



# GROWING TOGETHER

## Oklahoma City Water Utilities Trust

A blended component unit enterprise fund of the City of Oklahoma City, Oklahoma

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



# OKLAHOMA CITY WATER UTILITIES TRUST

A Blended Component Unit Enterprise Fund of  
Oklahoma City, Oklahoma

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Marsha Slaughter, General Manager

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

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



# **Introductory Section**



**OKLAHOMA CITY WATER UTILITIES TRUST**

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December 18, 2012

The Board of Trustees  
Oklahoma City Water Utilities Trust

The Oklahoma City Water Utilities Trust (Trust) annual financial report (annual report) provides a comprehensive overview of the Trust's financial position and the results of operations during the past fiscal year. It complies with reporting requirements specified by Oklahoma State 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 Trust's management.

The Trust's annual report includes the report of independent accountants, management's discussion and analysis (MD&A), financial statements, and related notes. Management's narrative on the financial activities of the Trust for the fiscal year ended June 30, 2012 is in the MD&A section of this report, immediately following the independent accountants' report on financial statements and supplementary information. The Trust's reporting entity is comprised of financial and operating activities conducted within the legal framework of the Trust. The Trust is a blended component unit of the City of Oklahoma City (City) and, as such, is included within the funds of the City's Comprehensive Annual Financial Report (CAFR).

The Trust was created on April 17, 1990 by renaming and replacing the Oklahoma City Municipal Improvement Authority (OCMIA) that had been established on August 1, 1960. The City operated the water system and separately operated the sewer system as city departments prior to signing lease agreements with the OCMIA. The water system was leased from the City by the OCMIA on August 1, 1960. The sewer system was leased from the City on July 1, 1986. Both leases were modified on April 17, 1990 to be leases of the water and sewer system by the Trust.

The purpose of the Trust is to provide funding, financing, management, acquisition, storing, and operating of capital assets including water transmission and distribution systems, wastewater collection and interceptors, plants and facilities, land and leases, and equipment. The City is the sole beneficiary of the Trust. The City Manager, the Mayor, one Council person, and two citizens of the City, who are appointed by the City Council, serve as Trustees of the Trust.

During the fiscal year ended June 30, 2012, the Trust increased borrowings from the Oklahoma Water Resources Board (OWRB) and commercial paper program by \$29.1 million and \$33.0 million, respectively. The Atoka pipeline rehabilitation project was completed and the pipeline is currently refilling Lake Draper. The effort to refill Lake Draper significantly impacted current year expenditures for electrical power and will take several years to complete.

The current economic environment and the economic outlook for Oklahoma City remain very positive. Because of a cost of living rating consistently below the national average; a strong industry presence; low commuting times; convenient airline travel; quality education, entertainment and sports opportunities; favorable weather; and a central location, Oklahoma City continues to receive numerous top accolades for metropolitan cities in the United States, many of which were a number one ranking. This promises an immediate and sustainable economic growth outlook for the next several years.

In a report of the 2012 Economic Forecast: State and Oklahoma City Outlook, prepared by The Steven C. Agee Economic Research & Policy Institute of Oklahoma City University (Institute), the Institute reported the U.S. national economy is still in a recovery mode. However, the Institute reported in Oklahoma nearly all jobs have been recovered or projected shortly for recovery, indicating the issue for Oklahoma City is now one of sustainable trajectory. While there were impacts of the economy for Oklahoma City, many of the effects of the recession were largely passed over according to this report. In addition to job recovery and as a result of it, sales tax receipts have been impressive and were projected by the Institute to grow by 3.15% in FY 2012 and 1.84% in FY 2013. Sales tax receipts, which are evaluated to determine the health of the economy of Oklahoma City, exceeded these projections in FY 2012, increasing by 6.43%.

Any economic outlook is predicated on sustainable factors. The City Council has a continuing priority to its citizens to fulfill the promises made to them with regard to completing the projects established in voter initiatives to invest in the City. In addition, the City Council is focused on pursuing a financial model that provides adequate resources to meet the expectations for services as Oklahoma City grows and maintaining strong financial management that is evidenced by the highest possible rating of the City's General Obligation bonds by both Moody's and Standard and Poor's.

The economy in Oklahoma City has been strong in the past two years and the future for Oklahoma City is bright. Oklahoma City is poised to meet the challenges of the future as it has done so well in the past.

The Trust participates in the City's comprehensive accounting and budgetary system. Interim financial statements provide Trust management and other interested readers with regular financial analysis. Additionally, the Trust's management maintains budgetary controls to ensure compliance with legal provisions.

By City Council resolution, public trusts of which the City is the beneficiary are encouraged to use the independent accountants competitively selected by the City. In compliance with that resolution, the Trust engaged BKD LLP to conduct its annual audit. The Trust acknowledges the professional and competent services of its independent accountants.

Respectfully submitted:



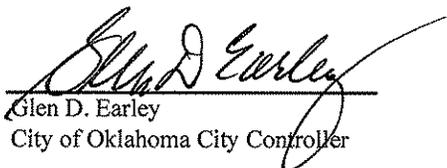
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Marsha Slaughter  
General Manager



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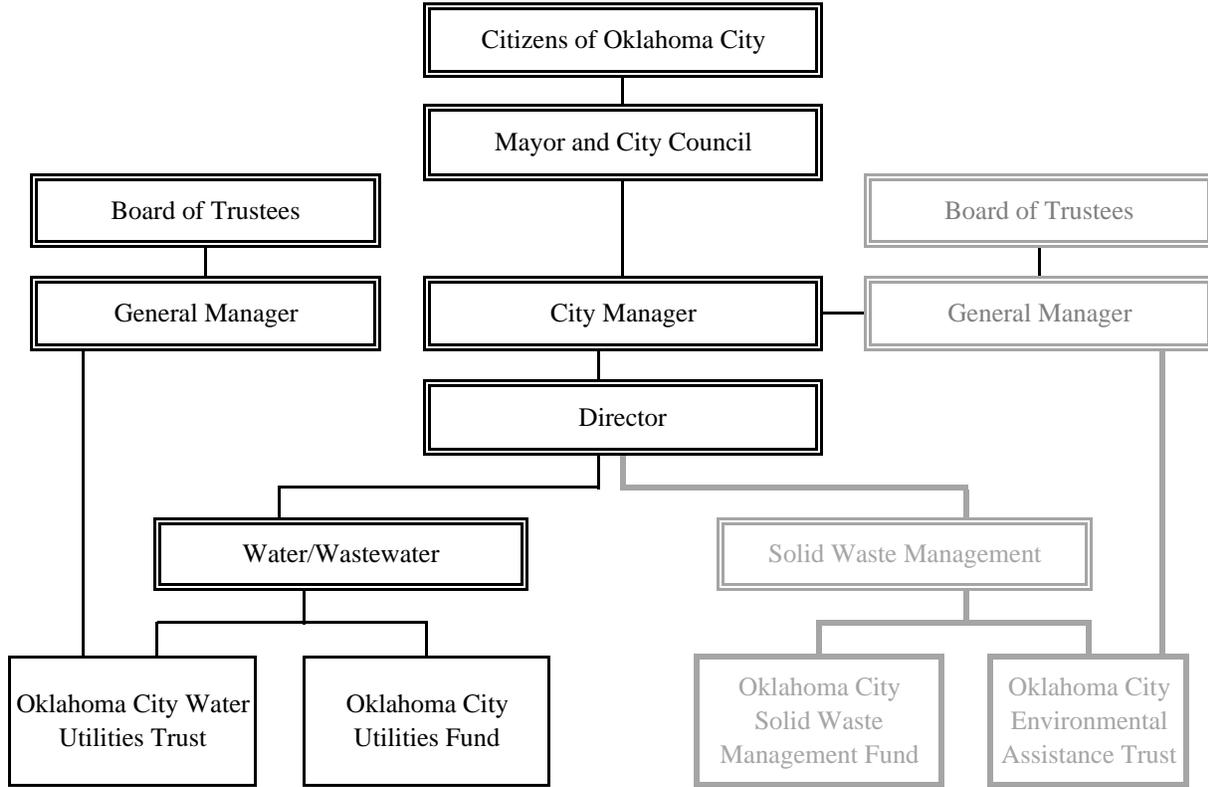
Bret Weingart  
City of Oklahoma City  
Utilities Department Assistant Director



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Glen D. Earley  
City of Oklahoma City Controller

# Oklahoma City Water Utilities Trust Organization Chart



# **Financial Section**



## Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees  
Oklahoma City Water Utilities Trust  
Oklahoma City, Oklahoma

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oklahoma City Water Utilities Trust as of June 30, 2012 and 2011, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in *Note 3*, the previously issued 2011 financial statements have been restated. Our previously issued report on those financial statements dated December 5, 2011, is no longer to be relied upon because the previously issued statements were materially misstated and that report is replaced by this report on the restated 2011 financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2012, on our consideration of the Trust'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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

*BKD, LLP*

December 18, 2012

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Oklahoma City Water Utilities Trust (Trust) annual financial report, the Trust's management provides narrative discussion and analysis of the financial activities of the Trust for the fiscal years ended June 30, 2012 and 2011. The Trust'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 Trust reports services for which the Trust charges customers a fee. Services are provided to customers external to the Trust consisting primarily of water and wastewater utility services provided to the public. The Trust is a blended component unit of the City of Oklahoma City (City).

### *Financial Summary*

- Trust assets exceeded liabilities by \$608,004,470 (net assets) for 2012. This compares to the previous year when assets exceeded liabilities by \$561,990,937.
- Total liabilities for the Trust increased \$53,505,899 to \$535,362,464 during the fiscal year. This compares to the previous year when liabilities increased \$57,863,783 to \$481,856,565.
- Total net assets are comprised of the following:
  - (1) Invested in capital assets, net of related debt, of \$464,896,504 and \$425,445,287 for year ended June 30, 2012 and 2011, respectively, include property and equipment, net of accumulated depreciation, reduced for outstanding debt related to the purchase or construction of capital assets.
  - (2) Net assets of \$17,358,912 and \$16,081,167 for year ended June 30, 2012 and 2011, respectively, are restricted for capital projects and by debt service constraints imposed by debt covenants.
  - (3) Unrestricted net assets of \$125,749,054 and \$120,464,483 for year ended June 30, 2012 and 2011, respectively.

### *Overview of the Financial Statements*

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

### **Financial Statements**

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

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

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

The statement of cash flows reports the inflows and outflows of Trust cash.

### Notes to the Financial Statements

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

### Financial Analysis

The Trust's net assets at June 30, 2012 are \$608,004,470. This is an increase of \$46,013,533 over fiscal year 2011 net assets of \$561,990,937. The overall financial position of the Trust improved during the 2012 fiscal year. The intergovernmental payable to the Oklahoma Water Resources Board (OWRB) has been reclassified as a non-current liability on the 2011 and 2010 financial statements. Additionally, the 2011 balances have been adjusted to reflect the restatement of prior year balances related to a prior period adjustment. The 2010 balances have not been adjusted to reflect the restatement of prior balances related to the prior period adjustment. See Note III for more information.

