

# **Tulsa Airports Improvement Trust**

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

## **ACCOUNTANTS' REPORTS and FINANCIAL STATEMENTS**

**June 30, 2006 and 2005**



**Tulsa Airports Improvement Trust**  
**(A Component Unit of the City of Tulsa, Oklahoma)**  
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**June 30, 2006 and 2005**

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

Board of Trustees  
Tulsa Airports Improvement Trust  
Tulsa, Oklahoma

We have audited the accompanying basic financial statements of the TULSA AIRPORTS IMPROVEMENT TRUST (the Trust), 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 Trust'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 combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the TULSA AIRPORTS IMPROVEMENT TRUST 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 October 27, 2006, on our consideration of the Trust's internal control over financial reporting and on 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, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees  
Tulsa Airports Improvement Trust  
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Our audits were conducted for the purpose of forming an opinion on the Trust's basic financial statements. The accompanying supplementary information, including the Schedule of Passenger Facility Charge Revenues and Expenditures required by the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

BKD LLP

October 27, 2006

**Tulsa Airports Improvement Trust**  
**(A Component Unit of the City of Tulsa, Oklahoma)**  
**Management's Discussion and Analysis**  
**June 30, 2006 and 2005**

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As management of the Tulsa Airports Improvement Trust (the "Trust"), we offer readers of the Trust's financial statements this narrative overview and analysis of the financial activities of the Trust for the fiscal years ended June 30, 2006 and 2005.

Following Management's Discussion and Analysis are the basic financial statements of the Trust together with the notes thereto, which are essential to a full understanding of the data contained in the financial statements. We encourage readers to consider the information presented here in conjunction with the Trust's financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

**Airport Activities Highlights**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Enplaned Passengers	\$ 1,586,576	\$ 1,508,133	\$ 1,438,580
Airfreight Boarded (Tons)	53,576	54,309	53,274
Air Mail Boarded (Tons)	1,086	1,914	2,327
Airline/Aircraft Movements (TIA)	142,680	159,341	172,666
Aircraft Movements - R.L. Jones Airport	275,721	331,634	283,113

The City's airports include Tulsa International Airport and R.L. Jones Airport. As of June 30, 2006, fifteen scheduled passenger carriers, several charter carriers and four freight carriers served Tulsa International Airport.

**Financial Position Summary as of June 30, 2006**

- Total assets increased \$360 from \$303,742 as of June 30, 2005, to \$304,102 as of June 30, 2006, which exceeded total liabilities by \$173,359
- Net assets increased \$5,683 from \$167,676 as of June 30, 2006, to \$173,359.
- The liabilities decreased \$5,323 from \$136,066 as of June 30, 2006, to \$130,743.
- Cash and cash equivalents decreased \$3,189 from \$29,526 as of June 30, 2006, to \$26,337.

**Tulsa Airports Improvement Trust**  
**(A Component Unit of the City of Tulsa, Oklahoma)**  
**Management's Discussion and Analysis**  
**June 30, 2006 and 2005**

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**Financial Statements**

The Trust's financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board ("GASB"). The Trust is structured as a single-purpose business-type activity with revenues recognized when earned and expenses recognized when incurred. The Statements of Net Assets includes all of the Trust's assets and liabilities and provides information to creditors about the nature of available resources and outstanding obligations. All of the Trust's current year revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Assets. The Statements of Cash Flows provides information about cash receipts, cash payments and changes in cash resulting from operating, investing and capital financing activities.

**Condensed Statements of Net Assets**  
**June 30, 2006, 2005 and 2004**

<i>(in thousands of dollars)</i>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Assets</b>			
Current and other assets	\$ 47,190	\$ 50,469	\$ 57,021
Capital assets, net	<u>256,912</u>	<u>253,273</u>	<u>242,426</u>
Total assets	<u>304,102</u>	<u>303,742</u>	<u>299,447</u>
<b>Liabilities</b>			
Current and other liabilities	4,872	4,581	5,301
Long-term debt outstanding	<u>125,871</u>	<u>131,485</u>	<u>132,799</u>
Total liabilities	<u>130,743</u>	<u>136,066</u>	<u>138,100</u>
<b>Net assets</b>			
Invested in capital assets, net of debt	139,426	138,345	134,771
Restricted	25,977	21,665	18,899
Unrestricted	<u>7,956</u>	<u>7,666</u>	<u>7,677</u>
Total net assets	<u>\$ 173,359</u>	<u>\$ 167,676</u>	<u>\$ 161,347</u>

The largest portion (80%) and (83%) of the Trust's net assets as of June 30, 2006 and 2005, respectively, represent investment in capital assets less related debt outstanding to acquire those capital assets. The Trust uses the capital assets to provide safe, secure and user-friendly services to its passengers and visitors at its airports. Although the Trust's investment in capital assets is reported net of related debt, it is noted that the resources required to repay this debt must be provided annually from operations.

**Tulsa Airports Improvement Trust**  
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**Management's Discussion and Analysis**  
**June 30, 2006 and 2005**

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**Condensed Statements of Revenues,  
Expenses and Changes in Net Assets  
Years Ended June 30, 2006, 2005 and 2004**

*(in thousands of dollars)*

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues	\$ 28,123	\$ 26,966	\$ 25,605
Operating expenses, excluding depreciation	<u>(18,530)</u>	<u>(16,912)</u>	<u>(16,235)</u>
Operating income before depreciation	9,593	10,054	9,370
Depreciation	<u>(12,063)</u>	<u>(12,955)</u>	<u>(12,463)</u>
Operating loss	(2,470)	(2,901)	(3,093)
Other non-operating revenues and (expenses), net	(7,306)	(7,051)	(6,441)
Capital contributions, grants, and charges	<u>15,459</u>	<u>16,281</u>	<u>18,074</u>
Increase in net assets	<u>\$ 5,683</u>	<u>\$ 6,329</u>	<u>\$ 8,540</u>

- Operating revenues, which consist primarily of rents and services fees, increased 4.3% due to increased revenue for terminal building fees, cargo fees and ground rentals for the year ended June 30, 2006, and increased 5.3% for the year ended June 30, 2005.
- Operating expenses increased 9.6% due to increased personnel, wages and maintenance and utility cost for the year ended June 30, 2006, and increased 4.2% for the year ended June 30, 2005.
- Nonoperating expenses increased net of revenues by 3.6% in 2006 and 9.5% in 2005 due primarily to increased interest expense on revenue bonds outstanding.
- Capital contributions, net decreased 5.0% and 9.9% for the years ended June 30, 2006 and 2005, due to decreased contributions from lessees and a reduction in federal assistance received on capital projects, respectively.

**Tulsa Airports Improvement Trust**  
**(A Component Unit of the City of Tulsa, Oklahoma)**  
**Management's Discussion and Analysis**  
**June 30, 2006 and 2005**

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**Summary of Cash Flow Activities**

The following shows a summary of the major sources and uses of cash and cash equivalents. Cash equivalents are defined as any cash held in the City's internal pool and highly liquid investments with an original maturity of three months or less.

*(in thousands of dollars)*

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Cash flows</b>			
Provided by operating activities	\$ 9,569	\$ 8,414	\$ 9,964
Provided by (used in) capital and related financing activities	(14,405)	(13,515)	17,712
Provided by (used in) investing activities	<u>1,647</u>	<u>2,900</u>	<u>(2,117)</u>
Net increase (decrease) in cash and cash equivalents	(3,189)	(2,201)	25,559
<b>Cash and cash equivalents</b>			
Beginning of year	<u>29,526</u>	<u>31,727</u>	<u>6,168</u>
End of year	<u>\$ 26,337</u>	<u>\$ 29,526</u>	<u>\$ 31,727</u>

**Capital Assets**

The Trust's investment in capital assets amounted to \$256,912 (net of accumulated depreciation). The Trust paid \$13,848 and \$18,573 related to the acquisition and construction of capital assets for the years ended June 30, 2006 and 2005, respectively.

*(in thousands of dollars)*

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Land and improvements	\$ 246,177	\$ 244,904	\$ 244,268
Easements	29,617	28,035	24,548
Buildings	171,697	159,901	157,219
Equipment	<u>26,013</u>	<u>25,011</u>	<u>24,339</u>
	473,504	457,851	450,374
Less: Accumulated depreciation	(244,673)	(232,680)	(219,797)
Construction-in-progress	<u>28,081</u>	<u>28,102</u>	<u>11,849</u>
Capital assets, net	<u>\$ 256,912</u>	<u>\$ 253,273</u>	<u>\$ 242,426</u>

**Tulsa Airports Improvement Trust  
(A Component Unit of the City of Tulsa, Oklahoma)  
Management's Discussion and Analysis  
June 30, 2006 and 2005**

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**Long-Term Debt**

At June 30, 2006, the Trust had outstanding long-term portion of general revenue bonds of \$114,253 and outstanding long-term portion of capital lease obligations of \$5,845. The bonds are collateralized by and payable from the revenues of the Trust. The Bonds mature per a set schedule with the last maturity occurring on June 1, 2026.

