McGee Creek Authority

A blended component unit enterprise fund of The Oklahoma City Water Utilites Trust

Annual Financial Report | for the Fiscal Year ended June 30, 2016

MCGEE CREEK AUTHORITY

Farris, Oklahoma

A Blended Component Unit Enterprise Fund of
the Oklahoma City Water Utilities Trust

Board of Trustees

Pete White, Chairman
Oklahoma City Water Utilities Trust, Chairman

Robert Frederick, Vice Chairman
Mayor of the City of Atoka, Oklahoma

Cliff Ridgway
Atoka County Commission, Chairman

Mick Cornett
Mayor of the City of Oklahoma City

Vacant
Southern Oklahoma Development Trust

Management

Marsha Slaughter, General Manager

Annual Financial Report for the Fiscal Year Ended June 30, 2016

Prepared by The Oklahoma City Finance Department, Accounting Services Division
Laura L. Papas, Controller

MCGEE CREEK AUTHORITY

TABLE OF CONTENTS

For the Fiscal Years Ended June 30, 2016 and 2015

This Page Intentionally Left Blank

Introductory Section

McGee Creek Authority

420 West Main, Suite 500
Oklahoma City, Oklahoma 73102
(405) 297-2822 • fax (405) 297-3813

November 18, 2016

The Board of Trustees
McGee Creek Authority
Farris, 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 years ended June 30, 2016 and 2015. 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 auditors, 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 years ended June 30, 2016 and 2015, is in the MD&A section of this report, immediately following the independent auditor's 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 on August 1, 1977, to develop, operate and maintain the McGee Creek Reservoir (Reservoir) and to provide a municipal and industrial water supply for participants of the Authority (Participants) in central and southern Oklahoma. The Participants in the Authority are the City of Atoka, the County of Atoka, the Southern Oklahoma Development Trust, the City of Oklahoma City (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 McGee Creek Dam (Dam), Reservoir, and related assets. The Authority does not own the Dam or Reservoir.

The trust indenture of the Authority details the aliquot share requirements of the Participants. Aliquot share revenues and payments 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.

The 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 AGH, L.C. to conduct its annual audit. The Authority acknowledges the professional and competent services of its independent auditors.

Respectfully submitted:

Chris Browning
General Manager
Utilities Department Director

Bret Weingart
The City of Oklahoma City
Utilities Department Assistant Director

Laura L. Papas
The City of Oklahoma City
Controller

Financial Section

CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
McGee Creek Authority
Farris, Oklahoma

Report on the Financial Statements

We have audited the accompanying basic financial statements of McGee Creek Authority (Authority), a blended component unit of The City of Oklahoma City Water Utilities Trust, as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed on the table of contents.

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 of America; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's 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 auditor considers internal control relevant to the entity'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 entity'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.

Opinion

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

Emphasis of Matter

As discussed in *Note I.D.1.* to the financial statements, in 2016, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Allen, Gibbs & Houlik, L.C. aghlc.com ▲ aghemployersolutions.com ● aghuniversity.com ■ 316.267.7231 ■ 301 N. Main, Suite 1700 ■ Wichita, KS 67202-4868

Other Matters

Report on Prior-Period Information

The financial statements of the Authority, as of and for the year ended June 30, 2015 were audited by other auditors, whose report, dated December 4, 2015, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis and the required supplementary information listed on the table of contents 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 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying transmittal letter is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The transmittal letter has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2016 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* in considering the Authority's internal control over financial reporting and compliance.

Allen, Gibbs & Houlik, L.C.

CERTIFIED PUBLIC ACCOUNTANTS

November 18, 2016
Wichita, KS

Financial Section

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, 2016 and 2015. 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 Oklahoma City Water Utilities Trust (OCWUT).

Financial Summary

- Authority assets exceeded liabilities by $47,046,506 (net position) for 2016. This compares to the previous year when assets exceeded liabilities by $43,111,249 (net position).

- Total assets for the Authority increased by $2,157,561 (1.6%) to $138,543,987 during 2016 and increased by $1,756,960 (1.3%) to $136,386,426 for 2015.

- Total liabilities for the Authority decreased by $1,777,696 (1.9%) to $91,497,481 during 2016 and decreased by $1,958,377 (2.1%) to $93,275,177 during 2015.

- Total net position is comprised of the following:
  (1) Net investment in capital assets of $39,734,137 and $35,685,077 for 2016 and 2015, 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 position for 2016 and 2015 of $8,330,560 and $8,258,655, respectively, is restricted for debt service by constraints imposed by debt covenants.
  (3) Unrestricted deficit is $1,018,191 for 2016 and $832,483 for 2015.

