MCGEE CREEK AUTHORITY

Farris, Oklahoma

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

Annual Financial Report for the Fiscal Year Ended June 30, 2014

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

MCGEE CREEK AUTHORITY

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Introductory Section

McGee Creek Authority

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December 10, 2014

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 years ended June 30, 2014 and 2013. 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, 2014 and 2013, 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.

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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 auditors.

Respectfully submitted:

Marsha Slaughter
General Manager
Utilities Department Director

Bret Weingart
The City of Oklahoma City
Utilities Department Assistant Director

Laura L. Papas
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Independent Auditor's Report on Financial Statements and Supplementary Information

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 (the Authority), a component unit of the Oklahoma City Water Utilities Trust, which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States 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 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 audits 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 Authority'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 Authority'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, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The transmittal letter preceding this report is presented for purposes of additional analysis and is not a required part of the basic financial statements. That 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 December 10, 2014, on our consideration of the Authority's internal control over financial reporting and 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.

BKD, LLP

Oklahoma City, Oklahoma
December 10, 2014

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, 2014 and 2013. 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 $39,395,912 (net position) for 2014. This compares to the previous year when assets exceeded liabilities by $35,722,071 (net position).

- Total assets for the Authority increased by $1,474,505 (1.1%) to $134,629,466 during 2014 and increased by $1,395,258 (1.1%) to $133,154,961 for 2013.

- Total liabilities for the Authority decreased by $2,199,336 (2.3%) to $95,233,554 during 2014 and decreased by $1,587,488 (1.6%) to $97,432,890 during 2013.

- Total net position is comprised of the following:
  (1) Net investment in capital assets of $32,309,364 and $28,757,313 for 2014 and 2013, 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 2014 and 2013 of $8,100,015 and $7,953,691, respectively, is restricted for debt service by constraints imposed by debt covenants.
  (3) Unrestricted deficit is $1,013,467 for 2014 and $988,933 for 2013.

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 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, 2014 and 2013 is $39,395,912 and $35,722,071, respectively. The overall financial condition of the Authority improved in fiscal year 2014.

Summary of Net Position

	2014	2013	2014-2013 Amount of Change	2014-2013 % Change	2012	2013-2012 Amount of Change	2013-2012 % Change
Assets							
Current assets	$4,365,380	$4,317,591	$47,789	1.1%	$4,420,102	($102,511)	(2.3%)
Capital assets, net	75,103,291	75,169,002	(65,711)	(0.1)	75,781,392	(612,390)	(0.8)
Other non-current assets	55,160,795	53,668,368	1,492,427	2.8	51,558,209	2,110,159	4.1
Total assets	**134,629,466**	**133,154,961**	**1,474,505**	1.1	**131,759,703**	**1,395,258**	1.1
Liabilities							
Current liabilities	5,354,543	5,214,954	139,589	2.7	5,220,625	(5,671)	(0.1)
Non-current liabilities	89,879,011	92,217,936	(2,338,925)	(2.5)	93,799,753	(1,581,817)	(1.7)
Total liabilities	**95,233,554**	**97,432,890**	**(2,199,336)**	(2.3)	**99,020,378**	**(1,587,488)**	(1.6)
Net assets							
Net investment							
in capital assets	32,309,364	28,757,313	3,552,051	12.4	25,967,431	2,789,882	10.7
Restricted for debt service	8,100,015	7,953,691	146,324	1.8	7,863,712	89,979	1.1
Unrestricted	(1,013,467)	(988,933)	(24,534)	(2.5)	(1,091,818)	102,885	9.4
Total net assets	**$39,395,912**	**$35,722,071**	**$3,673,841**	10.3	**$32,739,325**	**$2,982,746**	9.1

Current assets increased by $48 thousand in 2014. Cash and investments increased by $43 thousand and interest receivable increased by $22 thousand due to an additional treasury note purchased in 2014. This was offset by decreases in accounts receivable of $11 thousand due to faster bill collection and decreases of $6 thousand for intergovernmental receivables from the Bureau of Reclamation (BOR) for their share in the costs of operations. Current assets decreased by $103 thousand in 2013. Cash and investments decreased $60 thousand, interest receivable decreased $38 thousand due to the timing of the receipt of interest earnings and intergovernmental receivables decreased $6 thousand from BOR.

