

# **Central Oklahoma Master Conservancy District**

## *Financial Statements*

June 30, 2017 and 2016  
(With Independent Auditors' Report Thereon)



# CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

## FINANCIAL STATEMENTS

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## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Central Oklahoma Master Conservancy District

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Central Oklahoma Master Conservancy District (the "District"), which comprise the statements of net position as of June 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

## **INDEPENDENT AUDITORS' REPORT, CONTINUED**

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2017 and 2016, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

### **Other Matters**

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages I-1 through I-4 and the required supplementary information on pages 29 through 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2017, on our consideration of the District'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Finley & Cook, PLLC*

Shawnee, Oklahoma  
November 30, 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Central Oklahoma Master Conservancy District's (the "District") annual financial report presents a discussion and analysis of its financial performance for the years ended June 30, 2017 and 2016. Please read it in conjunction with the financial statements which follow this section. The following tables summarize the net position and changes in net position of the District for 2017 and 2016.

### Statements of Net Position

	June 30,	
	<u>2017</u>	<u>2016</u>
Assets:		
Current assets	\$ 1,743,351	2,012,945
Capital assets, net	9,091,105	9,299,032
Other noncurrent assets	<u>4,183,725</u>	<u>4,345,588</u>
Total assets	<u>15,018,181</u>	<u>15,657,565</u>
Deferred outflows of resources related to the pension plan	<u>238,977</u>	<u>176,197</u>
Liabilities:		
Current liabilities	329,902	704,503
Long-term debt, less current maturities	804,017	898,366
Net pension liability	<u>68,960</u>	<u>95,458</u>
Total liabilities	<u>1,202,879</u>	<u>1,698,327</u>
Deferred inflows of resources related to the pension plan	<u>143,043</u>	<u>191,420</u>
Net position:		
Invested in capital assets, net	8,192,739	7,944,135
Unrestricted	5,718,497	5,949,880
Restricted	<u>-</u>	<u>50,000</u>
Total net position	<u>\$ 13,911,236</u>	<u>13,944,015</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

### Statements of Revenues, Expenses, and in Changes Net Position

	Years Ended June 30,	
	<u>2017</u>	<u>2016</u>
Operating revenues:		
Operations and maintenance	\$ 1,697,097	1,882,679
Electric power	468,312	421,713
Total operating revenues	<u>2,165,409</u>	<u>2,304,392</u>
Operating expenses:		
Pumping power	493,996	448,167
Salaries and benefits	503,975	503,443
Other operating expenses	917,026	1,031,644
Total operating expenses	<u>1,914,997</u>	<u>1,983,254</u>
Operating income	<u>250,412</u>	<u>321,138</u>
Non-operating (expenses) and revenues	<u>(283,191)</u>	<u>142,442</u>
Changes in net position	(32,779)	463,580
Net position, beginning of year	<u>13,944,015</u>	<u>13,480,435</u>
Net position, end of year	<u>\$ 13,911,236</u>	<u>13,944,015</u>

### Overview of the Financial Statements

The three financial statements are as follows:

- **Statement of Net Position**—This statement presents information reflecting the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position represents the amount of total assets, deferred outflows of resources, less total deferred inflows of resources, and liabilities. The statement of net position is categorized as to current and noncurrent assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within 12 months of the statement date.
- **Statement of Revenues, Expenses, and Changes in Net Position**—This statement reflects the operating revenues and expenses, as well as non-operating revenues and expenses, during the fiscal year. Major sources of operating revenues are operations and maintenance, and electric power revenue; and major sources of operating expenses are salaries and benefits, and pumping power expense. Major sources of non-operating income are from investment and interest income. The change in net position for an enterprise fund is the equivalent of net profit or loss for any other business enterprise.

## MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

### **Overview of the Financial Statements, Continued**

- Statement of Cash Flows—The statement of cash flows is presented using the direct method of reporting which reflects cash flows from operating, capital and related financing, and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents for the fiscal year.

### **Financial Highlights**

- The decrease in total operating revenues of approximately \$139,000 in 2017 compared to the prior year was due to decreased operating costs. The decrease in total operating revenues of approximately \$15,000 in 2016 compared to the prior year was due to decreased operating costs.
- The decrease in total operating expenses of approximately \$68,000 in 2017 compared to the prior year was due primarily to a decrease in maintenance and professional service costs of approximately \$142,000, offset by an increase in pumping power of approximately \$46,000. The decrease in total operating expenses of approximately \$2,000 in 2016 compared to the prior year was due primarily to decreases in pumping power and salaries and benefits of approximately \$104,000, offset primarily by increases in maintenance costs of approximately \$103,000.
- Total non-operating revenues and expenses decreased approximately \$426,000 in 2017 compared to the prior year, mainly resulting from an increase in water reuse study expenses of approximately \$401,000. Total non-operating revenues and expenses increased approximately \$390,000 in 2016 compared to the prior year, mainly resulting from an increase in investment and interest income of approximately \$81,000 and a decrease in water reuse study expenses of approximately \$295,000.
- During 2017, the District's net pension liability was approximately \$69,000, deferred outflows of resources approximated \$239,000, and deferred inflows of resources approximated \$143,000. During 2016, the District's net pension liability was approximately \$95,000, deferred outflows of resources approximated \$176,000, and deferred inflows of resources approximated \$191,000.

## MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

### **Capital Assets**

As of June 30, 2017, the District had invested approximately \$17,360,000 in capital assets, including dam and reservoir, land improvements, pipelines, pumping plant, buildings and structures, vehicles, and equipment. Net of accumulated depreciation, the District's net capital assets at June 30, 2017, approximated \$9,091,000. As of June 30, 2016, the District had invested approximately \$17,170,000 in capital assets, including dam and reservoir, land improvements, pipelines, pumping plant, buildings and structures, vehicles, and equipment. Net of accumulated depreciation, the District's net capital assets at June 30, 2016, approximated \$9,299,000. Additional details concerning the District's capital assets can be found in the financial statements (see Note 3).

The District's infrastructure assets, which are reported using the modified approach for depreciation, consisted of dam and reservoir related assets. The infrastructure assets are typically required to have annual condition assessments performed by the U.S. Department of the Interior's Bureau of Reclamation. The condition assessment assigned to the assets was 93 and 94 in the last two issued assessment reports, respectively. A rating of 80 or greater is considered to be a "Good" rating. The District's objective is to maintain a "Good" condition assessment rating.