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 position, (2) statement of revenues, expenses, and changes in net position, (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 position. This statement presents information that includes all of the Authority's assets and liabilities, with the difference reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating, identify financial strengths and weaknesses, and assess liquidity.

The second statement is the statement of revenues, expenses, and changes in net position which reports how the Authority's net position 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's financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Financial Analysis

The Authority's net position at June 30, 2016 and 2015, is $47,046,506 and $43,111,249, respectively. The overall financial condition of the Authority improved in fiscal year 2016.

Summary of Net Position

	2016	2015	2016-2015 Amount of Change	2016-2015 % Change	2014	2015-2014 Amount of Change	2015-2014 % Change
Assets							
Current assets	$3,837,648	$4,111,713	($274,065)	(6.7%)	$4,365,380	($253,667)	(5.8%)
Capital assets, net	74,726,002	74,679,104	46,898	0.1	75,103,291	(424,187)	(0.6)
Other non-current assets	59,980,337	57,595,609	2,384,728	4.1	55,160,795	2,434,814	4.4
Total assets	**138,543,987**	**136,386,426**	**2,157,561**	1.6	**134,629,466**	**1,756,960**	1.3
Liabilities							
Current liabilities	5,758,844	5,514,801	244,043	4.4	5,354,543	160,258	3.0
Non-current liabilities	85,738,637	87,760,376	(2,021,739)	(2.3)	89,879,011	(2,118,635)	(2.4)
Total liabilities	**91,497,481**	**93,275,177**	**(1,777,696)**	(1.9)	**95,233,554**	**(1,958,377)**	(2.1)
Net position							
Net investment in capital assets	39,734,137	35,685,077	4,049,060	11.3	32,309,364	3,375,713	10.4
Restricted for debt service	8,330,560	8,258,655	71,905	0.9	8,100,015	158,640	2.0
Unrestricted	(1,018,191)	(832,483)	(185,708)	(22.3)	(1,013,467)	180,984	17.9
Total net position	**$47,046,506**	**$43,111,249**	**$3,935,257**	9.1	**$39,395,912**	**$3,715,337**	9.4

Current assets decreased by $274 thousand and $254 thousand in 2016 and 2015 respectively. Cash and investments decreased by $77 thousand in 2016 and $492 thousand in 2015. Interest receivable decreased by $238 thousand in 2016 and increased by $236 thousand in 2015 primarily due to the timing of investment interest receipts.

Capital assets increased by $47 thousand in 2016 due to an increase of $1.06 million in capital improvements and equipment, offset by $720 thousand in normal depreciation and retirements of $298 thousand. In 2015, capital assets decreased by $424 thousand primarily due to normal depreciation of $717 thousand and retirements of $39 thousand, net of additions of $266 thousand. Other non-current assets increased by $2.38 million and $2.43 million in 2016 and 2015, respectively due to increases in aliquot share receivable of $2.18 million and $2.23 million, an increase in restricted investments of $218 thousand each year offset by a $14 thousand and $15 thousand decrease in prepaid bond insurance in 2016 and 2015, respectively.

Current liabilities increased $244 thousand and $160 thousand in 2016 and 2015, respectively. Bonds payable increased $250 thousand in 2016 and $236 thousand in 2015 for the reclassification of regularly scheduled bond principal payments to current liabilities, offset by scheduled bond payments. Accounts payable and accrued expenses and wages and benefits payable increased by $111 thousand and $38 thousand due to timing of vendor payments and payroll accruals in 2016 and 2015, respectively. Bond interest payable decreased $125 thousand in 2016 and $118 thousand in 2015 related to regularly scheduled debt service.

Non-current liabilities decreased $2.02 million and $2.12 million in 2016 and 2015 due primarily to decreases in bonds payable for regularly scheduled debt service of $4.35 million and $4.09 million, respectively, offset by increases in advances to OCWUT for amounts received in excess of aliquot share requirements to fund operating costs and debt service of $2.32 million and $1.96 million, respectively.