Capital assets decreased $66 thousand and $612 thousand in 2014 and 2013 primarily due to normal depreciation of $668 thousand and $636 thousand, net of additions of $602 thousand and $24 thousand, respectively. Other non-current assets increased $1.49 million in 2014 and $2.11 million in 2013. This is due to increases in aliquot share receivables of $1.51 million and $2.13 million based on cash requirements of the Authority, offset by decreases in non-current prepaid bond insurance of $17 thousand and $18 thousand for normal amortization of premium costs in 2014 and 2013, respectively.

Current liabilities increased $140 thousand during 2014 primarily related to the increase in accounts payable of $29 thousand due to the timing of vendor payments and the increase in current bond principal and interest payable of $108 thousand for the reclassification of regularly scheduled bond principal payments to current liabilities. At June 30, 2013, current liabilities decreased $6 thousand primarily related to the decrease in accounts payable of $7 thousand related to the timing of vendor payments; a decrease in wages, benefits, and compensated absences payable of $4 thousand related to the retirement of an employee, and a decrease in current intergovernmental payables of $100 thousand for the payment of arbitrage, offset by the increase in current bond principal and interest payable of $105 thousand for the reclassification of regularly scheduled bond principal payments to current liabilities.

Non-current liabilities decreased $2.34 million and $1.58 million in 2014 and 2013 due primarily to decreases in bonds payable for regularly scheduled debt service of $3.85 million and $3.61 million, offset by increases in non-current arbitrage liability of $17 thousand and $9 thousand and advances to OCWUT for amounts received in excess of aliquot share requirements to fund operating costs and debt service of $1.48 million and $2.04 million, respectively. The non-current portion of compensated absences increased $10 thousand in 2014 related to increases in salaries and decreased $23 thousand in 2013 related to the retirement of an employee.

Summary of Revenues, Expenses, and Changes in Net Position

	2014	2013	2014-2013 Amount of Change	2014-2013 % Change	2012	2013-2012 Amount of Change	2013-2012 % Change
Operating revenues							
Charges for services	$7,340,376	$6,886,152	$454,224	6.6%	$2,461,676	$4,424,476	179.7%
Other operating revenue	10	35	(25)	(71.4)	-	35	(100.0)
Total operating revenues	**7,340,386**	**6,886,187**	**454,199**	6.6	**2,461,676**	**4,424,511**	179.7
Operating expenses	**1,340,585**	**1,305,034**	**35,551**	2.7	**1,277,298**	**27,736**	2.2
Net operating income	**5,999,801**	**5,581,153**	**418,648**	7.5	**1,184,378**	**4,396,775**	371.2
Net non-operating expenses	**(2,325,960)**	**(2,598,407)**	**272,447**	(10.5)	**(2,764,422)**	**166,015**	(6.0)
Changes in net position	**3,673,841**	**2,982,746**	**691,095**	23.2	**2,733,087**	**249,659**	9.1
Beginning net position							
As previously reported	35,722,071	32,739,325	2,982,746	9.1	30,045,108	2,694,217	9.0
Change in accounting principle	-	-	-	0.0	(38,870)	38,870	(100.0)
As restated	35,722,071	32,739,325	2,982,746	9.1	30,006,238	2,733,087	9.1
Ending net position	**$39,395,912**	**$35,722,071**	**$3,673,841**	10.3	**$32,739,325**	**$2,982,746**	9.1

Charges for services increased $454 thousand in 2014 and $4.42 million in 2013 due to aliquot share revenues related to changes in cash requirements. Operating expenses increased by $36 thousand and $28 thousand in 2014 and 2013, respectively. The increase in 2014 is a result of increases in personal services of $25 thousand, materials and supplies of $5 thousand and depreciation expense of $32 thousand, offset by a decrease in maintenance and operations of $29 thousand. In 2013, the increases in costs were in maintenance and operations of $55 thousand and $3 thousand in depreciation expense offset by decreases in personal services of $25 thousand and materials and supplies of $4 thousand.

Net non-operating expenses decreased by $272 thousand and $166 thousand in 2014 and 2013, respectively. The primary reductions in 2014 were in bond interest expense of $236 thousand and an increase in interest income of $53 thousand, offset by an increase in arbitrage expenses of $8 thousand and a reduction in other revenues of $10 thousand. In 2013, the primary reductions were in bond interest expense of $182 thousand and arbitrage expense of $16 thousand, offset by reductions in investment income of $28 thousand and other revenues of $5 thousand.

