

**Metropolitan Tulsa Transit Authority**  
**A Component Unit of the City of Tulsa, Oklahoma**  
Accountants' Reports and Financial Statements  
June 30, 2006 and 2005





**Metropolitan Tulsa Transit Authority**  
**A Component Unit of the City of Tulsa, Oklahoma**  
**June 30, 2006 and 2005**

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## Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees  
Metropolitan Tulsa Transit Authority  
Tulsa, Oklahoma

We have audited the accompanying basic financial statements of METROPOLITAN TULSA TRANSIT AUTHORITY (the Authority), a component unit of the city of Tulsa, Oklahoma, as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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.

In our opinion, the 2006 and 2005 financial statements referred to above present fairly, in all material respects, the financial position of METROPOLITAN TULSA TRANSIT AUTHORITY as of June 30, 2006 and 2005, and its 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 September 28, 2006, 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 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 audit.

The accompanying management's discussion and analysis and pension information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees  
Metropolitan Tulsa Transit Authority  
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Our 2006 audit was conducted for the purpose of forming an opinion on the Authority's 2006 basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the 2006 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2006 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2006 basic financial statements taken as a whole.

*BKD LLP*

September 28, 2006

**Metropolitan Tulsa Transit Authority**  
**A Component Unit of the City of Tulsa, Oklahoma**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2006 and 2005**

As management of the Metropolitan Tulsa Transit Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2006. The Authority is a component unit of the city of Tulsa, Oklahoma. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements, which begin on page 6. All amounts are expressed in thousands of dollars.

**Financial Highlights**

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by approximately \$22,110 (net assets).
- The Authority's total net assets decreased by approximately \$475.
- The Authority's total liabilities increased by approximately \$370.
- For the year ended June 30, 2006, net capital assets increased by approximately \$127.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements include: 1) balance sheet, 2) statement of revenues, expenses and changes in net assets, 3) statement of cash flows and 4) notes to the financial statements. This report also contains other supplementary information to ensure and demonstrate compliance with finance-related legal activities.

**Required Financial Statements**

The financial statements of the Authority report information using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The balance sheet includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for assessing the liquidity and financial flexibility of the Authority. All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses and changes in net assets. This statement measures the financial success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness. The third required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments and changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash balance during the period.

## Net Assets

The Authority's net assets decreased approximately \$475 for fiscal year ended June 30, 2006.

### Net Assets (in thousands of dollars)

|   | <u>2006</u>      | <u>2005</u>      | <u>2004</u>      |
|---|------------------|------------------|------------------|
| <b>Assets</b>                                   |                  |                  |                  |
| Current and other assets                        | \$ 2,103         | \$ 2,334         | \$ 1,836         |
| Capital assets, net                             | <u>23,477</u>    | <u>23,350</u>    | <u>18,907</u>    |
| Total assets                                    | <u>\$ 25,580</u> | <u>\$ 25,684</u> | <u>\$ 20,743</u> |
| <b>Liabilities</b>                              |                  |                  |                  |
|   | <u>\$ 3,470</u>  | <u>\$ 3,100</u>  | <u>\$ 3,051</u>  |
| <b>Net Assets</b>                               |                  |                  |                  |
| Invested in capital assets, net of related debt | 23,283           | 23,053           | 18,519           |
| Restricted for other purposes                   | 253              | 168              | 161              |
| Unrestricted                                    | <u>(1,426)</u>   | <u>(637)</u>     | <u>(988)</u>     |
| Total net assets                                | <u>22,110</u>    | <u>22,584</u>    | <u>17,692</u>    |
| Total liabilities and net assets                | <u>\$ 25,580</u> | <u>\$ 25,684</u> | <u>\$ 20,743</u> |

## Change in Net Assets

For the year ended June 30, 2006, the Authority's total operating revenues increased approximately 15% and operating expenses increased approximately 12%. The key factor for the increase in operating revenue is due to the increase in passenger and advertising revenues. The key factor for the increase in operating expenses is due to increases in labor, fringes and fuel expenses. The overall decrease in net assets for fiscal year 2006 is due primarily to a decrease of approximately \$3,517 in revenues related to capital funding projects and an increase in net operating loss of approximately \$1,718.

**Changes in Net Assets**  
(in thousands of dollars)

|                                   | <u>2006</u>     | <u>2005</u>     | <u>2004</u>   |
|-----------------------------------|-----------------|-----------------|---------------|
| Operating revenues                | \$ 2,646        | \$ 2,306        | \$ 3,285      |
| Operating expenses                | <u>19,175</u>   | <u>17,117</u>   | <u>16,940</u> |
| Operating loss                    | (16,529)        | (14,811)        | (13,655)      |
| Nonoperating revenues             | <u>16,054</u>   | <u>19,703</u>   | <u>14,055</u> |
| Increase (decrease) in net assets | \$ <u>(475)</u> | \$ <u>4,892</u> | \$ <u>400</u> |

**Capital Assets**

The Authority's investment in capital assets as of June 30, 2006, amounts to approximately \$23,479 (net of accumulated depreciation). This investment in capital assets includes revenue and service equipment, land, buildings and other equipment. There were capital asset acquisitions and retirements during the year, the most significant of which was the acquisition and disposal of certain revenue vehicles resulting in an increase in revenue equipment of approximately \$2,137 and a loss on disposal of approximately \$104. There were also significant investments in other equipment of approximately \$644. Other equipment increases include the addition of security cameras, fareboxes and bicycle racks for revenue equipment and the addition of bus shelters.

