,444,079	7,798,674
Accounts receivable, less allowance for doubtful accounts of \$5,849 in both 2012 and 2011	3,864,889	783,588
Interest receivable	27,349	39,646
Prepaid expenses	74,015	84,863
Lease revenues receivable	163,964	188,093
Total current assets	11,531,511	9,446,056
Assets Held for Sale	239,645	239,645
Capital Assets, Non-depreciable	8,922,222	10,064,018
Capital Assets, Net	26,337,529	22,088,605
Total assets	\$ 47,030,907	\$ 41,838,324
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 676,019	\$ 965,544
Current portion of long-term debt	258,750	258,750
Current portion of advance rental billings	248,707	12,611
Total current liabilities	1,183,476	1,236,905
Long-term Debt, Less Current Portion	1,096,145	1,354,895
Compensated Absences	118,291	111,553
Long-term Advance Rental Billings, Less Current Portion	3,041,816	53,379
Total liabilities	5,439,728	2,756,732
Net Assets		
Invested in capital assets, net of related debt	34,144,501	30,778,623
Unrestricted	7,446,678	8,302,969
Total net assets	41,591,179	39,081,592
Total liabilities and net assets	\$ 47,030,907	\$ 41,838,324

City of Tulsa - Rogers County Port Authority
 Statements of Revenues, Expenses, and Changes in Net Assets
 Years Ended June 30, 2012 and 2011

	2012	2011
Operating Revenues		
Operations	\$ 3,717,302	\$ 3,883,153
Lease	3,435,625	3,099,597
Management fees	15,000	15,000
Other	5,590	7,021
Total operating revenues	7,173,517	7,004,771
Operating Expenses		
Personnel	955,720	923,856
General and administrative	333,970	482,865
Operations	1,773,698	1,771,008
Depreciation	2,258,881	1,930,019
Total operating expenses	5,322,269	5,107,748
Operating Income	1,851,248	1,897,023
Non-operating Revenue (Expense)		
Investment income	167,499	242,483
Investment return	164,007	(49,361)
Interest expense	(73,167)	(85,168)
Net non-operating revenue	258,339	107,954
Change in Net Assets Before Capital Grants	2,109,587	2,004,977
Capital Grants	400,000	134,467
Change in Net Assets	2,509,587	2,139,444
Net Assets, Beginning of Year	39,081,592	36,942,148
Net Assets, End of Year	\$ 41,591,179	\$ 39,081,592

City of Tulsa - Rogers County Port Authority

Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	2012	2011
Operating Activities		
Cash received from customers	\$ 7,325,878	\$ 6,848,772
Cash paid to suppliers	(2,350,706)	(2,121,914)
Cash paid to employees	(948,982)	(917,924)
Cash received from affiliate	15,000	15,000
Net Cash from Operating Activities	<u>4,041,190</u>	<u>3,823,934</u>
Capital and Related Financing Activities		
Intergovernmental grants	400,000	134,467
Acquisition of capital assets	(5,401,648)	(5,834,375)
Principal payments on long-term debt	(258,750)	(275,480)
Interest expense paid	(73,167)	(85,168)
Net Cash used for Capital and Related Financing Activities	<u>(5,333,565)</u>	<u>(6,060,556)</u>
Investing Activities		
Purchases of investments	(3,769,360)	(5,633,458)
Sales and maturities of investments	7,287,962	7,290,977
Interest received on investments	179,796	242,483
Net Cash from Investing Activities	<u>3,698,398</u>	<u>1,900,002</u>
Net Change in Cash and Cash Equivalents	2,406,023	(336,620)
Cash and Cash Equivalents, Beginning of Year	<u>551,192</u>	<u>887,812</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,957,215</u>	<u>\$ 551,192</u>
Reconciliation of Operating Income to Net		
Cash from Operating Activities		
Operating income	<u>\$ 1,851,248</u>	<u>\$ 1,897,023</u>
Adjustments to reconcile operating income to		
net cash from operating activities		
Depreciation	2,258,881	1,930,019
Loss on disposal of capital assets	35,639	26,576
Changes in assets and liabilities		
Accounts receivable	(3,081,301)	(200,132)
Prepaid expenses	10,848	(12,673)
Lease revenues receivable	24,129	65,123
Accounts payable and accrued expenses	(289,525)	118,056
Advance rental billings	3,224,533	(5,990)
Compensated absences	6,738	5,932
Total adjustments	<u>2,189,942</u>	<u>1,926,911</u>
Net cash from operating activities	<u>\$ 4,041,190</u>	<u>\$ 3,823,934</u>
Supplemental Disclosure of Cash Flow Information		
Net realized and unrealized gain (loss) on investments	<u>\$ 164,007</u>	<u>\$ (49,361)</u>

