

TULSA AUTHORITY FOR RECOVERY OF ENERGY
(A Component Unit of the City of Tulsa, Oklahoma)
ACCOUNTANTS' REPORTS and FINANCIAL STATEMENTS
June 30, 2006 and 2005

TULSA AUTHORITY FOR RECOVERY OF ENERGY

(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

To the Board of Trustees
Tulsa Authority for the Recovery of Energy
Tulsa, Oklahoma

We have audited the accompanying basic financial statements of the TULSA AUTHORITY FOR RECOVERY OF ENERGY, 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 index. 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 financial statements referred to above present fairly, in all material respects, the financial position of the TULSA AUTHORITY FOR THE RECOVERY OF ENERGY 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 5, 2006, on our consideration of the Authority'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 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.

BKD LLP

September 5, 2006

TULSA AUTHORITY FOR RECOVERY OF ENERGY
(A Component Unit of the City of Tulsa, Oklahoma)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006 and 2005

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

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the current year by \$13,292. Of this amount, \$2,472 is invested in capital assets, \$3,000 is restricted, and \$7,820 is unrestricted and may be used to meet the Authority's ongoing obligations. The assets of the Authority exceeded its liabilities at the close of 2005 by \$8,514.
- During 2006, the Authority's net assets increased \$4,778 to \$13,292. During 2005, the Authority's net assets declined \$2,268.
- The Authority's operating revenues increased to \$35,977 in 2006 from \$35,441 in 2005, a 1.5% increase. In 2005, the Authority's operating revenues decreased from \$35,968 to \$35,441, a .6% decrease.

Overview of the Financial Statements

The Authority, a legally separate public trust, is reported by the City as a discretely presented component unit in the City's Comprehensive Annual Financial Report. The primary function of the Authority is to provide a system of collection, transportation, and disposal of solid waste within and for the City.

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The basic financial statements include: 1) Statements of Net Assets, 2) Statements of Revenues, Expenses, and Changes in Net Assets, 3) Statements of Cash Flows, and 4) Notes to the Financial Statements.

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 Statements of Net Assets 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 Statements 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 Statements 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. This statement reports cash receipts, cash payments, and changes in cash resulting from operating, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the period.

TULSA AUTHORITY FOR RECOVERY OF ENERGY
(A Component Unit of the City of Tulsa, Oklahoma)
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
June 30, 2006 and 2005

Net Assets

The Authority's net assets increased \$4,778 and 56.1% to \$13,292 at June 30, 2006. The following table provides a summary of net assets:

SUMMARY OF NET ASSETS

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current assets	\$ 11,434	\$ 7,119	\$ 7,510
Restricted assets	3,000	3,000	3,000
Capital assets, net	<u>2,472</u>	<u>2,455</u>	<u>2,704</u>
 Total assets	 <u>16,906</u>	 <u>12,574</u>	 <u>13,214</u>
 Current liabilities	 3,316	 1,792	 2,175
Noncurrent liabilities	<u>298</u>	<u>2,268</u>	<u>257</u>
 Total liabilities	 <u>3,614</u>	 <u>4,060</u>	 <u>2,432</u>
 Invested in capital assets	 2,472	 2,455	 2,704
Restricted	3,000	3,000	3,000
Unrestricted	<u>7,820</u>	<u>3,059</u>	<u>5,078</u>
 Total net assets	 <u>\$ 13,292</u>	 <u>\$ 8,514</u>	 <u>\$ 10,782</u>

In 2006, current assets increased \$4,315 due to a \$4,484 increase in cash and cash equivalents from the decline in debt service payments, a \$122 decline in the refuse services receivable, a \$75 decrease in the energy credit receivable, and a \$28 increase in the interest receivable.

In 2006, current liabilities increased \$1,524 due to the decrease in the service fee payable of \$222, an increase in the current portion of the note payable of \$1,534, and a \$170 increase in accounts payable while the rest are changes in other payables.

Noncurrent Liabilities

The Authority's noncurrent liabilities decreased \$1,970 for 2006 and increased \$2,012 for 2005. The 2006 change comes from the \$30 increase of the vested compensated absences liability, the decrease of \$2,000 in note payable, principal payments of \$466 and the reclass of \$1,534 to current liabilities. The majority of the 2005 increase comes from the issuance of a \$2,000 note payable. At the end of 2006, the Authority's noncurrent liability for vested compensated absences was \$286, an increase of \$30 during the year. At the end of 2005, the Authority's noncurrent liability for vested compensated absences was \$256, an increase of \$11 during the year. Also included in noncurrent liabilities is a \$12 deposit from the contractor for the residential curbside recycling program.