#### Summary of Net Assets

	2012	2011 (Restated)	2012 - 2011 Amount of Change	2012 - 2011 %	2010	2011 - 2010 Amount of Change	2011 - 2010 %
<b>Assets</b>							
Current assets	\$152,820,746	\$157,774,941	(\$4,954,195)	(3.1%)	\$133,473,221	\$24,301,720	18.2%
Capital assets, net	912,283,405	816,039,897	96,243,508	11.8	736,928,552	79,111,345	10.7
Other non-current assets	<u>78,262,783</u>	<u>70,032,664</u>	<u>8,230,119</u>	11.8	<u>70,389,804</u>	<u>(357,140)</u>	(0.5)
<b>Total assets</b>	<b><u>1,143,366,934</u></b>	<b><u>1,043,847,502</u></b>	<b><u>99,519,432</u></b>	9.5	<b><u>940,791,577</u></b>	<b><u>103,055,925</u></b>	11.0
<b>Liabilities</b>							
Current liabilities	102,336,258	63,434,038	38,902,220	61.3	88,884,282	(25,450,244)	(28.6)
Non-current liabilities	<u>433,026,206</u>	<u>418,422,527</u>	<u>14,603,679</u>	3.5	<u>335,108,500</u>	<u>83,314,027</u>	24.9
<b>Total liabilities</b>	<b><u>535,362,464</u></b>	<b><u>481,856,565</u></b>	<b><u>53,505,899</u></b>	11.1	<b><u>423,992,782</u></b>	<b><u>57,863,783</u></b>	13.6
<b>Net assets</b>							
Invested in capital assets	464,896,504	425,445,287	39,451,217	9.3	394,177,725	31,267,562	7.9
Restricted	17,358,912	16,081,167	1,277,745	7.9	12,641,786	3,439,381	27.2
Unrestricted	<u>125,749,054</u>	<u>120,464,483</u>	<u>5,284,571</u>	4.4	<u>95,407,586</u>	<u>25,056,897</u>	26.3
<b>Total net assets</b>	<b><u>\$608,004,470</u></b>	<b><u>\$561,990,937</u></b>	<b><u>\$46,013,533</u></b>	8.2	<b><u>\$502,227,097</u></b>	<b><u>\$59,763,840</u></b>	11.9

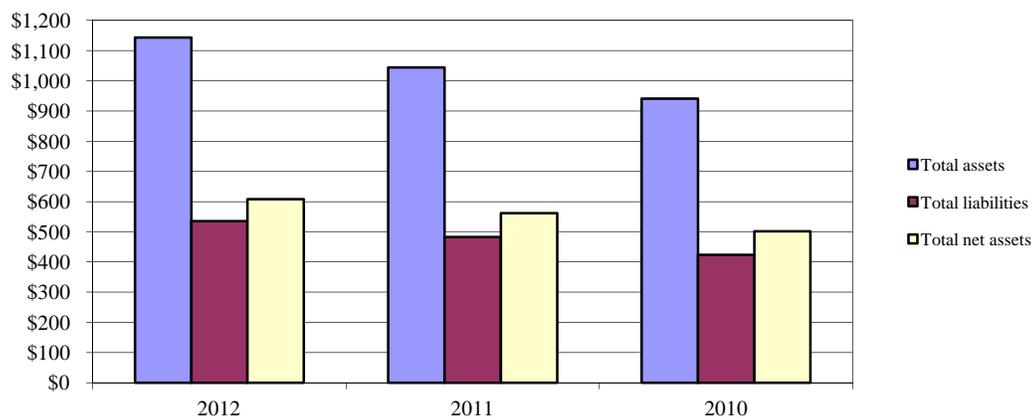
Current assets decreased by \$4.95 million in 2012 and increased \$24.30 million in 2011. Cash and investments decreased \$5.66 million in 2012 related to maturities of bond reserve amounts reported with cash in 2011 of \$5.53 million. In 2011, cash and investments increased \$11.10 million in preparation for debt payments in July. Accounts receivable increased by \$1.67 million and \$4.76 million in 2012 and 2011, respectively, in relation to utility rate increases and improved collections of outstanding amounts during 2012. Amounts due from other funds decreased \$1.56 million in 2012 and \$898 thousand in 2011 as a result of a reduction in processing time for utility billing system collections. Additionally, prepaid assets increased by \$466 thousand in 2012 and \$66 thousand in 2011 due to additional prepaid contracts.

The \$96.24 million and \$79.11 million increase in capital assets for fiscal year 2012 and 2011, respectively, is primarily the result of construction of capital assets, offset by normal depreciation. The \$8.23 million increase in other noncurrent assets during fiscal year 2012 was primarily due to the \$5.53 million increase in non-current investments and an increase in the advance to McGee Creek Authority (MCA) for operations funded under an agreement of support. In 2011, other non-current assets decreased \$357 thousand primarily because of a decrease in non-current investments of \$2.67 million related to debt service requirements and an increase in the advance to MCA of \$1.93 million.

Current liabilities increased by \$38.90 million and decreased \$25.45 million at June 30, 2012 and 2011, respectively, related for the most part to commercial paper issuances of \$33 million in 2012 and issuances of \$28.50 million and retirements of \$64 million in 2011. In addition accounts payable increased \$2.45 million in 2012 and \$5.05 million in 2011 related to timing of vendor payments primarily related to construction projects and the current portion of bonds payable increased \$1.39 million and \$3.52 million in 2012 and 2011, respectively, related to scheduled debt service requirements.

The \$14.60 million increase in non-current liabilities during fiscal 2012 is primarily due to \$13.48 million in proceeds from OWRB loans. The \$83.31 million increase in non-current liabilities during fiscal year 2011 was due to the January 12, 2011 issuance of revenue bonds in the principal amount of \$68.73 million, and loan proceeds of \$9.11 million from the OWRB.

**Summary of Net Assets**  
**(dollars are in millions)**



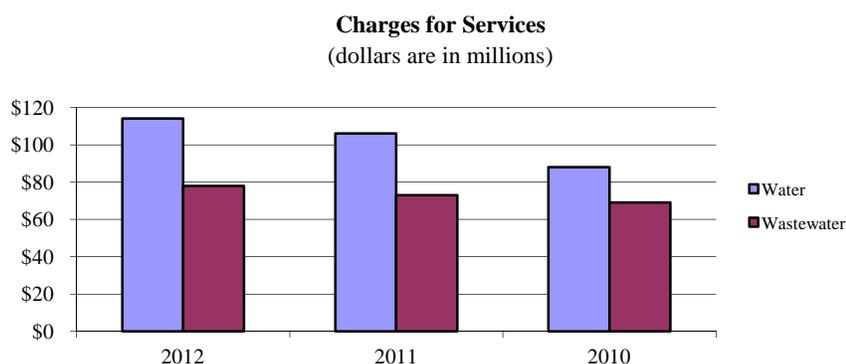
	Summary of Changes in Net Assets						
	2012	2011 (Restated)	2012 - 2011 Amount of Change	2012 - 2011 %	2010	2011 - 2010 Amount of Change	2011 - 2010 %
<b>Operating revenues</b>							
Charges for services:							
Water	\$113,685,266	\$105,774,669	\$7,910,597	7.5%	\$88,195,775	\$17,578,894	19.9%
Wastewater	77,628,911	72,895,618	4,733,293	6.5	68,872,812	4,022,806	5.8
Other charges for services and other revenues	<u>3,817,885</u>	<u>4,254,831</u>	<u>(436,946)</u>	(10.3)	<u>3,262,587</u>	<u>992,244</u>	30.4
<b>Total operating revenues</b>	<b>195,132,062</b>	<b>182,925,118</b>	<b>12,206,944</b>	6.7	<b>160,331,174</b>	<b>22,593,944</b>	14.1
<b>Operating expenses</b>	<b>130,253,086</b>	<b>114,804,857</b>	<b>15,448,229</b>	13.5	<b>112,540,068</b>	<b>2,264,789</b>	2.0
<b>Operating income</b>	<b>64,878,976</b>	<b>68,120,261</b>	<b>(3,241,285)</b>	(4.8)	<b>47,791,106</b>	<b>20,329,155</b>	42.5
<b>Net non-operating expenses</b>	<b>(9,709,035)</b>	<b>(3,405,431)</b>	<b>(6,303,604)</b>	(185.1)	<b>(8,642,403)</b>	<b>5,236,972</b>	60.6
Capital contributions	491,422	5,460,033	(4,968,611)	(91.0)	3,162,240	2,297,793	72.7
Transfers, net	<u>(9,647,830)</u>	<u>(7,499,587)</u>	<u>(2,148,243)</u>	(28.6)	<u>(4,847,940)</u>	<u>(2,651,647)</u>	(54.7)
<b>Contributions and transfers</b>	<b>(9,156,408)</b>	<b>(2,039,554)</b>	<b>(7,116,854)</b>	(348.9)	<b>(1,685,700)</b>	<b>(353,854)</b>	(21.0)
<b>Changes in net assets</b>	<b>46,013,533</b>	<b>62,675,276</b>	<b>(16,661,743)</b>	(26.6)	<b>37,463,003</b>	<b>25,212,273</b>	67.3
Beginning net assets,							
As previously reported	561,990,937	502,227,097	59,763,840	11.9	463,549,040	38,678,057	8.3
Prior period adjustment	-	<u>(2,911,436)</u>	<u>2,911,436</u>	100.0	<u>1,215,054</u>	<u>(4,126,490)</u>	(339.6)
As restated	<b>561,990,937</b>	<b>499,315,661</b>	<b>62,675,276</b>	<b>12.6</b>	<b>464,764,094</b>	<b>34,551,567</b>	7.4
<b>Ending net assets</b>	<b>\$608,004,470</b>	<b>\$561,990,937</b>	<b>\$46,013,533</b>	8.2	<b>\$502,227,097</b>	<b>\$59,763,840</b>	11.9

The 6.7% increase in operating revenues during fiscal 2012 was due to normal rate and quantity increases coupled with higher than normal temperatures and drought conditions. This compares to the previous year when operating revenue increased by 14.1% for similar rate and quantity increases and more extreme drought conditions. Other charges for services and other revenues include rental income and recreational permits and charges for billing services provided to other City functions. Forfeitures of customer deposits during fiscal 2012 accounts for the \$437 thousand decrease in other charges for services and other revenues in 2012. Bond interest expense increased by \$5.11 million in fiscal year 2012 primarily due to fiscal year 2011 issuance of the Series 2011 revenue bonds. This compares to a fiscal year 2011 decrease in bond interest expense as a result of capitalizing a large portion of interest cost. Operating expenses increased \$15.45 million in 2012 related primarily to increased maintenance costs for a significant increase in water main breaks and increased electricity related to running additional pump stations.

Investment income, included in net non-operating expenses, decreased by \$239 thousand in fiscal year 2012 due to a decrease in investments and a continued decline in market rates compared to a \$507 thousand increase in prior fiscal period.