See Notes to Financial Statements

Note 1 - Significant Accounting Policies

Organization and Reporting Entity

The City of Tulsa - Rogers County Port Authority (the Port Authority) was created to develop and operate the Tulsa Port of Catoosa (the Port). The Port Authority is governed by a nine-member board of directors. The City of Tulsa and Rogers County, Oklahoma appoint six and three members to the board, respectively. Activities of the Port Authority include leasing port improvements, land, and structures to various tenants, including Tulsa's Port of Catoosa Facilities Authority (the Facilities Authority), a related organization of the Port Authority. The Port Authority is the beneficiary of the Facilities Authority, a public trust created to finance and develop port facilities. The Port Authority is responsible for appointing the board of directors for the Facilities Authority. The Port Authority's accountability for this organization does not extend beyond making the appointments. The operating results of the Facilities Authority are not included in the financial statements of the Port Authority.

Approximately 28% and 32% of the Port Authority's revenues for the years ended June 30, 2012 and 2011, respectively, came from Burlington Northern Santa Fe and Southern Kansas and Oklahoma Railroad. These two customers accounted for approximately 45% and 53% of accounts receivable at June 30, 2012 and 2011, respectively.

The Port Authority has no component units, as defined by the Governmental Accounting Standards Board (GASB). In addition, the accompanying financial statements do not include any fiduciary funds.

These financial statements do not purport to, and do not present fairly, the financial position of the City of Tulsa, Oklahoma.

Basis of Accounting

The activities of the Port Authority are accounted for in a proprietary fund. Proprietary funds are used to account for a government's ongoing organizations and activities that are similar to those found in the private sector. The measurement focus is on the determination of net income, financial position, and cash flows. As a result, the Port Authority uses the accrual method of accounting, whereby revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Port Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues consist of lease revenue from tenants and other revenue from usage of the Port. Operating expenses are costs associated with operating the Port Authority.

The Port Authority follows the policy of applying all applicable pronouncements of the GASB, as well as all statements and interpretations of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and on deposit and investments with initial maturities of three months or less.

Investments

Investments are stated at fair value, based upon quoted market prices. Investment income or loss (including realized and unrealized gains and losses on investments and investment income) is included in the statement of revenues, expenses, and changes in net assets as increases or decreases in net assets.

Accounts Receivable

An allowance for doubtful accounts is established by management based on past experience and analysis of current receivable collectability. Accounts receivable are short-term, non-interest bearing, and uncollateralized and are considered past due after 30 days.

Capital Assets

Capital assets are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the respective assets ranging from 3 to 30 years. Maintenance and repairs are charged to expense as incurred, whereas renewals and betterments are generally capitalized. Donated property is capitalized at its fair market value at the date of the gift. The Port Authority follows the practice of capitalizing items over \$2,000 with a useful life of more than one year. The Port Authority records impairments to its capital assets when it becomes probable that the carrying value of the assets will not be fully recovered over their estimated lives. Impairments are recorded to reduce the carrying value of the assets to their estimated fair values, as determined by the Port Authority, based on facts and circumstances in existence at the time of the determination, estimates of probable future economic conditions, and other information. No impairments were recorded in 2012 or .

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Port Authority or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. As of June 30, 2012 and , there were no restricted net assets. Unrestricted net assets are all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

Vacation Policy

Vacation for employees accrues at varying rates depending on length of service. Employees may carry forward accrued vacation for up to two years without loss of benefits. The accrued vacation liability is calculated using current rates of pay.

Income Taxes

The Port Authority is a governmental entity as described in Section 115 of the Internal Revenue Code (IRC) and is exempt from federal and state income taxes pursuant to this section of the IRC.

Capital Grants

Certain expenditures of the Port Authority are funded through various grants from local, state, and federal sources. These grants are considered earned as the related allowable expenses are incurred. Grants for capital asset acquisition and construction are reported in the statements of revenues, expenses, and changes in net assets as capital grants.