**Net Capital Assets**  
(in thousands of dollars)

|                               | <u>2006</u>      | <u>2005</u>      | <u>2004</u>      |
|-------------------------------|------------------|------------------|------------------|
| Revenue equipment             | \$ 18,353        | \$ 16,216        | \$ 14,368        |
| Service equipment             | 385              | 391              | 391              |
| Buildings                     | 10,799           | 10,790           | 10,774           |
| Shop and garage equipment     | 1,474            | 1,471            | 1,429            |
| Other equipment               | 6,185            | 6,132            | 4,740            |
| Furniture and fixtures        | 821              | 816              | 796              |
| Land                          | <u>2,634</u>     | <u>2,634</u>     | <u>2,634</u>     |
|                               | 40,651           | 38,450           | 35,132           |
| Less accumulated depreciation | <u>(17,172)</u>  | <u>(15,100)</u>  | <u>(16,225)</u>  |
| Net capital assets            | \$ <u>23,479</u> | \$ <u>23,350</u> | \$ <u>18,907</u> |

**Requests for Information**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller, 510 South Rockford, Tulsa, Oklahoma 74152.

**Metropolitan Tulsa Transit Authority**  
**A Component Unit of the City of Tulsa, Oklahoma**  
**Balance Sheets**  
**Years Ended June 30, 2006 and 2005**

**Assets**

|   | <b>2006</b>          | <b>2005</b>          |
|---|----------------------|----------------------|
| <b>Current Assets</b>   |                      |                      |
| Cash  | \$ 446,444           | \$ 291,453           |
| Restricted cash   | <u>437,908</u>       | <u>366,143</u>       |
| Total cash  | 884,352              | 657,596              |
|   |                      |                      |
| Accounts receivable   |                      |                      |
| Trade   | 57,313               | 24,770               |
| Operating and capital grants  | 602,398              | 1,037,334            |
| Inventories, net of allowance for obsolescence;<br>2006 – \$125,000, 2005 – \$150,000 | 491,994              | 548,864              |
| Prepaid expenses and other  | <u>66,377</u>        | <u>65,504</u>        |
| Total current assets  | <u>2,102,434</u>     | <u>2,334,068</u>     |
|   |                      |                      |
| <b>Capital Assets, at Cost</b>  |                      |                      |
| Revenue equipment   | 18,353,092           | 16,215,957           |
| Service equipment   | 384,551              | 391,273              |
| Buildings   | 10,798,812           | 10,789,896           |
| Shop and garage equipment   | 1,473,894            | 1,470,594            |
| Other equipment   | 6,184,449            | 6,131,856            |
| Furniture and fixtures  | 821,091              | 816,517              |
| Land  | <u>2,633,708</u>     | <u>2,633,708</u>     |
|   | 40,649,597           | 38,449,801           |
| Less accumulated depreciation   | <u>17,172,456</u>    | <u>15,100,041</u>    |
|   | <u>23,477,141</u>    | <u>23,349,760</u>    |
| Total assets  | <u>\$ 25,579,575</u> | <u>\$ 25,683,828</u> |

## Liabilities

|  | <u>2006</u>          | <u>2005</u>          |
|--|----------------------|----------------------|
| <b>Current Liabilities</b>                       |                      |                      |
| Current maturities of long-term debt             | \$ 109,064           | \$ 102,728           |
| Accounts payable                                 |                      |                      |
| Trade  | 1,422,211            | 1,085,528            |
| Other  | 50,033               | 199,901              |
| Accrued wages payable                            | 216,602              | 194,251              |
| Accrued compensated absences                     | 579,396              | 571,909              |
| Accrued insurance claims                         | <u>610,000</u>       | <u>425,000</u>       |
| Total current liabilities                        | 2,987,306            | 2,579,317            |
| <br>   |                      |                      |
| <b>Advances Payable to the City of Tulsa</b>     | 397,498              | 326,000              |
| <br>   |                      |                      |
| <b>Note Payable to Bank</b>                      | <u>85,204</u>        | <u>194,269</u>       |
| Total liabilities                                | <u>3,470,008</u>     | <u>3,099,586</u>     |
| <br>   |                      |                      |
| <b>Net Assets</b>                                |                      |                      |
| Invested in capital assets, net of related debt  | 23,282,873           | 23,052,764           |
| Restricted – expendable for capital acquisitions | 252,642              | 168,241              |
| Unrestricted                                     | <u>(1,425,948)</u>   | <u>(636,763)</u>     |
| Total net assets                                 | <u>22,109,567</u>    | <u>22,584,242</u>    |
| <br>   |                      |                      |
| Total liabilities and net assets                 | <u>\$ 25,579,575</u> | <u>\$ 25,683,828</u> |

**Metropolitan Tulsa Transit Authority**  
**A Component Unit of the City of Tulsa, Oklahoma**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2006 and 2005**