The Trust received \$491 thousand in capital contributions during fiscal 2012 compared to \$5.46 million in capital contributions during the previous fiscal period. The most significant contribution in fiscal 2011 was a forgiveness of debt of \$4 million dollars from the OWRB and a capital contribution of \$1.46 million from the Oklahoma City Economic Development Trust for infrastructure in the Film Row District.

Transfers to other funds in 2012 and 2011 were to the City General Fund for utility lease payments and payments in lieu of franchise fees, and transfers to McGee Creek Authority to cover operations and debt service requirements. Transfers from other funds in 2011 were primarily from the Oklahoma City Public Property Authority for the Film Row project.



### Capital Assets

The Trust's investment in capital assets, net of accumulated depreciation, as of June 30, 2012 and 2011, was \$912,283,405 and \$816,039,897, respectively.

In fiscal year 2001, the Trust retained the services of Montgomery Watson to provide water master plan and water stability evaluation services. The master plan was completed in 2003 and includes the Trust's 20-year plan for capital improvements along with a 50-year plan for water supply availability.

	<b>Capital Assets</b>						
	<b>Net of Accumulated Depreciation</b>						
	<u>2012</u>	<u>2011</u>	2012 - 2011 Amount of Change	2012 - 2011 %	<u>2010</u>	2011 - 2010 Amount of Change	2011 - 2010 %
<b>Non-Depreciable Assets</b>							
Land and water storage rights	\$99,135,872	\$97,708,699	\$1,427,173	1.5%	\$95,836,547	\$1,872,152	2.0%
Construction in progress	226,164,647	233,614,304	(7,449,657)	(3.2)	160,292,441	73,321,863	45.7
<b>Total non-depreciable assets:</b>	<b><u>325,300,519</u></b>	<b><u>331,323,003</u></b>	<b><u>(6,022,484)</u></b>	<b>(1.8)</b>	<b><u>256,128,988</u></b>	<b><u>75,194,015</u></b>	<b>45.7</b>
<b>Depreciable Assets</b>							
Buildings	44,904,141	46,348,418	(1,444,277)	(3.1)	47,790,025	(1,441,607)	45.7
Improvements other than buildings	528,043,097	423,654,441	104,388,656	24.6	416,886,889	6,767,552	45.7
Furniture, machinery, and equipment	<u>14,035,648</u>	<u>14,714,035</u>	<u>(678,387)</u>	(4.6)	<u>16,122,650</u>	<u>(1,408,615)</u>	(8.7)
<b>Total depreciable assets</b>	<b><u>586,982,886</u></b>	<b><u>484,716,894</u></b>	<b><u>102,265,992</u></b>	<b>21.1</b>	<b><u>480,799,564</u></b>	<b><u>3,917,330</u></b>	<b>0.8</b>
	<b><u>\$912,283,405</u></b>	<b><u>\$816,039,897</u></b>	<b><u>\$96,243,508</u></b>	<b>11.8</b>	<b><u>\$736,928,552</u></b>	<b><u>\$79,111,345</u></b>	<b>45.7</b>

The total increase in capital assets in 2012 was 11.8% primarily resulting from construction and improvement projects for the water utilities system, offset by regular depreciation. The construction projects in 2012 and 2011 are the Atoka Pipeline, Hefner Water Treatment Plant expansion, and various water and sewer line projects. See Note II. A. 3. for more information regarding capital assets.

### *Long-term debt*

At the end of the 2012 and 2011 fiscal years, the Trust had total debt outstanding of \$406,071,453 and \$384,576,843, respectively.

### **Intergovernmental Payable**

During fiscal year 2010, the Trust entered into an agreement with the OWRB to repay the Federal government for certain costs related to construction of Sardis Lake in Southeastern Oklahoma. The initial cost to the Trust was \$27.81 million for the settlement of the OWRB's debt to the Federal government. In addition, the Trust has agreed to pay additional costs of \$39.54 million for future costs due and payable to the Federal government. This amount will incur interest at a rate of 4.012% and will be added to the amount now deferred. In fiscal year 2012, the interest amount of \$1.65 million was added to the future cost liability. Moreover, an additional amount of \$15 million is payable to reimburse the OWRB for related costs upon the issuance of a water use permit by the OWRB in accordance with Oklahoma law. See Note II. B. 1. for more information regarding intergovernmental payable.

### **OWRB Notes**

The OWRB provided partial funding for several water and wastewater projects in fiscal year 2012. These agreements provided up to \$59.52 million of loans of which \$47.34 million had been drawn at June 30, 2012. The balance will be utilized in future periods, with the completion of construction resulting in permanent financing notes with the OWRB. During fiscal year 2011 these agreements provided up to \$59.90 million of loan proceeds. See Note II. B. 3. for more information regarding notes payable.

### **Revenue Bonds**

In February 2011, the Trust issued Water and Sewer Revenue Bonds, Series 2011 for \$68.72 million. These bonds refunded \$64 million of commercial paper, permitting the Trust to continue its use of commercial paper for construction projects. On October 20, 2009 the Trust issued Water and Sewer Revenue Refunding Bonds, Series 2009A (2009A Bonds) and 2009B (2009B Bonds) for \$70.29 million and \$47.76 million, respectively. The 2009A Bonds retired \$29 million of commercial paper borrowings and provided construction funds for the Atoka pipeline project. The 2009B Bonds defeased the Water and Sewer Revenue Bonds Series 1999A and 1999B.

At the end of 2012 and 2011, the Trust had total revenue bond debt outstanding of \$300.88 million and \$309.92 million, respectively. This debt is supported by pledged water and wastewater revenues generated by the Trust's utility services. Bonds outstanding were also reduced by regular debt service payments. See Note II. B. 3. for more information regarding revenue bonds.

### **Outstanding Long Term Debt**

			2012 - 2011	2012 - 2011			2011 - 2010	2011 - 2010
			Amount of	%			Amount of	%
	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>Change</u>	<u>2010</u>	<u>Change</u>	<u>Change</u>	
Intergovernmental payable	\$57,846,999	\$56,194,284	\$1,652,715	2.9%	\$54,542,331	\$1,651,953	3.0%	
Water Resources notes	47,343,108	18,461,980	28,881,128	156.4	9,110,408	9,351,572	102.6	
Revenue bonds	<u>300,881,346</u>	<u>309,920,579</u>	<u>(9,039,233)</u>	(2.9)	<u>246,718,489</u>	<u>63,202,090</u>	25.6	
	<b><u>\$406,071,453</u></b>	<b><u>\$384,576,843</u></b>	<b><u>\$21,494,610</u></b>	5.6	<b><u>\$310,371,228</u></b>	<b><u>\$74,205,615</u></b>	23.9	

The change in revenue bonds outstanding debt for both 2012 and 2011 is the result of bond issuances in 2011 and scheduled principal bond debt service payments. See Note II. B. 5. for more information on changes in long-term debt.

Bond Ratings

	<u>Moody's</u>	<u>Standard and Poor's</u>
1986 Series C	N/A	AAA
2004 Series	Aaa	AAA
2008 Series	Aa2	AAA
2009A Series	Aa2	AAA
2009B Series	Aa2	AAA
2011 Series	Aa1	AAA

Commercial Paper ratings

The Trust received a short-term bond rating for its commercial paper program of A1+ and P1 from Standard & Poor's and Moody's, respectively.

*Economic Factors and Rates*

**Economic Factors**

The growth in the economy improved but did not translate to increased financial position in the Trust.

**Rates**

On August 17, 2010, the Trust adopted a resolution directing the General Manager and General Counsel to prepare the necessary ordinance amendments to implement rate adjustments for October 2010 through 2013 and present these to City Council for consideration. Trustees received a presentation concerning recent water and wastewater system performance and capital needs to meet current and future service requirements, including revenue adjustments necessary to fund these improvements. The rate forecast was prepared by the Trust's financial advisor, Public Financial Management, Inc. (PFM), and rate options were prepared by the City Utilities Department in consultation with PFM.

The recommended ordinance included a water and wastewater volume charge rate adjustment of 4% annually each October from 2010 through 2013 and a water and wastewater base charge adjustment of \$2.38 and \$1.16, respectively in 2010 with a 4% adjustment annually October 2011 through 2013. The fee adjustments are necessary to generate the minimum revenues required to pay the debt service associated with new revenue bond issues for utilities' capital improvement program for these two years. On September 28, 2010, the City Council approved these rate adjustments.

*Contacting the Trust's Financial Management*

This financial report is designed to provide a general overview of the Trust'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 Trust's overall status using full accrual accounting.*

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

**STATEMENTS OF NET ASSETS**  
**June 30,**

**OKLAHOMA CITY WATER UTILITIES TRUST**

	<b>2012</b>	<b>2011 (Restated)</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Non-pooled cash-----	\$30,880,054	\$25,317,802
Investments-----	93,348,203	104,568,834
Accounts receivable, net-----	26,596,850	24,927,401
Interest, dividends, and royalties receivable-----	636,313	488,655
Due from other funds-----	705,515	2,268,334
Receivable from Central Oklahoma Transportation and Parking Authority-----	121,250	124,182
Note receivable-----	-	13,266
Prepays-----	532,561	66,467
<b>Total current assets-----</b>	<b>152,820,746</b>	<b>157,774,941</b>
<b>NON-CURRENT ASSETS</b>		
Investments-----	28,749,087	23,222,394
Note receivable-----	1,216,354	750,562
Advance to McGee Creek Authority-----	45,391,204	43,256,623
Receivable from Central Oklahoma Transportation and Parking Authority-----	969,999	1,091,250
Deferred debt expense, net-----	1,885,339	1,711,835
Other-----	50,800	-
Capital assets:		
Land, water storage rights and construction in progress-----	325,300,519	331,323,003
Other capital assets, net of accumulated depreciation-----	586,982,886	484,716,894
<b>Total capital assets-----</b>	<b>912,283,405</b>	<b>816,039,897</b>
<b>Total non-current assets-----</b>	<b>990,546,188</b>	<b>886,072,561</b>
<b>Total assets-----</b>	<b>1,143,366,934</b>	<b>1,043,847,502</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable-----	28,454,095	26,001,588
Due to other funds-----	943,155	627,864
Payable to component units-----	1,160,936	-
Interest payable-----	380,864	151,030
Commercial paper-----	45,000,000	12,000,000
Notes payable-----	344,663	348,954
Bond interest payable-----	15,618,992	15,265,369
Bonds payable-----	10,433,553	9,039,233
<b>Total current liabilities-----</b>	<b>102,336,258</b>	<b>63,434,038</b>
<b>NON-CURRENT LIABILITIES</b>		
Intergovernmental payable-----	57,846,999	56,194,284
Notes payable-----	46,998,445	18,113,026
Advance from other funds-----	4,184,684	3,899,043
Bond interest payable-----	29,111,002	34,633,752
Bonds payable:		
Bonds payable-----	290,447,793	300,881,346
Unamortized bond discount/premium-----	4,507,807	4,799,649
Deferred amount on refunding-----	(70,524)	(98,573)
<b>Bonds payable, net-----</b>	<b>294,885,076</b>	<b>305,582,422</b>
<b>Total non-current liabilities-----</b>	<b>433,026,206</b>	<b>418,422,527</b>
<b>Total liabilities-----</b>	<b>535,362,464</b>	<b>481,856,565</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt-----	464,896,504	425,445,287
Restricted for:		
Capital projects-----	3	2
Debt service-----	17,358,909	16,081,165
Unrestricted-----	125,749,054	120,464,483
<b>Total net assets-----</b>	<b>\$608,004,470</b>	<b>\$561,990,937</b>

See accompanying notes to financial statements.