TULSA AUTHORITY FOR RECOVERY OF ENERGY
(A Component Unit of the City of Tulsa, Oklahoma)
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
June 30, 2006 and 2005

SUMMARY OF CHANGES IN NET ASSETS

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues	\$ 35,977	\$ 35,441	\$ 35,642
Investment income	131	214	309
Other income	164	(61)	17
	<u>36,272</u>	<u>35,594</u>	<u>35,968</u>
Depreciation expense	797	375	403
Other operating expense	30,622	37,325	36,716
Nonoperating expense	75	162	44
	<u>31,494</u>	<u>37,862</u>	<u>37,163</u>
Change in net assets	4,778	(2,268)	(1,195)
Net assets, beginning of year	<u>8,514</u>	<u>10,782</u>	<u>11,977</u>
Net assets, end of year	<u>\$ 13,292</u>	<u>\$ 8,515</u>	<u>\$ 10,782</u>

In 2006, the Authority's revenues increased 1.9% and expenses decreased 16.8%. The result of revenues exceeding expenses caused an increase in net assets of 56.1%.

In 2006, operating revenues showed an increase of \$536 or 1.5% as a result of several factors. Under an amended Service Agreement, the Authority earned revenues for energy credits amounting to \$2,024 and \$1,560 for the years ended June 30, 2006 and 2005, respectively. The overall effect was an increase of \$464. The number of residential customers increased resulting in a \$53 increase in revenue from residential customers. Commercial refuse revenues increased \$19 due to additional container yards collected in the current year.

Investment income in 2006 is \$83 less than the prior year due to the use of the revenue bond reserve for debt service. Interest earnings from the reserve reduced the debt service payments for 2005 and 2004.

Total expenses decreased 16.8% in 2006. The majority of the \$6,368 decrease is related to elimination of the debt service component of the service agreement fee. The trash-to-energy facility was closed for three months during the year ended June 30, 2004.

Capital Assets

The Authority's investment in capital assets as of June 30, 2006, amounts to \$2,472 (net of accumulated depreciation). This investment in capital assets includes a building and equipment. Capital asset acquisitions during the year totaled \$944. In the current year the Authority charged the estimated useful life of certain refuse vehicles from 15 to 5 years. The effect on the current Statements of Revenues, Expenses, and Changes in Net Assets resulted in additional depreciation of \$415. The Authority's investment in capital assets as of June 30, 2005, is comparable to June 30, 2004, after taking acquisitions of \$249 into consideration.

TULSA AUTHORITY FOR RECOVERY OF ENERGY
(A Component Unit of the City of Tulsa, Oklahoma)
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Building	\$ 702	\$ 739	\$ 693
Equipment	<u>5,639</u>	<u>5,258</u>	<u>5,342</u>
	6,341	5,997	6,035
Less accumulated depreciation	<u>(3,869)</u>	<u>(3,542)</u>	<u>(3,331)</u>
Capital assets, net	<u>\$ 2,472</u>	<u>\$ 2,455</u>	<u>\$ 2,704</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 Office of the Controller, 200 Civic Center, Tulsa, Oklahoma 74103.

TULSA AUTHORITY FOR RECOVERY OF ENERGY
(A Component Unit of the City of Tulsa, Oklahoma)
STATEMENTS OF NET ASSETS
June 30, 2006 and 2005

<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
	(In Thousands)	
Current assets:		
Cash and cash equivalents	\$ 5,872	\$ 1,388
Refuse services receivable, net	4,819	4,941
Energy credit receivable	675	750
Interest receivable	68	40
	<hr/>	<hr/>
Total current assets	11,434	7,119
Restricted cash and cash equivalents	3,000	3,000
Capital assets, net	2,472	2,455
	<hr/>	<hr/>
Total assets	16,906	12,574
	<hr/>	<hr/>
<u>LIABILITIES</u>		
Current liabilities:		
Service fee payable	717	939
Refuse collection services payable	715	677
Accounts payable	329	158
Note payable	1,534	-
Vested compensated absences	21	18
	<hr/>	<hr/>
Total current liabilities	3,316	1,792
Noncurrent liabilities:		
Note payable	-	2,000
Vested compensated absences	286	256
Deposit payable	12	12
	<hr/>	<hr/>
Total noncurrent liabilities	298	2,268
Total liabilities	3,614	4,060
	<hr/>	<hr/>
<u>NET ASSETS</u>		
Invested in capital assets	2,472	2,455
Restricted for debt service	3,000	3,000
Unrestricted	7,820	3,059
	<hr/>	<hr/>
Total net assets	\$ 13,292	\$ 8,514
	<hr/>	<hr/>

