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McGee Creek Authority

Annual Financial Report | Farris, Oklahoma | for the Fiscal Year ended June 30, 2012

MCGEE CREEK AUTHORITY

Farris, Oklahoma

A Blended Component Unit Enterprise Fund of
Oklahoma City, Oklahoma

Annual Financial Report for the Fiscal Year Ended June 30, 2012

Prepared by The Oklahoma City Finance Department, Accounting Services Division
Glen D. Earley, Controller

Introductory Section

MCGEE CREEK AUTHORITY

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For the Fiscal Years Ended June 30, 2012 and 2011

McGee Creek Authority

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Oklahoma City, Oklahoma 73102
(405) 297-2822 • fax (405) 297-3813

December 7, 2012

The Board of Trustees
McGee Creek Authority
Atoka, Oklahoma

The McGee Creek Authority (Authority) audited annual financial report (annual report) provides a comprehensive overview of the Authority's financial position and the results of operations during the fiscal year ended June 30, 2012. It complies with reporting requirements specified by Oklahoma Statutes and the dictates of effective financial management practices. The Oklahoma City Finance Department, Accounting Services Division, prepared this report in compliance with accounting principles generally accepted in the United States of America (U.S. GAAP). It is fairly stated in all material respects. Responsibility for the accuracy of the reported information and the completeness and fairness of the presentation, including disclosures, rests with the Authority's management.

The Authority's annual report includes the reports of independent accountants, management's discussion and analysis (MD&A), financial statements, and related notes. Management's narrative on the financial activities of the Authority for the fiscal year ended June 30, 2012, is in the MD&A section of this report, immediately following the independent accountants' report on financial statements and supplementary information. The Authority's reporting entity is comprised of financial and operating activities conducted within the legal framework of the Authority.

The Authority was established in 1978 to develop, operate, and maintain the McGee Creek Reservoir (Reservoir) to provide a municipal and industrial water supply for participants of the Authority (Participants) in central and southern Oklahoma, including the City of Oklahoma City (City), the City of Atoka, and Atoka County. The Participants in the Authority are the City of Atoka, the County of Atoka, the Southern Oklahoma Development Trust, the City, and the Oklahoma City Water Utilities Trust (OCWUT).

The Authority operates and maintains the Reservoir and associated facilities, including an attached water pipeline, a surge tank, a regulating tank, a maintenance complex, and land easements surrounding these facilities. The U.S. Department of Interior, Bureau of Reclamation (Bureau) financed the construction of the Authority water system and granted the Authority operational use of the project office, aqueduct, appurtenances, and other operation and maintenance related facilities on September 1, 1990. In November 1992, the Authority issued revenue bonds to purchase water storage rights and specific assets at the Reservoir for an amount equal to the Bureau's construction costs for the Dam, Reservoir, and related assets. The Authority does not own the McGee Creek Dam or Reservoir.

The trust indenture of the Authority details the aliquot share requirements of the Participants. Aliquot share revenues and transfers from the OCWUT representing the aliquot share requirements of the City are collected to fund cash requirements for debt service and operations. OCWUT, through an agreement of support (OCWUT Agreement), has pledged water revenues, not otherwise obligated, to fund aliquot share revenue collection short-falls.

As part of ongoing efforts to maintain water quality, final survey and testing was performed on a new cathodic protection chemical corrosion control system on the McGee Creek Aqueduct in June 2011. The final report was submitted by the contractor on July 29, 2011.

McGee Creek Dam Site • 555 South Farris Road, Atoka, OK 74525 • (405) 889-7890 • fax (405) 889-7730

The City of Oklahoma City includes the Authority in its comprehensive accounting and budgetary system. Interim financial statements provide Authority management and other interested readers with regular financial analysis. Additionally, the Authority's management maintains budgetary controls to ensure effective financial oversight.

In compliance with statutory requirements, the Authority engaged BKD LLP to conduct its annual audit. The Authority acknowledges the professional and competent services of its independent accountants.

Respectfully submitted:

Marsha Slaughter
General Manager
Utilities Department Director

Bret Weingart
The City of Oklahoma City
Utilities Department Assistant Director

Glen D. Earley, CPA
The City of Oklahoma City
Controller

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Financial Section

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CPAs & Advisors

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
McGee Creek Authority
Farris, Oklahoma

We have audited the accompanying basic financial statements of McGee Creek Authority (the Authority), a component unit of the City of Oklahoma City, Oklahoma, as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of McGee Creek Authority as of June 30, 2012 and 2011, 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 December 7, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of 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 audit 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.

BKD, LLP

December 7, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the McGee Creek Authority (Authority) annual financial report, the Authority's management provides narrative discussion and analysis of the financial activities of the Authority for the fiscal years ended June 30, 2012 and 2011. The Authority's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. Introductory information is available in the transmittal letter which precedes this discussion and analysis.

The Authority reports services for which the Authority charges customers a fee. Services are provided to customers external to the Authority and consists primarily of water storage and supply services. The Authority is a blended component unit of the City of Oklahoma City (City).

Financial Summary

- Authority assets exceeded liabilities by $32,776,709 (net assets) for 2012. This compares to the previous year when assets exceeded liabilities by $30,045,108 (net assets).

- Total assets for the Authority increased by $1,518,766 (1.2%) to $131,797,087 during 2012 and increased by $1,366,263 (1.1%) to $130,278,321 for 2011.

- Total liabilities for the Authority decreased by $1,212,835 (1.2%) to $99,020,378 during 2012 and decreased by $1,236,450 (1.2%) to $100,233,213 during 2011.

- Total net assets are comprised of the following:
  (1) Investment in capital assets net of related debt of $25,967,431 and $23,240,005 for 2012 and 2011, respectively, includes property and equipment, net of accumulated depreciation and reduced for outstanding debt related to the purchase or construction of capital assets.
  (2) Net assets for 2012 and 2011 of $7,863,712 and $7,740,364, respectively, are restricted for debt service by constraints imposed by debt covenants.
  (3) Unrestricted deficit is $1,054,434 for 2012 and unrestricted deficit for 2011 was $935,261 .

Overview of the Financial Statements

This discussion and analysis introduces the Authority's basic financial statements. The basic financial statements include: (1) statement of net assets, (2) statement of revenues, expenses, and changes in net assets, (3) statement of cash flows, and (4) notes to the financial statements.