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

**OKLAHOMA CITY WATER UTILITIES TRUST**

**For the Years Ended June 30,**

	<b>2012</b>	<b>2011 (Restated)</b>
<b><u>OPERATING REVENUES</u></b>		
<b><u>CHARGES FOR SERVICES</u></b>		
Water charges-----	\$113,685,266	\$105,774,669
Wastewater charges-----	77,628,911	72,895,618
Other charges-----	2,765,026	2,624,204
Total charges for services-----	<u>194,079,203</u>	<u>181,294,491</u>
Lease and rental income-----	699,535	662,437
Other-----	353,324	968,190
<b>Total operating revenues-----</b>	<b><u>195,132,062</u></b>	<b><u>182,925,118</u></b>
<b><u>OPERATING EXPENSES</u></b>		
Personal services-----	43,349,825	40,903,024
Maintenance, operations, and contractual services-----	48,829,039	38,908,880
Materials and supplies-----	11,637,648	10,829,150
Depreciation-----	26,436,574	24,163,803
<b>Total operating expenses-----</b>	<b><u>130,253,086</u></b>	<b><u>114,804,857</u></b>
<b>Operating income-----</b>	<b><u>64,878,976</u></b>	<b><u>68,120,261</u></b>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>		
Grant operating-----	-	121,864
Investment income-----	1,512,150	1,751,018
Interest on bonds-----	(11,903,723)	(6,828,174)
Amortization-----	(149,195)	(346,810)
Oil and gas royalties-----	56,090	60,599
Other revenue-----	775,643	1,836,072
<b>Net non-operating expenses-----</b>	<b><u>(9,709,035)</u></b>	<b><u>(3,405,431)</u></b>
<b>Income before contributions and transfers-----</b>	<b><u>55,169,941</u></b>	<b><u>64,714,830</u></b>
<b><u>CONTRIBUTIONS AND TRANSFERS</u></b>		
Grant capital-----	202,233	4,000,000
Other capital contributions-----	289,189	1,460,033
Transfers from other funds-----	-	1,607,381
Transfers to other funds-----	(9,647,830)	(9,106,968)
<b>Total contributions and transfers-----</b>	<b><u>(9,156,408)</u></b>	<b><u>(2,039,554)</u></b>
<b>Changes in net assets-----</b>	<b><u>46,013,533</u></b>	<b><u>62,675,276</u></b>
Total net assets, beginning, as previously reported-----	561,990,937	502,227,097
Prior period adjustment-----	-	(2,911,436)
Total net assets, beginning, as restated-----	<u>561,990,937</u>	<u>499,315,661</u>
<b>Total net assets, ending-----</b>	<b><u>\$608,004,470</u></b>	<b><u>\$561,990,937</u></b>

See accompanying notes to financial statements.

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

**OKLAHOMA CITY WATER UTILITIES TRUST**

	<u>2012</u>	<u>2011</u> <u>(Restated)</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Cash received from customers-----	\$193,443,583	\$180,338,384
Cash payments to suppliers for goods and services-----	(26,682,997)	(20,558,939)
Operating payments from (to) component units-----	2,932	118,318
Cost reimbursements from (to) other funds-----	(76,913,099)	(67,860,288)
Other cash receipts-----	678,387	288,695
<b>Net cash provided by operating activities-----</b>	<b>90,528,806</b>	<b>92,326,170</b>
<b><u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u></b>		
Transfers received from (paid to) other funds-----	(9,904,303)	(8,925,126)
Non-financing payments from (to) component units-----	1,282,186	182,084
<b>Net cash used by non-capital financing activities-----</b>	<b>(8,622,117)</b>	<b>(8,743,042)</b>
<b><u>CASH FLOWS FROM CAPITAL AND CAPITAL RELATED FINANCING ACTIVITIES</u></b>		
Proceeds from issuance of long-term debt-----	61,885,418	113,122,887
Payments for acquisition and construction of capital assets-----	(112,691,550)	(89,238,300)
Principal paid on long-term debt-----	(10,088,734)	(72,576,042)
Interest paid on long-term debt-----	(22,795,167)	(19,551,092)
Capital/financing payments from (to) component units-----	289,189	(1,520,029)
Proceeds from sale of assets-----	-	487,693
Capital grants and contributions received-----	-	1,460,033
<b>Net cash used by capital and capital related financing activities-----</b>	<b>(83,400,844)</b>	<b>(67,814,850)</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Purchase of investments-----	(284,680,240)	(352,273,704)
Proceeds from sale of investments-----	290,374,180	353,958,093
Investment income received-----	1,306,377	1,585,730
Receipts from oil and gas royalties-----	56,090	60,600
<b>Net cash provided by investing activities-----</b>	<b>7,056,407</b>	<b>3,330,719</b>
<b>Net increase in cash-----</b>	<b>5,562,252</b>	<b>19,098,997</b>
Cash, beginning-----	25,317,802	6,218,805
<b>Cash, ending-----</b>	<b>\$30,880,054</b>	<b>\$25,317,802</b>
<b><u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b>		
Operating income-----	\$64,878,976	\$68,120,261
<b><u>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b>		
Depreciation-----	26,436,574	24,163,803
Non-operating revenue (expense)-----	364,608	369
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable-----	(1,669,441)	(4,755,133)
(Increase) decrease in due from other funds-----	-	64,476
(Increase) decrease in receivable from component units-----	2,931	118,318
(Increase) decrease in prepaid assets-----	(466,094)	(66,467)
(Increase) decrease in other assets-----	-	245,888
Increase (decrease) in accounts payable-----	695,612	999,583
Increase (decrease) in due to other funds-----	285,640	3,435,072
Total adjustments-----	25,649,830	24,205,909
<b>Net cash provided by operating activities-----</b>	<b>\$90,528,806</b>	<b>\$92,326,170</b>
<b><u>NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</u></b>		
Net increase (decrease) in fair value of investments-----	\$ -	\$989,308
Donated assets-----	202,233	-
Water storage rights-----	1,652,715	1,588,965
Grant proceeds-----	-	4,000,000
Transfer of capital assets from (to) other funds-----	-	220,200
<b>Total non-cash investing, capital, and financing activities-----</b>	<b>\$1,854,948</b>	<b>\$6,798,473</b>

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 are organized to provide explanations, including required disclosures, of the Oklahoma City Water Utilities Trust (Trust) financial activities for the fiscal year ended June 30, 2012 and 2011. Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. The reclassifications had no effect on the statement of revenues, expenses and changes in net assets.

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

Due to restrictions of the state constitution relating to the issuance of municipal debt, public trusts are created to finance Oklahoma City (City) services with revenue bonds or other non-general obligation financing, and to provide for multi-year contracting. Financing services provided by these public trusts are solely for the benefit of the City. Public trusts created to provide financing services are blended into the City's primary government, although retaining separate legal identity.

The Trust was created as a public trust pursuant to Title 60 of the Oklahoma Statutes, section 176, et seq. The Trust was established August 1, 1960, with the City named as beneficiary. The purpose of the Trust is generally to provide financing, through loans and the issuance of revenue bonds or other debt instruments, for the construction and acquisition of water and wastewater facilities and other general improvements to and for the extension of the water and wastewater system serving the City. The provisions of the trust indenture, as amended, provide that the Trust will lease or otherwise manage the related water and wastewater system. The Trust will receive all revenues generated from the water and wastewater system to pay the debt service requirements on the revenue bonds or other debt instruments issued by the Trust, plus costs and expenses incidental to operations and maintenance.

The City Manager, the Mayor, one Council person, and two citizens of the City who are appointed by the City Council serve as trustees of the Trust. The Trust does not have the power to levy taxes, but may fix, demand, and collect charges, rentals, and fees for the services and facilities of the Trust. The City has no obligation for debt issued by the Trust.

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

The Trust is treated as a component unit of the City and is included in the City's financial reporting entity. As such, the financial activity of the Trust is blended in the City's CAFR. A copy of the City's CAFR may be obtained from the City's Accounting Services Division at 100 N. Walker, Suite 300, Oklahoma City, Oklahoma 73102.

#### *Trust Administration*

The Trust has no employees. Trust activities are performed City employees. The Trust has chosen to provide for the operations, maintenance, and improvements of the water and wastewater system through the City's Water and Wastewater Fund. Accordingly, operations are performed by City employees. The Trust reimburses the City for the cost of water and wastewater operations including amounts classified as personal services. Those expenses are removed from the City Water and Wastewater Fund and included in the expenses of the Trust.

*Related Organizations*

**Oklahoma City Municipal Facilities Authority (OCMFA)**

OCMFA owns several wastewater assets used by the Trust for utility services. On June 30, 2011, OCMFA transferred \$30.03 million in capital assets to the City Water and Wastewater Fund. Assets transferred were composed of land, infrastructure, machinery, and equipment.

**McGee Creek Authority (MCA)**

MCA was created to finance water storage rights for Participants of MCA. The Trust, in its efforts to provide long-term water storage capacity for the City of Oklahoma City, is a Participant of MCA. An agreement of support with MCA provides that the Trust will pledge revenues to pay revenue shortfalls for debt and operations of MCA.

**Central Oklahoma Transportation and Parking Authority (COTPA)**

In 1986, revised in 1996, the Trust entered into an agreement of support with COTPA that provides for financial support of COTPA's parking system. The Trust must replenish COTPA's bond reserve account if the balance in such account remains below the minimum requirement for a period of eleven months.

**Lake Atoka Reservation Association (LARA)**

The Chairman of the Trust, through an interlocal agreement, is a member of the LARA Managing Board. LARA was established to provide recreational facilities available for public use at Lake Atoka.

**I. B. 1. BASIC FINANCIAL STATEMENTS**

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

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

*Implementation of New Accounting Standard*

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

*Generally Accepted Accounting Principles (U.S. GAAP)*

The financial statements of the Trust are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The Trust applies all relevant Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements.

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The basic financial statements report 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 Trust. 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, the Trust's budget is submitted to its governing body for approval. Appropriations are recorded and available to pay expenses as revenue is received in cash. Budgetary control is exercised on a project-length basis. Therefore, appropriations are carried forward each year until projects are completed. Management's policy prohibits expenses to exceed appropriations. Management may transfer appropriations within the Trust without governing body approval.

**I. D. POLICIES RELATED TO ASSETS AND LIABILITIES**

**I. D. 1. CASH AND INVESTMENTS**

The Trust's governing board has formally adopted an investment policy different from the City's investment policy. Unrestricted investments are managed by the City Treasurer. The management of the restricted investments is performed in accordance with applicable bond indentures and at the direction of trustee bank trust departments.

Investments are carried at fair value determined by quoted market prices. Cash deposits are reported at carrying amount, which approximates fair value.