*(in thousands of dollars)*

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Capital lease obligation	\$ 5,845	\$ 6,355	\$ 6,855
Revenue bonds	114,253	119,710	124,329
	<u>\$ 120,098</u>	<u>\$ 126,065</u>	<u>\$ 131,184</u>

The Trust's debt decreased by \$5,995 and \$1,615 in fiscal year 2006 and 2005, respectively, due to regular debt payments and increased in fiscal year 2004 by \$25,621 due to the issuance of \$20,000 in bonds and \$6,935 in capital lease obligations.

**Signatory Airline Rates and Charges**

Under the Use and Lease Agreements between the airlines and the Trust, the airlines have agreed to pay rates, fees and charges determined prior to the beginning of each fiscal year in an amount sufficient (a) to pay 125% of the debt service on bonds secured by the Bond Indenture; (b) to pay operating expense for the next succeeding fiscal year; (c) to provide for any deficiencies in the funds or accounts held under the Bond Indenture other than the general account for the then current fiscal year; and (d) to provide for the estimated deposit to the Airport Special Reserve Fund. Each Use and Lease Agreement is for a term continuing until June 30, 2008.

Signatory Airline Terminal rental rates for fiscal year 2006 ranged from \$29.85 to \$43.78 per square foot. Signatory landing fees were \$1.99 per 1000 lbs for 2006 and 2005. Rental rates can be adjusted based on the percentage change in the annual operating budget.

**Economic Factors**

The continuing recovery of local economic conditions during 2006 was reflected in the various activities at the airport. Enplanements were up 5.2% and total cargo tonnage handled at the airport decreased 2.8% from the previous year. While total operations (take-offs and landings) were down due to a decrease in military activity, air carrier operations increased 6.2%. In addition, operations at the reliever airport (RVS) decreased 16.9% from the prior year.

**Contacting The Trust's Financial Management**

Questions about this report or requests for additional financial information can be directed to:

Deputy Airports Director  
Finance and Administration  
7777 E. Apache St.  
Tulsa, OK 74115

**Tulsa Airports Improvement Trust**  
**(A Component Unit of the City of Tulsa, Oklahoma)**  
**Statements of Net Assets**  
**June 30, 2006 and 2005**

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*(in thousands of dollars)*

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
<b>Current Assets</b>		
<b>Unrestricted</b>		
Cash and cash equivalents	\$ 6,252	\$ 4,978
Receivables		
Trade, less allowance for doubtful accounts of \$236 for 2006 and \$146 for 2005	1,885	2,059
Federal grants receivable	1,460	1,026
Customer facility charges receivable	215	241
Advance to City of Tulsa	127	127
Other current assets	136	114
Total unrestricted current assets	<u>10,075</u>	<u>8,545</u>
<b>Restricted Assets</b>		
Cash and cash equivalents	1,833	1,016
Accrued interest receivable	137	109
Passenger facility charges receivable	510	510
Total restricted current assets	<u>2,480</u>	<u>1,635</u>
<b>Noncurrent Assets</b>		
Cash and cash equivalents, restricted	18,252	23,532
Investments	-	1,700
Investments, restricted	12,936	11,245
Deferred bond issue costs, net	3,368	3,684
Nondepreciable capital assets	119,664	118,103
Depreciable capital assets, net	137,248	135,170
Other	79	128
Total noncurrent assets	<u>291,547</u>	<u>293,562</u>
Total assets	<u>\$ 304,102</u>	<u>\$ 303,742</u>

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

**Tulsa Airports Improvement Trust**  
**(A Component Unit of the City of Tulsa, Oklahoma)**  
**Statements of Net Assets**  
**June 30, 2006 and 2005**

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*(in thousands of dollars)*

	<u>2006</u>	<u>2005</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
<b>Payable from Unrestricted Assets</b>		
Accounts payable	\$ 841	\$ 1,032
Current portion of vested compensated absences	48	-
Deferred revenue	492	555
Total current liabilities payable from unrestricted assets	<u>1,381</u>	<u>1,587</u>
<b>Payable from Restricted Assets</b>		
Accounts payable	2,245	1,649
Customer deposits	77	69
Current portion of bonds and capital lease obligation	5,693	5,420
Accrued interest payable	585	611
Total current liabilities payable from restricted assets	<u>8,600</u>	<u>7,749</u>
Total current liabilities	<u>9,981</u>	<u>9,336</u>
<b>Noncurrent Liabilities</b>		
<b>Payable from Unrestricted assets</b>		
Vested compensated absences	664	665
<b>Payable from Restricted Assets</b>		
Capital lease obligation	5,845	6,355
Bonds payable, net	114,253	119,710
Total noncurrent liabilities	<u>120,762</u>	<u>126,730</u>
Total liabilities	<u>130,743</u>	<u>136,066</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	139,426	138,345
Restricted for		
Debt service	12,546	12,132
Capital projects	12,784	9,372
Other purposes	647	161
Total restricted net assets	<u>25,977</u>	<u>21,665</u>
Unrestricted	<u>7,956</u>	<u>7,666</u>
Total net assets	<u>\$ 173,359</u>	<u>\$ 167,676</u>

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

**Tulsa Airports Improvement Trust**  
**(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**

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<i>(in thousands of dollars)</i>	<u>2006</u>	<u>2005</u>
<b>Operating Revenues</b>		
Fuel sales fees	\$ 1,004	\$ 966
Terminal building	15,027	14,472
Field and runways	6,009	5,993
Cargo	2,308	2,036
Ground rentals	2,374	2,125
Hangars and field buildings	881	870
Motel commissions	298	282
General aviation terminal building	111	137
Other	111	85
Total operating revenues	<u>28,123</u>	<u>26,966</u>
<b>Operating Expenses, Excluding Depreciation</b>		
Building maintenance	6,342	4,986
Automotive maintenance	510	430
Field electrical	468	375
Field maintenance	577	547
General and administrative	3,648	3,281
Engineering	884	1,644
Operations	4,660	4,231
Jones	444	391
Cargo management fees	997	1,027
Total operating expenses, excluding depreciation	<u>18,530</u>	<u>16,912</u>
<b>Operating Income Before Depreciation</b>	9,593	10,054
Depreciation and amortization	<u>12,063</u>	<u>12,955</u>
<b>Operating Loss</b>	<u>(2,470)</u>	<u>(2,901)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	1,664	1,163
Interest expense	(8,494)	(7,964)
Other, net	(476)	(250)
Net nonoperating revenues (expenses)	<u>(7,306)</u>	<u>(7,051)</u>
<b>Capital Contributions, Grants and Charges</b>		
Passenger facility charges	4,333	3,944
Customer facility charges	2,058	1,858
Federal grants earned	7,810	5,412
Contributions from lessees	1,258	5,067
Total capital contributions, grants and charges	<u>15,459</u>	<u>16,281</u>
<b>Increase in Net Assets</b>	<u>5,683</u>	<u>6,329</u>
<b>Net Assets, Beginning of Year, as Restated</b>	<u>167,676</u>	<u>161,347</u>
<b>Net Assets, End of Year</b>	<u>\$ 173,359</u>	<u>\$ 167,676</u>

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

**Tulsa Airports Improvement Trust**  
**(A Component Unit of the City of Tulsa, Oklahoma)**  
**Statements of Cash Flows**  
**June 30, 2006 and 2005**

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<i>(in thousands of dollars)</i>	<u>2006</u>	<u>2005</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from customers, including cash deposits	\$ 28,235	\$ 26,089
Cash payments to suppliers for goods and services	(10,908)	(10,362)
Cash payments to employees for services	<u>(7,758)</u>	<u>(7,313)</u>
Net cash provided by operating activities	<u>9,569</u>	<u>8,414</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Construction and purchase of capital assets	(13,848)	(18,537)
Interest paid on revenue bonds, net of amounts capitalized	(7,905)	(7,374)
Passenger facility charge received	4,333	3,944
Customer facility charge received	2,084	1,770
Principal paid on revenue bonds	(5,495)	(1,535)
Principal paid on capital lease	(500)	(80)
Other, net	(450)	(305)
Proceeds from federal capital grants	7,376	8,602
Net cash used in capital and related financing activities	<u>(14,405)</u>	<u>(13,515)</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of investments	(5,032)	(5,817)
Proceeds from sale of investments	5,042	7,585
Interest received on investments	1,637	1,132
Net cash provided by investing activities	<u>1,647</u>	<u>2,900</u>
Net decrease in cash and cash equivalents	<u>(3,189)</u>	<u>(2,201)</u>
<b>Cash and Cash Equivalents</b>		
Beginning of period	<u>29,526</u>	<u>31,727</u>
End of period	<u>\$ 26,337</u>	<u>\$ 29,526</u>
 <b>Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets</b>		
Current unrestricted cash and cash equivalents	\$ 6,252	\$ 4,978
Current restricted cash and cash equivalents	1,833	1,016
Noncurrent restricted cash and cash equivalents	<u>18,252</u>	<u>23,532</u>
Total cash and cash equivalents	<u>\$ 26,337</u>	<u>\$ 29,526</u>

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

**Tulsa Airports Improvement Trust**  
**(A Component Unit of the City of Tulsa, Oklahoma)**  
**Statements of Cash Flows**  
**June 30, 2006 and 2005**