|  | <u>2006</u>          | <u>2005</u>          |
|--|----------------------|----------------------|
| <b>Operating Revenues</b>  |                      |                      |
| Passenger  | \$ 2,155,685         | \$ 1,858,162         |
| Advertising  | 458,871              | 410,350              |
| Other  | <u>30,958</u>        | <u>37,801</u>        |
| Total operating revenues   | <u>2,645,514</u>     | <u>2,306,313</u>     |
| <b>Operating Expenses</b>  |                      |                      |
| Labor  | 5,335,039            | 5,181,812            |
| Cost of purchased transportation   | 3,196,030            | 2,593,679            |
| Materials and supplies consumed  | 2,597,694            | 2,253,627            |
| Fringes  | 2,900,552            | 2,445,353            |
| Services   | 848,170              | 688,710              |
| Insurance  | 437,744              | 359,148              |
| Utilities  | 350,823              | 323,293              |
| Depreciation   | 2,936,680            | 2,398,026            |
| Loss on disposal of capital assets   | 103,574              | 209,093              |
| Other  | <u>468,198</u>       | <u>663,815</u>       |
| Total operating expenses   | <u>19,174,504</u>    | <u>17,116,556</u>    |
| <b>Operating Loss</b>  | <u>(16,528,990)</u>  | <u>(14,810,243)</u>  |
| <b>Nonoperating Revenues</b>   |                      |                      |
| Federal Transit Administration operating grants  | 5,445,753            | 5,627,580            |
| State of Oklahoma operating grants   | 496,192              | 500,281              |
| City of Tulsa operating appropriations   | 7,155,000            | 6,399,000            |
| Interest   | 59,591               | 21,692               |
| Other  | <u>167,576</u>       | <u>53,000</u>        |
| Total nonoperating revenues  | <u>13,324,112</u>    | <u>12,601,553</u>    |
| <b>Deficiency of Revenues Over Expenses Before Capital Appropriations and Capital Grants</b> | (3,204,878)          | (2,208,690)          |
| Capital grants – Federal Transit Administration  | 2,196,126            | 5,712,777            |
| Capital appropriations – city of Tulsa   | <u>534,077</u>       | <u>1,388,072</u>     |
| <b>Change in Net Assets</b>  | (474,675)            | 4,892,159            |
| <b>Net Assets, Beginning of Year</b>   | <u>22,584,242</u>    | <u>17,692,083</u>    |
| <b>Net Assets, End of Year</b>   | <u>\$ 22,109,567</u> | <u>\$ 22,584,242</u> |

**Metropolitan Tulsa Transit Authority**  
**A Component Unit of the City of Tulsa, Oklahoma**  
**Statements of Cash Flows**  
**Years Ended June 30, 2006 and 2005**

|   | <b>2006</b>         | <b>2005</b>         |
|---|---------------------|---------------------|
| <b>Operating Activities</b>                                   |                     |                     |
| Cash received from customers                                  | \$ 2,612,971        | \$ 2,351,607        |
| Cash payments to suppliers for goods and services             | (7,467,390)         | (6,591,600)         |
| Cash payments to employees                                    | <u>(8,205,753)</u>  | <u>(7,695,103)</u>  |
| Net cash used in operating activities                         | <u>(13,060,172)</u> | <u>(11,935,096)</u> |
| <b>Noncapital Financing Activities</b>                        |                     |                     |
| Operating grants received from Federal Transit Administration | 5,445,753           | 5,627,580           |
| Operating appropriations received from city of Tulsa          | 7,155,000           | 6,399,000           |
| Operating grants received from state of Oklahoma              | 496,192             | 500,281             |
| Other operating assistance received                           | <u>167,576</u>      | <u>53,000</u>       |
| Net cash provided by noncapital financing activities          | <u>13,264,521</u>   | <u>12,579,861</u>   |
| <b>Capital and Related Financing Activities</b>               |                     |                     |
| Capital expenditures  | (3,195,592)         | (7,147,544)         |
| Capital contributions from Federal Transit Administration     | 2,702,560           | 5,247,859           |
| Capital contributions from city of Tulsa                      | 534,077             | 1,388,072           |
| Principal payments on note payable to bank                    | (102,729)           | (91,443)            |
| Proceeds from sale of capital assets                          | <u>24,500</u>       | <u>98,867</u>       |
| Net cash used in capital and related financing activities     | <u>(37,184)</u>     | <u>(504,189)</u>    |
| <b>Investing Activities</b>                                   |                     |                     |
| Interest earned   | <u>59,591</u>       | <u>21,692</u>       |
| Net cash provided by investing activities                     | <u>59,591</u>       | <u>21,692</u>       |
| <b>Increase in Cash</b>                                       | 226,756             | 162,268             |
| <b>Cash, Beginning of Year</b>                                | <u>657,596</u>      | <u>495,328</u>      |
| <b>Cash, End of Year</b>                                      | <u>\$ 884,352</u>   | <u>\$ 657,596</u>   |

See Notes to Financial Statements

**Metropolitan Tulsa Transit Authority**  
**A Component Unit of the City of Tulsa, Oklahoma**  
**Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2006 and 2005**

|   | <b>2006</b>     | <b>2005</b>     |
|---|-----------------|-----------------|
| <b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>                  |                 |                 |
| Operating loss  | \$ (16,528,990) | \$ (14,810,243) |
| Adjustments to reconcile operating loss to net cash provided by<br>(used in) operating activities |                 |                 |
| Depreciation  | 2,936,680       | 2,398,026       |
| Loss on disposal of capital assets  | 103,574         | 209,093         |
| Decrease in accounts receivable   | (32,543)        | 45,294          |
| Decrease in inventories   | 56,870          | 105,311         |
| Increase in prepaid expenses  | (873)           | (21,930)        |
| Increase in accounts payable  | 190,272         | 794,853         |
| Increase (decrease) in accrued liabilities  | 214,838         | (655,500)       |
| Net cash used in operating activities   | \$ (13,060,172) | \$ (11,935,096) |

**Metropolitan Tulsa Transit Authority**  
**A Component Unit of the City of Tulsa, Oklahoma**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

The Metropolitan Tulsa Transit Authority (the Authority) was created by a trust indenture to provide a means of financing and operating municipal public transportation services. The provisions of the trust provide that the Authority will acquire and operate the transportation services, receive all revenue generated from the transportation services, pay all operating expenses and finance future improvements. The city of Tulsa, Oklahoma (the City) is the beneficiary of the trust operated by the Authority, and on the termination of the trust, title to the assets of the Authority shall pass to the City. The Authority is a component unit of the City and is included in the City's Comprehensive Annual Financial Report as a discretely presented component unit.

***Summary of Significant Accounting Policies***

The accounting policies of the Metropolitan Tulsa Transit Authority conform to generally accepted accounting principles applicable to proprietary funds as defined by the Governmental Accounting Standards Board (GASB). Pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, are not applied in the preparation of the financial statements of proprietary funds in accordance with an election made by the Authority under GASB Statement No. 20.