**I. D. 2. PREPAIDS**

Prepays are recorded when purchased and expensed when used. Prepays consist of memberships and dues, subscriptions, and maintenance support agreements. Noncurrent prepaids will be expensed in periods beyond the 12 month period subsequent to the reporting date.

**I. D. 3. RECEIVABLES AND UNCOLLECTIBLE ACCOUNTS**

Significant receivables include amounts due from customers for utility services. Accounts receivable are reported net of an allowance for uncollectible accounts and revenues net of uncollectibles. The allowance amount is estimated using accounts receivable past due more than 90 days.

**I. D. 4. RESTRICTED ASSETS**

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

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

**I. D. 5. INTERFUND BALANCES**

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

Certain outstanding balances (due to/from and advances from) do not net to zero because they include amounts due to/from the City.

Net transfers reported on the statement of changes in net assets do not net to zero. The amounts reported include transfers to/from the City.

**I. D. 6. CAPITALIZED INTEREST**

Interest costs incurred on commercial paper and tax-exempt bonds from which proceeds were used to finance the construction of assets are capitalized during the construction period.

**I. D. 7. CAPITAL ASSETS, DEPRECIATION, AND AMORTIZATION**

Capital assets are stated at cost. The Trust generally capitalizes assets with a cost of \$7,500 or more as purchases and construction outlays occur. Depreciation and amortization is computed on the straight-line method over the estimated useful life of the asset, as follows:

Buildings	10 - 50
Improvements	10 - 50
Mobile Equipment, Furniture, Machinery, and Equipment	5 - 20

Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service. The Trust capitalizes interest as a component of capital assets constructed for its own use.

Maintenance and repairs are charged to operations, while renewals and betterments are capitalized. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

**I. D. 8. DEFERRED DEBT EXPENSE AND BOND DISCOUNT/PREMIUM**

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

#### **I. D. 9. FUND EQUITY**

##### *Net Assets*

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

##### **Net Assets Invested in Capital Assets, Net of Related Debt**

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

##### **Restricted Net Assets**

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

#### **I. D. 10. 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 those estimates.

#### **I. D. 11. RISK MANAGEMENT**

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

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

The City and OCMFA record estimated liabilities for indemnity health care, worker's compensation, torts, and other claims against the City and related Trusts and Authorities. Retiree health insurance claims liabilities are reported in the Oklahoma City Post-Employment Benefit Trust. The Trust does not recognize any separate liabilities related to risk management.

#### **I. E. MAJOR REVENUES**

The major revenues for the Trust consist of water and wastewater charges to the citizens of Oklahoma City and certain other entities within the Oklahoma City area. Other revenues are generated by recreational facilities located at Lake Hefner, Lake Draper, and Overholser reservoirs.

## **I. F. TAX STATUS**

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

## **I. G. RETAINAGES**

It is the policy of the Trust 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 Trust. The Trust would hold the certificate of deposit and the Trust would retain the risk of incurring costs related to a contractor's failure to perform. However, in the event of non-performance, the Trust would call the certificate and pay the proceeds to the Trust to cover any costs incurred. The Trust does not record the effect of holding the certificates of deposit.

## **II. ASSETS AND LIABILITIES**

### **II. A. ASSETS**

#### **II. A. 1. DEPOSITS AND INVESTMENTS**

##### *Deposits*

Custodial credit risk for deposits is the risk that in the event of a bank failure, Trust deposits may not be returned or the Trust will not be able to recover collateral securities in the possession of an outside party. The Trust policy requires deposits to be 110 percent secured by collateral valued at market or par, whichever is lower, less the amount covered by the Federal Deposit Insurance Corporation (FDIC). Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health and service, as determined by a rating of C minus or above by independent rating agencies. Collateral agreements must be approved prior to deposit of funds as provided by law. The City Council approves and designates a list of authorized depository institutions based on evaluation of solicited responses and certifications provided by financial institutions and recommendations of the City Treasurer. Custodial credit risk for deposits is not addressed by bond indentures. Bond indentures require that restricted deposits be maintained by the trustee bank specified in the indenture.

At June 30, 2012 and 2011, the Trust's cash is insured or collateralized with securities held by the Trust, or its agent in the Trust's name, less the amount of the Federal depository insurance.

##### *Investments*

The Trust 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 Trust's financial position. 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.

<b>2012</b>				
	Fair Value/ <u>Carrying Amount</u>	<u>Cost</u>	<u>Rating (1)</u>	Weighted Average Months to <u>Maturity (2)</u>
Federal obligations	\$56,550,304	\$57,007,220	AA+/Aaa	17.45
Money market funds	45,114,725	45,114,725	AAA/Aaa	1.92
Fannie Mae	11,262,224	11,248,920	AA+/Aaa	15.35
U.S. Treasury notes	<u>9,170,037</u>	<u>9,249,375</u>	N/A	14.88
<b>Total investments</b>	<b><u>\$122,097,290</u></b>	<b><u>\$122,620,240</u></b>		

<b>2011</b>				
	Fair Value/ <u>Carrying Amount</u>	<u>Cost</u>	<u>Rating (1)</u>	Weighted Average Months to <u>Maturity (2)</u>
Federal obligations	\$43,731,709	\$43,664,376	AAA/Aaa	22.23
Money market funds	49,159,623	49,159,623	AAA/Aaa	1.47
Fannie Mae	19,497,597	19,772,440	AAA/Aaa	17.89
U.S. Treasury notes	<u>15,402,299</u>	<u>15,537,422</u>	N/A	20.62
<b>Total investments</b>	<b><u>\$127,791,228</u></b>	<b><u>\$128,133,861</u></b>		

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

### Investment Policy

Trustees adopted a separate investment policy in addition to the investment provisions of bond indentures. Trust funds may be invested in: (1) direct obligations of the U.S. government, its agencies or instrumentalities to the payment of which the full faith and credit of the U.S. government is pledged, or obligations to the payment of which the full faith and credit of the State of Oklahoma is pledged; (2) obligations of the Government National Mortgage Association, Federal National Mortgage Association, or Federal Home Loan Mortgage Corporation, or any Federal farm credit bank, Federal land bank, or Federal home loan bank notes or bonds; (3) collateralized or insured certificates of deposit and other evidences of deposits at banks, savings and loan associations, and credit unions located in the City when secured by appropriate collateral; (4) repurchase agreements that have underlying collateral of obligations of the U.S. government, its agencies, and instrumentalities; and (5) money market funds regulated by the Securities and Exchange Commission which consist of authorized domestic securities with restrictions as specified in state law.

Under the Trust's investment policy, the Trust may not invest in reverse repurchase agreements, derivative instruments created from, whose value depends on, or is derived from, the value of one or more underlying assets or indices of asset values and/or has no call options prior to Trust's desired maturity or is a variable rate instrument. Collateralization is further restricted to permitted investments shown previously as items (1) and (2).

The investment policy provides that to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities. Unless matched to a specific cash flow, investments are not made in securities maturing more than five years from the date of purchase. Certificates of deposit may not be purchased with maturities greater than 365 days from date of purchase.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Trust's investment in a single issuer. Cumulatively, portfolios may not be invested in any given financial institution in excess of 5% of such institution's total assets. Additionally, no more than 5% of the total Trusts portfolio may be placed with any single financial institution with the exception of repurchase agreements and money market funds. U.S. government securities, SLGS, and City judgments are excluded from these restrictions.

Portfolio Structure (1)

Investment Type Limitations		Maturity Limitations	
Percentage of Total Invested Principal		Percentage of Total Invested Principal	
	<u>Maximum % (2)</u>		<u>Maximum % (4)</u>
Repurchase agreements	100%	0-1 year	100%
U.S. Treasury securities (3)	100	1-3 years	90
Certificates of deposit	50	3-5 years	90
Money market funds	100		
Savings accounts	100		

- (1) Specifically matched cash flows are excluded.
- (2) For investments listed, there is no minimum percentage specified under the policy.
- (3) Includes SLGS.
- (4) For maturities limited to 0-1 year, the minimum percentages allowed under the policy are 5-25%.

The Trust Investment Policy also allows surplus cash, certificates of deposit, and repurchase agreements to be collateralized with securities with longer maturities if such maturity does not exceed ten years.

**Bond Indenture Restrictions**

The bond indenture for the Trust restricts investing to: (1) direct obligations guaranteed by the United States; (2) bonds or debentures payable in cash issued by the following Federal agencies: (a) Export-Import Bank, (b) Federal Financing Bank, (c) Farmer’s Home Administration, (d) Federal Housing Administration, (f) Maritime Administration, (g) Public Housing Authorities, (h) Government National Mortgage Association; (3) certificates of deposit secured by collateral or investments fully insured by the FDIC; (4) commercial paper; (5) written repurchase agreements; (6) pre-refunded municipal obligations; (7) money market funds; (8) and investment agreements approved by AMBAC.

Indentures further provide that investments mature in no more than six to sixty months, depending on the purpose of the funds and the requirements of the account in which funds are deposited.

**Investments Held by Others**

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Trust will not be able to recover the value of its investments or collateral securities in the possession of an outside party. Policy provides that investment collateral is held by a third party custodian with whom the City has a current custodial agreement in the Trust’s or City’s name or be held in the name of both parties by the Federal Reserve Bank servicing Oklahoma. Investments are insured or registered with securities held by the Trust in the name of the Trust.

**Compliance with State Requirements**

Trust investment policy 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 Rule defined by Title 60 of the 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 trust portfolio as a whole and as a part of the overall investment strategy having risk and return objectives reasonably suited to the Trust.

**Restricted Deposits and Investments**

The bond indenture requires the use of trust accounts. The bond accounts are used to segregate resources accumulated for debt service payments over the next twelve months. The bond operating revenue account is used to receive gross revenues. The construction accounts are used for proceeds of commercial paper that is restricted for use in construction. The bond reserve account is used for proceeds of revenue bond issuances set aside to make up potential future deficiencies in the bond accounts, or to make the last bond principal and interest payments.

	<u>2012</u>	<u>2011</u>
Commercial paper construction account	\$466,499	\$1,128,991
Bond principal and interest accounts	26,468,590	24,631,699
Bond reserve	28,749,087	28,754,394
Bond construction account	126,931	126,918
	<u><b>\$55,811,107</b></u>	<u><b>\$54,642,002</b></u>

**II. A. 2. RECEIVABLES AND UNCOLLECTIBLE ACCOUNTS**

	<u>2012</u>	<u>2011</u>
Accounts receivable	\$28,370,598	\$27,069,693
Less: allowance for uncollectible accounts	(1,773,748)	(2,142,292)
<b>Net accounts receivable</b>	<u><b>\$26,596,850</b></u>	<u><b>\$24,927,401</b></u>
<b>Affect on revenues for change in uncollectibles</b>	<u><b>\$368,544</b></u>	<u><b>\$1,050,119</b></u>

**II. A. 3. NOTES RECEIVABLE**

An agreement to construct, operate and maintain a recycled water system to irrigate the Gaillardia Golf Course (Gaillardia) was entered into in 1996. Prior to completing the construction, the agreement was amended to a recycled water sales contract and the related asset, valued at \$617,688, was donated to the City and the Trust. A new agreement was entered into in 2008 between Gaillardia and the Trust to recover the additional costs of the Trust for constructing ultraviolet and chlorination treatment facilities needed to comply with changes in environmental regulations. A note receivable was recorded to recognize the unreceived costs. Continuing negotiations at June 30, 2012 estimated the note receivable balance at June 30, 2012 to be \$1,216,354.