### **Debt Administration**

As of June 30, 2017, the District had completed its repayment obligation to the U.S. Department of Interior. The District had approximately \$362,000 payable at June 30, 2016, to the U.S. Department of Interior.

As of June 30, 2017 and 2016, the District had a note payable of approximately \$898,000 and \$993,000, respectively, with the Oklahoma Water Resources Board.

Additional details concerning the District's long-term debt can be found in the financial statements (see Note 4).

### **Contacting the District's Management**

This financial report is designed to provide patrons and interested parties with a general overview of the District's finances and to demonstrate the District's accountability for its finances. If you have questions about this report or need additional financial information, contact:

Randy Worden, General Manager  
Central Oklahoma Master Conservancy District  
12500 Alameda Drive  
Norman, OK 73026  
Telephone: 405-329-5228



**CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT**

**STATEMENTS OF NET POSITION**

<i>June 30,</i>	<i>2017</i>	<i>2016</i>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,106,943	990,737
Assessments receivable—the Cities	-	362,181
Assessments receivable—the Cities—Energy Project, current portion	64,493	64,490
Accounts receivable	554,364	569,621
Accrued interest receivable	17,551	25,916
Total current assets	<u>1,743,351</u>	<u>2,012,945</u>
Noncurrent assets:		
Certificate of deposit	-	50,797
Restricted cash and cash equivalents	-	50,000
Assessments receivable—the Cities—Energy Project	804,017	898,366
Investments	3,379,708	3,346,425
Capital assets, net	9,091,105	9,299,032
Total noncurrent assets	<u>13,274,830</u>	<u>13,644,620</u>
Total assets	<u>15,018,181</u>	<u>15,657,565</u>
Deferred outflows of resources:		
Deferred amounts related to the pension plan	<u>238,977</u>	<u>176,197</u>

(Continued)

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT**

**STATEMENTS OF NET POSITION, CONTINUED**

<i>June 30,</i>	<i>2017</i>	<i>2016</i>
<b>Liabilities and Net Position</b>		
Current liabilities:		
Accounts payable	211,429	214,050
Compensated absences payable	22,668	22,284
Accrued interest payable	1,456	11,638
Long-term debt, current portion	94,349	456,531
Total current liabilities	<u>329,902</u>	<u>704,503</u>
Noncurrent liabilities:		
Long-term debt, less current maturities	804,017	898,366
Net pension liability	68,960	95,458
Total noncurrent liabilities	<u>872,977</u>	<u>993,824</u>
Total liabilities	<u>1,202,879</u>	<u>1,698,327</u>
Deferred inflows of resources:		
Deferred amounts related to the pension plan	<u>143,043</u>	<u>191,420</u>
Net position:		
Invested in capital assets, net	8,192,739	7,944,135
Unrestricted	5,718,497	5,949,880
Restricted	-	50,000
Total net position	<u>\$ 13,911,236</u>	<u>13,944,015</u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

<i>Years Ended June 30,</i>	<i>2017</i>	<i>2016</i>
Operating revenues:		
Operations and maintenance	\$ 1,697,097	1,882,679
Electric power	468,312	421,713
Total operating revenues	<u>2,165,409</u>	<u>2,304,392</u>
Operating expenses:		
Salaries and benefits	503,975	503,443
Maintenance	168,623	284,807
Utilities	16,899	17,801
Insurance and bond	57,027	57,059
Administrative supplies	18,085	15,305
Professional services	81,371	107,273
Pumping power	493,996	448,167
Water monitoring	177,402	166,733
Depreciation	397,619	382,666
Total operating expenses	<u>1,914,997</u>	<u>1,983,254</u>
Operating income	<u>250,412</u>	<u>321,138</u>
Non-operating revenues and (expenses):		
Investment and interest income	48,573	181,091
Interest expense	(7,845)	(28,119)
Water reuse study expense	(419,186)	(18,109)
Other, net	95,267	7,579
Total non-operating revenues and (expenses)	<u>(283,191)</u>	<u>142,442</u>
Changes in net position	(32,779)	463,580
Net position, beginning of year	<u>13,944,015</u>	<u>13,480,435</u>
Net position, end of year	<u>\$ 13,911,236</u>	<u>13,944,015</u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT**

**STATEMENTS OF CASH FLOWS**

**Increase (Decrease) in Cash and Cash Equivalents**

<i>Years Ended June 30,</i>	<i>2017</i>	<i>2016</i>
<b>Cash flows from operating activities:</b>		
Cash received from assessments to the Cities	\$ 2,180,666	1,868,760
Cash payments for goods and services	(1,016,024)	(1,085,647)
Cash payments for salaries and benefits	(641,246)	(627,411)
Net cash provided by operating activities	523,396	155,702
<b>Cash flows from capital, noncapital, and related financing activities:</b>		
Acquisition and development of capital assets	(189,692)	(48,416)
Repayment of debt obligations	(456,531)	(562,895)
Interest paid	(18,027)	(40,869)
Water reuse study	(419,186)	(18,109)
Other, net	95,267	7,579
Net cash used in capital, noncapital, and related financing activities	(988,169)	(662,710)
<b>Cash flows from investing activities:</b>		
Principal received on assessments receivable	456,527	586,779
Investment and interest income received	131,368	186,116
Purchase of investments	(557,713)	(483,766)
Redemption of investments	450,000	-
Net redemption (purchase) of a certificate of deposit	50,797	(797)
Net cash provided by investing activities	530,979	288,332
<b>Net increase (decrease) in cash and cash equivalents</b>	66,206	(218,676)
Cash and cash equivalents at beginning of year	1,040,737	1,259,413
Cash and cash equivalents at end of year	\$ 1,106,943	1,040,737

(Continued)

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT**

**STATEMENTS OF CASH FLOWS, CONTINUED**

**Increase (Decrease) in Cash and Cash Equivalents**

<i>Years Ended June 30,</i>	<i>2017</i>	<i>2016</i>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 250,412	321,138
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	397,619	382,666
Changes in deferred amounts related to pensions	(111,157)	47,527
Change in operating assets and liabilities:		
Accounts receivable	15,257	138,843
Accounts payable	(2,621)	11,498
Compensated absences payable	384	6,216
Net pension liability	(26,498)	(177,711)
Due to the Cities	-	(574,475)
	\$ 523,396	155,702
<b>Reconciliation of cash and cash equivalents to the statements of net position:</b>		
Cash and cash equivalents classified as current assets	\$ 1,106,943	990,737
Cash and cash equivalents classified as noncurrent assets	-	50,000
	\$ 1,106,943	1,040,737
<b>Noncash financing and investing activities:</b>		
Reduction in debt obligation and assessment receivable due to forgiveness of debts	\$ -	133,352

See Independent Auditors' Report.  
See accompanying notes to financial statements.

# CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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### (1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Organization and Nature of Operations**

The Central Oklahoma Master Conservancy District (the “District”) is a governmental organization established pursuant to Oklahoma Statute by order of the Cleveland County District Court entered on September 30, 1959. Its primary purpose is to distribute raw water from Lake Thunderbird to the Cities of Del City, Midwest City, and Norman (collectively, the “Cities”) for municipal, domestic, and industrial use. The District manages and operates the dam, facilities, land, and rights of way under an agreement with the United States. The District also provides flood control, fish and wildlife benefits, and recreational opportunities. The District was obligated to repay the United States for a portion of the construction cost (considered to be cost related to municipal and industrial water supply), with interest, for which it assessed the member cities annually based on a stated formula. The members of the District’s Board of Directors are nominated by the Cities and appointed by the Cleveland County District Court.

#### **Reporting Entity**

The financial statements presented herein include only the operations of the District and do not include the assets, liabilities, or results of operations of the Cities serviced.

#### **Basis of Accounting**

The District prepares its financial statements on the enterprise fund basis using the economic measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the obligation is incurred.

#### **Financial Statement Presentations**

The District follows the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments* (GASB 34), in preparing its financial statements.

#### **Cash and Cash Equivalents**

For purposes of the statements of cash flows, the District considers all highly liquid investments with an original maturity of 3 months or less to be cash and cash equivalents.

See Independent Auditors’ Report.

# CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### Restricted Cash and Cash Equivalents

The contract with the U.S. Department of the Interior (see Note 4) required that \$50,000 be restricted for maintenance and operations. The restriction was removed in fiscal year 2017.

#### Investments

The District's investments are recorded at fair value.

Accounting principles generally accepted in the United States establish a fair value hierarchy for determination and measurement of fair value. The hierarchy is based on the type of valuation inputs needed to measure the fair value of an asset. The hierarchy is generally as follows:

Level 1—unadjusted quoted prices in active market, for identical assets.

Level 2—quoted prices for similar assets or inputs that are observable or other forms of market corroborated inputs.

Level 3—pricing based on best available information including primarily unobservable inputs and assumptions market participants would use in pricing the asset.

In addition to the above three levels, if an investment does not have a readily determined fair value, the investment can be measured using net asset value (NAV) per share (or its equivalent). Investments valued at NAV are categorized as NAV and not listed as Level 1, 2, or 3.

#### Capital Assets

Capital assets are stated at cost and depreciated on the date they are placed into service. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are 20–25 years for buildings and structures, pumping plant, and pipelines; 7 years for vehicles and office equipment; and 20 years for the Energy Project equipment (a \$2,400,000 energy savings construction project) and fencing and equipment.

The District considers the dam and reservoir related assets to be infrastructure assets, which are reported using the modified approach for depreciation. Under the modified approach, infrastructure assets are not required to be depreciated as long as certain requirements, as defined by GASB 34, are met. All expenditures made for infrastructure assets, using the modified approach, are expensed in the period incurred, except for expenditures considered to be for additions or improvements.

See Independent Auditors' Report.

CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Intangible Assets**

The District believes its only intangible assets consist of certain rights of way, all of which were received prior to July 2009. Since the District is considered to be a Phase 3 government under GASB 34, the District is not required to retroactively apply GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Therefore, the District has not accounted for and reported its right-of-way intangible assets.

**Compensated Absences**

The District's employees can accrue a maximum of 360 hours of vacation pay. Upon termination, accrued, unpaid hours will be paid at the employee's hourly rate then in effect. Sick leave can be accrued at a rate of 12 days per year (8 hours for every full month of service), but is not paid upon termination.

**Income Taxes**

Because the District is a governmental institution pursuant to Title 82, Chapter 5 of the Oklahoma Statutes, as amended, the District is exempt from federal and state income taxes.

**Concentrations**

The District is located in Norman, Oklahoma, and serves the Cities and, therefore, is reliant on the Cities' ability to meet their obligations.

**Contingencies**

The District carries appropriate insurance with regard to comprehensive general liability, comprehensive automobile liability, personal injury, general property, and workers' compensation insurance.

See Independent Auditors' Report.



# CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### Equity Classifications

Equity is classified as net position and displayed in three components:

*Invested in Capital Assets, Net*—Consists of capital assets, net of accumulated depreciation, less the balance of debt incurred to finance the acquisition, construction, or improvement of the related capital assets.

*Restricted*—Consists of net position with constraints placed on the use either by i) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or ii) law through constitutional provisions or enabling legislation.

*Unrestricted*—Consists of all other net position that do not meet the definition of “Invested in Capital Assets, Net” or “Restricted.”

#### Revenues

The District considers all assessments charged to the Cities to fund its normal operations as operating revenues. Assessments to the Cities to fund capital or special projects, and grants or other contracts received from federal and state agencies, are considered to be non-operating income.

#### Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 and expenses during the reporting period. Actual results could differ from those estimates.

#### Defined Benefit Pension Plan

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employee Retirement System of Central Oklahoma Master Conservancy District (the “Plan”) and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the Oklahoma Municipal Retirement Fund (OMRF). For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value based on published market prices. Detailed information about the OMRF plan’s fiduciary net position is available in the separately issued OMRF financial report.

See Independent Auditors’ Report.

# CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### Recent Accounting Pronouncements

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83). GASB 83 provides accounting and reporting requirements for certain asset retirement obligations (ARO) that arise from legally enforceable liabilities associated with the retirement of certain tangible capital assets. ARO's require an internal and external obligating event and the costs to be reasonably estimable for the incurrence of such a liability. The District will adopt GASB 83 effective July 1, 2018, for the June 30, 2019, reporting year. The District does not expect GASB 83 to have a significant impact on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities* (GASB 84). GASB 84 improves guidance regarding the recognition and reporting of fiduciary activities. GASB 84 identifies four types of reportable fiduciary fund types, including 1) pension (and other employee benefit) trust funds, 2) investment trust funds, 3) private-purpose trust funds, and 4) custodial funds. GASB 84 outlines the accounting and disclosure requirements for operating structures that qualify as a fiduciary activity. The District will adopt GASB 84 effective July 1, 2019, for the June 30, 2020, reporting year. The District does not expect GASB 84 to have a significant impact on the financial statements.