***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. Government-mandated nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated nonexchange transactions, interest income and other similar transactions are included in nonoperating revenues and expenses. The Authority first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

***Cash and Cash Equivalents***

Short-term investments which have an original maturity of 90 days or less are considered cash equivalents.

***Inventories***

The parts and fuel inventories are stated at the lower of cost or market with cost being determined on a first-in, first-out basis.

**Metropolitan Tulsa Transit Authority**  
**A Component Unit of the City of Tulsa, Oklahoma**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

**Capital Assets**

Capital assets are stated at cost. Depreciation of capital assets is based on the estimated useful lives of the respective assets using the straight-line method:

|                        |            |
|------------------------|------------|
| Buses                  | 4-12 years |
| Equipment              | 3-10 years |
| Furniture and Fixtures | 5-10 years |
| Buildings              | 30 years   |

Maintenance and repairs are charged against operations, while renewals and betterments are capitalized. When a capital asset is retired or otherwise disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

**Capital Contributions and Operating Grants**

Capital contributions represent capital grants and other capital contributions for which all applicable eligibility requirements have been met by the Authority.

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.

It is the policy of the City to support the Authority's operations at a level which permits the Authority to operate on a break-even basis, exclusive of depreciation and capital transactions.

**Compensated Absences**

It is the Authority's policy to accrue its liability for unpaid vested vacation pay and sick leave for office and union employees.

**Income Taxes**

The Authority, as a political subdivision of the City, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended.

**Metropolitan Tulsa Transit Authority**  
**A Component Unit of the City of Tulsa, Oklahoma**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

***Risk Management***

The Authority is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased in conjunction with the City for claims arising from such matters other than bodily injury, property damage and workers' compensation. For bodily injury and property damage, losses incurred for the first \$250,000 per claim and any excess over \$2,000,000 per claim are retained by the Authority. For workers' compensation, losses incurred for the first \$300,000 per claim and any excess over \$3,000,000 per claim are retained by the Authority. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Authority is self-insured for a portion of its exposure to risk of loss from bodily injury, property damages and workers' compensation. Annual estimated provisions are accrued for the self-insured portion of bodily injury, property damage and workers' compensation claims and includes an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

***Reclassifications***

Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 financial statement presentation. The reclassifications had no effect on change in net assets.

**Note 2: Deposits**

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Oklahoma; bonds of any city, county, school district or special road district of the state of Oklahoma; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

**Metropolitan Tulsa Transit Authority**  
**A Component Unit of the City of Tulsa, Oklahoma**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

At June 30, 2006 and 2005, respectively, \$496,306 and \$557,006 of the Authority's bank balances of \$596,306 and \$657,006 were uninsured and uncollateralized.

**Note 3: Capital Assets**

The changes in capital assets for the years ended June 30, 2006 and 2005 were:

|   | 2006                 |                   |                     | Ending<br>Balance    |
|---|----------------------|-------------------|---------------------|----------------------|
|   | Beginning<br>Balance | Additions         | Reductions          |                      |
| <b>Capital assets not being depreciated</b> |                      |                   |                     |                      |
| Land  | \$ 2,633,708         | \$ —              | \$ —                | \$ 2,633,708         |
| <b>Capital assets being depreciated</b>     |                      |                   |                     |                      |
| Revenue equipment                           | 16,215,957           | 2,521,353         | (384,218)           | 18,353,092           |
| Service equipment                           | 391,273              | 13,169            | (19,891)            | 384,551              |
| Buildings                                   | 10,789,896           | 8,916             | —                   | 10,798,812           |
| Shop and garage equipment                   | 1,470,594            | 3,300             | —                   | 1,473,894            |
| Other equipment                             | 6,131,856            | 644,280           | (591,687)           | 6,184,449            |
| Furniture and fixtures                      | 816,517              | 4,574             | —                   | 821,091              |
| Total capital assets being depreciated      | <u>35,816,093</u>    | <u>3,195,592</u>  | <u>(995,796)</u>    | <u>38,015,889</u>    |
| <b>Accumulated depreciation</b>             |                      |                   |                     |                      |
| Revenue equipment                           | 5,648,326            | 1,612,997         | (370,007)           | 6,891,316            |
| Service equipment                           | 270,925              | 34,451            | (17,902)            | 287,474              |
| Buildings                                   | 3,953,790            | 394,925           | —                   | 4,348,715            |
| Shop and garage equipment                   | 1,047,930            | 76,939            | —                   | 1,124,869            |
| Other equipment                             | 3,486,997            | 791,435           | (476,356)           | 3,802,076            |
| Furniture and fixtures                      | 692,073              | 25,933            | —                   | 718,006              |
| Total accumulated depreciation              | <u>15,100,041</u>    | <u>2,936,680</u>  | <u>(864,265)</u>    | <u>17,172,456</u>    |
| Total capital assets being depreciated, net | <u>20,716,052</u>    | <u>258,912</u>    | <u>(131,531)</u>    | <u>20,843,433</u>    |
| Capital assets, net                         | <u>\$ 23,349,760</u> | <u>\$ 258,912</u> | <u>\$ (131,531)</u> | <u>\$ 23,477,141</u> |