**II. A. 4. PREPAIDS**

Prepays are payments to vendors that benefit future reporting periods and are also reported on the consumption basis. As of June 30, 2012 and 2011 the Trust had prepaid items totaling \$532,561 and \$66,467, respectively.

	<u>2012</u>	<u>2011</u>
Memberships and dues	\$91,821	\$66,467
Water storage rights	146,911	-
Software licenses and support	286,473	-
Other	7,356	-
	<u><b>\$532,561</b></u>	<u><b>\$66,467</b></u>

II. A. 5. CAPITAL ASSETS

*Changes in Capital Assets*

	2012							
	Capital Assets, not depreciated			Capital Assets, depreciated				Total Capital Assets, net
	Land and Water	Construction	Total	Improvements Other Than	Furniture, Machinery, &	Total		
	<u>Storage Rights</u>	<u>In Progress</u>		<u>Buildings</u>	<u>Buildings</u>			<u>Equipment</u>
<b>CAPITAL ASSETS</b>								
Balance, June 30, 2011	\$97,708,699	\$233,614,304	\$331,323,003	\$84,082,929	\$672,365,777	\$70,687,636	\$827,136,342	\$1,158,459,345
Increases	1,427,173	107,251,924	108,679,097	2,506	123,510,623	5,189,597	128,702,726	237,381,823
Decreases	-	(114,701,581)	(114,701,581)	-	-	(241,852)	(241,852)	(114,943,433)
Balance, June 30, 2012	<u>99,135,872</u>	<u>226,164,647</u>	<u>325,300,519</u>	<u>84,085,435</u>	<u>795,876,400</u>	<u>75,635,381</u>	<u>955,597,216</u>	<u>1,280,897,735</u>
<b>ACCUMULATED DEPRECIATION</b>								
Balance, June 30, 2011				37,734,511	248,711,336	55,973,601	342,419,448	342,419,448
Increases				1,446,783	19,121,967	5,867,824	26,436,574	26,436,574
Decreases				-	-	(241,692)	(241,692)	(241,692)
Balance, June 30, 2012				<u>39,181,294</u>	<u>267,833,303</u>	<u>61,599,733</u>	<u>368,614,330</u>	<u>368,614,330</u>
<b>Capital Assets, net</b>	<b><u>\$99,135,872</u></b>	<b><u>\$226,164,647</u></b>	<b><u>\$325,300,519</u></b>	<b><u>\$44,904,141</u></b>	<b><u>\$528,043,097</u></b>	<b><u>\$14,035,648</u></b>	<b><u>\$586,982,886</u></b>	<b><u>\$912,283,405</u></b>

	2011							
	Capital Assets, not depreciated			Capital Assets, depreciated				Total Capital Assets, net
	Land and Water	Construction	Total	Improvements Other Than	Furniture, Machinery, &	Total		
	<u>Storage Rights</u>	<u>In Progress</u>		<u>Buildings</u>	<u>Buildings</u>			<u>Equipment</u>
<b>CAPITAL ASSETS</b>								
Balance, June 30, 2010	\$95,836,547	\$160,292,441	\$256,128,988	\$84,078,156	\$646,980,418	\$69,020,084	\$800,078,658	\$1,056,207,646
Increases	1,872,152	97,467,752	99,339,904	4,773	25,708,508	2,377,019	28,090,300	127,430,204
Decreases	-	(24,145,889)	(24,145,889)	-	(323,149)	(709,467)	(1,032,616)	(25,178,505)
Balance, June 30, 2011	<u>97,708,699</u>	<u>233,614,304</u>	<u>331,323,003</u>	<u>84,082,929</u>	<u>672,365,777</u>	<u>70,687,636</u>	<u>827,136,342</u>	<u>1,158,459,345</u>
<b>ACCUMULATED DEPRECIATION</b>								
Balance, June 30, 2010				36,288,131	230,093,529	52,897,434	319,279,094	319,279,094
Increases				1,446,380	18,933,292	3,784,131	24,163,803	24,163,803
Decreases				-	(315,485)	(707,964)	(1,023,449)	(1,023,449)
Balance, June 30, 2011				<u>37,734,511</u>	<u>248,711,336</u>	<u>55,973,601</u>	<u>342,419,448</u>	<u>342,419,448</u>
<b>Capital Assets, net</b>	<b><u>\$97,708,699</u></b>	<b><u>\$233,614,304</u></b>	<b><u>\$331,323,003</u></b>	<b><u>\$46,348,418</u></b>	<b><u>\$423,654,441</u></b>	<b><u>\$14,714,035</u></b>	<b><u>\$484,716,894</u></b>	<b><u>\$816,039,897</u></b>

Depreciation expense of \$26,436,574 in fiscal year 2012 and \$24,163,803 in 2011 was charged to the Trust's utilities.

*Capitalized Interest*

2012		2011	
Total Interest Costs Incurred	Capitalized Interest	Total Interest Costs Incurred	Capitalized Interest
<b><u>\$18,119,666</u></b>	<b><u>\$6,234,749</u></b>	<b><u>\$16,189,644</u></b>	<b><u>\$8,276,077</u></b>

**II. B. LIABILITIES**

**II. B. 1. COMMERCIAL PAPER**

*Commercial Paper*

On January 17, 2006 the Trust established a commercial paper program authorizing the issuance of up to \$75 million of tax-exempt commercial paper notes with letter of credit security. On March 4, 2008, the Trust approved a resolution authorizing an increase in the commercial paper program to an amount not to exceed \$125 million in principal of tax-exempt commercial paper notes at any one time effective April 1, 2008. On November 2, 2010, the Trust approved a second resolution authorizing an increase in the commercial paper program to an amount not to exceed \$150 million in principal of tax-exempt commercial paper. The commercial paper program provides interim financing for the Trust's ongoing capital program. Maturity of commercial paper may range from 1 to 270 days, depending on market conditions at the time of issue.

During fiscal year 2011 new commercial paper issuances totaled \$28,500,000. In February 2011, \$64,000,000 of the outstanding commercial paper was paid off with the issuance of the Water and Sewer Revenue bonds, 2011 Series.

During fiscal year 2012 new commercial paper issuances totaled \$33,000,000. The total outstanding balance at June 30, 2012 and 2011 was \$45,000,000 million and \$12,000,000 million and the weighted average interest rate for the year was 0.16% and 0.29%, respectively.

*Commercial Paper Changes in Short-Term Debt*

Beginning Balance July 1, 2010	\$47,500,000
Issuances	28,500,000
Retirements	<u>(64,000,000)</u>
<b>Balance June 30, 2011</b>	<b>12,000,000</b>
Issuances	33,000,000
Retirements	<u>—</u>
<b>Balance June 30, 2012</b>	<b><u>\$45,000,000</u></b>

**II. B. 2. INTERGOVERNMENTAL PAYABLE**

*Payable to Federal and State Government*

During fiscal year 2010, the Trust entered into an agreement with the OWRB to repay the Federal government for certain costs related to construction of Sardis Lake in Southeastern Oklahoma. The initial cost to the Trust was \$27,814,629 for the settlement of the OWRB's debt to the Federal government. In addition, the Trust agreed to pay for additional costs of \$39,605,319 for future costs due and payable to the Federal government. This amount incurs interest at a rate of 4.012% which is added to the payable. The amount payable to the Federal government at June 30, 2012 and 2011 was \$42,846,999 and \$41,194,284, respectively. Moreover, an additional amount of \$15 million is payable to reimburse the OWRB for certain costs which the state previously made payments and upon the event of the issuance of a water use permit by the OWRB in accordance with Oklahoma law.

**II. B. 3. NOTES PAYABLE**

*Notes Payable Revolving Loans*

On November 13, 2009, the Trust finalized two revolving loans for a maximum of \$7,634,177 for water line improvements and \$9,469,450 in wastewater improvements. Each loan has a provision for a minimum 20% match, \$2,000,000 maximum from the American Recovery and Reinvestment Act of 2009. The match was in the form of principal forgiveness in each loan. The notes payable balance is \$5,182,916 for water line improvements and \$5,936,738 for wastewater improvements at June 30, 2012. The interest rates of the two loans are 3.57% and 2.86%, respectively, payable on March 15 and September 15 for the term of the loans. Principal payments commenced on September 15, 2011 and will continue semiannually for the term of the loans. The loans expire on March 15, 2031 and September 15, 2040, respectively. At June 30, 2012 construction projects related to the 2009 loans are complete.

On December 15, 2010, the Trust finalized two revolving loans for a maximum of \$35 million for water line improvements and \$24,926,727 in wastewater improvements. As of June 30, 2012, \$20,956,431 for water line improvements and \$15,267,023 for wastewater improvements has been received. The interim effective interest rates of the two loans are 3.57% and 3.27% payable on March 15 and September 15 for the term of the loans. Principal payments will commence on the earlier of March 15 or September 15 following the completion of the construction projects or September 15, 2013 and will continue semiannually for the term of the loans. The loans expire on March 15, 2032 and September 15, 2042, respectively. At June 30, 2012 construction projects related to the 2010 loans are not complete.

*Notes Payable Requirements to Maturity*

	Notes Payable	
	<u>Principal</u>	<u>Interest</u>
2012	\$344,663	\$357,125
2013	1,294,658	1,621,219
2014	1,338,665	1,577,212
2015	1,383,301	1,532,575
2016	1,431,226	1,484,650
2017 - 2021	7,919,952	6,659,431
2022 - 2026	9,364,187	5,215,197
2027 - 2031	10,662,410	3,508,288
2032 - 2036	6,422,578	1,929,422
2036 - 2041	6,045,337	821,014
2042	<u>1,136,131</u>	<u>31,966</u>
	<b><u>\$47,343,108</u></b>	<b><u>\$24,738,099</u></b>

**II. B. 4. REVENUE BONDS**

*Water Revenue Bond Indentures and Covenants*

The Trust has at various times issued bonds for the purpose of financing the acquisition, construction, and equipping of the City's water and wastewater systems. The bonds are collateralized by a lien on all facilities constructed with the bond proceeds and by the Trust's leasehold interest in the presently existing water and wastewater systems of the City, including lease rentals, water revenues, wastewater revenues, and other revenues derived from these systems.

The general bond indenture and its supplements require the use of revenue, bond, operations and maintenance, reserve, construction, and renewal and replacement accounts, which have been combined for financial reporting purposes. 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 into 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 general 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 Trust's operating fund, which is not subject to the lien of the indenture. For the years ended June 30, 2012, and 2011, required accounts were maintained in accordance with the bond indenture.