Summary of Revenues, Expenses, and Changes in Net Position

	2016	2015	2016-2015 Amount of Change	2016-2015 % Change	2014	2015-2014 Amount of Change	2015-2014 % Change
Operating revenues							
Charges for services	$7,392,657	$7,458,767	($66,110)	(0.9%)	$7,340,376	$118,391	1.6%
Other operating revenue	-	-	-	0.0	10	(10)	(100.0)
Total operating revenues	**7,392,657**	**7,458,767**	**(66,110)**	(0.9)	**7,340,386**	**118,381**	1.6
Operating expenses	**1,293,786**	**1,626,270**	**(332,484)**	(20.4)	**1,340,585**	**285,685**	21.3
Net operating income	**6,098,871**	**5,832,497**	**266,374**	4.6	**5,999,801**	**(167,304)**	(2.8)
Net non-operating expenses	**(2,163,614)**	**(2,117,160)**	**(46,454)**	2.2	**(2,325,960)**	**208,800**	(9.0)
Changes in net position	**3,935,257**	**3,715,337**	**219,920**	5.9	**3,673,841**	**41,496**	1.1
Beginning net position	**43,111,249**	**39,395,912**	**3,715,337**	9.4	**35,722,071**	**3,673,841**	10.3
Ending net position	**$47,046,506**	**$43,111,249**	**$3,935,257**	9.1	**$39,395,912**	**$3,715,337**	9.4

Charges for services decreased $66 thousand during 2016 due to aliquot share revenues related to changes in cash requirements. Operating expenses decreased by $332 thousand primarily due to decreased electricity usage for pumping costs due to higher lake levels throughout the year. During 2015 charges for services increased by $118 thousand due to aliquot share revenues related to changes in cash requirements. Operating expenses increased by $286 thousand primarily due to increased electricity usage for pumping costs of $240 thousand to bring lake levels up to normal capacity and increased depreciation expense of $46 thousand due to asset additions.

In 2016 net non-operating expenses increased by $46 thousand primarily for a decrease in bond interest expense of $250 thousand, increased asset retirements of $258 thousand, and a decrease in interest income of $50 thousand. During 2015 net non-operating expense decreased by $209 thousand related, for the most part, to decreased bond interest expense of $236 thousand, offset by $39 thousand for the retirement of architect and engineering costs related to the abandoned project to refurbish the power generation facility.

Capital Assets and Long-term Debt

Capital Assets

The Authority's investment in capital assets, net of accumulated depreciation, as of June 30, 2016 and 2015, is $74,726,002 and $74,679,104, respectively.

Capital Assets
Net of Accumulated Depreciation

	2016	2015	2016 - 2015 Amount of Change	2016 - 2015 % Change	2014	2015 - 2014 Amount of Change	2015 - 2014 % 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	1,038,322	316,656	721,666	227.9	84,096	232,560	276.5
Total non-depreciable assets	62,567,018	61,845,352	721,666	1.2	61,612,792	232,560	0.4
Depreciable Assets							
Buildings	2,082,905	2,183,425	(100,520)	(4.6)	2,283,945	(100,520)	(4.4)
Improvements other than buildings	9,790,051	10,281,497	(491,446)	(4.8)	10,802,716	(521,219)	(4.8)
Furniture, machinery, and equipment	286,028	368,830	(82,802)	(22.4)	403,838	(35,008)	(8.7)
Total depreciable assets	12,158,984	12,833,752	(674,768)	(5.3)	13,490,499	(656,747)	(4.9)
Totals	**$74,726,002**	**$74,679,104**	**$46,898**	0.1	**$75,103,291**	**($424,187)**	(0.6)

Capital assets increased by $47 thousand in 2016. Construction in progress increased by $1.02 million for regulating tank renovations, offset by asset retirements of $298 thousand due to expensing costs determined to be repairs rather than capital improvements. Total depreciable assets decreased by $675 thousand due to depreciation of $720 thousand, offset by a $68 thousand increase in improvements and equipment for pump seal refurbishments, and regulating tank radio equipment as part of a communications systems upgrade. In 2015 capital assets decreased by $424 thousand. Construction in progress increased by $233 thousand due to $272 thousand for beginning construction on facilities improvements on McGee Creek headquarters building which were determined to be repairs and not capital in 2016 and regulating tank renovations, offset by $39 thousand due to the retirement of architect and engineering costs related to the abandoned project to refurbish the power generation facility. Total depreciable assets decreased by $657 thousand due to $717 thousand in normal depreciation, offset by $60 thousand for the purchase of a truck, a lawn mower, and radio and network equipment purchased as part of a communications systems upgrade. See Note II. E. for more information regarding capital assets.

Long-term Debt

At the end of the 2016 and 2015 fiscal years, the Authority had total debt outstanding of $90,314,948 and $92,168,272, respectively.

Payable to OCWUT

On December 1, 1992, OCWUT and the Authority entered into an agreement (OCWUT Agreement) in conjunction with the issuance of the Series 1992 Water Revenue 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 reports payments from OCWUT as payable for amounts paid on behalf of the other participants of the Authority. See Note V. A. for more information regarding interfund balances.