In March 2017, GASB issued Statement No 85, *Omnibus 2017* (GASB 85). GASB 85 clarified several practice issues identified during the application of earlier GASB pronouncements. GASB 85 addresses topics including the blending of component units, goodwill and negative goodwill, fair value measurement and application, employer accounting and reporting for pensions and OPEB, and reporting by OPEB plans. The District will adopt GASB 85 on July 1, 2017, for the June 30, 2018, reporting year. The District does not expect GASB 85 to have a significant impact on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases* (GASB 87). GASB 87 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB 87 improves accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The District does not expect GASB 87 to have a significant impact on the financial statements.

See Independent Auditors' Report.

# CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through November 30, 2017, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred which require adjustment to or disclosure in the financial statements.

### (2) CASH AND CASH EQUIVALENTS AND INVESTMENTS

#### Custodial Credit Risk—Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's deposit policy for custodial credit risk is described as follows:

The District requires that balances on deposit with financial institutions be insured by the FDIC or collateralized by securities held by the cognizant Federal Reserve Bank, or be invested in U.S. government obligations in the District's name.

As of June 30, 2017 and 2016, the carrying amount of the District's cash deposits was fully collateralized by federal depository insurance or pledges of securities by the various financial institutions, which conforms to Oklahoma state statutes governing the investment of public funds. The fair value of investments pledged to secure deposits approximated \$1,098,000 and \$1,108,000 at June 30, 2017 and 2016, respectively. The pledged investments consisted of U.S. Treasury securities guaranteed by the U.S. government.

#### Custodial Credit Risk—Investments

Investments are made under the custody of the General Manager, as approved by the District's Board of Directors, in accordance with the District's investment policy.

The investment policy permits investments in U.S. Treasury bills, notes, and bonds and obligations fully insured or unconditionally guaranteed by the U.S. government or any of its agencies or instrumentalities; U.S. government agency securities; corporate debt and mortgage-backed pass-through securities with ratings of Aaa, AAA, or the equivalent; collateralized or insured certificates of deposit; bankers' acceptances; commercial paper with a rating of at least A-1 or the equivalent; obligations of state and local governments; money market and short-term bond funds with a rating of AAA or equivalent; and obligations of a foreign government with a rating of A-1 or the equivalent.

See Independent Auditors' Report.

CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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(2) CASH AND CASH EQUIVALENTS AND INVESTMENTS, CONTINUED

Custodial Credit Risk—Investments, Continued

Custodial credit risk is the risk that, in the event of the failure of a counterparty, the District will not be able to recover the value of its investments. Investment securities are exposed to custodial risk if they are uninsured, are not registered in the name of the District, or are held by a counterparty or the counterparty's trust department but not in the name of the District. At June 30, 2017 and 2016, the investment balances of approximately \$3,380,000 and \$3,346,000, respectively, were uncollateralized. At June 30, 2017 and 2016, the District also had approximately \$81,000 and \$26,000, respectively, in two money market accounts which were not insured by the FDIC or collateralized. The money market accounts are included in cash and cash equivalents on the statements of net position. The underlying investments of the money market accounts include short-term, high quality, fixed-income securities issued by banks, corporations, and the U.S. government or its agencies.

Interest Rate Risk and Credit Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest changes. The District does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Fixed-income securities are subject to credit risk. The District places no limit on the amount the District may invest in any one issuer. Credit quality rating is one method of assessing the ability of the issuer to meet its obligation. The following tables provide information concerning interest rate risk and credit risk.

At June 30, the District had the following investments and maturities:

<u>2017</u> <u>Investment Type</u>	<u>Investment Maturities (in Years)</u>			<u>Fair Value</u>
	<u>Less than 1</u>	<u>1 or More, Less than 5</u>	<u>5 or More</u>	
Corporate bonds—domestic	\$ -	1,005,202	1,990,341	2,995,543
Corporate bonds—foreign	-	-	238,716	238,716
Mortgage-backed securities	-	-	145,449	145,449
	<u>\$ -</u>	<u>1,005,202</u>	<u>2,374,506</u>	<u>3,379,708</u>

See Independent Auditors' Report.

CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) CASH AND CASH EQUIVALENTS AND INVESTMENTS, CONTINUED

Interest Rate Risk and Credit Risk, Continued

<u>2016</u> <u>Investment Type</u>	<u>Investment Maturities (in Years)</u>			<u>Fair Value</u>
	<u>Less than 1</u>	<u>1 or More, Less than 5</u>	<u>5 or More</u>	
Corporate bonds—domestic	\$ -	524,550	2,429,041	2,953,591
Corporate bonds—foreign	-	-	243,389	243,389
Mortgage-backed securities	-	-	149,445	149,445
	<u>\$ -</u>	<u>524,550</u>	<u>2,821,875</u>	<u>3,346,425</u>

The following table provides information concerning credit risk at June 30, 2017:

<u>S&amp;P 500 Rating</u>	<u>Fair Value</u>	<u>Percentage of Total Fixed Income Investments at Fair Value</u>
AAA	\$ 242,044	7%
AA+	145,449	4%
AA-	321,786	10%
A	500,843	15%
A-	171,994	5%
BBB+	859,339	25%
BBB	1,040,165	31%
BB+	<u>98,088</u>	<u>3%</u>
	<u>\$ 3,379,708</u>	<u>100%</u>

See Independent Auditors' Report.

CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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(2) CASH AND CASH EQUIVALENTS AND INVESTMENTS, CONTINUED

Interest Rate Risk and Credit Risk, Continued

The following table provides information concerning credit risk at June 30, 2016:

<u>S&amp;P 500 Rating</u>	<u>Fair Value</u>	Percentage of Total Fixed Income Investments at <u>Fair Value</u>
AAA	\$ 170,381	5%
AA+	483,696	14%
AA-	299,187	9%
A	513,267	15%
A-	173,343	5%
BBB+	1,122,708	34%
BBB	496,088	15%
BB+	<u>87,755</u>	<u>3%</u>
	<u>\$ 3,346,425</u>	<u>100%</u>

The certificate of deposit held at June 30, 2016, was fully insured by the FDIC. The certificate of deposit matured on January 18, 2017, and had an interest rate of 1.19%.

See Independent Auditors' Report.

CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) **CASH AND CASH EQUIVALENTS AND INVESTMENTS, CONTINUED**

**Investments Measured at Fair Value**

Fair values of investments by hierarchy level are presented below:

	June 30, 2017			
	Amounts Measured at <u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
<b><u>Investments by Fair Value Level</u></b>				
Corporate bonds—domestic	\$ 2,995,543	-	2,995,543	-
Corporate bonds—foreign	238,716	-	238,716	-
Mortgage-backed securities	145,449	-	145,449	-
	<u>\$ 3,379,708</u>	<u>-</u>	<u>3,379,708</u>	<u>-</u>
June 30, 2016				
	Amounts Measured at <u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
<b><u>Investments by Fair Value Level</u></b>				
Corporate bonds—domestic	\$ 2,953,591	-	2,953,591	-
Corporate bonds—foreign	243,389	-	243,389	-
Mortgage-backed securities	149,445	-	149,445	-
	<u>\$ 3,346,425</u>	<u>-</u>	<u>3,346,425</u>	<u>-</u>

The District holds a diversified mix of debt instruments through an investment manager. Generally, the District holds a mix of domestic and foreign corporate bonds and mortgage-backed securities. The District's debt securities are classified in Level 2 of the fair value hierarchy, valued using a matrix pricing technique determined by a third-party. This method values securities based on their relationship to benchmark quoted prices.

See Independent Auditors' Report.

**CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(3) CAPITAL ASSETS**

Following are the changes in capital assets for the years ended June 30:

	<u>Balance at</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance at</u> <u>June 30, 2017</u>
Capital assets not being depreciated:					
Dam and reservoir	\$ 4,605,177	-	-	-	4,605,177
Land improvements	<u>38,375</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,375</u>
Total capital assets not being depreciated	<u>4,643,552</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,643,552</u>
Other capital assets:					
Vehicles	613,085	-	-	-	613,085
Pipelines	4,269,079	-	-	-	4,269,079
Pumping plant	1,593,952	-	-	-	1,593,952
Office equipment	84,492	4,700	-	-	89,192
Buildings and structures	1,222,254	-	-	-	1,222,254
Energy Project equipment	2,536,613	-	-	-	2,536,613
Fencing and equipment	<u>2,206,866</u>	<u>184,992</u>	<u>-</u>	<u>-</u>	<u>2,391,858</u>
Total other capital assets	<u>12,526,341</u>	<u>189,692</u>	<u>-</u>	<u>-</u>	<u>12,716,033</u>
Accumulated depreciation:					
Vehicles	(362,263)	(56,769)	-	-	(419,032)
Pipelines	(3,510,767)	(42,727)	-	-	(3,553,494)
Pumping plant	(1,559,796)	(2,356)	-	-	(1,562,152)
Office equipment	(79,825)	(5,343)	-	-	(85,168)
Buildings and structures	(376,771)	(46,357)	-	-	(423,128)
Energy Project equipment	(887,816)	(126,831)	-	-	(1,014,647)
Fencing and equipment	<u>(1,093,623)</u>	<u>(117,236)</u>	<u>-</u>	<u>-</u>	<u>(1,210,859)</u>
Total accumulated depreciation	<u>(7,870,861)</u>	<u>(397,619)</u>	<u>-</u>	<u>-</u>	<u>(8,268,480)</u>
Capital assets, net	<u>\$ 9,299,032</u>	<u>(207,927)</u>	<u>-</u>	<u>-</u>	<u>9,091,105</u>

See Independent Auditors' Report.



CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CAPITAL ASSETS, CONTINUED

	Balance at <u>June 30, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	Balance at <u>June 30, 2016</u>
Capital assets not being depreciated:					
Dam and reservoir	\$ 4,605,177	-	-	-	4,605,177
Land improvements	<u>38,375</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,375</u>
Total capital assets not being depreciated	<u>4,643,552</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,643,552</u>
Other capital assets:					
Vehicles	575,215	37,870	-	-	613,085
Pipelines	4,262,751	6,328	-	-	4,269,079
Pumping plant	1,593,952	-	-	-	1,593,952
Office equipment	84,492	-	-	-	84,492
Buildings and structures	1,222,254	-	-	-	1,222,254
Energy Project equipment	2,536,613	-	-	-	2,536,613
Fencing and equipment	<u>2,202,648</u>	<u>4,218</u>	<u>-</u>	<u>-</u>	<u>2,206,866</u>
Total other capital assets	<u>12,477,925</u>	<u>48,416</u>	<u>-</u>	<u>-</u>	<u>12,526,341</u>
Accumulated depreciation:					
Vehicles	(307,605)	(54,658)	-	-	(362,263)
Pipelines	(3,468,145)	(42,622)	-	-	(3,510,767)
Pumping plant	(1,557,440)	(2,356)	-	-	(1,559,796)
Office equipment	(73,038)	(6,787)	-	-	(79,825)
Buildings and structures	(330,129)	(46,642)	-	-	(376,771)
Energy Project equipment	(760,985)	(126,831)	-	-	(887,816)
Fencing and equipment	<u>(990,853)</u>	<u>(102,770)</u>	<u>-</u>	<u>-</u>	<u>(1,093,623)</u>
Total accumulated depreciation	<u>(7,488,195)</u>	<u>(382,666)</u>	<u>-</u>	<u>-</u>	<u>(7,870,861)</u>
Capital assets, net	<u>\$ 9,633,282</u>	<u>(334,250)</u>	<u>-</u>	<u>-</u>	<u>9,299,032</u>

See Independent Auditors' Report.

**CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(4) LONG-TERM DEBT**

Long-term debt activity for the years ended June 30 was as follows:

	<u>Balance at</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>June 30, 2017</u>	<u>Amounts</u> <u>Due</u> <u>Within</u> <u>1 Year</u>
U.S. Department of the Interior contract payable	\$ 362,181	-	(362,181)	-	-
Drinking Water SRF note payable	<u>992,716</u>	<u>-</u>	<u>(94,350)</u>	<u>898,366</u>	<u>94,349</u>
	<u>\$ 1,354,897</u>	<u>-</u>	<u>(456,531)</u>	<u>898,366</u>	<u>94,349</u>

  

	<u>Balance at</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>June 30, 2016</u>	<u>Amounts</u> <u>Due</u> <u>Within</u> <u>1 Year</u>
U.S. Department of the Interior contract payable	\$ 992,769	-	(630,588)	362,181	362,181
Drinking Water SRF note payable	<u>1,077,155</u>	<u>-</u>	<u>(84,439)</u>	<u>992,716</u>	<u>94,350</u>
	<u>\$ 2,069,924</u>	<u>-</u>	<u>(715,027)</u>	<u>1,354,897</u>	<u>456,531</u>

*U.S. Department of the Interior Contract Payable*

In 1961, the District entered into a contract with the U.S. Department of the Interior to provide for the repayment of the District's share of the costs incurred in the construction of the water facilities. The original contract payable was for \$10,928,511 at 2.74% interest over 55 years. Interest and principal payments were due annually on October 1. As of June 30, 2016, the District had \$50,000 of restricted funds set aside for maintenance and operations. The restriction of funds was removed upon payoff of the debt with the U.S. Department of Interior.