Financial Statements

The Authority's annual report includes three financial statements. These statements provide both long-term and short-term information about the overall status of the Authority and are presented to demonstrate the extent the Authority has met its operating objectives efficiently and effectively using all the resources available and whether the Authority can continue to meet its objectives in the foreseeable future. Financial reporting for the Authority uses a perspective similar to that found in the private sector with its basis in full accrual accounting.

The first of these basic financial statements is the statement of net assets. This is the statement of position presenting information that includes all of the Authority's assets and liabilities, with the difference reported as net assets. Increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating, and identify financial strengths and weaknesses, and assess liquidity.

The second statement is the statement of revenues, expenses, and changes in net assets which reports how the Authority's net assets changed during the fiscal year. This statement can be used to assess the Authority's operating results in its entirety and analyze how the Authority's programs are financed. All current year revenues and expenses are included regardless of when cash is received or paid.

The third statement is the statement of cash flows which reports the inflows and outflows of cash.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to gain a full understanding of the Authority financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Financial Analysis

The Authority's net assets at June 30, 2012 and 2011 are $32,776,709 and $30,045,108, respectively. The overall financial condition of the Authority improved in fiscal year 2012.

Summary of Net Assets

	2012	2011	2012-2011 Amount of Change	2012-2011 % Change	2010	2011-2010 Amount of Change	2011-2010 % Change
Assets							
Current assets	$4,400,266	$4,403,600	($3,334)	(0.1%)	$4,557,946	($154,346)	(3.4%)
Capital assets, net	75,781,392	76,335,234	(553,842)	(0.7)	76,754,429	(419,195)	(0.5)
Other non-current assets	51,615,429	49,539,487	2,075,942	4.2	47,599,683	1,939,804	4.1
Total assets	**131,797,087**	**130,278,321**	**1,518,766**	1.2	**128,912,058**	**1,366,263**	1.1
Liabilities							
Current liabilities	5,220,625	5,071,086	149,539	2.9	5,077,599	(6,513)	(0.1)
Non-current liabilities	93,799,753	95,162,127	(1,362,374)	(1.4)	96,392,064	(1,229,937)	(1.3)
Total liabilities	**99,020,378**	**100,233,213**	**(1,212,835)**	(1.2)	**101,469,663**	**(1,236,450)**	(1.2)
Net assets							
Invested in capital assets, net of related debt	25,967,431	23,240,005	2,727,426	11.7	20,669,407	2,570,598	12.4
Restricted for debt service	7,863,712	7,740,364	123,348	1.6	7,859,220	(118,856)	(1.5)
Unrestricted	(1,054,434)	(935,261)	(119,173)	(12.7)	(1,086,232)	150,971	13.9
Total net assets	**$32,776,709**	**$30,045,108**	**$2,731,601**	9.1	**$27,442,395**	**$2,602,713**	9.5

Current assets remained stable from fiscal year 2011 to fiscal year 2012. In 2011, current assets decreased $154 thousand due to a decrease in investments of $177 thousand related to changes in market value and a decrease in debt service requirements resulting in a decrease in investment income.

Other non-current assets increased $2.08 million in 2012 and $1.94 million in 2011 related to normal increases in aliquot share receivable amounts calculated based on cash requirements of the Authority.

Current liabilities increased $150 thousand from fiscal year 2011 to 2012 due primarily to arbitrage payable of $100 thousand which was re-classed from non-current to current, as well as an increase in debt service payable of $100 thousand for regularly scheduled bond debt service resulting from a decrease of $100 thousand in bond interest payable and an increase of $200 thousand in bond principal payable, offset by a decrease in accounts payable of $53 thousand. In 2011, current liabilities decreased by $6 thousand due in part to decreases in accounts payable of $90 thousand and bond interest payable of $93 thousand as well as an increase of $185 thousand for regularly scheduled bond debt service. Non-current liabilities decreased $1.36 million and $1.23 million in 2012 and 2011, respectively, due to decreases in bonds payable by scheduled principal reductions of $3.51 million and $3.31 million, offset by increases in advances from the Oklahoma City Water Utilities Trust (OCWUT) to fund aliquot share of $2.13 million and $1.93 million, respectively.

Summary of Revenues, Expenses, and Changes in Net Assets

	2012	2011	2012-2011 Amount of Change	2012-2011 % Change	2010	2011-2010 Amount of Change	2011-2010 % Change
Operating revenues							
Charges for services	**$2,461,676**	**$2,299,823**	**$161,853**	7.0%	**$2,457,712**	**($157,889)**	(6.4%)
Operating expenses	**1,277,298**	**991,202**	**286,096**	28.9	**954,953**	**36,249**	3.8
Net operating income	**1,184,378**	**1,308,621**	**(124,243)**	(9.5)	**1,502,759**	**(194,138)**	(12.9)
Net non-operating expenses	**(2,765,908)**	**(3,033,559)**	**267,651**	8.8	**(3,116,091)**	**82,532**	2.6
Transfers	**4,313,131**	**4,327,651**	**(14,520)**	(0.3)	**4,478,573**	**(150,922)**	(3.4)
Changes in net assets	**2,731,601**	**2,602,713**	**128,888**	5.0	**2,865,241**	**(262,528)**	(9.2)
Beginning net assets	**30,045,108**	**27,442,395**	**2,602,713**	0.1	**24,577,154**	**2,865,241**	11.7%
Ending net assets	**$32,776,709**	**$30,045,108**	**$128,888**	0.4	**$27,442,395**	**$2,602,713**	9.5

Charges for services increased $162 thousand in 2012 due to aliquot share revenues related to increases in cash requirements and decreased $158 thousand in 2011 due to decreases in aliquot share revenues. Operating expenses increased $286 thousand in 2012 due primarily to an increase in electricity charges to pump water through a new pipeline. Operating expenses increased $36 thousand in 2011 due in part to a $15 thousand increase in compensated absences, a $9 thousand increase in professional services and a $7 thousand increase in depreciation related to the purchase of computer equipment. Net non-operating expenses decreased $267 thousand in 2012 related to a decrease in bond interest expense of $215 thousand, coupled with a $47 thousand increase in non-operating revenues. Net non-operating expenses decreased $82 thousand in 2011 related to a decrease in bond interest expense of $182 thousand coupled with a $104 thousand decrease in non-operating revenues.