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<i>(in thousands of dollars)</i>	<u>2006</u>	<u>2005</u>
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>		
Operating loss	\$ (2,470)	\$ (2,901)
Adjustments to reconcile operating activities to net cash		
Depreciation and amortization	12,063	12,955
(Increase) decrease in accounts receivable, trade	174	(898)
(Increase) decrease in other current assets	(21)	(10)
Increase (decrease) in accounts payable and accrued liabilities	871	(749)
Increase (decrease) in deferred revenue	(14)	21
Increase (decrease) in other assets	-	(4)
Net cash provided by operating activities	<u>\$ 10,603</u>	<u>\$ 8,414</u>
<b>Supplemental Cash Flows Information</b>		
Capital assets acquired through noncash lessee financed improvements	<u>\$ 1,258</u>	<u>\$ 5,567</u>
Capital asset acquisitions included in accounts payable	<u>\$ 2,245</u>	<u>\$ 1,330</u>

The accompanying notes are an integral part of these financial statements

**Tulsa Airports Improvement Trust**  
**(A Component Unit of the City of Tulsa, Oklahoma)**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

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1. **Summary of Significant Accounting Policies**

**Organization and Purpose**

The Tulsa Airports Improvement Trust (the "Trust") was organized in 1967 as a public trust with the City of Tulsa (the "City") as its sole beneficiary. The Trust is a component unit of the City and is reported in the City's comprehensive annual financial report. The Trust's purpose is to operate, maintain, construct, improve and/or lease airport facilities serving the City and to incur indebtedness as may be necessary to provide such facilities. Any indebtedness is payable solely from revenues of the Trust, as it has no authority to levy taxes. Under federal guidelines, all revenues generated by the airports must be used for airport purposes.

Effective October 1, 1978, and as thereafter amended, the Trust and the City entered into a lease agreement whereby the City, acting by and through the Tulsa Airport Authority (the "TAA"), leased and assigned all airport properties and equipment (except police and emergency fire heliports of the City) and the income derived therefrom to the Trust under a long-term lease agreement.

The term of the lease, as now amended, extends through June 30, 2012, or until all bonds are retired. In the absence of a default on the lease, the Trustees have the option to extend the term of the lease for an additional 25 years. Effective July 1, 1989, the lease by and between the City and the Trust was further amended to provide for the operation and maintenance of the airports on a day-to-day basis by the TAA. The lease provides for a nominal annual lease payment to the City.

The accompanying financial statements include the accounts and activity of the Trust and the TAA.

**Basis of Accounting**

The accounting and reporting policies of the Trust conform to generally accepted accounting principles for units of local government as promulgated by the Governmental Accounting Standards Board ("GASB"). The Trust has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The Trust has elected to apply all applicable GASB pronouncements, as well as Financial Accounting Standards Board pronouncements and Accounting Principle Board Opinions issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

The financial statements of the Trust have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Voluntary nonexchange transactions are recognized when all applicable eligibility requirements are met.

**Tulsa Airports Improvement Trust**  
**(A Component Unit of the City of Tulsa, Oklahoma)**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

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1. **Summary of Significant Accounting Policies, continued**

**Cash and Cash Equivalents**

The Trust considers all highly liquid debt instruments with an original maturity of three months or less when purchased and any cash held by the City of Tulsa's internal pool to be cash equivalents.

**Investments**

Investments are stated at fair value.

**Capital Assets**

Capital assets are carried at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, which range from 20 to 50 years for buildings, five to 20 years for roads, ramps, and runways, three to 20 years for equipment, and one to 20 years for leasehold improvements. When assets are retired or otherwise disposed, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in nonoperating revenues and expenses. Costs of maintenance and repairs are charged to expense as incurred; significant renewals and betterments are capitalized. Interest incurred during construction periods is capitalized and included in the cost of capital assets.

**Lessee-Financed Improvements**

Certain leases include provisions whereby lessee-financed improvements become the property of the Trust. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the Trust records lessee-financed improvements at cost or estimated cost upon completion of construction or upon the asset being placed in service, whichever occurs first.

**Bond Issuance Costs**

Bond issuance costs are amortized on a straight-line basis over the life of the bonds to which they relate.

**Bond Discounts/Premiums**

Discounts/premiums on revenue bonds, including any deferred losses from refinancing, are being amortized using the interest method over the life of the bonds to which they relate.

**Vested Compensated Absences**

Vacation leave is granted to all regular and part-time employees. The annual amount of vacation time accrued varies from 13 to 24 days depending upon years of service. The maximum amount of vacation time that may be accumulated is twice the amount which may be earned in one calendar year. Accumulated vacation leave vests and the Trust is obligated to make payment even if the employee terminates. The liability for compensated absences attributable to the Trust is charged to expense currently.

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1. **Summary of Significant Accounting Policies, continued**

**Federal Grants**

Contributions resulting from federal grants are generally restricted for the acquisition or construction of property and equipment. Funding provided from government grants is considered earned as the related approved capital outlays or expenses are incurred. Costs claimed for reimbursement are subject to audit and acceptance by the granting agency.

**Net Assets**

The Trust first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

**Federal Income Taxes**

The Trust, as a political subdivision of the State of Oklahoma with the City of Tulsa as beneficiary, is excluded from taxation under Section 115(1) of the Internal Revenue Code.

**Revenues and Expenses**

Operating revenues consist principally of landing and operating fees charged to airlines using the airport facilities, fuel sales fees, parking fees and concession rentals. Long-term use and lease agreements govern the rates charged to the major airlines using the airport. Under the terms of these agreements, the airlines have agreed to pay amounts which, when combined with other revenues, will be sufficient to pay operating and maintenance costs of the Airport and the annual debt service on the Trust's outstanding revenue bonds for which the Trust's revenues are pledged as collateral. Operating revenues are recorded net of parking and cargo area management fees which amounted to approximately \$2,470,000 and \$2,707,000 in 2006 and 2005, respectively.

Operating expenses consist of all costs incurred to administer the airport system, including depreciation and amortization of capital assets. All revenue and expenses not meeting these descriptions are considered nonoperating revenues and expenses or capital grants, contributions and charges.

**Passenger Facility Charge**

Under a Record of Decision, the Federal Aviation Administration ("FAA") grants the Trust approval to impose and use a Passenger Facility Charge ("PFC") of \$3.00 per enplaned passenger on flights originating from Tulsa. Effective August 1, 1992, the Trust began the assessment of a \$3.00 PFC. The charge is collected by all carriers and remitted to the Trust, less a minor handling fee. The proceeds from the PFC are restricted for use by the Trust for certain FAA-approved capital improvement projects. PFC revenues are reflected in capital contributions, grants and other charges and are recognized as earned. As of January 1, 1997, the authority to collect PFC's through June 1, 2000, was granted by the FAA. This was extended through April 1, 2011. As of June 30, 2006, approximately \$40,770,000 has been received and approximately \$1,290,000 of interest has been earned.

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1. **Summary of Significant Accounting Policies, continued**

**Customer Facility Charge**

Effective July 1, 2004, the Trust began the assessment of a Customer Facility Charge (“CFC”). The charge is \$2.60 per rental car transaction per day and can be adjusted periodically by the Trust. The charge is collected by all rental car concessionaires and remitted to the Trust. The proceeds from the CFC are restricted for use by the Trust for certain rental car capital improvement projects and debt service requirements. CFC revenues are reflected in capital contributions, grants and other charges.

**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.

2. **Cash and Investments**

**Pooled Cash and Investments**

The Trust maintains a portion of its cash and investments with the City’s pooled cash and investments account. Pooled cash and investments consist primarily of time deposits and other securities guaranteed by the United States Government or its agencies and are reported at the fair value of the pooled shares. At June 30, 2006 and 2005, the pooled cash and investments, which are reflected on the Trust’s statement of net assets within cash and cash equivalents, amounted to \$5,212,531 and \$4,673,880, respectively. The pooled cash and investments balance at June 30, 2006 and 2005, was represented by investments that were collateralized by securities that were held by the pledging financial institution, or by its trust department or agent, but not in the City’s name.

**Nonpooled 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 Trust’s deposit policy for custodial credit risk requires compliance with the provisions of state law and that demand deposits be collateralized at least 110% of the amount that is not federally insured.

At June 30, 2006 and 2005, respectively, \$0 and \$199,085 of the Trust’s bank balances of \$546,605 and \$323,525 were exposed to custodial credit risk as follows:

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**2. Cash and Investments, continued**

*(in thousands of dollars)*

	<u>2006</u>	<u>2005</u>
Federally insured	\$ 100	\$ 100
Uninsured and uncollateralized	-	199
Uninsured and collateral held by pledging financial institution	<u>12,655</u>	<u>12,230</u>
	<u>\$ 12,755</u>	<u>\$ 12,529</u>

**Nonpooled Investments**

In accordance with the bond indentures and state statutes, authorized investments consist of obligations of the U.S. Treasury, agencies and instrumentalities, certain municipal bonds and money market mutual funds.