In 2012, the change in accounting principle resulting from the implementation of Governmental Accounting Standards Board statement number 65 resulted in the immediate recognition of bond issuance costs previously reported as deferred debt expense, net of prepaid insurance.

Capital Assets and Long-term Debt

Capital Assets

The Authority's investment in capital assets, net of accumulated depreciation, as of June 30, 2014 and 2013, is $75,103,291 and $75,169,002, respectively.

Capital Assets
Net of Accumulated Depreciation

	2014	2013	2014 - 2013 Amount of Change	2014 - 2013 % Change	2012	2013 - 2012 Amount of Change	2013 - 2012 % 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	84,096	23,647	60,449	255.6	-	23,647	100.0
Total non-depreciable assets	61,612,792	61,552,343	60,449	0.1	61,528,696	23,647	0.0
Depreciable Assets							
Buildings	2,283,945	2,384,465	(100,520)	(4.2)	2,484,985	(100,520)	(4.0)
Improvements other than buildings	10,802,716	11,065,210	(262,494)	(2.4)	11,565,020	(499,810)	(4.3)
Furniture, machinery, and equipment	403,838	166,984	236,854	141.8	202,691	(35,707)	(17.6)
Total depreciable assets	13,490,499	13,616,659	(126,160)	(0.9)	14,252,696	(636,037)	(4.5)
Totals	**$75,103,291**	**$75,169,002**	**($65,711)**	(0.1)	**$75,781,392**	**($612,390)**	(0.8)

Capital assets decreased by $66 thousand and $612 thousand in 2014 and 2013, respectively for capital improvements, net of depreciation. In 2014, $298 thousand was spent for the communications system upgrade, $243 thousand was spent on improvements to the pump station road, and $61 thousand was spent for design of future capital projects. The pump station road improvements were completed and placed in service in 2014. In 2013, $24 thousand was spent for design of future capital projects. Depreciation expense was $668 thousand in 2014 and $636 thousand in 2013. See Note II. E. for more information regarding capital assets.

Long-term Debt

At the end of the 2014 and 2013 fiscal years, the Authority had total debt outstanding of $94,147,070 and $96,378,587, 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 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 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 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 2014 and 2013. See Note III. C. for more information regarding revenue bonds.

Outstanding Long-term Debt

	2014	2013	2014 - 2013 Amount of Change	2014 - 2013 % Change	2012	2013 - 2012 Amount of Change	2013 - 2012 % Change
Payable to OCWUT	$48,917,070	$47,433,587	$1,483,483	3.1%	$45,391,204	$2,042,383	4.5%
Revenue bonds	45,230,000	48,945,000	(3,715,000)	(7.6)	52,450,000	(3,505,000)	(6.7)
	$94,147,070	**$96,378,587**	**($2,231,517)**	(2.3)	**$97,841,204**	**($1,462,617)**	(1.5)

The change in outstanding debt for both 2014 and 2013 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

Standard and Poor’s rating agency upgraded the Authority's bond rating from BBB to A in 2013. Moody's rating agency rates the bonds as Baa1.

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 each October from 2010 through 2014, 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.

	2014	2013
ASSETS		
CURRENT ASSETS		
Non-pooled cash	$522,032	$1,625,319
Investments	3,728,220	2,581,962
Accounts receivable, net	16,654	27,529
Interest receivable	27,434	5,782
Intergovernmental receivables	52,511	58,560
Prepaids	18,529	18,439
Total current assets	4,365,380	4,317,591
NON-CURRENT ASSETS		
Investments	6,653,493	6,653,528
Intergovernmental aliquot share receivable	48,436,799	46,927,379
Non-current prepaids	70,503	87,461
Capital assets:		
Land, water storage rights and construction in progress	61,612,792	61,552,343
Other capital assets, net of accumulated depreciation	13,490,499	13,616,659
Total capital assets	75,103,291	75,169,002
Total non-current assets	130,264,086	128,837,370
Total assets	**134,629,466**	**133,154,961**
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	49,070	17,479
Wages and benefits payable	6,665	6,632
Compensated absences	6,908	7,493
Bond interest payable	1,356,900	1,468,350
Bonds payable	3,935,000	3,715,000
Total current liabilities	5,354,543	5,214,954
NON-CURRENT LIABILITIES		
Compensated absences	43,610	33,119
Intergovernmental payable	26,181	9,010
Payable to Oklahoma City Water Utilities Trust	48,917,070	47,433,587
Bonds payable:		
Bonds payable	41,295,000	45,230,000
Unamortized bond discount	(402,850)	(487,780)
Bonds payable, net	40,892,150	44,742,220
Total non-current liabilities	89,879,011	92,217,936
Total liabilities	**95,233,554**	**97,432,890**
NET POSITION		
Net investment in capital assets	32,309,364	28,757,313
Restricted for debt service	8,100,015	7,953,691
Unrestricted	(1,013,467)	(988,933)
Total net position	**$39,395,912**	**$35,722,071**