Capital Assets and Long-term Debt

Capital Assets

The Authority's investment in capital assets, net of accumulated depreciation, as of June 30, 2012 and 2011, is $75,781,392 and $76,335,234, respectively.

Capital Assets
Net of Accumulated Depreciation

	2012	2011	2012 - 2011 Amount of Change	2012 - 2011 % Change	2010	2011 - 2010 Amount of Change	2011 - 2010 % Change
Non-Depreciable Assets							
Land and water storage rights	$61,528,696	$61,528,696	$ -	0.0%	$61,528,696	$ -	0.0%
Construction in progress	-	593,014	(593,014)	(100.0)	465,832	127,182	27.3
Total non-depreciable assets	61,528,696	62,121,710	(593,014)	(1.0)	61,994,528	127,182	0.2
Depreciable Assets							
Buildings	2,484,985	2,585,505	(100,520)	(3.9)	2,686,159	(100,654)	(3.7)
Improvements other than buildings	11,565,020	11,451,579	113,441	1.0	11,890,200	(438,621)	(3.7)
Furniture, machinery, and equipment	202,691	176,440	26,251	14.9	183,542	(7,102)	(3.9)
Total depreciable assets	14,252,696	14,213,524	39,172	0.3	14,759,901	(546,377)	(3.7)
Totals	**$75,781,392**	**$76,335,234**	**($553,842)**	(0.7)	**$76,754,429**	**($419,195)**	(0.5)

Significant changes in capital assets were primarily due to expenditures in furniture, machinery, and equipment of $79 thousand, offset by depreciation expense of $633 thousand in 2012. The completion of a cathodic protection system in 2012 resulted in increased depreciable assets. In 2011, net capital assets decreased by $419 thousand due to expenditures of $134 thousand in construction in progress and furniture, machinery, and equipment, offset by depreciation expense of $570 thousand. Increases in construction in progress in 2011 were due to the construction of a cathodic protection system. See Note II. A. 5. for more information regarding capital assets.

Long-term Liabilities

At the end of the 2012 and 2011 fiscal years, the Authority had total debt outstanding of $97,841,204 and $99,011,623, respectively.

Advance from OCWUT

On December 1, 1992, OCWUT and the Authority entered into an Agreement (OCWUT Agreement) in conjunction with the issuance of the Authority's Series 1992 Bonds. The OCWUT Agreement details OCWUT's pledge of water utility revenues, not otherwise pledged or required by OCWUT. OCWUT is required to provide cash payments for shortfalls of the Authority to fund debt service requirements, operation and maintenance, extraordinary expenses and capital improvements, as well as maintain the bond fund minimum required reserve balance. The Authority has reclassified transfers from OCWUT as advances for amounts paid on behalf of other Participants. See Note II. C. for more information regarding intrafund balances.

Revenue Bonds

The Authority Water Revenue Bonds, Series 1992 were issued to purchase water storage rights and related assets, which in effect, repaid construction costs to the Bureau of Reclamation (Bureau) for the McGee Creek Reservoir. These bonds are secured by aliquot share revenues from Participants. In addition, the OCWUT Agreement provides OCWUT will advance the Authority funds necessary to cover shortfalls. Should the Authority not have adequate funds, OCWUT is required under the terms of the OCWUT Agreement to transfer the funds necessary for the Authority to pay the principal and interest due annually. It is anticipated that the cash payments received from OCWUT will be used to repay the obligation.

The general bond indenture provides that the trustees of the Authority will generate revenue annually to equal 100% of the annual principal and interest requirements on the bonds for the year, plus an amount necessary to comply in all respects with the terms and provisions of the bond indenture. Amounts received from Participants and from OCWUT under the OCWUT Agreement are considered in determining the amount needed to comply with the indenture requirements. The Authority met this obligation for fiscal years 2012 and 2011. See Note II. B. 3. for more information regarding revenue bonds.

Outstanding Long-term Debt

	2012	2011	2012 - 2011 Amount of Change	2012 - 2011 % Change	2010	2011 - 2010 Amount of Change	2011 - 2010 % Change
Advance from OCWUT	$45,391,204	$43,256,623	$2,134,581	4.9%	$41,328,338	$1,928,285	4.7%
Revenue bonds	52,450,000	55,755,000	(3,305,000)	(5.9)	58,875,000	(3,120,000)	(5.3)
	$97,841,204	**$99,011,623**	**($1,170,419)**	(1.2)	**$100,203,338**	**($1,191,715)**	(1.2)

The change in outstanding debt for both 2012 and 2011 is the result of additional payments from OCWUT under the OCWUT Agreement and scheduled principal bond debt service payments. See note II. B. 4. for more information on changes in long-term debt.

Bond Ratings

Standard and Poor’s and Moody's rating agencies rate Authority bonds BBB and Baa1, respectively. The Standard and Poor's rating was changed from AAA in December 2010.

Economic Factors

Utility Rates

Aliquot share revenue may be generated by payments from surrogates or designees of Participants. The Authority uses water rates established by OCWUT as a basis of determining these charges. The Authority increased the rate 5% effective October 1, 2009 and an additional 4% effective October 1, 2010 and November 1, 2011, when OCWUT increased water utility rates.

Contacting the Authority's Financial Management

This financial report is designed to provide a general overview of the Authority's finances, comply with finance-related laws and regulations, and demonstrate commitment to public accountability. If you have questions about this report or would like to request additional information, contact the City’s Finance Department, Accounting Services Division, at 100 North Walker, Suite 300, Oklahoma City, Oklahoma 73102.

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Basic Financial Statements

Proprietary Fund Financial Statements

Provide both long-term and short-term information about the Authority's overall status using full accrual accounting.

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises.