Revenue Bonds

The Authority Series 1992 Water Revenue Bonds 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 of the Authority. 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 2016 and 2015. See Note III. C. for more information regarding revenue bonds.

Outstanding Long-term Debt

	2016	2015	2016 - 2015 Amount of Change	2016 - 2015 % Change	2014	2015 - 2014 Amount of Change	2015 - 2014 % Change
Payable to OCWUT	$53,189,948	$50,873,272	$2,316,676	4.6%	$48,917,070	$1,956,202	4.0%
Revenue bonds	37,125,000	41,295,000	(4,170,000)	(10.1)	45,230,000	(3,935,000)	(8.7)
	$90,314,948	**$92,168,272**	**($1,853,324)**	(2.0)	**$94,147,070**	**($1,978,798)**	(2.1)

The change in outstanding debt for both 2016 and 2015 is the result of amounts received under the OCWUT Agreement and scheduled principal bond debt service payments. See Note III. D. for more information on changes in long-term debt.

Bond Ratings

As of June 30, 2016 and 2015, Standard and Poor's Rating Services reported a credit rating on the Authority's debt of AA and Moody's Rating Services reported a credit rating of A3, which are the credit ratings of the insurer of the bonds.

Economic Factors

Utility Rates

Aliquot share revenue may be generated by payments from surrogates or designees of Participants. The Authority uses OCWUT's rate study information as a basis for determining these charges. The Authority increased the rate 4% effective each October from 2010 through 2014. In October 2015 a new tiered rate structure went into effect with rates based on meter size and usage volume.

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.

This Page Intentionally Left Blank

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.

	2016	**2015**
ASSETS		
CURRENT ASSETS		
Non-pooled cash	$1,308,438	$236,045
Investments	2,372,322	3,522,022
Accounts receivable, net	47,034	42,354
Interest receivable	25,182	263,000
Intergovernmental receivables	69,661	31,821
Prepaids	15,011	16,471
Total current assets	3,837,648	4,111,713
NON-CURRENT ASSETS		
Investments	7,089,427	6,871,368
Intergovernmental aliquot share receivable	52,849,523	50,669,127
Non-current prepaids	41,387	55,114
Capital assets:		
Land, water storage rights and construction in progress	62,567,018	61,845,352
Other capital assets, net of accumulated depreciation	12,158,984	12,833,752
Total capital assets	74,726,002	74,679,104
Total non-current assets	134,706,339	132,274,713
Total assets	**138,543,987**	**136,386,426**
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	194,961	85,109
Wages and benefits payable	9,793	8,563
Payable to City of Oklahoma City	3,396	493
Compensated absences	16,944	11,786
Bond interest payable	1,113,750	1,238,850
Bonds payable	4,420,000	4,170,000
Total current liabilities	5,758,844	5,514,801
NON-CURRENT LIABILITIES		
Compensated absences	44,509	45,575
Intergovernmental payable	53,038	41,269
Payable to Oklahoma City Water Utilities Trust	53,189,948	50,873,272
Bonds payable:		
Bonds payable	32,705,000	37,125,000
Unamortized bond discount	(253,858)	(324,740)
Bonds payable, net	32,451,142	36,800,260
Total non-current liabilities	85,738,637	87,760,376
Total liabilities	**91,497,481**	**93,275,177**
NET POSITION		
Net investment in capital assets	39,734,137	35,685,077
Restricted for debt service	8,330,560	8,258,655
Unrestricted	(1,018,191)	(832,483)
Total net position	**$47,046,506**	**$43,111,249**

See accompanying notes to financial statements.

	2016	2015
OPERATING REVENUES		
Charges for services:		
Aliquot share charges	$2,502,586	$2,476,367
Aliquot share payments from Oklahoma City Water Utilities Trust	4,890,071	4,982,400
Total charges for services	7,392,657	7,458,767
Total operating revenues	**7,392,657**	**7,458,767**
OPERATING EXPENSES		
Personal services	246,666	240,415
Maintenance, operations, and contractual services	267,261	616,754
Materials and supplies	60,300	52,215
Depreciation	719,559	716,886
Total operating expenses	**1,293,786**	**1,626,270**
Operating income	**6,098,871**	**5,832,497**
NET NON-OPERATING EXPENSES		
Investment income	547,205	596,785
Interest on bonds	(2,423,482)	(2,673,859)
Bond insurance	(15,389)	(16,958)
Arbitrage	(11,768)	(15,088)
Other expenses	(260,180)	(8,040)
Net non-operating expenses	**(2,163,614)**	**(2,117,160)**
Changes in net position	**3,935,257**	**3,715,337**
Total net position, beginning	43,111,249	39,395,912
Total net position, ending	**$47,046,506**	**$43,111,249**

See accompanying notes to financial statements.