The Trust's nonpooled investments as of June 30, 2006 and 2005, are as follows:

*(in thousands of dollars)*

Type	Fair Value	<b>June 30, 2006</b>		
		<b>Maturities in Years</b>		
		<u>Less than 1</u>	<u>1-5</u>	<u>More than 10</u>
U.S. Agency Obligations	\$ 37	\$ -	\$ -	\$ 37
State and Local Government Securities (SLUG)	690	-	-	690
Money Market Mutual Funds	<u>20,578</u>	<u>20,578</u>	-	-
	<u>\$ 21,305</u>	<u>\$ 20,578</u>	<u>\$ -</u>	<u>\$ 727</u>

*(in thousands of dollars)*

Type	Fair Value	<b>June 30, 2005</b>		
		<b>Maturities in Years</b>		
		<u>Less than 1</u>	<u>1-5</u>	<u>More than 10</u>
U.S. Agency Obligations	\$ 50	\$ -	\$ -	\$ 50
State and Local Government Securities (SLUG)	690	-	-	690
Money Market Mutual Funds	<u>24,528</u>	<u>24,528</u>	-	-
	<u>\$ 25,268</u>	<u>\$ 24,528</u>	<u>\$ -</u>	<u>\$ 740</u>

Interest Rate Risk – The Trust does not have a formal policy limiting its exposure to fair value losses arising from rising interest rates. For purposes of this disclosure, money market mutual funds are presented in the tables above as an investment with a maturity of less than one year because they are redeemable in full immediately.

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**2. Cash and Investments, continued**

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfil its obligations. The Trust does not have a formal policy to address credit risk. At June 30, 2006 and 2005, credit quality ratings for the Trust’s investments in U.S. Government agency obligations and state and local government securities not directly guaranteed by the U. S. Government were unrated.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Trust will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the Trust’s investments in U.S. Government agency obligations at June 30, 2006 and 2005, are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the Trust’s name. The Trust’s investments in money market mutual funds are not categorized as to custodial credit risk because the investment is not evidenced by securities that exist in physical or book entry form.

Concentration of Credit Risk – The Trust places no limit on the amount that may be invested in any one issuer.

**Reconciliation to Statements of Net Assets**

A reconciliation of pooled cash and investments, nonpooled deposits and nonpooled investments to the fair values at June 30, 2006 and 2005, is as follows:

<i>(in thousands of dollars)</i>	<u>2006</u>	<u>2005</u>
Pooled cash and investments	\$ 5,212	\$ 4,673
Nonpooled deposits	547	324
Nonpooled investments	<u>33,514</u>	<u>37,474</u>
	<u>\$ 39,273</u>	<u>\$ 42,471</u>
Current unrestricted cash and cash equivalents	\$ 6,252	\$ 4,978
Current restricted cash and cash equivalents	1,833	1,016
Noncurrent restricted cash and cash equivalents	-	23,532
Noncurrent investments	18,252	1,700
Noncurrent investments, restricted	<u>12,936</u>	<u>11,245</u>
	<u>\$ 39,273</u>	<u>\$ 42,471</u>

**3. Federal Grants**

Federal grants receivable represent the earned portions, based on the related expenditures, of various grants that have not been remitted by the grantor. The unearned portions of such grants are properly not reflected in the financial statements and as of June 30, 2006 and 2005, totaled \$24,206,093 and \$6,586,081, respectively, for the Trust.

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4. **Capital Assets**

The changes in capital assets during 2006 and 2005 can be summarized as follows:

<b>2006:</b> <i>(in thousands of dollars)</i>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Transfers</b>	<b>Ending Balance</b>
<b>Capital assets not being depreciated</b>					
Land	\$ 61,966	\$ -	\$ -	\$ -	\$ 61,966
Easements	28,035	1,582	-	-	29,617
Construction-in-progress	28,102	14,081	-	(14,102)	28,081
Total capital assets not being depreciated	118,103	15,663	-	(14,102)	119,664
<b>Capital assets being depreciated</b>					
Land improvements	182,938	-	-	1,273	184,211
Buildings	159,901	-	-	11,796	171,697
Equipment	25,011	39	(70)	1,033	26,013
Total capital assets being depreciated	367,850	39	(70)	14,102	381,921
<b>Accumulated depreciation</b>					
Land improvements	126,456	7,004	-	-	133,460
Buildings	90,428	3,845	-	-	94,273
Equipment	15,796	1,214	(70)	-	16,940
Total accumulated depreciation	232,680	12,063	(70)	-	244,673
Total capital assets being depreciated, net	135,170	(12,024)	-	14,102	137,248
Capital assets, net	\$ 253,273	\$ 3,639	\$ -	\$ -	\$ 256,912
<b>2005:</b> <i>(in thousands of dollars)</i>					
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Transfers</b>	<b>Ending Balance</b>
<b>Capital assets not being depreciated</b>					
Land	\$ 61,966	\$ -	\$ -	\$ -	\$ 61,966
Easements	24,548	3,487	-	-	28,035
Construction-in-progress	11,849	19,694	-	(3,441)	28,102
Total capital assets not being depreciated	98,363	23,181	-	(3,441)	118,103
<b>Capital assets being depreciated</b>					
Land improvements	182,302	-	-	636	182,938
Buildings	157,219	503	-	2,179	159,901
Equipment	24,339	118	(72)	626	25,011
Total capital assets being depreciated	363,860	621	(72)	3,441	367,850
<b>Accumulated depreciation</b>					
Land improvements	117,808	8,648	-	-	126,456
Buildings	87,399	3,029	-	-	90,428
Equipment	14,590	1,278	(72)	-	15,796
Total accumulated depreciation	219,797	12,955	(72)	-	232,680
Total capital assets being depreciated, net	144,063	(12,334)	-	3,441	135,170
Capital assets, net	\$ 242,426	\$ 10,847	\$ -	\$ -	\$ 253,273

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5. **Revenue Bonds Payable and Other Long-Term Liabilities**

Pursuant to an original bond indenture dated December 1, 1984, and various supplemental bond indentures (the "Indentures"), the Trust has issued revenue bonds for the purpose of constructing improvements to the airport facilities and refunding prior issues of revenue bonds. The bonds issued are collateralized by and payable from the revenues of the Trust. The Indentures provide, among other things, for the establishment of certain restricted accounts for the receipt and expenditure of the bond proceeds and for the pledged revenues to be administered by a trustee bank.

The Indentures require the Trust to charge fees for the use and services of the airport to make the Trust self-sufficient and self-sustaining. Amounts charged and collected by the Trust for use and services of the airport are required to yield gross revenues in an amount at least equal to the sum of 1.25 times debt service, operating expenses, any deficiencies in the bond funds or accounts and an amount required to be transferred into a reserve fund. Transfers from certain reserve accounts can be considered revenue for purposes of the gross revenue test.

**General Revenue Bonds, Refunding Series 1997A and 1997B**

The Series 1997A and 1997B bonds in the original amounts of \$21,740,000 and \$32,835,000, respectively, were issued to retire and redeem all of the outstanding General Revenue Bonds Series 1989 and General Revenue Consolidated Fixed Rate Series 1989. The 1997 series bonds are payable annually in amounts ranging from \$945,000 to \$4,485,000 commencing on June 30, 1997 with final maturity in 2017. Interest on the 1997A and 1997B bonds is payable semi annually at rates of 7.30% and 7.05%, respectively. The Series 1997 bonds are not subject to early redemption.

**General Revenue Bonds Refunding Series 1999A, 1999B and 1999C**

The Series 1999A, 1999B, 1999C bonds in the original amounts of \$8,145,000, \$14,665,000 and \$10,625,000, respectively, were issued to retire and redeem all of the outstanding General Revenue Bonds Series 1992 and 1996 and finance costs of certain improvements to the airport. The 1999 series bonds are payable annually in amounts ranging from \$1,085,000 to \$5,265,000 commencing on June 1, 2002, with final maturity in 2026. Interest on the 1999A, 1999B and 1999C bonds is payable at rates ranging from 4.75% to 5.50%, 5.125% to 6.125% and 7.25% to 7.75%, respectively. The 1999 bonds are subject to redemption at the option of the Trust after June 1, 2010, at a price equal to the principal amount.

**General Revenue Bonds Refunding Series 2000A**

The Series 2000A bonds in the original amount of \$11,000,000 were issued to finance the cost of construction of a new air cargo facility. The 2000 series bonds are payable annually in amounts ranging from \$775,000 to \$5,000,000 commencing on June 1, 2005, with final maturity in 2020. Interest on the 2000A bonds is payable at rates ranging from 5.75% to 6.00%. The 2000 bonds are subject to redemption at the option of the Trust after June 1, 2010, at a price equal to the principal amount.

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5. **Revenue Bonds Payable and Other Long-Term Liabilities, continued**

**General Revenue Bonds Refunding Series 2001A**

The Series 2001 bonds in the original amount of \$54,000,000 were issued to finance the cost of construction and installation of certain facilities at the Tulsa International Airport and Richard Lloyd Jones, Jr., Airport. The 2001 bonds are payable in 2003 and 2005, \$27,000,000 and \$24,000,000, respectively, as well as three \$1,000,000 payments, with final maturity on June 1, 2017. Interest on the 2001 bonds is payable at rates ranging from 5.0% to 5.2%. The 2001 bonds are subject to redemption at the option of the Trust after June 1, 2010, at a price equal to the principal amount.