STATEMENTS OF NET ASSETS
June 30,

MCGEE CREEK AUTHORITY

	2012	**2011**
ASSETS		
CURRENT ASSETS		
Non-pooled cash	$2,451,209	$636,065
Investments	1,816,475	3,692,962
Accounts receivable, net	22,916	23,051
Interest receivable	44,050	2,188
Due from City of Oklahoma City General Fund	791	476
Intergovernmental receivables	64,825	14,390
Prepaids	-	34,468
Total current assets	4,400,266	4,403,600
NON-CURRENT ASSETS		
Investments	6,653,528	6,652,500
Deferred debt expense, net	163,119	185,652
Intergovernmental aliquot share receivable	44,798,782	42,701,335
Capital assets:		
Land, water storage rights and construction in progress	61,528,696	62,121,710
Other capital assets, net of accumulated depreciation	14,252,696	14,213,524
Total capital assets	75,781,392	76,335,234
Total non-current assets	127,396,821	125,874,721
Total assets	**131,797,087**	**130,278,321**
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	24,124	76,931
Wages and benefits payable	7,227	8,334
Compensated absences	10,512	8,171
Bond interest payable	1,573,500	1,672,650
Bonds payable	3,505,000	3,305,000
Intergovernmental payable	100,262	-
Total current liabilities	5,220,625	5,071,086
NON-CURRENT LIABILITIES		
Compensated absences	55,690	54,053
Intergovernmental payable	-	75,389
Advance from Oklahoma City Water Utilities Trust	45,391,204	43,256,623
Bonds payable:		
Bonds payable	48,945,000	52,450,000
Unamortized bond discount	(592,141)	(673,938)
Bonds payable, net	48,352,859	51,776,062
Total non-current liabilities	93,799,753	95,162,127
Total liabilities	**99,020,378**	**100,233,213**
NET ASSETS		
Invested in capital assets, net of related debt	25,967,431	23,240,005
Restricted for:		
Debt service	7,863,712	7,740,364
Unrestricted	(1,054,434)	(935,261)
Total net assets	**$32,776,709**	**$30,045,108**

See accompanying notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the Years Ended June 30,

	2012	2011
OPERATING REVENUES		
Aliquot share charges	$2,461,676	$2,299,823
OPERATING EXPENSES		
Personal services	219,595	223,920
Maintenance, operations, and contractual services	359,737	140,208
Materials and supplies	64,797	57,401
Depreciation	633,169	569,673
Total operating expenses	**1,277,298**	**991,202**
Operating income	**1,184,378**	**1,308,621**
NET OPERATING OPERATING EXPENSES		
Investment income	576,360	521,068
Interest on bonds	(3,327,948)	(3,542,482)
Arbitrage	(24,874)	(22,102)
Amortization	(22,533)	(28,532)
Other revenue	33,087	38,489
Net non-operating expenses	**(2,765,908)**	**(3,033,559)**
Loss before transfers	**(1,581,530)**	**(1,724,938)**
TRANSFERS		
Transfers from Oklahoma City Water Utilities Trust	4,313,131	4,327,651
Changes in net assets	**2,731,601**	**2,602,713**
Total net assets, beginning	30,045,108	27,442,395
Total net assets, ending	**$32,776,709**	**$30,045,108**

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS **MCGEE CREEK AUTHORITY**
For the Years Ended June 30,

	2012	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$207,704	$200,502
Cash payments to suppliers for goods and services	(419,278)	(194,883)
Cash payments to employees and professional contractors for services	(216,721)	(207,316)
Other cash receipts	22,474	52,079
Net cash used by operating activities	**(405,821)**	**(149,618)**
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfers received from (paid to) other funds	6,598,708	6,379,897
Net cash provided by non-capital financing activities	**6,598,708**	**6,379,897**
CASH FLOWS FROM CAPITAL AND CAPITAL RELATED FINANCING ACTIVITIES		
Payments for acquisition and construction of capital assets	(137,392)	(246,633)
Principal paid on long-term debt	(3,305,000)	(3,120,000)
Interest paid on long-term debt	(3,345,300)	(3,532,500)
Net cash used by capital and capital related financing activities	**(6,787,692)**	**(6,899,133)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for purchase of investments	(9,202,209)	(16,429,864)
Proceeds from sale of investments	11,077,361	16,593,714
Investment income received	534,797	569,674
Net cash provided by investing activities	**2,409,949**	**733,524**
Net increase in cash	**1,815,144**	**64,670**
Cash, beginning	636,065	571,395
Cash, ending	**$2,451,209**	**$636,065**
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES		
Operating income	$1,184,378	$1,308,621
AJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES		
Depreciation	633,169	569,673
Other revenue (expense)	33,087	38,489
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	134	(7,023)
(Increase) decrease in due from other funds	(318)	12,791
(Increase) decrease in prepaid assets	34,468	-
(Increase) decrease in intergovernmental receivable	(2,147,878)	(1,967,539)
Increase (decrease) in accounts payable	5,259	5,821
Increase (decrease) in wages and benefits payable	(1,105)	(3,220)
Increase (decrease) in due to other funds	(150,993)	(123,961)
Increase (decrease) in compensated absences	3,978	16,730
Total adjustments	(1,590,199)	(1,458,239)
Net cash used by operating activities	**($405,821)**	**($149,618)**
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Net increase (decrease) in fair value of investments	($305)	($13,612)
Total non-cash investing, capital, and financing activities	**($305)**	**($13,612)**

See accompanying notes to financial statements.

Notes to Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. A. INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this note. The remainder of the notes is organized to provide explanations, including required disclosures, of the McGee Creek Authority (Authority) financial activities for the fiscal years ended June 30, 2012 and 2011. Certain reclassifications have been made to the 2011 statement of cash flows to conform with the 2012 financial statement presentation. The reclassifications had no effect on the statement of revenues, expenses, and changes in net assets.

I. B. REPORTING ENTITY AND RELATIONSHIP TO THE CITY OF OKLAHOMA CITY, OKLAHOMA

The Authority is a public trust created pursuant to Title 60 of the Oklahoma statutes, sections 176 to 180.4 inclusive, et seq. The Authority was established on August 17, 1977. The purpose of the Authority is, generally, to act as the contracting party for acquiring land, constructing facilities, operating, and maintaining a water storage and transportation facility at the McGee Creek Reservoir (Reservoir). The beneficiaries of the Authority (Beneficiaries) are The City of Oklahoma City, Oklahoma (City); City of Atoka, Oklahoma; and Atoka County, Oklahoma. The Participants of the Authority (Participants) are the Beneficiaries and Oklahoma City Water Utilities Trust (OCWUT).

The Mayor of Atoka, Oklahoma; the Mayor of Oklahoma City, Oklahoma; the Chairman of the Board of County Commissioners of Atoka County, Oklahoma; the Chairman of the Board of Trustees of OCWUT; and the Chairman of the Board of the Southern Oklahoma Development Trust serve as Trustees for the Authority. The Beneficiaries do not have an obligation for debt issued by the Authority.