**Metropolitan Tulsa Transit Authority**  
**A Component Unit of the City of Tulsa, Oklahoma**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

|   | <b>2005</b>                  |                     |                     | <b>Ending<br/>Balance</b> |
|---|------------------------------|---------------------|---------------------|---------------------------|
|   | <b>Beginning<br/>Balance</b> | <b>Additions</b>    | <b>Reductions</b>   |                           |
| <b>Capital assets not being depreciated</b> |                              |                     |                     |                           |
| Land  | \$ 2,633,708                 | \$ —                | \$ —                | \$ 2,633,708              |
| <b>Capital assets being depreciated</b>     |                              |                     |                     |                           |
| Revenue equipment                           | 14,368,176                   | 5,677,757           | (3,829,976)         | 16,215,957                |
| Service equipment                           | 391,273                      | —                   | —                   | 391,273                   |
| Buildings                                   | 10,773,692                   | 16,204              | —                   | 10,789,896                |
| Shop and garage equipment                   | 1,428,829                    | 41,765              | —                   | 1,470,594                 |
| Other equipment                             | 4,739,959                    | 1,391,897           | —                   | 6,131,856                 |
| Furniture and fixtures                      | 796,596                      | 19,921              | —                   | 816,517                   |
| Total capital assets being depreciated      | <u>32,498,525</u>            | <u>7,147,544</u>    | <u>(3,829,976)</u>  | <u>35,816,093</u>         |
| <b>Accumulated depreciation</b>             |                              |                     |                     |                           |
| Revenue equipment                           | 7,964,346                    | 1,206,796           | (3,522,816)         | 5,648,326                 |
| Service equipment                           | 237,787                      | 33,138              | —                   | 270,925                   |
| Buildings                                   | 3,560,346                    | 393,444             | —                   | 3,953,790                 |
| Shop and garage equipment                   | 971,871                      | 76,059              | —                   | 1,047,930                 |
| Other equipment                             | 2,823,426                    | 663,571             | —                   | 3,486,997                 |
| Furniture and fixtures                      | 667,055                      | 25,018              | —                   | 692,073                   |
| Total accumulated depreciation              | <u>16,224,831</u>            | <u>2,398,026</u>    | <u>(3,522,816)</u>  | <u>15,100,041</u>         |
| Total capital assets being depreciated, net | <u>16,273,694</u>            | <u>4,749,518</u>    | <u>(307,160)</u>    | <u>20,716,052</u>         |
| Capital assets, net                         | <u>\$ 18,907,402</u>         | <u>\$ 4,749,518</u> | <u>\$ (307,160)</u> | <u>\$ 23,349,760</u>      |

**Note 4: Line of Credit**

The Authority has an unsecured \$1,500,000 revolving line of credit expiring September 2006. At June 30, 2006, there were no funds borrowed against this line. Interest varies with the bank's prime rate.

**Note 5: Note Payable to Bank**

During the year ended June 30, 2003, the Authority entered into a note payable to a bank to finance certain capital assets. The note matures September 2008, with principal and interest payable monthly. The interest rate at June 30, 2006, was 6.25%. The note is collateralized by certain real estate.

**Metropolitan Tulsa Transit Authority**  
**A Component Unit of the City of Tulsa, Oklahoma**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

| <u>Year Ending June 30,</u> | <u>Total to Be Paid</u> | <u>Principal</u>  | <u>Interest</u>  |
|-----------------------------|-------------------------|-------------------|------------------|
| 2007                        | \$ 118,316              | \$ 109,064        | \$ 9,252         |
| 2008                        | <u>88,739</u>           | <u>85,205</u>     | <u>3,534</u>     |
|                             | <u>\$ 207,055</u>       | <u>\$ 194,269</u> | <u>\$ 12,786</u> |

**Note 6: Pension Plans**

Each qualified Authority employee is included in one of two pension plans. Each plan is administered by a separate board of trustees and the assets are held in custody by certain banks.

A summary of significant data for each of the pension plans follows:

***Municipal Employees' Pension Plan***

The Authority contributes to the Municipal Employees' Pension System (the Plan), a cost sharing multiple employer defined benefit pension plan administered by the city of Tulsa, Oklahoma. The 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. Nonuniform, nonelected 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.

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 4.0% of their annual covered salary. The Authority is required to contribute at an actuarially determined rate; the rate was 6.3% for the years ended 2006 and 2005, respectively. The Authority's contributions to the plan for 2006 and 2005 were approximately \$97,000 and \$96,000, respectively, which equaled its required portion of the contributions for each year.

The Plan is reported as a Pension Trust Fund in the City's 2006 Comprehensive Annual Financial Report. The Plan does not issue a stand-alone financial report and is not included in the report of a public employee retirement system or a report of another entity.

There are no investments in any one organization representing 5% or more of the plan net assets. There are no investments in, loans to or leases with related parties to the pension plan.

**Metropolitan Tulsa Transit Authority**  
**A Component Unit of the City of Tulsa, Oklahoma**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

***Union Employees' Pension Plan***

The Authority has a pension plan (the Plan) covering substantially all of its union employees which is a single-employer defined benefit pension plan. The Plan provides retirement, disability, death and termination benefits to plan members and beneficiaries. The Authority and Local 892 of the Amalgamated Transit Union (the Union) are parties to the Metropolitan Tulsa Transit Authority Union Employees' Pension Plan Agreement (the Agreement) dated July 1, 1975, as amended, and have the authority to establish and amend benefit provisions through renegotiation of the Agreement.

All full-time employees represented by the Union who have both completed one year of employment and attained age 21 are eligible to participate in the Plan. Participants become 100% vested after ten years of service.

The annual required contribution for the current year was determined as part of the July 1, 2005, actuarial valuation using the entry age normal cost method. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. The unfunded actuarial liability is being amortized as a level percent of payroll over an open amortization period which is currently 30 years.