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

TULSA AUTHORITY FOR RECOVERY OF ENERGY
(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>
	(In Thousands)	
Operating revenues:		
Refuse services	\$ 33,953	\$ 33,881
Energy credits	2,024	1,560
	<u>35,977</u>	<u>35,441</u>
Operating expenses:		
Refuse collection	8,438	8,107
Service agreement fee	9,986	17,489
Salaries and wages	3,871	3,502
Other operating expenses	8,327	8,226
Depreciation	797	375
	<u>31,419</u>	<u>37,699</u>
Operating income (loss)	<u>4,558</u>	<u>(2,258)</u>
Nonoperating income (expense):		
Investment income	131	214
Interest expense	(75)	(52)
Other income (expense)	69	(61)
Gain on disposal of assets	95	(111)
	<u>220</u>	<u>(10)</u>
Change in net assets	4,778	(2,268)
Net assets, beginning of year	<u>8,514</u>	<u>10,782</u>
Net assets, end of year	<u>\$ 13,292</u>	<u>\$ 8,514</u>

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

TULSA AUTHORITY FOR RECOVERY OF ENERGY
(A Component Unit of the City of Tulsa, Oklahoma)
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
	<u>(In Thousands)</u>	
Cash flows from operating activities:		
Cash received from customers	\$ 36,174	\$ 35,259
Cash payments to suppliers for goods and services	(24,233)	(31,681)
Cash payments to employees for services	(3,838)	(3,489)
Cash payments for quasi-external operating transactions, including payments in lieu of taxes	<u>(2,531)</u>	<u>(2,526)</u>
Net cash provided by (used in) operating activities	<u>5,572</u>	<u>(2,437)</u>
Cash flows from noncapital financing activities:		
Note proceeds / (payments)	(466)	2,000
Note interest paid	(75)	(52)
Note issuance costs	<u>-</u>	<u>(18)</u>
Net cash provided by (used in) noncapital financing activities	<u>(541)</u>	<u>1,930</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(907)	(249)
Proceeds from sale of capital assets	<u>187</u>	<u>12</u>
Net cash used in capital and related financing activities	<u>(720)</u>	<u>(237)</u>
Cash flows provided by investing activities:		
Interest received	<u>173</u>	<u>163</u>
Net change in cash and cash equivalents	4,484	(581)
Cash and cash equivalents, beginning of year	<u>4,388</u>	<u>4,969</u>
Cash and cash equivalents, end of year	<u>\$ 8,872</u>	<u>\$ 4,388</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating gain/(loss)	\$ 4,558	\$ (2,258)
Adjustments:		
Depreciation	797	375
Increase in receivables	197	(182)
Increase (decrease) in accounts payable	(12)	(384)
Increase (decrease) in compensated absences	<u>32</u>	<u>12</u>
Net cash provided by (used in) operating activities	<u>\$ 5,572</u>	<u>\$ (2,437)</u>
Reconciliation of cash and cash equivalents to the Statements of Net Assets		
Current unrestricted cash and cash equivalents	\$ 5,872	\$ 1,388
Noncurrent restricted cash and cash equivalents	<u>3,000</u>	<u>3,000</u>
	<u>\$ 8,872</u>	<u>\$ 4,388</u>

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

TULSA AUTHORITY FOR RECOVERY OF ENERGY

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

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Tulsa Authority for Recovery of Energy (the “Authority”) are prepared in accordance with generally accepted accounting principles (“GAAP”) as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the standard-setting body for governmental accounting and financial reporting. 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. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

ORGANIZATION AND PURPOSE – The Authority was created on November 11, 1977, for the benefit of the City of Tulsa (the “City”), to provide for the collection, removal, transportation, and disposal of solid waste within and for the City. Trustees for the Authority include the Mayor of the City and six individuals appointed by the Mayor and confirmed by the City Council. The Authority is included as a component unit in the City’s comprehensive annual financial report.

The various agreements between the Authority and other parties required the creation of a Residential Billing Fund to account for the transactions affecting the Authority’s legal responsibility for the City’s residential refuse, a Rate Stabilization Fund to provide funds to cover service fee deficits, a Service Agreement Fund to record transactions which arise pursuant to the terms of the Service Agreement (see Note 2), and an Operations Fund to account for the costs of operations for collection and disposal of municipal solid waste. All of these funds are combined for financial reporting purposes.