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

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$317,508	$218,338
Cash payments to suppliers for goods and services	(311,967)	(688,939)
Cash payments to employees and professional contractors for services	(241,345)	(231,673)
Payments received from the Oklahoma City Water Utilities Trust	7,206,747	6,938,602
Other cash receipts	-	51,999
Net cash provided by operating activities	**6,970,943**	**6,288,327**
CASH FLOWS FROM CAPITAL AND CAPITAL RELATED FINANCING ACTIVITIES		
Payments for acquisition and construction of capital assets	(967,517)	(275,057)
Principal paid on long-term debt	(4,170,000)	(3,935,000)
Interest paid on long-term debt	(2,477,700)	(2,713,800)
Net cash used by capital and capital related financing activities	**(7,615,217)**	**(6,923,857)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for purchase of investments	(22,272,376)	(21,224,454)
Proceeds from sale of investments	23,208,489	21,144,826
Investment income received	781,719	427,738
Purchased interest	(1,165)	1,433
Net cash provided by investing activities	**1,716,667**	**349,543**
Net increase (decrease) in cash	**1,072,393**	**(285,987)**
Cash, beginning	236,045	522,032
Cash, ending	**$1,308,438**	**$236,045**
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$6,098,871	$5,832,497
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation	719,559	716,886
Other revenue (expense)	37,840	14,349
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(4,684)	(25,702)
(Increase) decrease in prepaid assets	(203)	17,447
(Increase) decrease in intergovernmental receivable	(37,840)	20,690
(Increase) decrease in intergovernmental aliquot share receivable	(2,180,396)	(2,232,327)
Increase (decrease) in accounts payable	12,895	(20,951)
Increase (decrease) in wages and benefits payable	1,230	1,900
Increase (decrease) in payable to the Oklahoma City Water Utilities Trust	2,316,676	1,956,201
Increase (decrease) in payable to City of Oklahoma City	2,903	493
Increase (decrease) in compensated absences	4,092	6,844
Total adjustments	872,072	455,830
Net cash provided by operating activities	**$6,970,943**	**$6,288,327**
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Net increase (decrease) in fair value of investments	$4,470	($67,953)
Total non-cash investing, capital, and financing activities	**$4,470**	**($67,953)**

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, 2016 and 2015. Certain reclassifications on the 2015 statement of cash flows have been made to conform with current year presentation.

I. B. REPORTING ENTITY AND RELATIONSHIP TO THE OKLAHOMA CITY WATER UTILITIES TRUST (TRUST) AND THE CITY OF OKLAHOMA CITY (CITY)

Reporting Entity

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 1, 1977. The purpose of the Authority is, generally, to act as the contracting party for acquiring land, constructing facilities, and operating and maintaining a water storage and transportation facility at the McGee Creek Reservoir (Reservoir). The beneficiaries of the Authority (Beneficiaries) are the City; City of Atoka, Oklahoma; Atoka County, Oklahoma; and Southern Development Trust. 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 OCWUT's Annual Statement and the City’s Comprehensive Annual Financial Report (CAFR)

The Authority is presented as a blended component unit of OCWUT and is presented with OCWUT's financial reporting entity. The Authority meets the requirements for blending because OCWUT is expected to fund the repayment of the Authority's debt. The financial activities of the Authority are blended and presented in the OCWUT annual statement. The blended financial activities of OCWUT and the Authority are presented in the aggregate in the City's CAFR. The OCWUT annual statement and the City CAFR financial statements may be obtained from the Finance Department, Accounting Services Division, 100 N. Walker Avenue, Suite 300, Oklahoma City, OK 73102.

Authority Administration

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

I. B. 1. BASIC FINANCIAL STATEMENTS

The basic financial statements include the statement of net position; the statement of revenues, expenses and changes in net position; 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

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, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND EQUITY

I. D. 1. CASH AND INVESTMENTS

Implementation of New Accounting Standard

Effective July 1, 2015, the Authority implemented GASB statement number 72, Fair Value Measurement and Application. This statement is designed to enhance comparability of financial statements among governments by requiring consistent definitions of fair value and accepted valuation techniques in the measurement of fair value. It also provides additional disclosure to provide information about the impact of fair value measurements on financial position.

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.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

Accounting guidance establishes a consistent framework for measuring fair value and establishes a fair value hierarchy based on the observability of inputs used to measure fair value. These different levels of valuation hierarchy are described as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Quoted prices for similar assets or liabilities in active markets or inputs other than quoted prices that are observable.