**General Revenue Bonds Refunding Series 2003**

The Series 2003 bonds in the original amount of \$30,400,000 were issued to refund a portion of the outstanding General Revenue Bonds Series 1993A, 1997A, 1997B, 1999A, 1999B, 1999C, 2000A and 2001. The 2003 series bonds are payable in amounts ranging from \$380,000 to \$4,845,000 commencing on June 1, 2013, with final maturity in 2023. Interest on the 2003 bonds is payable monthly at a variable interest rate determined weekly and is not to exceed 14.00%. The Trust may also elect a term interest rate in which interest is payable each June 1 and December 1. The 2003 bonds are subject to redemption at the option of the Trust at any time at a price equal to the principal amount plus any accrued interest.

**General Revenue Bonds Refunding Series 2004A**

The Series 2004A bonds in the original amount of \$17,800,000 were issued to finance the construction and installation of airport terminal and related facilities improvements at the Tulsa International Airport and to pay the costs of issuance. The 2004A bonds are payable in amounts ranging from \$1,005,000 to \$1,805,000 commencing June 1, 2006, with final maturity in 2018. Interest on the 2004A bonds is payable semiannually at rates ranging from 3.25% to 5.0%. The 2005A bonds maturing on June 1, 2015, are subject to redemption at the option of the Trust at any time at a price equal to the principal amount plus any accrued interest.

**General Revenue Bonds Refunding Series 2004B**

The Series 2004B bonds in the original amount of \$2,200,000 were issued to finance the construction and installation of a convenience center, including fueling facilities on the premises of the Tulsa International Airport, to pay capitalized interest on the 2004B bonds and to pay the costs of issuance. The 2004B bonds are payable in 2017. Interest on the 2004B bonds is payable semiannually at 4.95%. The 2004B bonds are subject to mandatory redemption of \$100,000 on June 1, 2006 and 2007, and \$200,000 per year on June 1, 2008 to 2017. The 2004B bonds maturing on June 1, 2015, are subject to redemption at the option of the Trust at any time at a price equal to the principal amount plus any accrued interest. Not all of the bond proceeds were expended for projects from this revenue bond. The excess proceeds are being held by the Trust for early redemptions in future years. During 2006, \$575,000 of the 2004B bonds was purchased back by the Trust.

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5. **Revenue Bonds Payable and Other Long-Term Liabilities, continued**

The changes in outstanding revenue bonds and other long-term liabilities during 2006 can be summarized as follows:

<i>(in thousands of dollars)</i>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Portion Due Within One Year</u>
<b>Revenue Bonds</b>					
Series 1997A	\$ 7,030	\$ -	\$ (2,065)	\$ 4,965	\$ 2,150
Series 1997B	30,740	-	-	30,740	-
Series 1999A	7,135	-	(290)	6,845	350
Series 1999B	12,015	-	(750)	11,265	785
Series 1999C	9,215	-	(310)	8,905	345
Series 2000A	9,600	-	(400)	9,200	425
Series 2001A	3,000	-	-	3,000	-
Series 2003	30,400	-	-	30,400	-
Series 2004A	17,800	-	(1,005)	16,795	1,055
Series 2004B	2,200	-	(675)	1,525	73
Total revenue bonds payable	<u>129,135</u>	<u>-</u>	<u>(5,495)</u>	<u>123,640</u>	<u>5,183</u>
<b>Unamortized loss/discount (premium)</b>					
Series 1997A & B	254	-	(20)	234	-
Series 1999A	247	-	(16)	231	-
Series 1999B	142	-	(7)	135	-
Series 1999C	75	-	(5)	70	-
Series 2001A	(929)	-	84	(845)	-
Series 2003	4,716	-	(337)	4,379	-
Total unamortized loss/discount (premium)	<u>4,505</u>	<u>-</u>	<u>(301)</u>	<u>4,204</u>	<u>-</u>
Total revenue bonds payable, net	<u>124,630</u>	<u>-</u>	<u>(5,194)</u>	<u>119,436</u>	<u>5,183</u>
<b>Other long-term liabilities</b>					
Capital Lease	6,855	-	(500)	6,355	510
Vested compensated absences	638	74	-	712	48
Notes payable	27	-	(27)	-	-
Total other long-term liabilities	<u>7,520</u>	<u>74</u>	<u>(527)</u>	<u>7,067</u>	<u>558</u>
Total long-term liabilities	<u>\$ 132,150</u>	<u>\$ 74</u>	<u>\$ (5,721)</u>	<u>\$ 126,503</u>	<u>\$ 5,741</u>

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5. **Revenue Bonds Payable and Other Long-Term Liabilities, continued**

The changes in outstanding revenue bonds and other long-term liabilities during 2005 can be summarized as follows:

<i>(in thousands of dollars)</i>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Portion Due Within One Year</u>
<b>Revenue Bonds</b>					
Series 1997A	\$ 7,030	\$ -	\$ -	\$ 7,030	\$ 2,065
Series 1997B	30,740	-	-	30,740	-
Series 1999A	7,405	-	(270)	7,135	290
Series 1999B	12,725	-	(710)	12,015	750
Series 1999C	9,395	-	(180)	9,215	310
Series 2000A	9,975	-	(375)	9,600	400
Series 2001A	3,000	-	-	3,000	-
Series 2003	30,400	-	-	30,400	-
Series 2004A	17,800	-	-	17,800	1,005
Series 2004B	2,200	-	-	2,200	100
Total revenue bonds payable	<u>130,670</u>	<u>-</u>	<u>(1,535)</u>	<u>129,135</u>	<u>4,920</u>
<b>Unamortized loss/discount (premium)</b>					
Series 1997A & B	274	-	(20)	254	-
Series 1999A	263	-	(16)	247	-
Series 1999B	149	-	(7)	142	-
Series 1999C	80	-	(5)	75	-
Series 2001A	(1,013)	-	84	(929)	-
Series 2003	5,053	-	(337)	4,716	-
Total unamortized loss/discount (premium)	<u>4,806</u>	<u>-</u>	<u>(301)</u>	<u>4,505</u>	<u>-</u>
Total revenue bonds payable, net	<u>125,864</u>	<u>-</u>	<u>(1,234)</u>	<u>124,630</u>	<u>4,920</u>
<b>Other long-term liabilities</b>					
Capital Lease	6,935	-	(80)	6,855	500
Vested compensated absences	620	18	-	638	-
Notes payable	83	-	(56)	27	-
Total other long-term liabilities	<u>7,638</u>	<u>18</u>	<u>(136)</u>	<u>7,520</u>	<u>500</u>
Total long-term liabilities	<u>\$ 133,502</u>	<u>\$ 18</u>	<u>\$ (1,370)</u>	<u>\$ 132,150</u>	<u>\$ 5,420</u>

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5. **Revenue Bonds Payable and Other Long-Term Liabilities, continued**

Future maturities of revenue bonds and capital leases are as follows:  
*(in thousands of dollars)*

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 5,693	\$ 6,384	\$ 12,077
2008	6,111	6,051	12,162
2009	6,470	5,693	12,163
2010	6,475	5,311	11,786
2011	6,860	4,911	11,771
2012-2016	43,336	17,761	61,097
2017-2021	41,195	5,794	46,989
2022-2026	13,855	845	14,700
	<u>\$ 129,995</u>	<u>\$ 52,750</u>	<u>\$ 182,745</u>

6. **Defeased Debt**

The Trust, in a prior year, placed funds in an irrevocable trust, held and managed by a bank, to be used to pay the principal and interest on the General Revenue Bonds, Series 1978 as such amounts becomes due. These bonds are considered defeased and are not included in the Trust's financial statements. The final principal amount of such bonds was \$3,735,000 and paid on June 1, 2006.

7. **Capital Lease Obligation**

On September 30, 2003, the Trust entered into a \$6,935,000 capital lease obligation to finance the purchase of certain energy efficient equipment and services, canopies in certain parking areas and computer equipment. The obligation is payable in amounts ranging from \$80,000 to \$540,000 annually from October 2004 to October 2023. Interest on the obligation is payable semiannually at rates ranging from 2.0% to 6.0%. The obligations due on or after October 1, 2013, are subject to redemption at the option of the Trust, at a price equal to the principal amount plus any accrued interest. The gross amounts of capital assets and related accumulated depreciation recorded under these capital leases at June 30, 2006 and 2005, follows:

<i>(in thousands of dollars)</i>	<u>2006</u>	<u>2005</u>
Capital lease proceeds	\$ 6,935	\$ 6,935
Unspent proceeds	(820)	(972)
Purchases less than capitalization threshold	<u>(258)</u>	<u>(182)</u>
Capital assets	5,857	5,781
Accumulated amortization	<u>(349)</u>	<u>(181)</u>
	<u>\$ 5,508</u>	<u>\$ 5,600</u>

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**7. Capital Lease Obligation, continued**

The present value of future minimum capital lease payments at June 30, 2006, follows:

2007	\$ 816
2008	815
2009	812
2010	448
2011	445
2012 - 2016	2,226
2017 - 2021	2,218
2022 - 2026	<u>1,994</u>
Total minimum lease payments	9,774
Amounts representing interest	<u>(3,419)</u>
Present value of minimum lease payments	<u>\$ 6,355</u>

**8. Conduit Debt Obligations**

To pay the costs of certain modifications, rehabilitations and reconstruction to a special facility located adjacent to Tulsa International Airport, the Trust has issued a series of Special Facility Revenue Bonds. These bonds are special limited obligations of the Trust, payable solely from and secured by a pledge of rentals to be received from a lease agreement between the Trust and Boeing Corporation. The bonds do not constitute a debt or pledge of the faith and credit of the Trust, the City or the State, and accordingly, they have not been reported in the accompanying financial statements.