Recreation activities at the Reservoir are managed by the Oklahoma Department of Wildlife Conservation and the Oklahoma Tourism and Recreation Department. The Authority does not manage recreation activities.

Method of Reporting in the City's Comprehensive Annual Financial Report (CAFR)

Although the Authority is a separate legal entity, the significance of the Authority's financial relationship with the City provides that the Authority receive blended component unit treatment in Oklahoma City's financial reports. Therefore, financial activities of the Authority are blended into the City's CAFR. CAFR financial statements may be obtained from Finance Department, Accounting Services Division, 100 N. Walker, Suite 300, Oklahoma City, OK 73102.

Authority Administration

All administrative functions are performed by City employees. Authority employees perform operational functions.

Related Organizations

OCWUT
OCWUT, which is a blended component unit of the City, has pledged revenues under an agreement of support (OCWUT Agreement) to the Authority. The OCWUT Agreement details OCWUT's pledge of water utility revenues, not otherwise pledged or required by OCWUT. OCWUT is required to provide cash payments for shortfalls of the Authority to fund debt service requirements, operation and maintenance, extraordinary expenses and capital improvements, as well as maintain the bond fund minimum required balance reserve.

United States Department of the Interior Bureau of Reclamation (Bureau)
The Authority performs maintenance and operations activities at the Reservoir. The Bureau reimburses the Authority for operation and maintenance activities associated with the McGee Creek Dam and Reservoir allocated to flood control.

I. B. 1. BASIC FINANCIAL STATEMENTS

The basic financial statements include the statement of net assets; the statement of revenues, expenses and changes in net assets; and the statement of cash flows. These statements report financial information for the Authority as a whole.

I. B. 2. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Implementation of New Accounting Standard

Effective July 1, 2011 the Authority implemented Governmental Accounting Standards Board (GASB) statement number 62, Codification of Accounting and Financial Reporting Guidance contained in FASB and Accounting Standards Board (APB) opinions issued on or before November 30, 1989. This statement places all Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, within the authoritative GASB literature. Prior to implementation, the Authority applied all relevant reporting guidance contained in FASB pronouncements, therefore implementation had no financial or reporting impact to the Authority's financial statements.

Generally Accepted Accounting Principles (U.S. GAAP)

The financial statements of the Authority are prepared in accordance with U.S. GAAP. The Authority applies all relevant GASB pronouncements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Authority reports using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income includes revenues and expenses related to the primary, continuing operations of the Authority. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

I. C. BUDGET LAW AND PRACTICE

Oklahoma Statutes require the submission of financial information for public trusts. However, legal budgetary control levels are not specified. Accordingly, financial information for the Authority is submitted to its governing body. Appropriations are not recorded. Management’s policy prohibits disbursements which exceed available cash.

I. D. POLICIES RELATED TO ASSETS AND LIABILITIES

I. D. 1. CASH AND INVESTMENTS

The Authority's governing board has not formally adopted deposit and investment policies other than applicable deposit and investment policies specified in the bond indenture.

Investments are carried at fair value generally determined by quoted market prices except for guaranteed investment contracts which are carried at cost. Cash deposits are reported at carrying amount which approximates fair value.

I. D. 2. PREPAIDS

Prepaids are payments to vendors that benefit future reporting periods and are also reported on the consumption basis.

I. D. 3. RECEIVABLES AND UNCOLLECTIBLE ACCOUNTS

Significant receivables include amounts due from Participants and surrogates or designees of Participants for actual water usage. Accounts receivable are reported net of an allowance for uncollectible accounts and revenues net of uncollectibles. The allowance amount is estimated using accounts receivable past due more than 90 days.

I. D. 4. RESTRICTED ASSETS

Certain assets are restricted for capital projects funded through long-term debt and debt service reserves. Restricted deposits and investments are legally restricted for the payment of currently maturing debt service.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as needed.

I. D. 5. INTERFUND BALANCES

Generally, outstanding balances between funds reported as due to/from other funds include outstanding charges by one City fund or blended component unit of the City to another for services or goods, subsidy commitments outstanding at year-end, or other miscellaneous receivables/payables between funds. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are described as due to/from other funds (i.e., the current portion of interfund loans) or advances to/from other funds (i.e., the non-current portion of interfund loans).

I. D. 6. CAPITALIZED INTEREST

Interest costs are capitalized when incurred by enterprise funds on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized.

I. D. 7. CAPITAL ASSETS AND DEPRECIATION

Property and equipment are valued at cost and presented less accumulated depreciation. The Authority generally capitalizes assets with cost of $7,500 or more as purchases and construction outlays occur. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which is 5 to 50 years.

Maintenance and repairs are charged to operations, while renewals and betterments are capitalized. When the Authority disposes of property and equipment, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	10 - 50
Infrastructure and improvements other than buildings	10 - 50
Mobile equipment, furniture, machinery, and equipment	5 - 20

I. D. 8. DEFERRED DEBT EXPENSE AND BOND DISCOUNT

The costs of issuing revenue bonds and the related bond discounts are capitalized and amortized over the term of the respective bonds using a method that approximates the effective interest method.

I. D. 9. COMPENSATED ABSENCES

Compensated absences represent the accrued vested vacation and sick leave benefits attributable to full-time employees based on the personnel policies of the Authority.

I. D. 10. RISK MANAGEMENT

The Authority's risk management activities are administered by the City Risk Management Fund and the Oklahoma City Municipal Facilities Authority (OCMFA) OCMFA Services Fund. These funds administer employee life, employee health, property and liability, workers' compensation, unemployment, and disability insurance programs for the City and related Trusts, Authorities and System. The Authority pays premiums to the City to cover its estimated share of the current costs incurred by the insurance programs.

Significant losses are covered by commercial insurance for the property and liability programs. The City offers several different employee health and life options which, except for the indemnity health plan are fully insured. The self-insured indemnity health plan is covered by stop-loss coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The City and OCMFA record estimated liabilities for indemnity health care, worker's compensation, torts, and other claims against the City and related Trusts and Authorities. The Authority does not recognize any separate liabilities related to risk management.

I. D. 11. FUND EQUITY

Net Assets

Net assets invested in capital assets, net of related debt and legally restricted amounts are separated from unrestricted net assets.