During the year ended June 30, 2012, capital grants were for expenditures incurred in connection with the installation of an industrial access road. During the year ended June 30, 2011, capital grants were for expenditures incurred in connection with the installation of railroad signals and crossing arms.

Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Note 2 - Cash and Cash Equivalents and Investments

The deposit balances of the Port Authority, which consist of cash balances, are categorized below to give an indication of the level of custodial credit risk assumed by the Port Authority at June 30, 2012 and .

	<u>2012</u>	<u>2011</u>
Level of risk		
Insured by the Federal Deposit Insurance Corporation	\$ 3,066,375	\$ 672,048
Total bank balances	<u>\$ 3,066,375</u>	<u>\$ 672,048</u>
Total book balances	<u>\$ 2,957,215</u>	<u>\$ 551,192</u>

It is the policy of the Port Authority to invest funds in insured or collateralized time-deposit accounts and direct obligations of the United States government. The Port Authority has certain guidelines, but no formal policies regarding credit risk, custodial risk, concentration of credit risk, and interest rate risk.

City of Tulsa - Rogers County Port Authority

Notes to Financial Statements

June 30, 2012 and 2011

Investment balances, their credit quality ratings (not applicable for U.S. Treasury Notes), and their maturities as of June 30, 2012 were as follows:

	<u>Carrying Amount</u>	<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>
Investment types				
U.S. Treasury Notes	\$ 4,152,595	\$ -	\$ 3,661,693	\$ -
U.S. Treasury Money Market Fund - AAA Rated	<u>291,484</u>	<u>291,484</u>	<u>490,902</u>	<u>-</u>
Total bank balances	<u>\$ 4,444,079</u>	<u>\$ 291,484</u>	<u>\$ 4,152,595</u>	<u>\$ -</u>

Investments in U.S. Treasury notes are registered in the Port Authority's name.

The Board of Directors has reserved certain investment assets and appropriated a portion of net assets for future construction, expansion, and major maintenance items. Reserved investments totaled \$4,444,079 and \$7,798,674 at June 30, 2012 and , respectively. At June 30, 2012, these investments consisted of \$4,152,595 of U.S. Treasury Notes and \$291,484 of cash equivalents invested in a U.S. Treasury Securities money market fund, which is held by a financial institution and collateralized by securities held by the pledging financial institution in the Port Authority's name.

Net realized gains on sales of investments, during the years ended June 30, 2012 and , was \$437,913 and \$68,831, respectively.

Note 3 - Leases

Lease payments received from various tenants are accounted for using the operating method. Lease payments are recorded as either operating or lease revenue, depending on the terms of the lease agreement. The following is a schedule of future minimum lease payments receivable under non-cancellable operating leases in effect at June 30, 2012.

	<u>Lease Revenue</u>	<u>Operating Revenue</u>	<u>Total</u>
2013	\$ 2,931,032	\$ 544,824	\$ 3,475,856
2014	2,701,131	520,824	3,221,955
2015	2,345,337	317,284	2,662,621
2016	1,847,008	218,500	2,065,508
Thereafter	<u>9,004,336</u>	<u>413,000</u>	<u>9,417,336</u>
Total	<u>\$ 18,828,844</u>	<u>\$ 2,014,432</u>	<u>\$ 20,843,276</u>

Note 4 - Capital Assets, Including Donated Assets

Activity in capital assets for the year ended June 30, 2012, was as follows:

	June 30, 2011	Increases	Transfers	Decreases	June 30, 2012
Land (not depreciated)	\$ 4,539,170	\$ 66,832	\$ -	\$ -	\$ 4,606,002
Construction in progress (not depreciated)	5,524,848	4,813,661	(5,995,949)	(26,341)	4,316,219
Total non-depreciable assets	10,064,018	4,880,493	(5,995,949)	(26,341)	8,922,221
Port improvements	40,256,438	-	5,995,949	-	46,252,387
Grain tanks	1,056,728	-	-	-	1,056,728
Machinery and equipment	4,468,313	515,378	-	(9,298)	4,974,393
Low water wharf	150,000	-	-	-	150,000
Main office renovation	54,738	-	-	-	54,738
Office furniture and fixtures	315,146	5,777	-	-	320,923
Total depreciable assets	46,301,363	521,155	5,995,949	(9,298)	52,809,169
Less accumulated depreciation for					
Port improvements	(18,739,487)	(1,945,283)	-	-	(20,684,770)
Machinery and equipment	(5,186,175)	(285,279)	-	-	(5,471,454)
Office furniture and fixtures	(287,096)	(28,319)	-	-	(315,415)
Total accumulated depreciation	(24,212,758)	(2,258,881)	-	-	(26,471,639)
Net capital assets, excluding donated assets	32,152,623	3,142,767	-	(35,639)	35,259,751
Donated assets					
Port improvements	930,547	-	-	-	930,547
Less accumulated depreciation	(930,547)	-	-	-	(930,547)
Net donated assets	-	-	-	-	-
Total capital assets, net	\$ 32,152,623	\$ 3,142,767	\$ -	\$ (35,639)	\$ 35,259,751