BASIS OF ACCOUNTING – The financial statements of the Authority have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Voluntary nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Investment income and voluntary nonexchange transactions are included in nonoperating revenues and expenses. The 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 – For purposes of reporting cash flows, the Authority considers all highly liquid debt instruments with an original maturity of three months or less when purchased, and any cash held by the City of Tulsa’s internal pool, to be cash equivalents.

REFUSE SERVICES RECEIVABLE – Consists of amounts receivable from customers within and around the Tulsa metropolitan area for residential municipal waste collection and disposal and commercial municipal solid waste disposal. Refuse services receivables include an amount for unbilled revenue of approximately \$2,857,000 and \$2,839,000 at June 30, 2006 and 2005, respectively, for services provided but not billed to customers at year end.

The Authority recorded an allowance for uncollectible accounts against refuse services receivable of approximately \$124,000 and \$95,000 as of June 30, 2006 and 2005, respectively.

TULSA AUTHORITY FOR RECOVERY OF ENERGY

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

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

CAPITAL ASSETS – Capital assets purchased or acquired are carried at historical cost. Contributed assets are recorded at fair market value as of the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets sold or disposed have their cost and related accumulated depreciation removed from the records. Any gain or loss is recorded as nonoperating income in the period of sale or disposal.

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

Buildings	20 years
Equipment	5-20 years

In the current year the Authority changed the estimated useful life of certain refuse vehicles from 15 to 5 years. The effect of the change in estimate on the current year Statements of Revenues, Expenses, and Changes in Net Assets resulted in additional depreciation of \$415,199.

ENERGY CREDITS – Under the Amended Service Agreement with Barlow Operators (“Barlow”) as described in *Note 2*, the Authority is entitled to an Energy Credit equal to 25% of the revenues received by Barlow during any billing period the gas price is greater than the reference gas price, under the Sun Company Steam Sales Agreement (“Sun Agreement”). The Amended Service Agreement defines gas price as the weighted average of the steam price under the Sun Agreement during the contract year.

REFUSE COLLECTION – Refuse collection expense for residential customers is determined on the basis of a “headcount” (*i.e.*, the number of customers) by type of service as of the tenth day of each month. This procedure is in accordance with the terms and conditions of the contract between the Authority and Tulsa Refuse, Inc.

INCOME TAXES – As a political subdivision, the Authority is exempt from federal income taxes under Section 115(1) of the Internal Revenue Code.

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 that may be earned in one calendar year. Accumulated vacation leave vests and the Authority is obligated to make payment even if the employee terminates. The amount of unpaid vacation is charged to expense currently and a corresponding liability established.

RESTRICTED ASSETS AND RESTRICTED NET ASSETS – Amounts included in restricted cash and cash equivalents and restricted net assets represent monies held in the Rate Stabilization Fund. These amounts are classified as restricted assets on the Statements of Net Assets because their use is limited by applicable bond covenants.

TULSA AUTHORITY FOR RECOVERY OF ENERGY

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

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 basic financial statements to conform to the 2006 financial statement presentation. These reclassifications had no effect on the changes in financial position.

2. SOLID WASTE RESOURCE RECOVERY FACILITY

In April, 1984, the Authority entered into a Service Agreement with Covanta, formerly known as Ogden Martin Systems of Tulsa, Inc., wherein Covanta agreed to finance, design, construct, equip, own, and operate a mass burn solid waste disposal, steam, and electrical power generation and resource recovery facility (the “Facility”). The Service Agreement is for a period of 20 years from the effective date of the agreement. Construction of the Facility (units one and two) was completed and accepted by the Authority in October 1986. The third unit was completed and accepted by the Authority in October 1987.

The Tulsa Public Facilities Authority (“TPFA”) financed a substantial portion of the cost of the Facility with two revenue bond issues in the aggregate amount of \$92,375,000. The proceeds were loaned to Covanta to construct the Facility. In addition, Covanta funded \$17,213,000 towards the completion of the Facility and contributed \$9,383,000 to the Rate Stabilization Fund. The bond issues are collateralized by a Loan Agreement between TPFA and the owner-trustee and by a Pledge and Security Agreement between TPFA and the Authority. Under the terms of the Pledge and Security Agreement, the Authority has assigned its rights and interests in other agreements made in connection with the financing and operation of the facility.