The bonds are generally subject to prior redemption in part or in whole at the option of the Trustees. Certain bonds are subject to a redemption premium of up to 2% of par value, as described in the various bond indentures, if redeemed prior to scheduled dates.

The general bond indenture provides that the Trustees will fix, maintain, charge, and collect a schedule of rates for use of the facilities of the Trust estate that will provide in every year net revenues which provide at least 120% of the maximum amount required for debt service. For the years ended June 30, 2012 and 2011, the schedule of rates in effect provided revenues in excess of the minimum requirements.

Bond and lease issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

***Bonded Debt Service to Maturity***

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$10,433,553	\$22,367,292	\$32,800,845
2014	10,508,814	22,203,005	32,711,819
2015	10,829,009	21,948,454	32,777,463
2016	11,070,107	21,669,118	32,739,225
2017	11,414,863	21,313,153	32,728,016
2018-2022	44,890,000	54,830,725	99,720,725
2023-2027	50,075,000	43,939,378	94,014,378
2028-2032	56,610,000	30,972,000	87,582,000
2033-2037	59,885,000	15,756,528	75,641,528
2038-2042	<u>35,165,000</u>	<u>2,901,509</u>	<u>38,066,509</u>
	<b><u>\$300,881,346</u></b>	<b><u>\$257,901,162</u></b>	<b><u>\$558,782,508</u></b>

***Revenue Bonds Outstanding***

<u>Water and Sewer System Bonds</u>	<u>Original Amount Issued</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Principal Balance</u>	
					<u>2012</u>	<u>2011</u>
Series 1986C	\$22,760,000	7.60% to 7.85%	8/1/1986	2016	\$6,116,346	\$7,665,579
Series 2004	70,000,000	3.85% to 5.25%	6/7/2004	2034	68,420,000	70,000,000
Series 2008	49,605,000	3.00% to 5.80%	12/18/2008	2038	47,910,000	48,770,000
Series 2009A	70,290,000	3.00% to 5.625%	10/20/2009	2039	69,790,000	70,290,000
Series 2009B	70,290,000	3.00% to 5.625%	10/20/2009	2039	39,920,000	44,470,000
Series 2011	68,725,000	0.60% to 4.80 %	2/9/2011	2040	<u>68,725,000</u>	<u>68,725,000</u>
					<b><u>\$300,881,346</u></b>	<b><u>\$309,920,579</u></b>

***Bond Interest Payable***

The 1986C deferred interest bonds accumulated deferred interest until 2005 when the related bonds began to mature. The deferred interest balances reported as a non-current liability is \$29,111,002 and \$34,633,752 at June 30, 2012 and 2011, respectively. Interest on all other bonds is payable on the first day of January and July of each year through maturity.

***Bond Defeasance***

**Prior Years Defeasance**

In prior years, the Trust defeased certain outstanding revenue bonds by placing proceeds of new bonds in an irrevocable escrow account to provide for all future debt service payments on the old bonds. This resulted in a transfer of the liability to the irrevocable escrow account. Accordingly, the trust accounts and the defeased bonds are not included in the Trust's financial statements.

**Outstanding Defeased Bonds**

		Original <u>Amount Defeased</u>	<u>Outstanding Balance</u>	
			<u>2012</u>	<u>2011</u>
Water System Revenue Bonds	Series 1977G	\$1,865,000	\$645,000	\$725,000
Water System Revenue Bonds	Series 1978F	6,480,000	2,110,000	2,405,000

***Bond Coverage***

	<u>2012</u>	<u>2011</u>
Gross revenue, including non-operating revenues and transfers in	\$197,475,945	\$188,302,052
Direct operating expenses and transfers, excluding depreciation and amortization	<u>113,464,342</u>	<u>99,748,022</u>
<b>Net revenue available for debt service</b>	<b><u>\$84,011,603</u></b>	<b><u>\$88,554,030</u></b>
Principal amounts	\$10,433,553	\$10,433,553
Interest amounts	<u>22,367,292</u>	<u>22,367,292</u>
<b>Total debt service requirements</b>	<b><u>\$32,800,845</u></b>	<b><u>\$32,800,845</u></b>
 <b>Revenue bond coverage</b>	 <b><u>2.56</u></b>	 <b><u>2.70</u></b>

The bond indentures require the payment of principal and interest before any other expenditures may be made. In addition, depreciation and amortization expenses are excluded from the direct operating expenses as they do not affect funds available for debt service. Per the bond indenture, principal and interest amounts are derived from the highest annual principal and interest amounts outstanding. The required revenue bond coverage is 1.2.

II. B. 5. CHANGES IN LONG-TERM DEBT

	<b>2012</b>					
	Balance July 1, 2011	Issued	Retired	Balance June 30, 2012	Due Within One Year	Due After One Year
Intergovernmental payable	\$56,194,284	\$1,652,715	\$ -	\$57,846,999	\$ -	\$57,846,999
Notes payable	18,461,980	29,214,313	333,185	47,343,108	344,663	46,998,445
Bond interest payable (1)	34,633,752	3,233,697	8,756,447	29,111,002	-	29,111,002
Revenue bonds	<u>309,920,579</u>	<u>-</u>	<u>9,039,233</u>	<u>300,881,346</u>	<u>10,433,553</u>	<u>290,447,793</u>
	<b><u>\$419,210,595</u></b>	<b><u>\$34,100,725</u></b>	<b><u>\$18,128,865</u></b>	<b><u>\$435,182,455</u></b>	<b><u>\$10,778,216</u></b>	<b><u>\$424,404,239</u></b>

	<b>2011</b>					
	Balance July 1, 2010	Issued	Retired	Balance June 30, 2011	Due Within One Year	Due After One Year
Intergovernmental payable	\$54,542,331	\$1,651,953	\$ -	\$56,194,284	\$ -	\$56,194,284
Notes payable	9,110,408	13,478,803	4,127,231	18,461,980	348,954	18,113,026
Bond interest payable (1)	39,538,760	-	4,905,008	34,633,752	-	34,633,752
Revenue bonds	<u>246,718,489</u>	<u>68,725,000</u>	<u>5,522,910</u>	<u>309,920,579</u>	<u>9,039,233</u>	<u>300,881,346</u>
	<b><u>\$349,909,988</u></b>	<b><u>\$83,855,756</u></b>	<b><u>\$14,555,149</u></b>	<b><u>\$419,210,595</u></b>	<b><u>\$9,388,187</u></b>	<b><u>\$409,822,408</u></b>

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

II. B. 6. SEGMENT INFORMATION AND PLEDGED REVENUES

The Trust issued revenue bonds to support its water and wastewater activities. The financial statements report revenue-supported debt. The Trust recognized \$113,685,266 and \$105,774,669 in water charges and \$77,628,911 and \$72,895,618 in wastewater charges in 2012 and 2011, respectively.

II. C. INTERFUND BALANCES

*Due Within City*

	<b><u>2012</u></b>	<b><u>2011</u></b> <b><u>(Restated)</u></b>
<b>DUE TO OTHER FUNDS</b>		
General Fund	\$938,743	\$570,331
Oklahoma City Environmental Assistance Trust	3,104	57,533
Oklahoma City Public Property Authority	<u>1,308</u>	<u>-</u>
	<b><u>\$943,155</u></b>	<b><u>\$627,864</u></b>
<b>DUE FROM OTHER FUNDS</b>		
City Medical Services Fund	\$9,048	\$51,566
City Stormwater Drainage Fund	18,080	361,100
Oklahoma City Municipal Facilities Authority	678,387	468,521
Oklahoma City Public Property Authority	<u>-</u>	<u>1,387,147</u>
	<b><u>\$705,515</u></b>	<b><u>\$2,268,334</u></b>

*Advances Within the City*

**Advance to MCA**

The McGee Creek Project is a water supply reservoir constructed by the Federal government and accepted by the MCA in fiscal year 1991. MCA was required to repay the municipal and industrial portion of the construction costs, plus interest, to the Federal government. The original amount of the obligation to the Federal government was \$129,311,452. During fiscal year 1992, the U.S. Department of Interior, in response to MCA's protest, reduced the liability for reimbursable costs to \$86,045,326, provided that the buy-out would be financed with tax-exempt debt.

In fiscal year 1993, MCA sold MCA Water Revenue Bonds, Series 1992 (MCA Bonds) in the amount of \$91,860,000. Proceeds from the MCA Bonds supplemented by an advance in the amount of \$5,500,000 from the Trust funded the prepayment of MCA's obligation to the Federal government along with costs of issuance and necessary bond reserves.

In August 1992, the MCA trust indenture was amended to define the relationship between MCA and Participants including the Trust. 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 to MCA by the Participants for aliquot shares are a period cost. Payments to MCA from Participants reduce the aliquot share payments receivable.

Under an Agreement of Support with MCA, the Trust has pledged its net revenues, which are not required for debt service, reserves, other outstanding requirements, and operations and maintenance expenses for the repayment of the MCA Bonds. The Trust will transfer the funds necessary to pay the principal and interest on MCA's liability under the MCA Bonds through December 31, 2021, at which time the MCA bond reserve will make the debt service payments until the bonds are fully paid January 1, 2023.

The Trust has transferred funds in excess of its aliquot share to MCA under the Agreement of Support. The amount of funds advanced to MCA was \$45,391,204 and \$43,256,623 as of June 2012 and 2011, respectively.

**Cost Reimbursement Advance to City Water and Wastewater Fund**

City employees perform all administrative and management services for the Trust. Reimbursements for the costs of these services are included in Trust expenses. The advance represents the unfunded liabilities of the City Water and Wastewater Fund.

	<u>2012</u>	<u>2011</u>
Beginning balance	\$3,899,043	\$2,911,436
Personal Services	43,349,819	40,903,024
Other Services	22,484,332	17,478,866
Material and supplies	11,390,925	10,590,639
Interest income	(7,310)	(98,040)
Other income	(19,026)	(25,994)
Reimbursements to the City Water and Wastewater Fund	<u>(76,913,099)</u>	<u>(67,860,888)</u>
	<u>\$4,184,684</u>	<u>\$3,899,043</u>

*Receivable from Central Oklahoma Transportation and Parking Authority (COTPA)*

The Trust and COTPA entered into an Agreement of Support (COTPA Agreement) on July 1, 1986, amended September 1, 1996. The COTPA Agreement provides for financial support of COTPA's parking system from the monthly net revenues of the water and wastewater systems of the City. The Trust is required to replenish COTPA's bond reserve account if the balance in such account remains below the minimum required amount for a period of eleven months. The Trust is further required to maintain or revise its schedule of rates, rentals, fees, and charges for use and services at or to a level sufficient to provide adequate net revenues to ensure that such support is available. The Trust does not have the right or power to terminate the COTPA Agreement for any reason including default by COTPA as long as COTPA Series 1996 bonds remain outstanding. The COTPA Agreement is not subject to the Trust bond indentures and the rights of the holders of the Trust bonds. However, the COTPA Agreement does not alter or impair the rights and privileges of the holders of Trust bonds.