See accompanying notes to financial statements.

For the Years Ended June 30,

	2014	2013
OPERATING REVENUES		
Charges for services:		
Aliquot share charges	$1,914,251	$2,518,808
Aliquot share payments from Oklahoma City Water Utilities Trust	5,426,125	4,367,344
Total charges for services	$7,340,376	6,886,152
Other	10	35
Total operating revenues	**7,340,386**	**6,886,187**
OPERATING EXPENSES		
Personal services	219,837	194,487
Maintenance, operations, and contractual services	387,770	414,040
Materials and supplies	65,119	60,470
Depreciation	667,859	636,037
Total operating expenses	**1,340,585**	**1,305,034**
Operating income	**5,999,801**	**5,581,153**
NET NON-OPERATING EXPENSES		
Investment income	601,317	548,443
Interest on bonds	(2,910,180)	(3,146,211)
Bond insurance	(18,438)	(19,836)
Arbitrage	(17,171)	(9,010)
Other revenue	18,512	28,207
Net non-operating expenses	**(2,325,960)**	**(2,598,407)**
Changes in net position	**3,673,841**	**2,982,746**
Total net position, beginning	35,722,071	32,739,325
Total net position, ending	**$39,395,912**	**$35,722,071**

See accompanying notes to financial statements.

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$421,765	$197,933
Cash payments to suppliers for goods and services	(435,172)	(479,526)
Cash payments to employees and professional contractors for services	(209,902)	(220,673)
Payments received from the Oklahoma City Water Utilities Trust	6,909,607	6,597,433
Operating payments from (to) City of Oklahoma City	-	791
Other cash receipts	18,513	34,468
Net cash provided by operating activities	**6,704,811**	**6,130,426**
CASH FLOWS FROM CAPITAL AND CAPITAL RELATED FINANCING ACTIVITIES		
Payments for acquisition and construction of capital assets	(589,840)	(25,280)
Principal paid on long-term debt	(3,715,000)	(3,505,000)
Interest paid on long-term debt	(2,936,700)	(3,147,000)
Arbitrage paid	-	(100,262)
Net cash used by capital and capital related financing activities	**(7,241,540)**	**(6,777,542)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for purchase of investments	(17,435,984)	(11,927,400)
Proceeds from sale of investments	16,310,188	11,165,278
Investment income received	561,837	584,816
Purchased interest	(2,599)	(1,468)
Net cash used by investing activities	**(566,558)**	**(178,774)**
Net decrease in cash	**(1,103,287)**	**(825,890)**
Cash, beginning	1,625,319	2,451,209
Cash, ending	**$522,032**	**$1,625,319**
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$5,999,801	$5,581,153
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation	667,859	636,037
Other revenue (expense)	-	28,207
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	29,387	(4,611)
(Increase) decrease in receivable from City of Oklahoma City	-	791
(Increase) decrease in prepaid assets	(1,571)	-
(Increase) decrease in intergovernmental receivable	(1,503,371)	(2,122,336)
Increase (decrease) in accounts payable	19,287	(5,012)
Increase (decrease) in wages and benefits payable	31	(595)
Increase (decrease) in payable to City of Oklahoma City	1,483,483	2,042,382
Increase (decrease) in compensated absences	9,905	(25,590)
Total adjustments	705,010	549,273
Net cash provided by operating activities	**$6,704,811**	**$6,130,426**
NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Net increase (decrease) in fair value of investments	$ -	$3,364
Transfer of capital assets from (to) other funds	20,426	-
Total non-cash investing, capital, and financing activities	**$20,426**	**$3,364**

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, 2014 and 2013. Certain reclassifications have been made to prior year financials to conform with current year presentation.