On August 2, 1986, Covanta sold the Facility, subject to outstanding indebtedness, for \$91,000,000, which was equal to its fair market value as determined by an independent appraisal, to the Bank of Oklahoma, Tulsa, N.A., as owner-trustee acting on behalf of an institutional equity investor (“owner participant”). As a part of the same transaction, the owner-trustee leased units one and two of the Facility back to Covanta under a leverage lease arrangement and leased the third unit to Covanta pursuant to a financing lease which provided for the repurchase of the third unit at the end of the lease term for a nominal price. The owner-trustee had the option to purchase Covanta’s leasehold interest and enter into a leverage lease arrangement for the third unit; this option was exercised in September 1987.

In December 1995, the Environmental Protection Agency issued regulations which required certain capital improvements to the Facility by December 2000 in order to achieve compliance with those regulations. In August 1998, the Authority authorized Covanta, pursuant to the Service Agreement, to solicit bids for the construction of the capital improvements to the Facility for an estimated cost of \$26 million. The Service Agreement required the Authority to pay a substantial portion of the retrofit improvements. As a result of a negotiation, effective April 1, 1999, the Authority and Covanta entered into an Amended and Restated Service Agreement.

TULSA AUTHORITY FOR RECOVERY OF ENERGY

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

NOTES TO FINANCIAL STATEMENTS

2. SOLID WASTE RESOURCE RECOVERY FACILITY, Continued

Prior to April 1, 1999, the Service Agreement required the Authority to deliver to the Facility a minimum annual quantity of 292,000 tons of acceptable waste and to pay a service fee for its processing. The service fee was based on a formula whereby the Authority paid to Covanta 10% of steam and materials revenues, operating and maintenance expenses, pass-through costs, debt service requirements on the loan, and other related costs.

Beginning on April 1, 1999, the Amended Service Agreement requires the Authority to deliver to the Facility a minimum annual quantity of 340,000 tons of acceptable waste. The Amended Service Agreement restructured the service fee formula whereby the Authority pays Covanta a tipping fee per ton of waste and debt service requirements on the loan.

On September 25, 2003, Covanta notified the Authority and the City of Tulsa that at the end of the day they would accept no additional deliveries of solid waste at the waste-to-energy facility. All City of Tulsa residential and commercial solid waste was diverted to the Waste Management/Quarry Landfill. The change in the disposal location had virtually no effect on the services to the residential and commercial community. The Authority and the City of Tulsa have a contract with Waste Management/Quarry Landfill for solid waste disposal services dated July 1, 1998. The contract includes a term of twenty years and includes a five-year extension option.

As of April 1, 2002, Covanta Tulsa, Inc., the facility operator, entered Chapter 11 bankruptcy in the New York District Court. City of Tulsa waste was disposed at the Waste Management/Quarry Landfill through December 2003. The owner of the facility, CIT, announced that another operator agreed to comply with the agreement. The new facility operator, Barlow Operators, has provided service since January 2, 2004.

The total service fee for the years ended June 30, 2006 and 2005, was approximately \$9,986,000 and \$17,489,000, respectively. In connection with its obligations under the Service Agreement, the Authority established the Rate Stabilization Fund which may be used to cover service fee deficits and minimize or eliminate the necessity for changes in residential refuse rates due to changes in the service fee. During the years ended June 30, 2006 and 2005, there were no transfers from the Rate Stabilization Fund to the Service Agreement Fund to cover service fee deficits.

3. CASH DEPOSITS AND INVESTMENTS

Cash deposits of the Authority are maintained within the City's pooled cash and investments account. Pooled cash and investments consist primarily of time deposits and other securities guaranteed by the United States Government or its agencies. At June 30, 2006 and 2005, the pooled cash and investments amounted to \$8,872,271 and \$4,388,167, respectively. The amounts pooled with the City at June 30, 2006 and 2005, were represented by investments which were insured or registered or securities held by the City or its agent in the City's name.

The Authority follows the provisions of GASB Statement No. 31, "Certain Investments and External Investment Pools," which requires governmental entities to report investments at fair value in the statements of net assets. A decrease in fair value of \$83,890 is recognized and reported as a reduction in investment income for the year ended June 30, 2006. For the year ended June 30, 2005, the Authority experienced a decrease in fair value of \$5,117, which also is recognized and reported in investment income of the respective year.