Plan assets consist of fixed income funds, equity securities and short-term investments whose value is determined using market values. Actuarial valuation assumptions include the use of a 7.5% discount rate and a projected salary increase of 3.25% a year to retirement age. Information regarding contributions by the Authority and employees for the years ended June 30, 2006 and 2005, is presented below:

|                                     | <b>2006</b>  | <b>2005</b>  |
|-------------------------------------|--------------|--------------|
| Covered payroll                     | \$ 3,037,382 | \$ 3,089,778 |
| Total payroll                       | \$ 3,847,183 | \$ 3,735,729 |
| Actuarially determined contribution | \$ 275,734   | \$ 298,730   |
| Employee contribution percent       | 2.6%         | 3.1%         |
| Employee contribution               | \$ 87,640    | \$ 95,105    |
| Employer contribution percent       | 5.6%         | 6.6%         |
| Employer contribution               | \$ 188,094   | \$ 203,626   |

The information provided related to the Plan is based on a standardized measure established by General Accounting Standards Board, Statement No. 25 (GASB 25). This information has been presented for three years as required by GASB 25.

| <b>Fiscal Year</b> | <b>Annual Required Employer Contribution</b> | <b>Percentage Contributed</b> |
|--------------------|--|-------------------------------|
| 2006               | \$ 188,094                                   | 100%*                         |
| 2005               | \$ 203,626                                   | 100%                          |
| 2004               | \$ 212,036                                   | 100%*                         |

\* Amount was contributed with interest subsequent to June 30.

There are no investments in any organization representing 5% or more of the plan net assets. There are no investments in, loans to or leases with related parties to the Plan.

**Metropolitan Tulsa Transit Authority**  
**A Component Unit of the City of Tulsa, Oklahoma**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

**Note 7: Commitments and Contingencies**

In the normal course of operations, the Authority receives grant funds from federal agencies. The grant programs are subject to audit by agents of the granting agency, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

The Authority is party to other legal proceedings which arise in the normal course of operations. Any liability resulting from these proceedings is not believed, by management, to have a material effect on the financial statements.

**Note 8: Related Party Transactions**

During the years ended June 30, 2006 and 2005, the Authority received no advances from the City although \$326,000 of prior advances were outstanding as of June 30, 2006 and 2005. In addition, the Authority owes the City \$71,498 for grant reimbursements for 2006.

**Note 9: Self-Insurance Liability**

The Authority is self-insuring its liability for bodily injury and property damage losses incurred for the first \$250,000 per claim and any excess over \$2,000,000 per claim. The Authority is also self-insuring its liability for workers' compensation losses incurred for the first \$300,000 per claim and any excess over \$3,000,000 per claim. Losses estimated to have been incurred and not paid as of the balance sheet date are accrued as a liability. These loss estimates are determined using the history of claims activity from prior years to predict losses which have been incurred but not reported to the Authority.

The following is a summary of the self-insurance activity during the fiscal years ending June 30, 2006 and 2005, respectively:

|                                | <b>2006</b>       | <b>2005</b>       |
|--------------------------------|-------------------|-------------------|
| Liability at beginning of year | \$ 425,000        | \$ 1,012,562      |
| Claims incurred                |                   |                   |
| Auto/general                   | 246,401           | 247,249           |
| Workers' compensation          | 192,133           | 74,776            |
| Claims paid                    | (175,611)         | (357,587)         |
| Decrease in previous estimates | <u>(77,923)</u>   | <u>(552,000)</u>  |
| Liability at end of year       | <u>\$ 610,000</u> | <u>\$ 425,000</u> |

**Metropolitan Tulsa Transit Authority**  
**A Component Unit of the City of Tulsa, Oklahoma**  
**Required Supplementary Information**  
**June 30, 2006**

**Union Employees' Pension Plan**

Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------|-------------------------------|---------------------------------------|---------------------------|--------------------|---------------------|---|
| 7/1/05                   | \$ 7,493,848                  | \$6,527,766                           | \$ (966,082)              | 114.8%             | \$3,037,382         | 0.0%  |
| 7/1/04                   | \$ 7,395,844                  | \$6,290,708                           | \$(1,105,136)             | 117.6%             | \$3,296,093         | 0.0%  |
| 7/1/03                   | \$ 7,114,291                  | \$6,090,236                           | \$(1,024,055)             | 116.8%             | \$3,798,954         | 0.0%  |

Schedule of Employer Contributions

| Fiscal Year | Annual Required Contribution | Percentage Contributed |
|-------------|------------------------------|------------------------|
| 2006        | \$ 188,094                   | 100%*                  |
| 2005        | \$ 203,626                   | 100%                   |
| 2004        | \$ 212,036                   | 100%*                  |

\* Amount was contributed with interest subsequent to June 30 of the respective year.

Notes to Required Supplementary Information

|                                  |  |
|----------------------------------|--|
| Valuation date                   | 7/1/05   |
| Actuarial cost method            | Entry Age Normal Cost  |
| Amortization method              | Level percent open   |
| Remaining amortization period    | 30 years   |
| Actuarial asset valuation method | Actuarial value of assets recognized<br>20% of the difference between the market value of assets and the expected actuarial value of assets, based on the assumed valuation rate of return |
| Actuarial assumptions            |  |
| Investment rate of return        | 7.5%   |
| Projected salary increases       | 3.25%  |
| Inflation rate                   | 3.0%   |
| Cost-of-living adjustments       | None   |

## **Supplementary Information**

**Metropolitan Tulsa Transit Authority**  
**A Component Unit of the City of Tulsa, Oklahoma**  
**Supplemental Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2006**