The final payment to the U.S. Department of the Interior was made on October 1, 2016. The total amount paid was \$133,352 less than the principal balance recorded by the District. The difference was related to maintenance credits provided by the U.S. Department of the Interior that the District was not aware of. The District recorded this as a forgiveness of debt in 2016. The District also forgave the Cities their share of these credits as a reduction in the assessment receivables from the Cities. Such forgiveness of debts resulted in no net impact on the District's financial statements.

See Independent Auditors' Report.

**CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(4) LONG-TERM DEBT, CONTINUED**

*Series 2007 Note Payable and Drinking Water SRF Note Payable*

In January 2007, the District entered into a \$1,500,000 note payable agreement with a financial institution (the Series 2007 note payable) to help fund the District’s Energy Project.

In October 2009, the District refinanced the Series 2007 note payable with a note payable (Drinking Water SRF note payable) from the Oklahoma Water Resources Board through its “Drinking Water SRF Financing Program.” The Drinking Water SRF note payable has an annual interest rate of 1.74% in 2016, 1.66% in 2017, and 0.50% in 2018 through maturity, matures on September 15, 2026, and is secured by the District’s revenues. Semiannual interest and principal payments are due on March 15 and September 15. The note has certain financial, restrictive, and negative covenants that the District must meet. As of June 30, 2017, the District was in compliance with such covenants.

Future payments of principal and interest of the District’s long-term debt for the next 5 years and to maturity are as follows:

<u>Year</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
2018	\$ 98,723	4,374	94,349
2019	98,263	3,902	94,361
2020	97,856	3,430	94,426
2021	97,386	2,958	94,428
2022	96,970	2,486	94,484
2023-2027	<u>431,651</u>	<u>5,333</u>	<u>426,318</u>
	<u>\$ 920,849</u>	<u>22,483</u>	<u>898,366</u>

**(5) ASSESSMENTS RECEIVABLE**

The Cities entered into separate contracts with the District for the repayment of their share of the original contract payable with the U.S. Department of the Interior (see Note 4). The original assessments for the City of Norman, the City of Midwest City, and the City of Del City were \$4,083,149, \$4,672,610, and \$2,172,752, respectively, payable annually on September 1 at 2.74% interest over 55 years. The final payments on the notes were made on October 1, 2016; therefore, there was no assessment receivable from the Cities as of June 30, 2017. The assessment receivable as of June 30, 2016, was \$362,181.

See Independent Auditors’ Report.

# CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (5) ASSESSMENTS RECEIVABLE, CONTINUED

In connection with the District's Energy Project, the District entered into contracts with the City of Norman and the City of Del City, in which the two cities agreed to repay their share of the note payable related to the project through an assessment receivable. The assessments mirror the terms of the Drinking Water SRF note payable. See Note 4 for the respective terms. The assessments are secured by gross revenues received from the sale of water by the respective cities. The balance of the assessments receivable for the Energy Project at June 30, 2017 and 2016, was \$868,510 and \$962,856, respectively.

### (6) DEFINED BENEFIT PENSION PLAN

#### Plan Description

The District participates in OMRF, an agent multiple public employer retirement system (PERS) defined benefit pension plan. The Plan provides pensions for all regular, full-time employees. The OMRF plan issues a separate financial report and can be obtained from OMRF or from their website: <https://www.okmrf.org/financial>. PERS is a retirement system that provides benefits to employees of one or more state or local governmental entities. An agent PERS maintains pooled administrative and investment functions for all participating entities. The authority to establish and amend the benefit provisions of the plans that participate in the OMRF is assigned to the respective employer entities, which is the District's Board of Directors. Actuarial valuations are performed each year on July 1.

#### Benefits Provided

The Plan provides retirement, disability, and death benefits. Retirement benefits for employees are calculated as 3 percent of the employee's average 5 highest consecutive years of salaries out of the last 10 years of service multiplied by the number of years of credited service. Employees with 10 or more years of vesting service can retire at the age of 65 or at the age of 55 with 80 points. Points are equal to age plus completed years of service. The Plan allows for early retirement at the age of 55 with 10 years of vested service. The early retirement benefit is the normal retirement benefit reduced 5 percent per year for commencement prior to the normal retirement age. All employees are eligible for disability benefits after 10 or more years of service. Disability benefits are determined in the same manner as normal retirement benefits and are payable upon disablement without an actuarial reduction for early payment. In-service death benefits equal 50 percent of the normal retirement benefit payable to the spouse until death or remarriage, or 50 percent of the normal retirement benefit payable to the elected beneficiary for 5 years certain (for non-married employees). An employee who deceases or terminates service with the District prior to vesting may withdraw his or her contributions, plus any accumulated interest.

See Independent Auditors' Report.

CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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(6) **DEFINED BENEFIT PENSION PLAN, CONTINUED**

**Benefits Provided, Continued**

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. Benefits in payments status are adjusted each July 1 based on the percentage change in the Consumer Price Index, limited to a maximum increase or decrease in any year of 3%.

The Plan allows for normal and optional forms of benefit payments. The normal form of payment is a monthly lifetime annuity with 5 years certain. Disability retirement benefits are paid only under the normal form. Optional forms of payment consist of jointed and 50% survivor annuity, joint and 66 and two-thirds percent last survivor annuity, and joint and 100% survivor annuity.

**Employees Covered Under the Plan**

At June 30 the following employees were covered under the Plan:

	<u>2017</u>	<u>2016</u>
Retirees, disabled participants, and beneficiaries currently receiving benefits	4	4
Terminated vested participants	1	1
Active participants	<u>6</u>	<u>4</u>
	<u>11</u>	<u>9</u>

**Contributions**

The District's Board of Directors has the authority to set and amend contribution rates to the Plan. Participating employees contribute 6% of their annual compensation to the Plan. The District's contribution rates for fiscal years 2017 and 2016 were based on actuarially determined rates plus additional contributions. The rates for the fiscal years 2017 and 2016 were 19.35% and 26.51%, respectively, of covered salary. The District contributed \$118,989 and \$117,934 in employer contributions to the Plan in 2017 and 2016, respectively.

See Independent Auditors' Report.

**CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(6) DEFINED BENEFIT PENSION PLAN, CONTINUED**

**Total and Net Pension Liability**

The total pension liability as of June 30, 2017 and 2016, was determined based on actuarial valuations performed as of July 1, 2016, and July 1, 2015, respectively, which is also the measurement date. There were no changes in assumptions or changes in benefit terms that affected measurement of the total pension liability as of June 30, 2017 or 2016. There were also no changes between the measurement date of July 1, 2016 and 2015, and the District's report ending date of June 30, 2017 and 2016, that would have a significant impact on the net pension liability as of June 30, 2017 or 2016.

**Actuarial Assumptions**

The total pension liability as of the July 1, 2016 and 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment return and discount rate:	7.75% compounded annually net of investment expense and including inflation.
Salary increases:	Varies between 4.0% to 7.4% per year
Mortality rates:	UP-1994 Mortality Table with projected mortality improvement by the Scale AA based on the employee's year of birth
Assumed inflation rate:	3.0%
Actuarial cost method:	Entry age normal

The actuarial assumptions used in the July 1, 2016 and 2015, valuation are based on the results of the most recent actuarial experience study, which covers the 5-year period ending June 30, 2011. The experience study report is dated September 28, 2012.

**Discount Rate**

The discount rate used to value benefits was the long-term expected rate of return on plan investments of 7.75% as of both July 1, 2016 and 2015, since the plan's net fiduciary position is projected to be sufficient to make projected benefit payments.

The District has adopted a funding method that is designed to fund all benefits payable to participants over the course of their working careers. Any differences between actual and expected experience are funded over a fixed period to ensure all funds necessary to pay benefits have been contributed to the trust before those benefits are payable. Thus, the sufficiency of pension plan assets was made without a separate projection of cash flows.

See Independent Auditors' Report.

CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) **DEFINED BENEFIT PENSION PLAN, CONTINUED**

**Discount Rate, Continued**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (3.0%). Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of July 1 are summarized in the following table:

<u>Asset Class</u>	<u>2017</u>			<u>2016</u>		
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Weighted Return</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Weighted Return</u>
Large cap stocks						
S&P 500	25%	5.40%	1.35%	25%	5.40%	1.35%
Small/mid cap stocks						
Russell 2500	10%	7.50%	0.75%	10%	7.50%	0.75%
Long/short equity						
MSCI ACWI	10%	6.10%	0.61%	10%	6.10%	0.61%
International stocks						
MSCI EAFE	20%	5.10%	1.02%	20%	5.10%	1.02%
Fixed income bonds						
Barclay's Capital Aggregate	30%	2.60%	0.78%	30%	2.60%	0.78%
Real estate						
NCREIF	5%	4.80%	0.24%	5%	4.80%	0.24%
Cash and cash equivalents						
3-month Treasury	<u>0%</u>	0.00%	<u>0.00%</u>	<u>0%</u>	0.00%	<u>0.00%</u>
Total	<u>100%</u>			<u>100%</u>		
Average real return			4.75%			4.75%
Inflation			<u>3.00%</u>			<u>3.00%</u>
Long-term expected return			<u>7.75%</u>			<u>7.75%</u>

See Independent Auditors' Report.

CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) **DEFINED BENEFIT PENSION PLAN, CONTINUED**

**Changes in the Net Pension Liability**

Changes in the net pension liability were as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at June 30, 2015	\$ 1,563,759	1,290,590	273,169
Changes for the year:			
Service cost	39,199	-	39,199
Interest cost	118,178	-	118,178
Difference between expected and actual experience	(205,605)	-	(205,605)
Contributions—employer	-	82,298	(82,298)
Contributions—employee	-	13,444	(13,444)
Net investment income	-	36,413	(36,413)
Benefit payments, including refunds of employee contributions	(79,253)	(79,253)	-
Administrative expense	-	(2,672)	2,672
Net changes	(127,481)	50,230	(177,711)
Balance at June 30, 2016	1,436,278	1,340,820	95,458
Changes for the year:			
Service cost	29,546	-	29,546
Interest cost	108,409	-	108,409
Difference between expected and actual experience	(20,798)	-	(20,798)
Contributions—employer	-	117,934	(117,934)
Contributions—employee	-	14,953	(14,953)
Net investment income	-	13,452	(13,452)
Benefit payments, including refunds of employee contributions	(76,338)	(76,338)	-
Administrative expense	-	(2,684)	2,684
Net changes	40,819	67,317	(26,498)
Balance at June 30, 2017	\$ 1,477,097	1,408,137	68,960

See Independent Auditors' Report.



CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) **DEFINED BENEFIT PENSION PLAN, CONTINUED**

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the District, calculated using the discount rate of 7.75% as of both July 1, 2016 and 2015, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease <u>(6.75%)</u>	Current Discount <u>Rate (7.75%)</u>	1% Increase <u>(8.75%)</u>
Net pension liability June 30, 2017	\$ 261,466	<u>68,960</u>	<u>(91,561)</u>
Net pension liability June 30, 2016	\$ 285,861	<u>95,458</u>	<u>(62,929)</u>

**Pension Expense and Deferred Outflows of Resources and  
Deferred Inflows of Resources Related to Pensions**

For the year ended June 30, 2017 and 2016, the District recognized pension expense of \$18,757 and \$5,319, respectively. The District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at June 30:

	<u>2017</u>		<u>2016</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	118,059	-	153,945
Changes of assumptions	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	119,988	24,984	51,332	37,475
District contributions subsequent to measurement date	<u>118,989</u>	<u>-</u>	<u>124,865</u>	<u>-</u>
	<u>\$ 238,977</u>	<u>143,043</u>	<u>176,197</u>	<u>191,420</u>

See Independent Auditors' Report.

CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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(6) **DEFINED BENEFIT PENSION PLAN, CONTINUED**

**Pension Expense and Deferred Outflows of Resources and  
Deferred Inflows of Resources Related to Pensions, Continued**

Reported deferred outflows of resources of \$118,989 related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2018. The other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2018	\$ (35,970)
2019	(34,937)
2020	28,181
2021	<u>19,671</u>
	<u>\$ (23,055)</u>

(7) **DEFINED CONTRIBUTION PLAN**

The District has a defined contribution plan and trust, known as the “Employee Retirement System of Central Oklahoma Master Conservancy District in Norman, Oklahoma, Defined Contribution Plan” (the “Contribution Plan”), in the form of The Oklahoma Municipal Retirement System Master Defined Contribution Plan. The Contribution Plan is available only to the General Manager and contains a provision requiring the District to contribute up to 15% of the General Manager’s eligible compensation. For the years ended June 30, 2017 and 2016, the District contributed approximately \$21,000 and \$19,000, respectively, to the Contribution Plan. Benefits depend solely on amounts contributed to the Contribution Plan plus investment earnings.