TULSA AUTHORITY FOR RECOVERY OF ENERGY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO FINANCIAL STATEMENTS

4. CAPITAL ASSETS

The change in capital assets during 2006 and 2005 are summarized as follows (in thousands):

	<u>July 1, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2006</u>
Capital assets being depreciated:				
Buildings	\$ 739	\$ -	\$ 37	\$ 702
Equipment	5,258	944	563	5,639
Total capital assets being depreciated	<u>5,997</u>	<u>944</u>	<u>600</u>	<u>6,341</u>
Less accumulated depreciation:				
Buildings	(637)	(1)	-	\$ (638)
Equipment	(2,905)	(796)	(470)	(3,231)
Total accumulated depreciation	<u>(3,542)</u>	<u>(797)</u>	<u>(470)</u>	<u>(3,869)</u>
Capital assets, net	<u>\$ 2,455</u>	<u>\$ 147</u>	<u>\$ 130</u>	<u>\$ 2,472</u>
	<u>July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2005</u>
Capital assets being depreciated:				
Buildings	\$ 693	\$ 46	\$ -	\$ 739
Equipment	5,342	203	287	5,258
Total capital assets being depreciated	<u>6,035</u>	<u>249</u>	<u>287</u>	<u>5,997</u>
Less accumulated depreciation:				
Buildings	(634)	(3)	-	\$ (637)
Equipment	(2,697)	(373)	(165)	(2,905)
Total accumulated depreciation	<u>(3,331)</u>	<u>(376)</u>	<u>(165)</u>	<u>(3,542)</u>
Capital assets, net	<u>\$ 2,704</u>	<u>\$ (127)</u>	<u>\$ 122</u>	<u>\$ 2,455</u>

5. MUNICIPAL EMPLOYEES' PENSION PLAN

The Authority contributes to the Municipal Employees Pension System (the "System"), a cost sharing multiple employer defined benefit pension plan administered by the City of Tulsa, Oklahoma. The pension plan was established by the City in accordance with the City Charter and State Statutes, and is reported in the City's Pension Trust Fund. Nonuniform, nonelected full-time employees of the Authority 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 AUTHORITY FOR RECOVERY OF ENERGY
(A Component Unit of the City of Tulsa, Oklahoma)
NOTES TO FINANCIAL STATEMENTS

5. **MUNICIPAL EMPLOYEES' PENSION PLAN**, Continued

The authority to establish and amend requirements of plan members and the Authority is set forth in the City Charter and State Statutes and is vested in the plan's board of trustees, which are appointed by the mayor with approval of the City Council. Plan members are required to contribute 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 \$176,000 and \$159,000, respectively, which equaled 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.

6. **NOTE PAYABLE**

The Authority has a \$7,500 loan and security agreement expiring in 2008. There was \$1,534 and \$2,000 borrowed against the agreement as of June 30, 2006 and 2005, respectively. The line is unsecured. Interest varies and was 4.96% on June 30, 2006 and is payable semi-annually. The agreement also requires the Authority to comply with certain restrictive covenants including a net operating income ratio. The note was paid in full during August 2006, therefore the full amount of the outstanding principal is considered current.

PRINCIPAL PAYMENTS IN SUBSEQUENT YEARS

2,007	\$	1,534
2,008		<u>-</u>
	\$	<u>1,534</u>

7. **RELATED PARTY TRANSACTIONS**

During the years ended June 30, 2006 and 2005, the Authority conducted the following transactions with related parties.

	<u>2006</u>	<u>2005</u>
	(In Thousands)	
Payments in lieu of taxes to City of Tulsa	<u>\$ 2,531</u>	<u>\$ 2,526</u>
Indirect cost reimbursement to City of Tulsa	<u>\$ 605</u>	<u>\$ 605</u>
Refuse service revenue from City of Tulsa	<u>\$ 307</u>	<u>\$ 293</u>
Charges for maintenance of equipment paid to City of Tulsa	<u>\$ 727</u>	<u>\$ 665</u>



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

To the Board of Trustees
Tulsa Authority for Recovery of Energy
Tulsa, Oklahoma

We have audited the financial statements of the TULSA AUTHORITY FOR RECOVERY OF ENERGY, a component unit of the City of Tulsa, Oklahoma, as of and for the year ended June 30, 2006, and have issued our report thereon dated September 5, 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 assurance 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 Authority'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 weaknesses. However, we believe the reportable condition described above is not a material weakness.

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 that are required to be reported under *Government Auditing Standards*.

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

September 5, 2006

BKD LLP

TULSA AUTHORITY FOR THE RECOVERY OF ENERGY
(A Component Unit of the City of Tulsa, Oklahoma)
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2006

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
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 Authority’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