City of Tulsa - Rogers County Port Authority
Notes to Financial Statements
June 30, 2012 and 2011

Activity in capital assets for the year ended June 30, 2011 was as follows:

	<u>June 30, 2010</u>	<u>Increases</u>	<u>Transfers</u>	<u>Decreases</u>	<u>June 30, 2011</u>
Land (not depreciated)	\$ 4,533,660	\$ 5,510	\$ -	\$ -	\$ 4,539,170
Construction in progress (not depreciated)	<u>3,007,079</u>	<u>4,747,371</u>	<u>(2,203,818)</u>	<u>(25,784)</u>	<u>5,524,848</u>
Total non-depreciable assets	<u>7,540,739</u>	<u>4,752,881</u>	<u>(2,203,818)</u>	<u>(25,784)</u>	<u>10,064,018</u>
Port improvements	38,072,263	2,558	2,203,818	(22,201)	40,256,438
Grain tanks	1,056,728	-	-	-	1,056,728
Machinery and equipment	3,442,360	1,040,218	-	(14,265)	4,468,313
Low water wharf	150,000	-	-	-	150,000
Main office renovation	54,738	-	-	-	54,738
Office furniture and fixtures	<u>376,571</u>	<u>38,718</u>	<u>-</u>	<u>(100,143)</u>	<u>315,146</u>
Total depreciable assets	<u>43,152,660</u>	<u>1,081,494</u>	<u>2,203,818</u>	<u>(136,609)</u>	<u>46,301,363</u>
Less accumulated depreciation for					
Port improvements	(20,350,698)	(1,520,473)	3,109,483	22,201	(18,739,487)
Machinery and equipment	(1,710,260)	(379,904)	(3,109,483)	13,472	(5,186,175)
Office furniture and fixtures	<u>(357,598)</u>	<u>(29,642)</u>	<u>-</u>	<u>100,144</u>	<u>(287,096)</u>
Total accumulated depreciation	<u>(22,418,556)</u>	<u>(1,930,019)</u>	<u>-</u>	<u>135,817</u>	<u>(24,212,758)</u>
Net capital assets, excluding donated assets	<u>28,274,843</u>	<u>3,904,356</u>	<u>-</u>	<u>(26,576)</u>	<u>32,152,623</u>
Donated assets					
Port improvements	930,547	-	-	-	930,547
Less accumulated depreciation	<u>(930,547)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(930,547)</u>
Net donated assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, net	<u>\$ 28,274,843</u>	<u>\$ 3,904,356</u>	<u>\$ -</u>	<u>\$ (26,576)</u>	<u>\$ 32,152,623</u>

Construction in progress consists of expenditures incurred in connection with projects undertaken and incomplete at June 30, 2012. Future commitments under these projects are approximately \$2,117,049.

City of Tulsa - Rogers County Port Authority

Notes to Financial Statements

June 30, 2012 and 2011

Certain of the above items are leased by the Port Authority to various tenants under operating leases. At June 30, 2012, these included:

Port improvements	\$ 4,108,503
Grain tanks	1,056,728
Machinery and equipment	<u>2,346,135</u>
	7,511,366
Less accumulated depreciation	<u>(4,673,398)</u>
Net leased items	<u><u>\$ 2,837,968</u></u>

At June 30, 2012 and , the Port Authority had approximately \$240,000 of land held for sale.