Net Assets Invested in Capital Assets, Net of Related Debt
The amount reported is calculated as total capital assets less accumulated depreciation and outstanding debt used to purchase the assets net of unspent portions. Unspent portions of bonds payable, along with any amounts used to fund debt reserves, are included with restricted net assets.

Restricted Net Assets
Amounts reported as restricted for debt service include those amounts held in restricted accounts as required by the debt instrument. Restricted amounts held to pay bond interest are reduced by accrued interest payable. Net assets restricted for capital projects include unspent debt proceeds legally restricted for capital outlays. Restricted net assets also include purpose restrictions from enabling legislation and other external sources.

I. D. 12. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from reported estimates.

I. E. MAJOR REVENUES

Aliquot share revenues represent revenues collected or collectible from Participants. OCWUT aliquot share payments are reported as transfers. The Authority trust indenture assigns the aliquot shares of the Participants and details the requirements of the Participants to fund the Authority cash requirements based on the aliquot share ratio.

I. F. TAX STATUS

The Authority is exempt from Federal and state income taxes under Section 115 of the Internal Revenue Code for any trade or business related to the Authority's tax-exempt purpose or function.

I. G. RETAINAGES

It is the policy of the Authority to retain a percentage of construction contracts until a completed project has been accepted by the Trustees. Contractors may request to opt out of this retainage by providing a certificate of deposit with the Authority. The City holds the certificate of deposit and the Authority retains the risk of incurring costs related to a contractor's failure to perform. However, in the event of non-performance, the City calls the certificate and pays the proceeds to the Authority to cover any costs incurred. The Authority does not record the effect of holding the certificates of deposit.

II. ASSETS AND LIABILITIES

II. A. ASSETS

II. A. 1. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be returned or the Authority will not be able to recover collateral securities in the possession of an outside party. The Authority has not adopted a policy addressing custodial credit risk.

At June 30, 2012 and 2011, the Authority's cash is collateralized with securities held by the pledging financial institution in the name of the Authority, less the Federal depository insurance.

Investments

The Authority invests in various investment securities. Investment securities are exposed to various risks such as interest rate risk and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the Authority's financial position. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

	2012			
	Fair Value/ Carrying Amount	Cost	Average Credit Quality/ Ratings (1)	Weighted Average Months to Maturity (2)
Money market fund	$322,613	$322,613	AAA/Aaa	1.93
U.S. Treasury notes	1,494,890	1,450,727	NA	6.17
Guaranteed investment contracts	6,652,500	6,652,500	A/A2	127.97
	$8,470,003	**$8,425,840**		

	2011			
	Fair Value/ Carrying Amount	Cost	Average Credit Quality/ Ratings (1)	Weighted Average Months to Maturity (2)
Money market fund	$2,002,654	$2,002,654	AAA/Aaa	1.47
U.S. Treasury notes	1,690,308	1,645,839	N/A	4.49
Guaranteed investment contracts	6,652,500	6,652,500	AAA/Aaa	140.13
	$10,345,462	**$10,300,993**		

(1) Ratings are provided where applicable to indicate associated credit risk.
(2) Interest rate risk is estimated using weighted average months to maturity.

Bond Indenture Restrictions

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority's bond indenture prescribes investing in (1) direct obligations unconditionally guaranteed by the U.S.; (2) bonds or debentures payable in cash issued by the following Federal agencies: (a) Export Import Bank of the U.S., (b) Federal Financing Bank, (c) Farmer's Home Administration, (d) Federal Housing Administration, (e) Maritime Administration, (f) Public Housing Authorities, (g) Government National Mortgage Association; (3) investments fully insured by Federal deposit insurance: (a) certificates of deposit, (b) savings accounts, (c) deposit accounts, (d) depository receipts; (4) certificates of deposit in excess of Federal deposit insurance properly secured by collateral security consisting of obligations described in (1) and (2) above; (5) commercial paper; (6) money market funds; (7) shares of mutual funds; and (8) investment agreements.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer. 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 rate changes. The bond indenture provides that investments mature in no more than twelve months, depending on the purpose of the funds and the requirements of the account in which funds are deposited. This provision does not apply to the reserve fund which includes a guaranteed investment contract that is 105% collateralized with government backed securities.

The general bond indenture for the Authority Water Revenue Bonds requires the use of trust accounts. The interest and principal bond accounts are used to segregate resources accumulated for debt service payments over the next twelve months. The bond reserve account is used for proceeds of revenue bond issuances set aside to pay the final year of debt service.

Restricted Deposits and Investments

	2012	2011
Bond principal and interest accounts	$3,675,475	$3,692,927
Bond reserve	6,870,187	6,870,405
	$10,545,662	**$10,563,332**

Securities Held by Others
For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities in the possession of an outside party. The Authority has no investments held by an investment counterparty, not in the name of the Authority.

The Authority has not adopted policies addressing custodial credit risk, concentration of credit risk, or interest rate risk for deposits or investments other than restrictions specified in the bond indenture applicable to restricted accounts.

Compliance with State Requirements
Authority bond indenture practice is more restrictive than the requirements of Oklahoma law found in Title 60 of the Oklahoma Statutes and the standards of the Oklahoma Uniform Prudent Investor Act. These statutes restrict public trust investing to the Prudent Investor Rule defined by Title 60 Oklahoma Statutes to consider the purposes, terms, distribution requirements, and other circumstances of the trust and to exercise reasonable care, skill, and caution. Investment decisions must be evaluated not in isolation, but in the context of the Authority portfolio as a whole and as a part of the overall investment strategy having risk and return objectives reasonably suited to the Authority.

II. A. 2. ACCOUNTS RECEIVABLE AND UNCOLLECTIBLE AMOUNTS

Receivables include billings for aliquot share services provided by the Authority to surrogates and designees of the Participants and non-operating revenues. These receivables are due in less than one year. Since there are no delinquencies associated with these accounts, no allowance for uncollectible amounts has been accrued at June 30, 2012 and 2011.

II. A. 3. PREPAIDS

The Authority had a prepaid balance of $34,468 for June 30, 2011. The amount represents the balance for a study for a cathodic protection system for which $100,000 was advanced. During 2012, a refund was requested and the remainder of the balance is reported with intergovernmental receivables at June 30, 2012.