Level 3 - Significant unobservable prices or inputs.

An investment's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

I. D. 2. 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. 3. PREPAIDS

Prepaids are payments to vendors that benefit future reporting periods and are reported on the consumption basis. Non-current prepaids benefit periods beyond the following 12 month period. Payments to vendors that are less than $500 are considered *di minimus* and are reported with expenses in the year of payment.

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 between the Authority and OCWUT for services or goods, subsidy commitments outstanding at year-end, or other miscellaneous receivables/payables between funds. Activity that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are described as advances to/from other funds.

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.

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. BOND DISCOUNT

Bond discounts related to the issuance of revenue bonds 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 recorded in the City Risk Management Fund and the Oklahoma City Municipal Facilities Authority (OCMFA) Services Fund. The purpose of these funds is to administer property and liability insurance programs of the City, in which the Authority participates. These funds account for the risk financing activities of the Authority and constitute a transfer of risk from the Authority.

The Authority has no costs or liabilities related to risk management activities. Costs and liabilities for commercial insurance, stop-loss insurance, and claims paid are recorded in the City Risk Management Fund and the OCMFA Services Fund.

I. D. 11. FUND EQUITY

Net Position

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

Net Investment in Capital Assets
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 position.

Restricted Net Position
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 position restricted for capital projects include unspent debt proceeds legally restricted for capital outlays. Restricted net position also includes 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 payments from OCWUT. 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

II. A. 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, 2016 and 2015, the Authority's cash is collateralized with securities held by the pledging financial institution in the name of the Authority or the City, 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.

2016

	Cost	Fair Value/ Carrying Amount	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Measured at NAV (1)	Average Credit Quality/ Ratings (2)	Weighted Average (months) (3)
Money market (4)(5)	$533,330	$533,330	$ -	$ -	$ -	$ -	AAA/Aaa	1.53
U.S. Treasury bills	1,834,219	1,893,006	-	1,893,004	-	-	N/A	6.13
U.S. Treasury notes	367,459	382,913	-	382,913	-	-	N/A	6.13
Guaranteed investment contracts (4)	6,652,500	6,652,500	-	-	-	-	A/A2	79.23
	$9,387,508	**$9,461,749**	**$ -**	**$2,275,917**	**$ -**	**$ -**		

2015

	Cost	Fair Value/ Carrying Amount	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Measured at NAV (1)	Average Credit Quality/ Ratings (2)	Weighted Average (months) (3)
Money market (4)(5)	$1,592,255	$1,592,255	$ -	$ -	$ -	$ -	AAA/Aaa	1.03
U.S. Treasury notes	2,078,865	2,148,635	-	2,148,635	-	-	N/A	6.04
Guaranteed investment contracts (4)	6,652,500	6,652,500	-	-	-	-	A/A2	91.43
	$10,323,620	**$10,393,390**	**$ -**	**$2,148,635**	**$ -**	**$ -**		

(1) The net asset value (NAV) is a practical expedient to estimate fair value.

(2) Ratings are provided where applicable to indicate associated credit risk.

(3) Interest rate risk is estimated using weighted average months to maturity.

(4) Valued at cost.

(5) Consists solely of U.S. Treasury securities.

Fair Value Measurement

The following is a description of the valuation methodologies used for assets measured at fair value in the tables above. There have been no changes in the methodologies used at June 30, 2016 and 2015.

An investment's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

U.S. Treasury bills and notes use pricing models that maximize the use of observable inputs for similar securities and are valued at level 2.

Money market funds and the guaranteed investment contract are valued at cost and therefore do not report a fair value measurement. The Authority's guaranteed investment contract security is considered nonparticipating contracts with redemption terms that do not consider market rates.

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 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

	2016	2015
Bond principal and interest accounts	$3,486,072	$3,522,022
Bond reserve	7,089,427	6,871,368
	$10,575,499	**$10,393,390**

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. B. 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, 2016 and 2015.

II. C. INTERGOVERNMENTAL RECEIVABLES

Intergovernmental Receivable - Current

Each year the Authority performs minimal maintenance tasks for the Bureau of Reclaimation (Bureau). Charges to the Bureau for these services are based on agreed upon allocation rates of specifically identified costs. The Authority recorded unbilled amounts receivable from the Bureau for services provided of $69,661 and $31,821 in 2016 and 2015, respectively.

Intergovernmental 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. Payments to the Authority from Participants reduce the amounts receivable from Participants for outstanding aliquot share payments receivable.