I. B. REPORTING ENTITY AND RELATIONSHIP TO THE OKLAHOMA CITY WATER UTILITIES 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 statement may be obtained from the 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. 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

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. 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.

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 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 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, 2014 and 2013, 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.

	2014			
	Fair Value/ Carrying Amount	Cost	Average Credit Quality/ Ratings (1)	Weighted Average Months to Maturity (2)
Money market fund	$1,706,338	$1,706,339	AAA/Aaa	1.80
U.S. Treasury notes	2,022,875	1,954,922	N/A	5.70
Guaranteed investment contracts	6,652,500	6,652,500	A/A2	103.60
	$10,381,713	**$10,313,761**		

	2013			
	Fair Value/ Carrying Amount	Cost	Average Credit Quality/ Ratings (1)	Weighted Average Months to Maturity (2)
Money market fund	$684,226	$684,226	AAA/Aaa	1.87
U.S. Treasury bills	315,962	308,976	N/A	3.17
U.S. Treasury notes	1,582,802	1,542,261	N/A	4.21
Guaranteed investment contracts	6,652,500	6,652,500	A/A2	115.77
	$9,235,490	**$9,187,963**		

(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 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

	2014	2013
Bond principal and interest accounts	$3,731,173	$3,701,249
Bond reserve	6,871,362	6,868,977
	$10,602,535	**$10,570,226**

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, 2014 and 2013.

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 $52,511 and $58,560 in 2014 and 2013, 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, 2014 and 2013 the Trust had prepaid bond insurance of $87,461 and $105,900, respectively, related to the issuance of Series 1992 revenue bonds. At June 30, 2014, the Authority had additional prepaid expenses of $1,445 for vehicle insurance and $126 for annual dues.

II. E. CAPITAL ASSETS

Changes in Capital Assets

2014

	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, 2013	$61,528,696	$23,647	$61,552,343	$4,795,098	$21,613,433	$569,364	$26,977,895	$88,530,238
Increases	-	303,850	303,850	-	243,401	298,298	541,699	845,549
Decreases	-	(243,401)	(243,401)	-	-	-	-	(243,401)
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
ACCUMULATED DEPRECIATION								
Balance, June 30, 2013				2,410,633	10,548,223	402,380	13,361,236	13,361,236
Increases				100,520	505,895	61,444	667,859	667,859
Balance, June 30, 2014				2,511,153	11,054,118	463,824	14,029,095	14,029,095
Capital assets, net	**$61,528,696**	**$84,096**	**$61,612,792**	**$2,283,945**	**$10,802,716**	**$403,838**	**$13,490,499**	**$75,103,291**

2013

	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, 2012	$61,528,696	$ -	$61,528,696	$4,795,098	$21,613,433	$569,364	$26,977,895	$88,506,591
Increases	-	23,647	23,647	-	-	-	-	23,647
Balance, June 30, 2013	61,528,696	23,647	61,552,343	4,795,098	21,613,433	569,364	26,977,895	88,530,238
ACCUMULATED DEPRECIATION								
Balance, June 30, 2012				2,310,113	10,048,413	366,673	12,725,199	12,725,199
Increases				100,520	499,810	35,707	636,037	636,037
Balance, June 30, 2013				2,410,633	10,548,223	402,380	13,361,236	13,361,236
Capital assets, net	**$61,528,696**	**$23,647**	**$61,552,343**	**$2,384,465**	**$11,065,210**	**$166,984**	**$13,616,659**	**$75,169,002**

Depreciation Expense

Depreciation expense was $667,859 for 2014 and $636,037 for 2013.

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 $26,181 and $9,010 reported with non-current liabilities at June 30, 2014 and 2013, respectively.

III. B. COMPENSATED ABSENCES

Compensated absences balances changed from 2013 to 2014 by accruals of $16,147 and usages of $6,241 compared to changes in accruals of $12,774 and usages of $38,364 from 2012 to 2013.

III. C. 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 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 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, 2014 and 2013, required accounts were maintained in accordance with the bond indenture.