Note 5 - Assets leased from the City of Tulsa

The land the Port Authority leases to its tenants and most other assets used by the Port Authority in operating the Port are leased from the City of Tulsa under a lease originally entered into in June 1967, last amended in October 2007. The current lease term is 99 years and is scheduled to expire September 30, 2106. The Port Authority accounts for the lease under the operating method; therefore, the assets are not included in the statement of net assets. Lease payments received from tenants for the rental of land and facilities are accounted for under the operating method and are included in income as earned over the terms of the leases. The Port Authority may, subject to written approval of the City of Tulsa, pledge these leased assets as collateral on loans obtained to develop Port facilities. The Port Authority has already met its lease obligations and no further payments are due. The following describes the assets and indicates the cost or estimated fair value of the assets when originally leased:

Land	\$ 2,167,955
Improvements	
Roads	2,747,640
Railroads	1,478,613
Channel	3,190,704
Utilities	2,877,705
Other	1,765,236
Structures	
Buildings	615,237
Grain elevator	1,695,652
Equipment	2,582,903
Other	15,604
Transportation equipment	<u>184,809</u>
Total	<u><u>\$ 19,322,058</u></u>

Note 6 - Pledged Revenues

The Port Authority has pledged future revenues to repay approximately \$3.0 million in notes payable issued in 2001, 2005, and 2007. Proceeds from the notes were used for the wharf cut, construction of offsite infrastructure improvements leased to a Port Authority tenant, a sewer line extension to provide sanitary sewer service along Port Authority property that fronts on State Highway 67, and the purchase of 525 acres adjacent to the south edge of the Port. Principal and interest on the notes are payable through 2025, solely from the revenues. Annual principal and interest on the notes are expected to require approximately 5% of such net revenues. Principal and interest paid in 2012 was \$331,917. Pledged revenues totaled approximately \$6.5 million for the year ended June 30, 2012. At June 30, 2012, pledged future revenues totaled \$1,550,095, which was the amount of the remaining principal and interest on the notes. Principal and interest paid in 2011 was \$360,648. Pledged revenues totaled approximately \$6.5 million for the year ended June 30, 2011. At June 30, 2011, pledged future revenues totaled \$1,887,645, which was the amount of the remaining principal and interest on the notes.

Note 7 - Long-term Liabilities

At June 30, 2012 and , long-term debt consisted of the following:

	2012	2011
0% note payable to Oklahoma Department of Commerce (ODOC), through Rogers County as agent for ODOC, through the Facilities Authority as agent for Rogers County. The note is due in monthly installments of \$3,333. The note matures in January 2015 and is collateralized by a pledge of the Port Authority's revenues.	\$ 103,333	\$ 143,333
0% note payable to Oklahoma Department of Commerce (ODOC), through Rogers County as agent for ODOC, through the Facilities Authority as agent for Rogers County. The note is due in monthly installments of \$1,563. The note matures in November 2025 and is collateralized by a pledge of the Port Authority's revenues.	251,562	270,312
6% note payable to a bank, due in annual installments of \$200,000, plus interest, and maturing in March 2017. The note is collateralized by a pledge of the Port Authority's revenues.	1,000,000	1,200,000
	1,354,895	1,613,645
Less current portion	(258,750)	(258,750)
Long-term debt, less current portion	\$ 1,096,145	\$ 1,354,895

City of Tulsa - Rogers County Port Authority
Notes to Financial Statements
June 30, 2012 and 2011

At June 30, 2012, debt service requirements of the Port Authority were as follows:

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 258,750	\$ 66,800
2014	258,750	54,800
2015	242,083	42,800
2016	218,750	30,800
2017	218,750	-
2018-2021	75,000	-
2022-2026	82,812	-
Total	<u>\$ 1,354,895</u>	<u>\$ 195,200</u>

The long-term liability balances and activity for the years ended June 30, 2012 and 2011 were as follows:

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2012</u>	<u>Amount Due Within One Year</u>
Compensated absences	\$ 111,553	\$ 42,519	\$ 35,781	\$ 118,291	\$ -
Advance rental billings	65,990	3,297,055	72,522	3,290,523	248,707
Notes payable	1,613,645	-	258,750	1,354,895	258,750
Total long-term liabilities	<u>\$ 1,791,188</u>	<u>\$ 3,339,574</u>	<u>\$ 367,053</u>	<u>\$ 4,763,709</u>	<u>\$ 507,457</u>

	<u>June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2011</u>	<u>Amount Due Within One Year</u>
Compensated absences	\$ 105,621	\$ 48,915	\$ 42,983	\$ 111,553	\$ -
Advance rental billings	71,947	38,374	44,331	65,990	12,611
Notes payable	1,889,125	-	275,480	1,613,645	258,750
Total long-term liabilities	<u>\$ 2,066,693</u>	<u>\$ 87,289</u>	<u>\$ 362,794</u>	<u>\$ 1,791,188</u>	<u>\$ 271,361</u>

Note 8 - Contingency

The Port Authority was a defendant in a lawsuit regarding an arsine gas release, which occurred at a tenant's location within the Port facilities. During the year ended June 30, 2011, the lawsuit was settled with no material effect on the Port Authority.