(8) **DEFERRED COMPENSATION PLAN**

The District has a deferred compensation plan (the “Deferred Compensation Plan”) as authorized by Section 457(b) of the Internal Revenue Code, as amended by the Tax Reform Act of 1986, and in accordance with the provisions of Sections 1701 through 1706 of Title 74 of the Oklahoma Statutes.

The Deferred Compensation Plan is available to all District employees. Participants may make voluntary contributions up to the maximum permitted by law. The District matches salary deferrals at 50%, up to 3% of the participant’s annual compensation. Participants are fully vested in their contributions and the District’s contributions. Participants may direct the investment of their contributions and the District’s contributions in available investment options offered by the Deferred Compensation Plan. All interest, dividends, and investment fees are allocated to participants’ accounts. The District’s contribution to the Deferred Compensation Plan in 2017 and 2016 approximated \$6,600 and \$6,400, respectively.

See Independent Auditors’ Report.

**CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT**

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT**

**CONDITION RATING AND ESTIMATE-TO-ACTUAL COMPARISON OF  
MAINTENANCE OF INFRASTRUCTURE ASSETS**

*Fiscal Year Ended June 30, 2017*

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**Condition Rating of Infrastructure Assets**

	<u>Years Ended June 30,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Infrastructure assets (dam and reservoir)	93	94	96

Condition assessments of the infrastructure assets are made by the U.S. Department of the Interior’s Bureau of Reclamation (BOR). The BOR typically performs a comprehensive assessment every 3 years and a limited condition assessment for other annual periods. The ratings are based on the BOR’s “Facility Reliability Rating System for High and Significant Hazard Dams.” The ratings are as follows: Good (rating of 80 or greater); Fair (rating of 60 to 79); and Poor (rating of 59 or less).

**Estimate-to-Actual Comparison of Maintenance of Infrastructure Assets**

		<u>Years Ended June 30,</u>				
		<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Estimate	\$	75,500	70,000	65,000	65,000	55,000
Actual		86,993	246,271	93,985	88,720	135,437

See Independent Auditors’ Report.

**CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT**

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY**

<i>Fiscal Years Ended June 30,</i>	<i>2017</i>	<i>2016</i>	<i>2015</i>
<b>Total pension liability</b>			
Service cost	\$ 29,546	39,199	36,379
Interest cost	108,409	118,178	115,436
Differences between expected and actual experience	(20,798)	(205,605)	-
Changes in assumptions	-	-	-
Benefit payments, including refunds of employee contributions	<u>(76,338)</u>	<u>(79,253)</u>	<u>(80,831)</u>
Net change in total pension liability	40,819	(127,481)	70,984
Total pension liability, beginning of year	<u>1,436,278</u>	<u>1,563,759</u>	<u>1,492,775</u>
Total pension liability, end of year (a)	<u>\$ 1,477,097</u>	<u>1,436,278</u>	<u>1,563,759</u>
<b>Plan fiduciary net position</b>			
Contributions—employer	\$ 117,934	82,298	180,423
Contributions—employees	14,953	13,444	13,138
Net investment income	13,452	36,413	168,530
Administrative expenses	(2,684)	(2,672)	(2,508)
Benefit payments, including refunds of employee contributions	<u>(76,338)</u>	<u>(79,253)</u>	<u>(80,831)</u>
Net change in plan fiduciary net position	67,317	50,230	278,752
Plan fiduciary net position, beginning of year	<u>1,340,820</u>	<u>1,290,590</u>	<u>1,011,838</u>
Plan fiduciary net position, end of year (b)	<u>\$ 1,408,137</u>	<u>1,340,820</u>	<u>1,290,590</u>
Plan's net pension liability (a) - (b)	<u>\$ 68,960</u>	<u>95,458</u>	<u>273,169</u>

The amounts presented for each year-end were determined as of July 1 of the current year.  
Only the last 3 fiscal years are presented because data for the prior 7 years is not readily available.

See Independent Auditors' Report.

**CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT**

**SCHEDULE OF NET PENSION LIABILITY RATIOS**

<i>Fiscal Years Ended June 30,</i>	<i>2017</i>	<i>2016</i>	<i>2015</i>
Total pension liability	\$ 1,477,097	1,436,278	1,563,759
Plan fiduciary net position	<u>1,408,137</u>	<u>1,340,820</u>	<u>1,290,590</u>
Plan's net pension liability	<u>\$ 68,960</u>	<u>95,458</u>	<u>273,169</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>95.33%</u>	<u>93.35%</u>	<u>82.53%</u>
Covered payroll	<u>\$ 244,332</u>	<u>252,604</u>	<u>223,981</u>
Plan's net pension liability as a percentage of covered payroll	<u>28.22%</u>	<u>37.79%</u>	<u>121.96%</u>

The amounts presented for each year-end were determined as of July 1 of the current year.  
Only the last 3 fiscal years are presented because data for the prior 7 years is not readily available.

See Independent Auditors' Report.

**CENTRAL OKLAHOMA MASTER CONSERVANCY DISTRICT**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

<i>Fiscal Years Ended June 30,</i>	<i>2017</i>	<i>2016</i>	<i>2015</i>
Actuarially determined contribution	\$ 47,278	66,965	82,298
Contributions in relation to the actuarially determined contribution	<u>118,989</u>	<u>117,934</u>	<u>82,298</u>
Contribution excess	<u>\$ 71,711</u>	<u>50,969</u>	<u>-</u>
Covered payroll	<u>\$ 244,332</u>	<u>252,604</u>	<u>223,981</u>
Contributions as a percentage of covered payroll	<u>48.70%</u>	<u>46.69%</u>	<u>36.74%</u>

The amounts presented for each year-end were determined as of July 1 of the current year.  
Only the last 3 fiscal years are presented because data for the prior 7 years is not readily available.

See Independent Auditors' Report.



**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Central Oklahoma Master Conservancy District

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Central Oklahoma Master Conservancy District (the "District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 30, 2017. Our report includes an explanatory paragraph disclaiming an opinion on required supplementary information.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continued)



**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS, CONTINUED**

**Compliance and Other Matters**

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

**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Finley & Cook, PLLC*

Shawnee, Oklahoma  
November 30, 2017