| Federal Grantor/<br>Program Title                              | CFDA<br>Number | Project<br>Number | Program or<br>Award<br>Amount | Unexpended<br>Balance at<br>July 1, 2005 | Grants<br>Awarded/<br>Closed<br>During<br>Current Year | Other Income<br>and Matching | Current Year<br>Expenditures | Unexpended<br>Balance at<br>June 30, 2006 |
|--|----------------|-------------------|-------------------------------|--|--|------------------------------|------------------------------|---|
| <b>U.S. Department of Transportation</b>                       |                |                   |                               |  |  |                              |                              |   |
| Passed through Urban Mass Transit Administration               |                |                   |                               |  |  |                              |                              |   |
|  | 20.507         | OK-90-X062        | \$ 3,973,880                  | \$ 8,897                                 | \$ —   | \$ 1,779                     | \$ 10,676                    | \$ —                                      |
|  | 20.507         | OK-37-X014        | 982,517                       | 491,256                                  | —  | 491,256                      | 818,755                      | 163,757                                   |
|  | 20.507         | OK-03-X024        | 4,296,800                     | 1,104,859                                | 1,783,966  | 400,678                      | 2,003,389                    | 1,286,114                                 |
|  | 20.507         | OK-90-X069        | 5,726,516                     | 393,017                                  | —  | 111,546                      | 446,182                      | 58,381                                    |
|  | 20.507         | OK-90-X075        | 1,200,000                     | 394,472                                  | —  | 98,618                       | 493,090                      | —   |
|  | 20.507         | OK-90-X075        | 4,393,425                     | 375,515                                  | 1,761,096  | 571,106                      | 2,461,939                    | 245,778                                   |
|  | 20.507         | OK-90-X078        | 120,000                       | —  | 120,000  | 8,490                        | 33,959                       | 94,531                                    |
|  | 20.507         | OK-90-X079        | 1,000,000                     | —  | 1,000,000  | 201,845                      | 1,009,226                    | 192,619                                   |
|  | 20.507         | OK-90-X079        | 4,111,801                     | —  | 4,111,801  | 1,027,779                    | 3,053,066                    | 2,086,514                                 |
|  | 20.507         | OK-03-0022-00     | <u>2,475,787</u>              | <u>—</u>                                 | <u>2,475,787</u>                                       | <u>48,174</u>                | <u>240,868</u>               | <u>2,283,093</u>                          |
|  |                |                   | <u>28,280,726</u>             | <u>2,768,016</u>                         | <u>11,252,650</u>                                      | <u>2,961,271</u>             | <u>10,571,150</u>            | <u>6,410,787</u>                          |
| Passed through Indian Nation's Council of Governments Planning |                |                   |                               |  |  |                              |                              |   |
|  | 20.507         | OK-90-X079        | <u>32,000</u>                 | <u>—</u>                                 | <u>32,000</u>  | <u>8,000</u>                 | <u>40,000</u>                | <u>—</u>                                  |
|  |                |                   | <u>\$ 28,312,726</u>          | <u>\$ 2,768,016</u>                      | <u>\$ 11,284,650</u>                                   | <u>\$ 2,969,271</u>          | <u>\$ 10,611,150</u>         | <u>\$ 6,410,787</u>                       |

**Metropolitan Tulsa Transit Authority**  
**A Component Unit of the City of Tulsa, Oklahoma**  
**Supplemental Schedule of Operating Expenses, Excluding**  
**Depreciation and Loss on Sale of Capital Assets**  
**Year Ended June 30, 2006**

**Labor**

|  |                  |
|--|------------------|
| Operator salaries and wages                  | \$ 2,772,767     |
| Transportation administration                | 272,440          |
| Maintenance administration                   | 183,905          |
| Maintenance and servicing – revenue vehicles | 880,969          |
| Service and development administration       | 105,488          |
| General office administration                | <u>1,119,470</u> |
| Total labor                                  | <u>5,335,039</u> |

**Purchased Transportation**

|                                |                  |
|--------------------------------|------------------|
| Lift Program – ADA             | 3,108,430        |
| Fixed route                    | <u>87,600</u>    |
| Total purchased transportation | <u>3,196,030</u> |

**Materials and Supplies Consumed**

|                                       |                  |
|---------------------------------------|------------------|
| Diesel fuel                           | 1,347,479        |
| Gasoline service                      | 26,405           |
| Oil and lubricants                    | 57,495           |
| Tires and tubes                       | 115,872          |
| Shop and garage building repair       | 201,730          |
| Service and shop equipment            | 38,313           |
| Other shop and garage expense         | 60,324           |
| Repair parts for revenue vehicles     | 559,809          |
| Servicing supplies                    | 14,822           |
| Transportation and safety             | 5,584            |
| Schedules                             | 56,690           |
| Tickets and transfers                 | 42,217           |
| General office expense                | <u>70,954</u>    |
| Total materials and supplies consumed | <u>2,597,694</u> |

**Fringes**

|  |                  |
|--|------------------|
| FICA taxes   | 449,229          |
| Pension plan expense                                       | 283,355          |
| Health and dental expense                                  | 884,526          |
| Life and disability insurance                              | 65,170           |
| Workers' compensation insurance (including self-insurance) | 609,189          |
| Sick leave   | (68,041)         |
| Holiday pay  | 156,230          |
| Vacation pay   | 392,697          |
| Uniform allowance – drivers                                | 33,760           |
| Work clothing and tool allowance – mechanics               | 21,563           |
| Unemployment tax – state                                   | 16,708           |
| Other  | <u>56,166</u>    |
| Total fringes  | <u>2,900,552</u> |

**Metropolitan Tulsa Transit Authority**  
**A Component Unit of the City of Tulsa, Oklahoma**  
**Supplemental Schedule of Operating Expenses, Excluding**  
**Depreciation and Loss on Sale of Capital Assets (Continued)**  
**Year Ended June 30, 2006**

|  |                          |
|--|--------------------------|
| <b>Services</b>  |                          |
| Legal fees   | \$ 208,634               |
| Audit fee  | 35,000                   |
| Office equipment maintenance   | 26,044                   |
| Advertising  | 182,563                  |
| Professional and technical services  | 44,137                   |
| Call center services   | 714                      |
| Building and facility services   | 133,381                  |
| Security services  | <u>217,697</u>           |
| Total services   | <u>848,170</u>           |
| <br><b>Insurance</b>   |                          |
| Property and liability insurance (including self-insurance)                                | <u>437,744</u>           |
| <br><b>Utilities</b>   |                          |
| Light, heat, power and water   | 225,062                  |
| Communications   | <u>125,761</u>           |
| Total utilities  | <u>350,823</u>           |
| <br><b>Other</b>   |                          |
| Planning expense   | 331,310                  |
| Dues and subscriptions   | 34,088                   |
| Travel and meetings – staff  | 1,557                    |
| Marketing and advertising  | 42,447                   |
| Trade advertising  | 39,246                   |
| Other miscellaneous expenses   | 7,698                    |
| Leases and rentals   | <u>11,852</u>            |
| Total other  | <u>468,198</u>           |
| <br>Total operating expenses, excluding depreciation and<br>loss on sale of capital assets | <br>\$ <u>16,134,250</u> |