II. D. PREPAIDS

As of June 30, 2016 and 2015, the Authority had prepaid bond insurance of $55,113 and $70,503, respectively, related to the issuance of Series 1992 revenue bonds. At June 30, 2016 and 2015, the Authority had additional prepaid expenses of $1,285 and $1,082, respectively, for vehicle insurance.

II. E. CAPITAL ASSETS

Changes in Capital Assets

	2016								
	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, 2015	$61,528,696	$316,656	$61,845,352	$4,795,098	$21,859,782	$898,192	$27,553,072	$89,398,424
Increases	-	1,019,682	1,019,682	-	34,074	10,717	44,791	1,064,473
Decreases	-	-	-	-	(298,016)	-	(298,016)	(298,016)
Transfers	-	(298,016)	(298,016)	-	298,016	-	298,016	-
Balance, June 30, 2016	61,528,696	1,038,322	62,567,018	4,795,098	21,893,856	908,909	27,597,863	90,164,881
ACCUMULATED DEPRECIATION								
Balance, June 30, 2015				2,611,673	11,578,285	529,362	14,719,320	14,719,320
Increases				100,520	525,520	93,519	719,559	719,559
Balance, June 30, 2016				2,712,193	12,103,805	622,881	15,438,879	15,438,879
Capital assets, net	**$61,528,696**	**$1,038,322**	**$62,567,018**	**$2,082,905**	**$9,790,051**	**$286,028**	**$12,158,984**	**$74,726,002**

(continued)

Changes in Capital Assets (continued)

	2015							
	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, 2014	$61,528,696	$84,096	$61,612,792	$4,795,098	$21,856,834	$867,662	$27,519,594	$89,132,386
Increases	-	271,290	271,290	-	2,948	57,809	60,757	332,047
Decreases	-	(38,730)	(38,730)	-	-	(27,279)	(27,279)	(66,009)
Balance, June 30, 2015	61,528,696	316,656	61,845,352	4,795,098	21,859,782	898,192	27,553,072	89,398,424
ACCUMULATED DEPRECIATION								
Balance, June 30, 2014				2,511,153	11,054,118	463,824	14,029,095	14,029,095
Increases				100,520	524,167	92,199	716,886	716,886
Decreases				-	-	(26,661)	(26,661)	(26,661)
Balance, June 30, 2015				2,611,673	11,578,285	529,362	14,719,320	14,719,320
Capital assets, net	**$61,528,696**	**$316,656**	**$61,845,352**	**$2,183,425**	**$10,281,497**	**$368,830**	**$12,833,752**	**$74,679,104**

Depreciation Expense

Depreciation expense was $719,559 for 2016 and $716,886 for 2015.

III. LIABILITIES

III. A. 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 $53,038 and $41,269 reported with non-current liabilities at June 30, 2016 and 2015, respectively.

III. B. COMPENSATED ABSENCES

Compensated absences balances changed from 2015 to 2016 by accruals of $19,291 and usages of $15,199 compared to changes in accruals of $17,488 and usages of $10,645 from 2014 to 2015.

III. C. REVENUE BONDS

Water Revenue Bonds

In fiscal year 1993, the Authority issued Series 1992 Water Revenue Bonds in the amount of $91,860,000. The bonds are secured by an agreement of support (OCWUT Agreement). The OCWUT Agreement, dated December 1, 1992, 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. Pursuant to the OCWUT Agreement, 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 Series 1992 Water Revenue Bonds annually, net of available funds of the Authority. The Authority has recorded an advance from OCWUT to recognize the amount received 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 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, 2016 and 2015, required accounts were maintained in accordance with the bond indenture.

Bonded Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest	Total
2017	$4,420,000	$2,227,500	$6,647,500
2018	4,690,000	1,962,300	6,652,300
2019	4,970,000	1,680,900	6,650,900
2020	5,265,000	1,382,700	6,647,700
2021	5,585,000	1,066,800	6,651,800
2022-2023	12,195,000	1,108,200	13,303,200
	$37,125,000	**$9,428,400**	**$46,553,400**

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	**2016** Principal Balance	**2015** Principal Balance
Water Revenue Bonds, Series 1992	**$91,860,000**	3.0% to 6.0%	12-01-92	2023	**$37,125,000**	**$41,295,000**

Bond Coverage

	2016	2015
Gross revenue, including non-operating revenues and payments from OCWUT	$7,939,862	$8,055,552
Direct operating expenses, excluding depreciation and amortization	834,407	917,424
Net revenue available for debt service	**$7,105,455**	**$7,138,128**
Principal amounts	$4,170,000	$3,935,000
Interest amounts	2,477,700	2,713,800
Total debt service requirements	**$6,647,700**	**$6,648,800**
Revenue bond coverage	**1.06**	**1.07**

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 payments from OCWUT. 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.