Bonded Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest	Total
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	4,690,000	1,962,300	6,652,300
2019	4,970,000	1,680,900	6,650,900
2020-2023	23,045,000	3,557,700	26,602,700
	$45,230,000	**$14,619,900**	**$59,849,900**

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	**2014** Principal Balance	**2013** Principal Balance
Water Revenue Bonds, Series 1992	**$91,860,000**	3.0% to 6.0%	12-01-92	2023	**$45,230,000**	**$48,945,000**

Bond Coverage

	2014	**2013**
Gross revenue, including non-operating revenues and payments from OCWUT	$7,960,215	$7,462,837
Direct operating expenses, excluding depreciation and amortization	672,726	668,997
Net revenue available for debt service	**$7,287,489**	**$6,793,840**
Principal amounts	$3,715,000	$3,505,000
Interest amounts	2,936,700	3,147,000
Total debt service requirements	**$6,651,700**	**$6,652,000**
Revenue bond coverage	**1.09**	**1.02**

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

2014

	Balance July 1, 2013	Issued	Retired	Balance June 30, 2014	Due Within One Year	Due After One Year
Intergovernment payable	$9,010	$17,171	$ -	$26,181	$ -	$26,181
Payable to OCWUT	47,433,587	1,483,483	-	48,917,070	-	48,917,070
Compensated absences	40,612	16,147	6,241	50,518	6,908	43,610
Revenue bonds	48,945,000	-	3,715,000	45,230,000	3,935,000	41,295,000
	$96,428,209	**$1,516,801**	**$3,721,241**	**$94,223,769**	**$3,941,908**	**$90,281,861**

2013

	Balance July 1, 2012	Issued	Retired	Balance June 30, 2013	Due Within One Year	Due After One Year
Intergovernment payable	$ -	$9,010	$ -	$9,010	$ -	$9,010
Payable to OCWUT	45,391,204	2,042,383	-	47,433,587	-	47,433,587
Compensated absences	66,202	12,774	38,364	40,612	7,493	33,119
Revenue bonds	52,450,000	-	3,505,000	48,945,000	3,715,000	45,230,000
	$97,907,406	**$2,064,167**	**$3,543,364**	**$96,428,209**	**$3,722,493**	**$92,705,716**

(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 $1,914,251 and $2,518,808 in aliquot share revenues and $5,426,125 and $4,367,344 payments from OCWUT for aliquot shares for 2014 and 2013, respectively.

IV. NET POSITION

Net Investment in Capital Assets

	2014	2013
Capital assets, net	$75,103,291	$75,169,002
Retainages and accounts payable	(16,355)	(4,047)
Bonds payable, net	(44,827,150)	(48,457,220)
Bond reserve funded with bond proceeds	1,152,500	1,152,500
Bond issuance costs paid from bond proceeds	897,078	897,078
	$32,309,364	**$28,757,313**

Restricted for Debt Service

	2014	2013
Bond principal and interest accounts	$3,731,173	$3,701,249
Bond reserve	6,871,362	6,868,977
Bond reserve funded with bond proceeds	(1,152,500)	(1,152,500)
Interest receivable on bond investments	6,880	4,315
Current bond interest payable	(1,356,900)	(1,468,350)
	$8,100,015	**$7,953,691**

Unrestricted

	2014	2013
Unrestricted	($1,013,467)	($988,933)

V. INTERFUND TRANSACTIONS

V. A. 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 a payable to OCWUT to recognize the amount loaned under the OCWUT Agreement. At June 30, 2014 and 2013, the balance due to OCWUT is $48,917,070 and $47,433,587, respectively.

V. B. INTERFUND PAYMENTS FROM OCWUT

The Authority received $5,426,125 and $4,367,344 from OCWUT for aliquot share requirements in 2014 and 2013, 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, 2014 and 2013 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
2014	$10,621	$7,966
2013 (1)	9,310	25,583
2012	11,448	8,586
2011	10,582	7,936

(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.

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Independent Auditor's 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, 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, the basic financial statements of McGee Creek Authority (the Authority), a component unit of the Oklahoma City Water Utilities Trust, which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated December 10, 2014.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Authority's 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 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. 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Compliance

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*.

Other Matters

The Independent Auditor's 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 of Oklahoma City should be read in conjunction with this report.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Authority's internal control or 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.

BKD, LLP

Oklahoma City, Oklahoma
December 10, 2014