At June 30, 2006 and 2005, Special Facility Revenue Bonds outstanding aggregated \$14,250,000 and \$15,420,000, respectively.

**9. Municipal Employees' Pension Fund**

The Trust contributes to the Municipal Employees Pension System (the "System"), a cost sharing multiple employer defined benefit pension plan administered by the City of Tulsa, Oklahoma. The pension plan was established by the City in accordance with the City Charter and State Statutes. Nonuniform, nonelected full-time employees of TAA along with other employees of the City of Tulsa 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.

**Tulsa Airports Improvement Trust**  
**(A Component Unit of the City of Tulsa, Oklahoma)**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

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**9. Municipal Employees' Pension Fund, continued**

The authority to establish and amend requirements for the plan 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 Trust is required to contribute at an actuarially determined rate; the rate was 6.3% for the years ended 2006 and 2005, respectively. The Trust's contributions to the plan for 2006 and 2005 were \$334,000 and \$307,000, respectively, which equalled its 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.

**10. Rental Income from Operating Leases**

The Trust leases space in the Tulsa International Airport terminal along with other land and buildings on a fixed fee as well as contingent rental basis. Many of the leases provide for a periodic review and predetermination of the rental amounts. Substantially all capital assets are held by the Trust for the purpose of rental or related use.

Minimum future rentals on noncancellable operating leases as of June 30, 2006, are as follows:

(In thousands of dollars)

2007	\$ 9,281
2008	9,181
2009	8,900
2010	3,358
2011	3,330
2012 - 2016	14,466
2017 - 2021	11,588
2022 - 2026	8,516
2027 - 2031	4,184
2032 - 2036	1,623
2037 - 2041	1,192
2042 - 2046	720
	<u>\$ 76,339</u>

**11. Risk Management**

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

**Tulsa Airports Improvement Trust**  
**(A Component Unit of the City of Tulsa, Oklahoma)**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

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There have been no significant reductions in insurance coverage for insured programs. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**12. Commitments and Contingencies**

As of June 30, 2006, the Trust had open commitments for construction projects of approximately \$26,902,000.

There are other various suits and claims pending against the Trust which have arisen in the course of operating the Trust. Management believes any losses resulting from any such actions will not have a material adverse impact on the financial position or results of operations of the Trust.

In December 2000, the Trust entered into a Support (Contingent Purchase and Sale) Agreement with the Tulsa Industrial Authority (TIA) and Bank of Oklahoma (BOK) as part of a \$30 million loan transaction involving the City of Tulsa, TIA, Great Plains Airlines (GPA), and BOK. The Support Agreement included a provision that upon the occurrence of a trigger event (as defined by the loans), BOK could direct TIA to sell the property to the Trust for the amount of any existing indebtedness on the loan to GPA.

GPA declared bankruptcy in January 2004. The Office of the Inspector General of the U.S. Department of Transportation was asked to perform a review of certain issues at the Authority, and which later included the financial support of GPA. In May 2004, the Inspector General noted improprieties with the Support Agreement and notified the Federal Aviation Administration (FAA). The FAA advised the Trust that airport revenues were not to be used to subsidize airlines and that should the Trust purchase the property under the Support Agreement, it would constitute a direct subsidy to the airline in violation of FAA policy.

In June 2004, BOK caused TIA to make formal demand upon the Trust to purchase the Property from TIA in the amount of indebtedness outstanding to GPA. As a result of the FAA's position, the Trust declined to purchase the property.

In October 2004, TIA (at the direction of BOK) filed suit against the Trust and its former legal counsel. The suit alleges that the Trust breached the Support Agreement and demands that the Trust be required to purchase the property or that TIA be awarded damages totalling \$7,497,546 plus interest, costs and attorney fees. The Trust filed an answer to the suit and has claimed various affirmative defenses.

Given the complex factual and legal issues involved and the inherent uncertainties of litigation, the Trust is not able to assess the likelihood of the possible outcome of the contingency. As a result of this uncertainty, no liability has been recorded as of June 30, 2006. Events could occur in the near term that could materially change any estimate of the amount of the contingency.

**Tulsa Airports Improvement Trust**  
**(A Component Unit of the City of Tulsa, Oklahoma)**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2006**

Grant Title	CDEA Number	Grant Number	Amount of Grant	Unexpended Balance at June 30, 2005	Grants Awarded (Closed) During Current Year	Transfers and Adjustments	Other Income and Matching	Current Year Expenditures	Unexpended Balance at June 30, 2006
<b>Department of Transportation</b>									
<b>Federal Aviation Administration</b>									
Safety Area Runway	20.106	3-40-0098-12	\$ 273,375	\$ 5,719	\$ -	\$ -	\$ -	\$ -	\$ 5,719
Riverside Masterplan	20.106	3-40-0098-13	370,647	357,389	-	-	25,866	258,663	124,592
Riverside Easements	20.106	3-40-0098-14	202,500	176,096	-	-	2,374	47,472	130,998
RVS - Drainage Improvement - Phase I	20.106	3-40-0098-15	1,178,154	-	1,178,154	-	56,178	1,123,560	110,772
Taxiway November	20.106	3-40-0099-49	4,000,000	2,980,265	-	-	120,351	1,203,511	1,897,105
Noise Mitigation	20.106	3-40-0099-50	6,298,000	1,639,730	-	-	2,081	41,614	1,600,197
Terminal Building Expansion	20.106	3-40-0099-51	3,110,000	465,925	-	-	24,522	490,447	-
Terminal Building Expansion	20.106	3-40-0099-52	1,976,876	942,957	-	-	(423,066)	507,257	12,634
Noise Mitigation	20.106	3-40-0099-54	6,600,000	-	6,600,000	-	45,561	911,213	5,734,348
Rehabilitate Runway 18R/36L	20.106	3-40-0099-55	6,768,750	-	6,768,750	-	118,909	2,378,188	4,509,471
Taxiway C Extension	20.106	3-40-0099-56	6,768,750	-	6,768,750	-	42,572	851,443	5,959,879
Taxiway e Extension	20.106	3-40-0099-58	4,132,805	-	4,132,805	-	6,260	18,687	4,120,378
			<u>\$ 41,679,857</u>	<u>\$ 6,568,081</u>	<u>\$ 25,448,459</u>	<u>\$ -</u>	<u>\$ 21,608</u>	<u>\$ 7,832,055</u>	<u>\$ 24,206,093</u>

Note:

The above Schedule of Expenditures of Federal Awards does not reflect Passenger Facility Charges (“PFC”) authorized to be collected through April 1, 2011. The above schedule does not reflect the expenditure of such PFC’s, except that the PFC’s can be used for matching purposes and therefore may be reflected as other income and matching.

**Tulsa Airports Improvement Trust**  
**(A Component Unit of the City of Tulsa, Oklahoma)**  
**Schedule of Insurance in Force**  
**June 30, 2006**

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<u>Policy Coverage</u>	<u>Issuer</u>	<u>Limit of Liability</u>	<u>Insurance</u>	<u>Expiration Date</u>	<u>Premium</u>
Primary coverage on bodily injury, single limit bodily injury and property damage liability.	Phoenix Aviation, Inc.	Up to \$75,000,000 for any one accident, or occurrence with \$5,000 deductible each loss, and \$50,000 annual aggregate deductible.	None	November 20, 2006	
Property damage (including boilers and machinery and scheduled automotive equipment) fire and extended coverage.	Great American Insurance Co.	Real and personal property damage not to exceed \$100,000 with \$10,000 deductible.	None	July 1, 2008	
Automotive personal liability and property damage off-airport.	Mid-Continent Casualty Co.	Excess of \$250,000 up to \$1 million bodily injury and property damage, combined single limit, each occurrence and in the aggregate.	\$ 250,000	July 18, 2006	

**Tulsa Airports Improvement Trust**  
**(A Component Unit of the City of Tulsa, Oklahoma)**  
**Schedule of Sources and Uses of Funds**  
**Year Ended June 30, 2006**