III. D. CHANGES IN LONG-TERM LIABILITIES

	2016					
	Balance July 1, 2015	Issued	Retired	Balance June 30, 2016	Due Within One Year	Due After One Year
Intergovernmental payable (1)	$41,269	$11,769	$ -	$53,038	$ -	$53,038
Payable to OCWUT	50,873,272	2,316,676	-	53,189,948	-	53,189,948
Compensated absences	57,361	19,291	15,199	61,453	16,944	44,509
Revenue bonds	41,295,000	-	4,170,000	37,125,000	4,420,000	32,705,000
	$92,266,902	**$2,347,736**	**$4,185,199**	**$90,429,439**	**$4,436,944**	**$85,992,495**

	2015					
	Balance July 1, 2014	Issued	Retired	Balance June 30, 2015	Due Within One Year	Due After One Year
Intergovernmental payable (1)	$26,181	$15,088	$ -	$41,269	$ -	$41,269
Payable to OCWUT	48,917,070	1,956,202	-	50,873,272	-	50,873,272
Compensated absences	50,518	17,488	10,645	57,361	11,786	45,575
Revenue bonds	45,230,000	-	3,935,000	41,295,000	4,170,000	37,125,000
	$94,223,769	**$1,988,778**	**$3,945,645**	**$92,266,902**	**$4,181,786**	**$88,085,116**

(1) Intergovernmental payable does not include amounts payable within one year.

III. E. PLEDGED REVENUES

The Authority issued revenue bonds to support its water utilities. The financial statements report revenue-supported debt. The Authority recognized $2,502,586 and $2,476,367 in aliquot share revenues and $4,890,071 and $4,982,400 payments from OCWUT for aliquot shares for 2016 and 2015, respectively.

IV. NET POSITION

Net Investment in Capital Assets

	2016	2015
Capital assets, net	$74,726,002	$74,679,104
Retainages and accounts payable	(170,301)	(73,345)
Bonds payable, net	(36,871,142)	(40,970,260)
Bond reserve funded with bond proceeds	1,152,500	1,152,500
Bond issuance costs paid from bond proceeds	897,078	897,078
	$39,734,137	**$35,685,077**

Restricted for Debt Service

	2016	2015
Bond principal and interest accounts	$3,486,072	$3,522,022
Bond reserve	7,089,427	6,871,368
Bond reserve funded with bond proceeds	(1,152,500)	(1,152,500)
Interest receivable on bond investments	21,311	256,615
Current bond interest payable	(1,113,750)	(1,238,850)
	$8,330,560	**$8,258,655**

Unrestricted

	2016	2015
Unrestricted	**($1,018,191)**	**($832,483)**

V. INTERFUND TRANSACTIONS

V. A. INTERFUND BALANCE

Payable to the City of Oklahoma City

At June 30, 2016, the Authority has a $3,396 payable to the City for supplies.

Payable to OCWUT

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 a payable to OCWUT to recognize the amount loaned under the OCWUT Agreement. At June 30, 2016 and 2015, the balance due to OCWUT is $53,189,948 and $50,873,272, respectively.

V. B. INTERFUND PAYMENTS FROM OCWUT

The Authority received $4,890,071 and $4,982,400 from OCWUT for aliquot share requirements in 2016 and 2015, respectively.

VI. 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, 2016 and 2015, 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
2016	$12,309	$9,232
2015	11,969	8,977
2014	10,621	7,966
2013 (1)	9,310	25,583

(1) Employee contributions for June 30, 2013, includes $18,823 additional contribution at retirement.

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.

VII. CONSTRUCTION COMMITMENTS

At June 30, 2016 and 2015, the Authority had outstanding construction commitments of $195,486 and $53,328, respectively.

This Page Intentionally Left Blank

CPAs & ADVISORS

INDEPENDENT AUDITOR'S 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*

To the Board of Trustees
McGee Creek Authority
Farris, Oklahoma

We have audited, in accordance with the 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, the financial statements of McGee Creek Authority (Authority), a component unit of the Oklahoma City Water Utilities Trust, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents, and have issued our report thereon dated November 18, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Allen, Gibbs & Houlik, L.C. aghlc.com aghemployersolutions.com aghuniversity.com 316.267.7231 301 N. Main, Suite 1700 Wichita, KS 67202-4868

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control on compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Allen, Gibbs & Houlik, L.C.
CERTIFIED PUBLIC ACCOUNTANTS

November 18, 2016
Wichita, Kansas