**Metropolitan Tulsa Transit Authority**  
**A Component Unit of the City of Tulsa, Oklahoma**  
**Supplemental Schedule of Project Costs**  
**Year Ended June 30, 2006**

|   |                   |
|---|-------------------|
| <b>Total Operating Expenses</b>   |                   |
| Labor   | \$ 5,335,039      |
| Purchased transportation  | 3,196,030         |
| Materials and supplies consumed   | 2,597,694         |
| Fringes   | 2,900,552         |
| Services  | 848,170           |
| Insurance   | 437,744           |
| Utilities   | 350,823           |
| Other   | <u>468,198</u>    |
| Total operating expenses, excluding depreciation and loss on disposal of capital assets | 16,134,250        |
| Depreciation  | 2,936,680         |
| Loss on disposal of capital assets  | <u>103,574</u>    |
| Total operating expenses  | <u>19,174,504</u> |
| <b>Less Exclusions</b>  |                   |
| Ineligible expense  |                   |
| Depreciation  | 2,936,680         |
| Loss on disposal of capital assets  | 103,574           |
| Contra-expense – interest earned on working capital                                     | 59,591            |
| Other exclusions – expenses reimbursable by   |                   |
| Planning assistance – INCOG   | 32,000            |
| Planning assistance – FTA   | 1,232,687         |
| Revolving transit funds – Oklahoma  | 496,192           |
| Preventative maintenance assistance – FTA   | 2,335,615         |
| Lift program assistance – FTA   | 1,209,849         |
| Job access assistance – FTA   | 327,504           |
| Lease assistance – FTA  | <u>274,139</u>    |
| Total exclusions  | <u>9,007,831</u>  |
| Eligible operating expenses   | <u>10,166,673</u> |
| Less  |                   |
| Passenger farebox revenues  | 2,155,685         |
| Contract services and other   | <u>30,958</u>     |
| Net eligible project cost   | <u>2,186,643</u>  |
| Net eligible project cost   | <u>7,980,030</u>  |
| Less local share of operating assistance  |                   |
| City of Tulsa   | 7,155,000         |
| Advertising revenues  | 458,871           |
| Other   | <u>167,576</u>    |
| Net revenues before applying FTA operating funds  | <u>7,781,447</u>  |
| Net revenues before applying FTA operating funds  | <u>\$ 198,583</u> |



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**Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards**

Board of Trustees  
Metropolitan Tulsa Transit Authority  
Tulsa, Oklahoma

We have audited the financial statements of METROPOLITAN TULSA TRANSIT AUTHORITY (the Authority) as of and for the year ended June 30, 2006, and have issued our report thereon dated September 28, 2006. 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 Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as items 06-1 and 06-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 06-1 and 06-2 to be material weaknesses.

Board of Trustees  
Metropolitan Tulsa Transit Authority

## **Compliance and Other Matters**

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

We also noted certain additional matters that we reported to the Authority's management in a separate letter dated September 28, 2006.

This report is intended solely for the information and use of the governing body and management and is not intended to be and should not be used by anyone other than these specified parties.

*BKD LLP*

September 28, 2006

**Metropolitan Tulsa Transit Authority**  
**A Component Unit of the City of Tulsa, Oklahoma**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2006**

| Reference<br>Number   | Finding   | Questioned<br>Costs |
|---|---|---------------------|
| <b>Findings Required to be Reported by <i>Government Auditing Standards</i></b> |   |                     |
| 06-1  | <p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – One individual has incompatible duties in the purchasing transaction cycle.</p> <p>Context – The individual has the ability to process purchasing information, prepare checks, sign and distribute checks, record purchasing transactions and reconcile the bank balances and the accounts payable control account to the general ledger.</p> <p>Effect – Potential material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be detected and/or corrected in a timely manner.</p> <p>Cause – The Authority has a low number of personnel. Certain duties cannot be segregated.</p> <p>Recommendation – Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring of other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions – The Authority agrees with this finding. The Authority will implement a procedure requiring additional review of purchasing information by the general manager.</p> | None                |

**Metropolitan Tulsa Transit Authority**  
**A Component Unit of the City of Tulsa, Oklahoma**  
**Schedule of Findings and Responses (Continued)**  
**Year Ended June 30, 2006**

| Reference<br>Number   | Finding   | Questioned<br>Costs |
|---|---|---------------------|
| <b>Findings Required to be Reported by <i>Government Auditing Standards</i></b> |   |                     |
| 06-2  | <p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – One individual has incompatible duties in the accounting area.</p> <p>Context – The controller for the Authority has access to liquid assets while also having the ability to record transactions and reconciling responsibilities.</p> <p>Effect – Potential material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause – The Authority has had personnel turnover, which has resulted in changes in daily functions of the controller.</p> <p>Recommendation – The Authority’s management should review the current internal control structures and estimate ways to improve and the cost benefit of any changes.</p> <p>Views of Responsible Officials and Planned Corrective Actions – The Authority agrees with this finding. The Authority will utilize recently promoted staff to segregate duties from the controller’s function for the reconciliation of liquid asset account balances from the controller’s ability to record transactions for those assets. An accounting associate will assume the reconciliation responsibilities.</p> | None                |