	Revenue Accounts	CFC Account	Interest Account	Special Bond Principal Account	Construction Accounts	Operating Reserve Accounts	General Accounts	Major Maintenance Accounts	Capital Improvement Accounts	Airports Account	Total
<b>Balances at June 30, 2005</b>	\$ 1,916,644	\$ 31,933	\$ 505,423	\$ 410,002	\$ 2,871,659	\$ 4,458,595	\$ 5,473,025	\$ 1,816,025	\$ 702,344	\$ -	\$ 18,185,650
<b>Sources</b>											
Income on invested funds	165,285	486	47,172	85,853	94,718	191,681	101,758	91,541	25,798	-	804,291
Proceeds from federal capital grants	-	-	-	-	-	-	7,371,788	-	-	-	7,371,788
Proceeds from bond activity	-	-	-	-	-	-	-	(26,207)	-	-	(26,207)
Gross revenues from operations	31,943,671	-	-	-	-	-	49,267	-	-	-	31,992,938
	<u>34,025,600</u>	<u>32,419</u>	<u>552,595</u>	<u>495,855</u>	<u>2,966,377</u>	<u>4,650,276</u>	<u>12,995,838</u>	<u>1,881,358</u>	<u>728,142</u>	<u>-</u>	<u>58,328,460</u>
<b>Transfers to (from) other trust funds</b>											
Interest income transferred to Revenue Fund	(562,426)	-	47,158	85,855	-	217,718	93,452	90,101	28,142	-	-
Transfers to bond fund	10,521,831	(63,393)	(7,318,300)	(5,180,358)	307,057	-	-	-	-	-	(1,733,163)
Transfers to City of Tulsa-special trust fund	17,751,083	-	-	-	-	-	-	-	-	-	17,751,083
Transfer to (from) other	572,645	(4,761)	-	(108,333)	108,333	-	(2,249,388)	722,738	-	-	(958,766)
	<u>28,283,133</u>	<u>(68,154)</u>	<u>(7,271,142)</u>	<u>(5,202,836)</u>	<u>415,390</u>	<u>217,718</u>	<u>(2,155,936)</u>	<u>812,839</u>	<u>28,142</u>	<u>-</u>	<u>15,059,154</u>
<b>Applications</b>											
Operating expenses											
Disbursements during the year	2,955,150	4,761	-	-	-	-	448,141	-	-	-	3,408,052
Interest expense	-	-	7,342,808	-	-	-	-	-	-	-	7,342,808
Construction and land acquisition	-	95,787	-	-	288,995	-	9,593,227	215,129	-	-	10,193,138
Other	-	-	-	-	574,971	-	-	-	-	-	574,971
Principal payments on bonds	-	-	-	4,920,000	-	-	-	-	-	-	4,920,000
	<u>2,955,150</u>	<u>100,548</u>	<u>7,342,808</u>	<u>4,920,000</u>	<u>863,966</u>	<u>-</u>	<u>10,041,368</u>	<u>215,129</u>	<u>-</u>	<u>-</u>	<u>26,438,969</u>
<b>Balances before year-end transfers</b>	2,787,317	25	480,929	778,691	1,687,021	4,432,558	5,110,407	853,389	700,000	-	16,830,337
<b>Transfers required by the bond indenture</b>											
Transfers to general account	(1,308,555)	-	-	-	(108,333)	-	1,416,888	-	-	-	-
Transfers from general fund	-	-	-	-	-	-	-	-	-	-	-
Transfers to major maintenance fund	(200,000)	-	-	-	-	-	-	200,000	-	-	-
Transfers to operating fund -	(214,800)	-	-	-	-	214,800	-	-	-	-	-
Transfers to capital improvement fund	(100,000)	-	-	-	-	-	-	-	100,000	-	-
<b>Balances at June 30, 2006</b>	\$ 963,962	\$ 25	\$ 480,929	\$ 778,691	\$ 1,578,688	\$ 4,647,358	\$ 6,527,294	\$ 1,053,390	\$ 800,000	\$ -	\$ 16,830,337

**Tulsa Airports Improvement Trust**  
**(A Component Unit of the City of Tulsa, Oklahoma)**  
**Schedule of Net Revenue Available for Debt Service**  
**Year Ended June 30, 2006**

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**Gross revenues as defined by the 1984 Bond  
 Indenture as supplemented**

Operating revenue	\$ 28,123,993
Non-operating revenues (1)	754,573
Transferred funds (2)	4,028,228
Total gross revenues	<u>32,906,794</u>

**Gross expenses as defined by the 1984 Bond  
 Indenture as supplemented**

Combined operating expenses	18,529,776
Items classified as other expense	<u>-</u>
Total operating expenses	<u>18,529,776</u>
Net revenue available for debt service	<u>\$ 14,377,018</u>

- (1) Non-operating revenues including interest earned on invested funds, net of construction fund interest earnings and certain other non-operating revenues and expenses, as defined by the Bond Indenture.
- (2) The Bond Indenture provides that transfers from the Airport Account to the Revenue Fund are considered as Gross Revenues for the next ensuing fiscal year.

**Tulsa Airports Improvement Trust**  
**(A Component Unit of the City of Tulsa, Oklahoma)**  
**Schedule of Funds on Deposit and Invested**  
**Year Ended June 30, 2006**

Description	Due Date	Interest Rate	Yield at Market	Par Value	Investment Cost	Market Value
<b>Revenue Fund</b>						
American Performance Treasury Fund	On Demand	3.87%	3.93%	\$ 545,579	\$ 545,579	\$ 545,579
DDA cash accounts				418,383	418,383	418,383
Total Revenue Fund					<u>963,962</u>	<u>963,962</u>
<b>CFC Fund</b>						
American Performance Treasury Fund	On Demand	3.87%	0.00%	25	25	25
<b>Interest Accounts</b>						
American Performance Treasury Fund	On Demand	3.87%	0.00%	480,929	480,929	480,929
<b>Special Bond Principal Account</b>						
American Performance Treasury Fund	On Demand	3.87%	0.00%	778,691	778,691	778,691
<b>Construction Fund</b>						
American Performance Treasury Fund	On Demand	3.87%	0.00%	1,578,688	1,578,688	1,578,688
<b>Operating Fund - Operating Reserve Account</b>						
American Performance Treasury Fund	On Demand	3.87%	0.00%	950	950	950
Certificate of Deposit	5/17/2012	4.43%	4.43%	702,760	702,760	702,760
Certificate of Deposit	5/1/2024	2.78%	2.78%	883,000	883,000	883,000
Certificate of Deposit	1/24/2007	5.00%	5.00%	3,038,028	3,038,028	3,038,028
FNMA Arms	5/1/2024	4.43%	4.43%	22,666	24,202	22,620
Total Fund Operating Reserve Account					<u>4,648,940</u>	<u>4,647,358</u>
<b>Airport Special Reserve Funds - Terminal Project Account Fund</b>						
American Performance Treasury Fund	On Demand	3.87%	3.87%	3,024,873	3,024,873	3,024,873
<b>Airport Special Reserve Funds - General Fund</b>						
American Performance Treasury Fund	1/24/2007	3.87%	3.87%	3,486,802	3,486,802	3,486,802
Cash						
FNMA ARMS #20086	7/1/2024	4.70%	5.03%	14,649	15,649	14,619
DDA cash account				1,000	1,000	1,000
Total Airport Special Reserve Funds - General Fund					<u>6,528,324</u>	<u>6,527,294</u>
<b>Airport Special Reserve Funds - Major Maintenance Fund</b>						
American Performance Treasury Fund	On Demand	3.87%	3.93%	223,390	223,390	223,390
Certificate of deposit	1/0/1900	5.00%	5.00%	830,000	830,000	830,000
Total Airport Special Reserve Funds - Major Maintenance Fund					<u>1,053,390</u>	<u>1,053,390</u>
<b>Airports Improvement Funds - Capital Improvement Fund</b>						
American Performance Treasury Fund	On Demand	3.87%	3.93%	614,000	614,000	614,000
Certificate of deposit	12/27/2006	5.00%	5.00%	186,000	186,000	186,000
Total Airports Improvement Funds - Capital Improvement Fund					<u>800,000</u>	<u>800,000</u>
<b>Other Accounts</b>						
DDA cash account and petty cash				129,751	129,752	129,752
Pooled Investments with City Treasurer				5,210,001	5,210,001	5,210,001
American Performance Treasury Fund	On Demand	3.87%	3.93%	16,226,492	16,226,492	16,226,492
Treasury Money Fund	On Demand	0.00%	0.00%	185,973	185,973	185,973
Slug	6/1/2017	0.00%	0.00%	690,074	690,074	690,074
Total Other Accounts					<u>22,442,293</u>	<u>22,442,293</u>
Total Funds on Deposit and Invested					<u>\$ 39,275,241</u>	<u>\$ 39,272,629</u>

**Tulsa Airports Improvement Trust**  
**(A Component Unit of the City of Tulsa, Oklahoma)**  
**Schedule of Passenger Facility Charge Revenue and Expenditures**  
**Year Ended June 30, 2006**