Note 9 - Related Party Transactions

The Port Authority receives a management fee from the Facilities Authority. The fees were \$15,000 for both of the years ended June 30, 2012 and .

The Port Authority leases certain real estate to the Facilities Authority, who subleases it to tenants. Substantially all lease revenues from the tenants are passed through to the Port Authority. Lease revenue received from the Facilities Authority was \$181,382 and \$106,392 in 2012 and , respectively.

Note 10 - Municipal Employees' Retirement Plan

The Port Authority contributes to the City of Tulsa's (the City) Municipal Employees' Retirement Plan (the Plan), which is a cost sharing multiple employer defined benefit pension plan. The Plan was established by the City in accordance with the city charter and state statutes and is reported as a pension trust fund in the City's comprehensive annual report. The City issues a publicly-available financial report that includes financial statements and required supplementary information for the pension plan. That report may be obtained by writing to City of Tulsa, Office of the Controller, 175 East 2nd Street, Suite 885, Tulsa, Oklahoma 74103.

Employees of the Port Authority were required to contribute 5% and 4% of base pay to the Plan for the years ended June 30, 2012 and , respectively. The contributions are deducted from the employees' wages or salary and are remitted by the Port Authority to the Municipal Employees' Pension Fund on a monthly basis. The Port Authority is required to contribute the remaining amounts necessary to fund the system, using the actuarial basis specified by City ordinance. The total annual contribution required by the Port Authority totaled \$62,378 and \$43,519 in 2012 and , respectively. Contributions made by the Port Authority represent 9.3% and 6.3% of covered payroll for the years ended June 30, 2012 and , respectively. It is the Port Authority's policy to provide for and fund this expense annually.



Report of Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To The Board of Directors
City of Tulsa - Rogers County Port Authority
Catoosa, Oklahoma

We have audited the financial statements of the City of Tulsa - Rogers County Port Authority (the Port Authority) as of and for the year ended June 30, 2012 and have issued our report thereon dated October 3, 2012, which states the financial statements present only the City of Tulsa - Rogers County Port Authority and do not purport to, and do not present fairly, the financial statements of the City of Tulsa, Oklahoma. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Port Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Tulsa - Rogers County Port Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above; however, we identified a deficiency in internal control over financial reporting, described below, that we consider to be a significant deficiency in internal control over financial reporting: Finding 2012-1. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Finding 2012-1: Preparation of Financial Statements

Condition:	The Port Authority does not have a year-end financial reporting control system in place to prepare the financial statements and related footnote disclosures in accordance with Generally Accepted Accounting Principles (GAAP).
Criteria:	The development and implementation of a year-end financial reporting control system is the responsibility of the Port Authority's management. This process includes the preparation of financial statements and footnotes. The auditor should not be part of the Port Authority's financial reporting control system. In addition, controls should be in place for the selection and application of accounting principles, in accordance with accounting principles generally accepted in the United States.
Cause:	The Port Authority implemented a system but the process was not effective in identifying all disclosures in accordance with generally accepted accounting principles.
Context:	The Port Authority's financial statements were exported out of its accounting software, but disclosures were necessary.
Effect:	The audit firm prepared the audited financial statements.
Recommendation:	The Board of Directors should continue to evaluate and weigh the costs and benefits of developing and implementing a year-end financial reporting system. The year-end financial reporting process should include procedures to identify all required financial statement disclosures.
Response:	Management of the Port Authority has considered and accepts the degree of risk associated with not having a system in place to prepare the Port's own financial statements with full disclosure accompanying notes to the financial statements. Due to the cost/benefit associated with full disclosures and the size of its small accounting staff, the Port Authority has elected not to prepare full disclosure financial statements; however, the Port Authority does prepare monthly unaudited financial statements, which include a statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Tulsa - Rogers County Port Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts; however, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

The Port Authority's response to the finding identified in our audit is described above. We did not audit the response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Tulsa, Oklahoma
October 3, 2012