On June 29, 1988, the Trust loaned \$2,426,436 to COTPA pursuant to the Agreement. COTPA is obligated under the Agreement to repay this note (without interest) in monthly payments over 20 years from net revenues after all funds, reserves, and accounts of COTPA created by its bond indenture have been reestablished at their minimum required levels. At June 30, 2012 and 2011, the balance of this receivable was \$1,091,249 and \$1,215,432, respectively. The debt service requirement is \$121,500 annually.

**III. NET ASSETS**

*Prior Period Adjustment*

The financial statements for 2011 have been restated for the effect of a prior period adjustment which resulted in a change in beginning net assets as of July 1, 2010 of \$2,911,436. The City Water and Wastewater Fund pays for personal services and certain other operating costs related to water and wastewater activities. The Trust reimburses the City Water and Wastewater Fund for those costs. In prior years, the unfunded liabilities of the City Water and Wastewater Fund was not reported by the Trust. The affect of the prior period adjustment reduced previously reported changes in net assets by \$1,771,723 and previously reported unrestricted net assets at June 30, 2011 by \$4,683,159.

*Invested in Capital Assets, Net of Related Debt*

	<u>2012</u>	<u>2011</u>
Capital assets, net	\$912,283,405	\$816,039,897
Retainages and accounts payable	(19,822,147)	(17,923,152)
Intergovernmental payable	(57,846,999)	(56,194,284)
Notes payable	(47,343,108)	(18,461,980)
Commercial paper	(45,000,000)	(12,000,000)
Commercial paper construction account funded with proceeds	466,499	1,128,991
Bonds payable, net	(305,318,629)	(314,621,655)
Bond accounts funded with bond proceeds	22,166,681	22,166,668
Bond issuance costs paid with bond proceeds	<u>5,310,802</u>	<u>5,310,802</u>
	<u>\$464,896,504</u>	<u>\$425,445,287</u>

*Restricted for Capital Projects*

	<u>2012</u>	<u>2011</u>
Commercial paper reserve for construction projects	\$466,499	\$1,128,991
Commercial paper construction account funded with proceeds	(466,499)	(1,128,991)
Bond construction account	126,931	126,918
Bond construction account funded with bond proceeds	(126,931)	(126,918)
Interest receivable on construction accounts	<u>3</u>	<u>2</u>
	<u>\$3</u>	<u>\$2</u>

*Restricted for Debt Service*

	<u>2012</u>	<u>2011</u>
Bond principal and interest accounts	\$26,468,590	\$24,631,699
Bond reserve	28,749,087	28,754,394
Bond reserve funded with bond proceeds	(22,039,750)	(22,039,750)
Interest receivable on bond investments	180,838	191
Current bond interest payable and commercial paper	<u>(15,999,856)</u>	<u>(15,265,369)</u>
	<u>\$17,358,909</u>	<u>\$16,081,165</u>

*Unrestricted*

	<u>2012</u>	<u>2011</u>
Unrestricted	<u>\$125,749,054</u>	<u>Restated \$120,464,483</u>

**IV. REVENUES AND EXPENSES**

**IV. A. SPECIAL ASSESSMENTS**

Special assessments are levied against a water or sewer group of homes to pay for construction or extension of service by the Trust. The Trust charges each homeowner for their individual share of the construction cost, amortized over a 10-year period. Amounts receivable are reported with accounts receivable. In fiscal year 2012 and 2011, the Trust collected \$17,430 and \$14,815, respectively.

**IV. C. INTERFUND TRANSFERS**

*Transfers Within the City*

	<u>2012</u>	<u>2011</u> <u>(Restated)</u>
<b>TRANSFERS FROM OTHER FUNDS</b>		
City Solid Waste Management Fund	\$ -	\$220,199
City Public Property Authority Fund	-	1,387,147
City Special Purpose Fund	<u>-</u>	<u>35</u>
	<u>\$ -</u>	<u>\$1,607,381</u>
	<u>2012</u>	<u>2011</u>
<b>TRANSFERS TO OTHER FUNDS</b>		
City General Fund	\$5,334,698	\$4,779,318
MCA	<u>4,313,132</u>	<u>4,327,650</u>
	<u>\$9,647,830</u>	<u>\$9,106,968</u>

**Lease Agreement**

A water lease agreement dated August 1, 1960, amended July 1, 1986, and a separate wastewater lease agreement dated July 1, 1986, between the Trust and the City provide that all City-owned water and wastewater system assets (as of the date of the lease, as well as property acquired thereafter) be leased to the Trust. The lease also provides that all revenue generated by these assets will accrue to the Trust. Pursuant to a lease extension dated May 20, 2003, the water and wastewater lease term continues until June 30, 2050, or until all indebtedness authorized by the general bond indenture has been paid or provision has been made for it to be paid, whichever is later. In connection with the lease extension, the Trust is required to transfer an annual lease payment of one percent of gross revenue receipts from residential and commercial utilities sales. For fiscal years 2012 and 2011, the Trust made annual lease payments of \$1,778,232 and \$1,593,106, respectively.

**Transfers in Lieu of Franchise Fees**

During fiscal year 2012 and 2011, \$3,556,466 and \$3,186,212, respectively, were transferred to the City General Fund in lieu of fees paid for the exclusive right to provide water services to the citizens of the City.

**V. COMMITMENTS**

	<u>2012</u>	<u>2011</u>
Construction projects - system improvements	\$62,716,268	\$67,709,504
Contracted wastewater treatment services	<u>46,851,413</u>	<u>24,304,572</u>
	<u>\$109,567,681</u>	<u>\$92,014,076</u>

Construction projects are funded with commercial paper, utility charges, and Oklahoma Water Resources Board loans.

**VI. CONTINGENCIES**

*Litigation*

The Trust is a party to legal proceedings which normally occur in utility operations. These legal proceedings are not likely to have a material adverse impact on the Trust. The Trust has not accrued any amounts related to pending litigation as the amount, if any, is not currently known or reasonably estimable.

**VII. RELATED PARTY TRANSACTIONS**

*LARA - Jointly Governed Organizations*

LARA was formed under the provisions of an interlocal agreement. The agreement provides that the Trust will reimburse LARA for the budgeted or actual expenditures. The Trust reimbursed LARA for expenditures in fiscal year 2012 and 2011 in the amount of \$184,649 and \$222,656, respectively.

**VIII. SUBSEQUENT EVENT**

On August 2, 2012 the Trust purchased real estate from COTPA. The real estate, approximately 3000 square feet of office space located on the ground floor of 501 W. Sheridan, Oklahoma City, Oklahoma, was previously leased by the Trust to house utility billing and support services. The purchase was funded by cancelling the \$1,091,249 remaining outstanding debt associated with the COTPA Agreement dated June 28, 1988, and a single cash payment to COTPA of \$223,750.

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

Board of Trustees  
Oklahoma City Water Utilities Trust  
Oklahoma City, Oklahoma

We have audited the basic financial statements of the Oklahoma City Water Utilities Trust (the Trust), a component unit of the City of Oklahoma City, Oklahoma (the City), as of and for the year ended June 30, 2012, and have issued our report thereon dated December 18, 2012, which contained an explanatory paragraph disclosing that the 2011 financial statements have been restated. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 Trust's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 12-01, 12-02 and 12-03 to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Trust'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*.

We also noted certain matters that we reported to the Trust's management in a separate letter dated December 18, 2012.

The Independent Accountants' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* of the City should be read in conjunction with this report.

The Trust's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Trust's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, the City, management and others within the Trust and is not intended to be and should not be used by anyone other than these specified parties.

*BKD, LLP*

December 18, 2012

**Oklahoma City Water Utilities and Trust**  
Schedule of Findings and Responses  
Year Ended June 30, 2012

<b>Reference Number</b>	<b>Finding</b>
12-01	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – BKD identified certain adjustments in the accounting of transactions related to projects being closed out of construction in process timely. The material nature of the adjustments indicates a deficiency in the internal controls over financial reporting of the Trust.</p> <p>Context – Accurate financial statements are critical to managing operations and communicating financial position and results of operations to interested parties.</p> <p>Effect – Material misstatements in the financial statements resulted from errors not detected and/or corrected in a timely manner which resulted in a material adjustment of current year’s financial statements.</p> <p>Cause – Notifications of large capital asset projects being completed were not communicated to the appropriate personnel or reviewed by accounting personnel for recording in the Trust’s financial statements.</p> <p>Recommendation – We recommend the Trust’s management evaluate the current notification procedures and communication of project completions, so that those transactions may be properly evaluated and reported within the Trust’s financial statements.</p> <p>Views of Responsible Officials and Planned Corrective – We agree the asset management system and related accounting procedures need extensive revision. We will revise the asset management system and develop extensive procedures to ensure the system properly tracks capital assets.</p>

**Oklahoma City Water Utilities and Trust**  
Schedule of Findings and Responses  
Year Ended June 30, 2012

<b>Reference Number</b>	<b>Finding</b>
12-02	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – In an effort to improve reporting of unrecorded payables, the City and the Trust changed the method used to identify certain payables to be accrued at year-end. The City and Trust implemented a process whereby the department managers provided estimates of payables based on the progress on projects. The Accounting Services Division relied on the payable information provided by the department managers. Based on our testing of payables we identified certain instances where payables recorded under this new method were both overstated and understated.</p> <p>Context – Accurate financial statements are critical to managing operations and communicating financial position and results of operations to interested parties.</p> <p>Effect – Potential material misstatements in the financial statements due to error could occur and not be detected and/or corrected in a timely manner.</p> <p>Cause – Insufficient education of department managers regarding what information was actually needed and the testing of the new process methodology was not completed.</p> <p>Recommendation – We recommend that new processes implemented be clearly communicated and results tested to ensure the accuracy of the information being generated by the new process.</p> <p>Views of Responsible Officials and Planned Corrective Actions – We agree the process needs improvement and will implement year-end training and a process that includes requiring documentation of amounts provided by departments in order to validate accuracy of information.</p>

**Oklahoma City Water Utilities and Trust**  
Schedule of Findings and Responses  
Year Ended June 30, 2012

<b>Reference Number</b>	<b>Finding</b>
12-03	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – Interfund reimbursements were not properly recorded within the Trust’s financial statements to reflect the fund responsible for the particular expense. As a result, the Trust has not historically reported a liability to the City of Oklahoma City for expenses incurred on behalf of the Trust which had not yet been reimbursed by the Trust as of year-end. This matter required a restatement of the prior year’s financial statements to properly reflect this liability</p> <p>Context – Accurate financial statements are critical to managing operations and communicating financial position and results of operations to interested parties.</p> <p>Effect – Material misstatements in the financial statements resulted from errors that occurred and were not detected and/or corrected in a timely manner, resulting in a restatement of prior year’s financial statements.</p> <p>Cause – Previously issued accounting guidance was not properly implemented and the accruals recorded by the Trust were not properly monitored.</p> <p>Recommendation – We recommend management increase monitoring of activity/transactions of the Trust to ensure proper year-end accruals and proper presentation in accordance with prescribed guidance.</p> <p>Views of Responsible Officials and Planned Corrective Actions – We agree with the change in treatment of these transactions and have recorded these transactions in the current year and will record the appropriate amounts in the future.</p>

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