II. A. 4. INTERGOVERNMENTAL ALIQUOT SHARE RECEIVABLE

Aliquot Share Receivable

In August 1992, the trust indenture was amended to define the relationship between the Authority and Participants including OCWUT. Payment of the aliquot share of the costs affords the Participants the right to store and transport water they are permitted to use. The portion of funds paid or transferred to the Authority by the Participants for aliquot shares are a period cost. Unpaid aliquot share balances from the Participants are cumulative and recorded as non-current receivables in the Authority. Payments to the Authority from Participants reduce the amounts receivable from Participants for outstanding aliquot share payments receivable.

Advance Refund Receivable

In 2007, $100,000 was advanced to the Bureau to conduct a feasibility study. At June 30, 2012, the Bureau was asked to refund $34,468, the remaining balance of the advance. The amount was receivable at June 30, 2012.

II. A. 5. CAPITAL ASSETS

Changes in Capital Assets

2012

	Capital Assets, Not Depreciated			Capital Assets, Depreciated				
	Land and Water Storage Rights	Construction In Progress	Total	Buildings	Improvements Other Than Buildings	Furniture, Machinery, & Equipment	Total	Total Capital Assets, net
CAPITAL ASSETS								
Balance, June 30, 2011	$61,528,696	$593,014	$62,121,710	$4,795,098	$21,000,182	$510,274	$26,305,554	$88,427,264
Increases	-	20,237	20,237	-	613,251	59,090	672,341	692,578
Decreases	-	(613,251)	(613,251)	-	-	-	-	(613,251)
Balance, June 30, 2012	61,528,696	-	61,528,696	4,795,098	21,613,433	569,364	26,977,895	88,506,591
ACCUMULATED DEPRECIATION								
Balance, June 30, 2011				2,209,593	9,548,603	333,834	12,092,030	12,092,030
Increases				100,520	499,810	32,839	633,169	633,169
Balance, June 30, 2012				2,310,113	10,048,413	366,673	12,725,199	12,725,199
Capital assets, net	**$61,528,696**	**$ -**	**$61,528,696**	**$2,484,985**	**$11,565,020**	**$202,691**	**$14,252,696**	**$75,781,392**

2011

	Capital Assets, Not Depreciated			Capital Assets, Depreciated				
	Land and Water Storage Rights	Construction In Progress	Total	Buildings	Improvements Other Than Buildings	Furniture, Machinery, & Equipment	Total	Total Capital Assets, net
CAPITAL ASSETS								
Balance, June 30, 2010	$61,528,696	$465,832	$61,994,528	$4,795,098	$21,000,182	$486,978	$26,282,258	$88,276,786
Increases	-	127,182	127,182	-	-	23,296	23,296	150,478
Balance, June 30, 2011	61,528,696	593,014	62,121,710	4,795,098	21,000,182	510,274	26,305,554	88,427,264
ACCUMULATED DEPRECIATION								
Balance, June 30, 2010				2,108,939	9,109,982	303,436	11,522,357	11,522,357
Increases				100,654	438,621	30,398	569,673	569,673
Balance, June 30, 2011				2,209,593	9,548,603	333,834	12,092,030	12,092,030
Capital assets, net	**$61,528,696**	**$593,014**	**$62,121,710**	**$2,585,505**	**$11,451,579**	**$176,440**	**$14,213,524**	**$76,335,234**

Depreciation Expense

Depreciation expense was $633,169 for 2012 and $569,673 for 2011.

II. B. LIABILITIES

II. B. 1. INTERGOVERNMENTAL PAYABLE

Arbitrage Compliance

Proceeds from tax-exempt bonds issued after September 1, 1986, are subject to the 1986 Tax Reform Act. The Authority invests, records, and reports these proceeds in the manner set forth by the U.S. Treasury and Internal Revenue Service to maintain the tax-exempt status of the bonds. The liability for arbitrage is $100,262 and $75,389 at June 30, 2012 and 2011, respectively.

II. B. 2. COMPENSATED ABSENCES

Compensated absences balances changed from 2011 to 2012 by accruals of $13,511 and usages of $9,533 compared to changes in accruals of $24,185 and usages of $7,454 from 2010 to 2011.

II. B. 3. REVENUE BONDS

Water Revenue Bonds

In fiscal year 1993, the Authority issued Water Revenue bonds, Series 1992, in the amount of $91,860,000. The bonds are secured by the OCWUT Agreement. Pursuant to the OCWUT Agreement, dated December 1, 1992, OCWUT granted a security interest in its revenues, which are not required for debt service, reserves, other outstanding requirements, and operations and maintenance expenses. OCWUT is required to transfer the funds necessary for the Authority to pay the principal and interest of the Bonds annually, net of available funds of the Authority. The Authority has recorded an advance from OCWUT to recognize the amount under the OCWUT Agreement.

The general bond indenture provides that the Trustees of the Authority will generate an amount annually to equal 100% of the annual principal and interest requirements on the Bonds for the year, plus generate an amount necessary to comply in all respects with the terms and provisions of the bond indenture. The trust indenture details how the revenues will be generated from aliquot share payments from Participants for this purpose. Amounts received from Participants and OCWUT are considered in determining the amount needed to comply with the indenture requirements.

The bond indenture and its supplement require the use of bond proceeds, project, revenue, and bond accounts. These accounts are held in trust by banks and managed pursuant to terms of the indenture agreement. The indenture provides that gross revenues from operations will be deposited in the revenue account and transfers will be made to the other accounts for current requirements on a monthly basis. However, if the payments and deposits required by the bond indenture are made on or before the 25th day of the month, then during the subsequent month, the gross revenues may be deposited as received directly into the Authority's operating fund, which is not subject to the lien of the indenture. For the years ended June 30, 2012 and 2011, required accounts were maintained in accordance with the bond indenture.

Bonded Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest	Total
2013	$3,505,000	$3,147,000	$6,652,000
2014	3,715,000	2,936,700	6,651,700
2015	3,935,000	2,713,800	6,648,800
2016	4,170,000	2,477,700	6,647,700
2017	4,420,000	2,227,500	6,647,500
2018 - 2022	26,430,000	6,824,400	33,254,400
2023	6,275,000	376,500	6,651,500
	$52,450,000	**$20,703,600**	**$73,153,600**

Revenue Bonds Outstanding

Interest on the Bonds is payable semi-annually on January 1 and July 1 of each year beginning July 1, 1993, continuing until the principal amount of the Bonds is paid.