Revenues:	Date Approved	Amount Approved	Cumulative Total - June 30, 2005	Quarter Ended				Year Ended June 30, 2006	Cumulative Total - June 30, 2006
				September 30, 2005	December 31, 2005	March 31, 2006	June 30, 2006		
Passenger facility charge revenue received			\$ 51,656,499	\$ 1,039,063	\$ 947,699	\$ 1,195,665	\$ 1,150,122	\$ 4,332,549	\$ 55,989,048
Interest earned			1,576,646	73,086	90,034	87,226	231,227	481,573	2,058,219
Total passenger facility charge revenue received			53,233,145	1,112,149	1,037,733	1,282,891	1,381,349	4,814,122	58,047,267
<b>Expenditures:</b>									
Application 93-02	October 18, 1993								
Project 0			9,717,000	-	-	-	-	-	9,717,000
Project 1			5,101,000	-	-	-	-	-	5,101,000
Project 2			1,168,724	-	-	-	-	-	1,168,724
Application 96-03:	October 25, 1996								
Project 1		7,269,100	7,085,508	-	-	-	(661,091)	(661,091)	6,424,417
Project 2		6,330,900	6,470,042	-	-	-	-	-	6,470,042
Project 3		2,756,000	2,225,788	-	-	-	-	-	2,225,788
Application 00-04:	April 28, 2000								
Project 1		900,000	828,936	-	-	-	-	-	828,936
Project 2		8,400,000	4,617,643	-	102,741	-	122,550	225,291	4,842,934
Project 3		3,000,000	1,492,512	-	-	-	-	-	1,492,512
Project 4		2,000,000	479,016	-	-	-	-	-	479,016
Project 5		800,000	671,466	-	-	-	-	-	671,466
Project 6		2,800,000	3,057,498	-	-	-	-	-	3,057,498
Application: 04-05	December 28, 2003								
Project 5-1		24,000,000	2,123,862	5,000	350,204	6,351	1,296,148	1,657,703	3,781,565
Project 5-2		210,000	-	-	-	-	-	-	-
Project 5-3		1,200,000	-	-	-	-	19,009	19,009	19,009
Project 5-4		1,057,000	-	-	-	-	16,587	16,587	16,587
Project 5-5		150,000	-	-	-	-	-	-	-
Total passenger facility charge revenue expended			45,038,995	5,000	452,945	6,351	793,203	1,257,499	46,296,494
Net increase (decrease) in cash			8,194,150	1,107,149	584,788	1,276,540	588,146	3,556,623	11,750,773
Cash balance, beginning			-	8,194,150	9,301,299	9,886,087	11,162,627	8,194,150	-
Cash balance, ending			\$ 8,194,150	\$ 9,301,299	\$ 9,886,087	\$ 11,162,627	\$ 11,750,773	\$ 11,750,773	\$ 11,750,773

**Note to Schedule:**

1. Revenues and expenditures on approved projects in the schedule above agree to the Passenger Facility Charge Quarterly Status Reports (PFC Reports) submitted by the Authority to the FAA.
2. Applications 92-01 and 93-02 have been closed out.

**Tulsa Airports Improvement Trust**  
**(A Component Unit of the City of Tulsa, Oklahoma)**  
**Schedule of Passenger Facility Charge Revenue and Expenditures**  
**Year Ended June 30, 2006**

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**PFC Audit Summary**

Tulsa Airports Improvement Trust  
Fiscal Year Ended June 30, 2006

- |     |   |   |  |
|-----|---|---|--|
| 1.  | Type of Report issued on PFC financial statements.  | <input checked="" type="checkbox"/> Unqualified | <input type="checkbox"/> Qualified     |
| 2.  | Type of report on PFC compliance.   | <input checked="" type="checkbox"/> Unqualified | <input type="checkbox"/> Qualified     |
| 3.  | Quarterly Revenue and Disbursements reconcile with submitted quarterly reports and reported un-liquidated.  | <input type="checkbox"/> Yes                    | <input checked="" type="checkbox"/> No |
| 4.  | PFC Revenue and Interest is accurately reported on FAA Form 5100-0127.  | <input type="checkbox"/> Yes                    | <input checked="" type="checkbox"/> No |
| 5.  | The Public Agency maintains a separate financial accounting record for each Application.  | <input type="checkbox"/> Yes                    | <input checked="" type="checkbox"/> No |
| 6.  | Funds disbursed were for PFC eligible items as identified in the FAA Decision to pay only for the allowable costs for the projects.               | <input type="checkbox"/> Yes                    | <input checked="" type="checkbox"/> No |
| 7.  | Monthly carrier receipts were reconciled with quarterly carrier reports.  | <input type="checkbox"/> Yes                    | <input checked="" type="checkbox"/> No |
| 8.  | PFC revenues were maintained in a separate interest bearing capital account or commingled only with other interest-bearing airport capital funds. | <input type="checkbox"/> Yes                    | <input checked="" type="checkbox"/> No |
| 9.  | Serving carriers were notified on PFC program actions/changes approved by the FAA.  | <input type="checkbox"/> Yes                    | <input checked="" type="checkbox"/> No |
| 10. | Quarterly Reports were transmitted (or available via website) to remitting carriers.  | <input type="checkbox"/> Yes                    | <input checked="" type="checkbox"/> No |
| 11. | The Public Agency is in compliance with Assurances 5, 6, 7 and 8.   | <input type="checkbox"/> Yes                    | <input checked="" type="checkbox"/> No |
| 12. | Project design and implementation is carried out in accordance with Assurance 9.  | <input type="checkbox"/> Yes                    | <input checked="" type="checkbox"/> No |
| 13. | Program administration is carried out in accordance with Assurance 10.  | <input type="checkbox"/> Yes                    | <input checked="" type="checkbox"/> No |
| 14. | For those public agencies with excess revenue, a plan for the use of this revenue has been submitted to the FAA for review and concurrence.       | <input type="checkbox"/> Yes                    | <input checked="" type="checkbox"/> No |



**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  
Tulsa Airports Improvement Trust  
Tulsa, Oklahoma

We have audited the financial statements of the TULSA AIRPORTS IMPROVEMENT TRUST (the "Trust"), a component unit of the City of Tulsa, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 27, 2006. We conducted our audit in accordance with generally accepted auditing standards 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 Trust'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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 Trust's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompany schedule of findings and responses as item 06-1.

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 weakness. However, we believe the reportable condition described above is not a material weakness.

**Compliance**

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

Board of Trustees  
Tulsa Airports Improvement Trust

We also noted certain additional matters that we reported to the Trust's management in a separate letter dated October 27, 2006.

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

*BKD LLP*

October 27, 2006



## Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to the Passenger Facility Charge Program

Board of Trustees  
Tulsa Airports Improvement Trust  
Tulsa, Oklahoma

### Compliance

We have audited the compliance of the TULSA AIRPORTS IMPROVEMENT TRUST (the "Trust") with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide), issued by the Federal Aviation Administration, for its passenger facility charge program for the year ended June 30, 2006. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of the Trust's management. Our responsibility is to express an opinion on the compliance of the Tulsa Airports Improvement Trust based on our audit.

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, and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the program occurred. An audit includes examining, on a test basis, evidence about the Trust's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Trust's compliance with those requirements.

In our opinion, TULSA AIRPORTS IMPROVEMENT TRUST complied, in all material respects, with the requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is described in the accompanying schedule of Passenger Facility Charge Program findings and questioned cost as item 06-2.

### Internal Control Over Compliance

The management of the Trust is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Trust's internal control over compliance with requirements that could have a direct and material effect on the passenger facility charge program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance and to test and report on the internal control over compliance in accordance with the Guide. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 noncompliance with applicable requirements of laws and regulations caused by error or fraud that would be material in relation to the passenger facility program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Board of Trustees  
Tulsa Airports Improvement Trust

This report is intended for the information and use of the Board of Trustees, Trust management and the Federal Aviation Administration and is not intended to be and should not be used by anyone other than these specified parties.

*BKD LLP*

Tulsa, Oklahoma  
October 27, 2006

**Tulsa Airports Improvement Trust**  
**(A Component Unit of the City of Tulsa, Oklahoma)**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2006**

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Findings Required to be Reported by *Government Auditing Standards*

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
06-1	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting</p> <p>Condition – The operating bank account is not being reconciled in a timely manner.</p> <p>Context – Individuals responsible for reconciling these accounts have been unable to perform them on a timely basis.</p> <p>Effect – Potentially 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 – Low resource levels and increased emphasis placed on daily balancing activities have contributed to reconciliations not being completed timely.</p> <p>Recommendation – Timely monthly bank reconciliation completion is critically important to the proper functioning of the Trust’s internal control system. Management should evaluate the cost/benefit of increasing low resource levels in areas critical to functioning of internal controls.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management will make any changes deemed appropriate as resources are available.</p>	None

**Tulsa Airports Improvement Trust  
(A Component Unit of the City of Tulsa, Oklahoma)  
Schedule Of Findings and Responses  
Year Ended June 30, 2006**

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Findings Required to be Reported by *the Federal Aviation Administration*

<b>Reference Number</b>	<b>Finding</b>	<b>Questioned Costs</b>
06-2	<p>Criteria – In accordance with the Passenger Facility Charge Program, the Federal Aviation Administration requires quarterly reports to be completed accurately and timely.</p> <p>Condition – It was noted for the quarter ending June 30, 2006, that the Trust reversed out expenditures previously recorded that were not eligible costs under the program.</p> <p>Cause – The Trust is in the process of closing out the PFC project. Airport management failed to review these expenditures for eligibility requirements.</p> <p>Effect – Management has failed to report accurate quarterly reports.</p> <p>Recommendation – We recommend that Airport management review PFC expenditures in more detail to ensure expenditures are eligible for the program.</p> <p>Airport’s Response – We concur.</p>	\$661,091