	Amount Issued	Interest Rate %	Issue Date	Principal Maturity Date	**2012** Principal Balance	**2011** Principal Balance
Water Revenue Bonds, Series 1992	**$91,860,000**	3.0% to 6.0%	12-01-92	2023	**$52,450,000**	**$55,755,000**

Bond Coverage

	2012	2011
Gross revenue, including non-operating revenues and transfers in	$7,384,254	$7,187,031
Direct operating expenses, excluding depreciation and amortization	644,129	421,529
Net revenue available for debt service	**$6,740,125**	**$6,765,502**
Principal amounts	$3,305,000	$3,120,000
Interest amounts	3,345,300	3,532,500
Total debt service requirements	**$6,650,300**	**$6,652,500**
Revenue bond coverage	**1.0**	**1.0**

The bond indenture requires the payment of principal and interest before any other expenditures may be made. Gross revenue includes operating and non-operating revenues and transfers. In addition, depreciation and amortization expenses are excluded from the direct operating expenses as they do not affect funds available for debt service. The required revenue bond coverage is 1.0.

II. B. 4. CHANGES IN LONG-TERM LIABILITIES

2012

	Balance July 1, 2011	Issued	Retired	Balance June 30, 2012	Due Within One Year	Due After One Year
Compensated absences	$62,224	$13,511	$9,533	$66,202	$10,512	$55,690
Revenue bonds	55,755,000	-	3,305,000	52,450,000	3,505,000	48,945,000
	$55,817,224	**$13,511**	**$3,314,533**	**$52,516,202**	**$3,515,512**	**$49,000,690**

2011

	Balance July 1, 2010	Issued	Retired	Balance June 30, 2011	Due Within One Year	Due After One Year
Compensated absences	$45,493	$24,185	$7,454	$62,224	$8,171	$54,053
Revenue bonds	58,875,000	-	3,120,000	55,755,000	3,305,000	52,450,000
	$58,920,493	**$24,185**	**$3,127,454**	**$55,817,224**	**$3,313,171**	**$52,504,053**

II. B. 5. PLEDGED REVENUES

The Authority issued revenue bonds to support its water utilities. The financial statements report revenue-supported debt. The Authority recognized $2,461,676 and $2,299,823 in aliquot share revenues and $4,313,131 and $4,327,651 transfers from OCWUT for principal and interest for 2012 and 2011, respectively.

II. C. INTERFUND BALANCE

The OCWUT Agreement guarantees OCWUT will make up shortfalls of the Authority for debt service requirements, operation and maintenance, extraordinary expenses and capital improvements, as well as funds necessary to maintain the bond fund minimum required balance reserve. The Authority has recorded an advance from OCWUT to recognize the amount loaned under the OCWUT Agreement. At June 30, 2012 and 2011, the balance due to OCWUT is $45,391,204 and $43,256,623, respectively.

III. NET ASSETS

Invested in Capital Assets, Net of Related Debt

	2012	**2011**
Capital assets, net	$75,781,392	$76,335,234
Retainages and accounts payable	(5,680)	(63,745)
Bonds payable, net	(51,857,859)	(55,081,062)
Bond reserve funded with bond proceeds	1,152,500	1,152,500
Bond issuance costs paid from bond proceeds	897,078	897,078
	$25,967,431	**$23,240,005**

Restricted for Debt Service

	2012	**2011**
Bond principal and interest accounts	$3,675,475	$3,692,927
Bond reserve	6,870,187	6,870,405
Bond reserve funded with bond proceeds	(1,152,500)	(1,152,500)
Interest receivable on bond investments	44,050	2,182
Current bond interest payable	(1,573,500)	(1,672,650)
	$7,863,712	**$7,740,364**

Unrestricted

	2012	**2011**
Unrestricted	**($1,054,434)**	**($935,261)**

IV. INTERFUND TRANSFERS

The Authority received $4,313,131 and $4,327,651 from OCWUT for aliquot share requirements in 2012 and 2011, respectively.

V. DEFINED CONTRIBUTION PENSION

Authority employees participate in a deferred compensation, defined contribution plan (Plan) administered by Nationwide Retirement Systems and established through the U.S. Conference of Mayors and approved by the Authority. Participants of the Plan are comprised of all eligible employees of the Authority. All full-time employees are eligible. At June 30, 2012 and 2011 all eligible employees were participating in the Plan.

The Authority and participants contribute 8% and 6%, respectively, to the Plan. Plan provisions and contribution requirements are established and amended by the Board of Trustees.

	Contributions	
Fiscal Year	Employer	Employee
2012	$11,448	$8,586
2011	10,582	7,936
2010	10,436	7,827

The annual financial report that includes financial statements and required supplementary information for the Plan may be obtained from Nationwide Retirement Solutions, P.O. Box 182787, Columbus, Ohio 43218-2797.

VI. CONSTRUCTION COMMITMENTS

At June 30, 2011 the Authority had outstanding construction commitments for engineering services, materials and labor of $20,237. There were no outstanding commitments at June 30, 2012.

VII. RELATED PARTY TRANSACTIONS

Administrative Services

City employees perform administrative and management services for the Authority. OCWUT transfers funds to the City for the cost of these services for the City Utilities Department, including the Authority. The Authority does not reimburse OCWUT for its share of these costs.

Bureau Services

Authority performed minimal maintenance tasks for the Bureau. Charges to the Bureau are based on agreed upon allocation rates of specifically identified costs. The Authority recorded revenue from the Bureau for services provided of $30,353 and $14,909 in 2012 and 2011, respectively.

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

Board of Trustees
McGee Creek Authority
Farris, Oklahoma

We have audited the financial statements of McGee Creek Authority (the Authority), a component unit of the City of Oklahoma City, Oklahoma (the City), as of and for the year ended June 30, 2012, and have issued our report thereon dated December 7, 2012. 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

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

<u>Compliance and Other Matters</u>

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

The 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* of the City should be read in conjunction with this report.

This report is intended solely for the information and use of the Board of Trustees; the City; the Oklahoma City Water Utilities Trust; the City of Atoka, Oklahoma; the Atoka County Commission; the Southern Oklahoma Development Trust; management; and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

December 7, 2012