

OUR FUTURE IS BRIGHT



Oklahoma City Water Utilities Trust

A discrete component unit enterprise fund of the City of Oklahoma City, Oklahoma
Annual Financial Report | for the Fiscal Year ended June 30, 2013

OKLAHOMA CITY WATER UTILITIES TRUST

Consolidated Operations of the Oklahoma City Water Utilities Trust,
A Discrete Component Unit of Oklahoma City, Oklahoma,
And McGee Creek Authority of Atoka, Oklahoma,
A Blended Component Unit Enterprise Fund of the
Oklahoma City Water Utilities Trust

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Dennis Clowers, Surrogate Trustee

Management

Marsha Slaughter, General Manager

Annual Financial Report for the Fiscal Year Ended June 30, 2013

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

OKLAHOMA CITY WATER UTILITIES TRUST

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Introductory Section



December 6, 2013

The Board of Trustees
Oklahoma City Water Utilities Trust

The Oklahoma City Water Utilities Trust (Consolidated Trust) annual financial report (annual report) provides a comprehensive overview of the Consolidated Trust's financial position and the results of operations during the fiscal years ended June 30, 2013 and 2012. 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 Consolidated Trust's management.

The Consolidated Trust's annual report includes the report of independent auditors, management's discussion and analysis (MD&A), financial statements, and related notes. Management's narrative on the financial activities of the Consolidated Trust for the fiscal years ended June 30, 2013 and 2012 is in the MD&A section of this report, immediately following the independent auditor's report on financial statements and supplementary information. The Consolidated Trust's reporting entity is comprised of financial and operating activities conducted within the legal framework of the Consolidated Trust. The Consolidated Trust is a discretely presented component unit of the City of Oklahoma City (City) and, as such, is included within the City's Comprehensive Annual Financial Report (CAFR).

The Consolidated Trust includes the blended operations of the Oklahoma City Water Utilities Trust (OCWUT) and McGee Creek Authority (MCA).

OCWUT 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 OCWUT. OCWUT is an enterprise fund and does not receive tax funding.

The purpose of OCWUT is 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 OCWUT will lease or otherwise manage the related water and wastewater system. OCWUT 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 OCWUT, plus costs and expenses incidental to operations and maintenance. The City is the sole beneficiary of OCWUT. 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 OCWUT.

MCA was established on August 1, 1977 to develop, operate, and maintain the McGee Creek Reservoir (Reservoir) to provide a municipal and industrial water supply for participants of MCA (Participants) in central and southern Oklahoma, including OCWUT, the City of Oklahoma City (City), the City of Atoka, and Atoka County. MCA is a blended component of OCWUT because OCWUT is expected to fund the debt of MCA due to an agreement of support (OCWUT Agreement) between OCWUT and MCA dated October 11, 1979. The OCWUT Agreement details OCWUT's pledge of water utility revenues, not otherwise pledged or required by OCWUT.

During the fiscal year ended June 30, 2013, OCWUT increased borrowings from the Oklahoma Water Resources Board (OWRB) and commercial paper program by \$9.56 million and \$39.00 million, respectively. With current year expenditures of \$14.72 million the expansion of the Hefner Water Treatment Plant Expansion (Hefner Project) is OCWUT's most significant capital project. Construction of the Hefner Project is expected to be completed by December 31, 2013, and has accumulated cost of \$50.39 million at June 30, 2013.

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 including Forbes February 25, 2013 ranking of Oklahoma City as one of the best cities for good jobs. These factors promise an immediate and sustainable economic growth outlook for the next several years.

In a report prepared by The Steven C. Agee Economic Research & Policy Institute of Oklahoma City University (Institute), dated January 31, 2013 and entitled "City of Oklahoma City Economic Outlook", the Institute reported that calendar year 2013, while remaining in a general recovery mode, will be another year of underperformance nationally, citing unresolved Federal issues. On the other hand the Institute cites historical patterns of economic activity in Oklahoma as reasons Oklahoma City has and will not closely follow the national trend. As a result they report that Oklahoma City should continue to enjoy broad growth as long as the national economy is in a general recovery mode. The Institute reported that recent employment and earnings growth should result in positive sales tax momentum with a general projection of 4.4 percent annual growth in sales tax revenues for calendar years 2013 and 2014 with a range from 2.6 percent to 7.4 percent depending on the national economy. Personal income is expected to grow 4.3 percent and 3.7 percent for calendar years 2013 and 2014, respectively. Without any significant changes in the national economy, overall job growth is expected to be around 2.5 percent for calendar years 2013 and 2014 and possibly in excess of 4 percent in some job sectors.

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.

OCWUT and MCA participate in the City's comprehensive accounting and budgetary system. Interim financial statements provide OCWUT and MCA management and other interested readers with regular financial analysis. Additionally, OCWUT and MCA management maintain 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 auditors competitively selected by the City. In compliance with that resolution, the Consolidated Trust engaged BKD LLP to conduct its annual audit. The Consolidated Trust acknowledges the professional and competent services of its independent auditors.

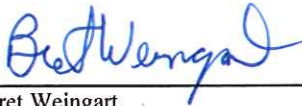
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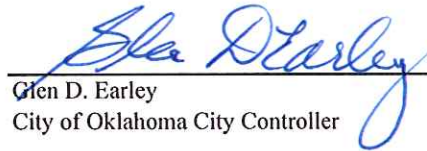
Marsha Slaughter
General Manager



Craig A. Freeman
City of Oklahoma City Finance Director



Bret Weingart
City of Oklahoma City
Utilities Department Assistant Director



Glen D. Earley
City of Oklahoma City Controller

Financial Section

Independent Auditor's Report on Financial Statements and Supplementary Information

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Oklahoma City Water Utilities Trust (the Trust), a component unit of City of Oklahoma City, Oklahoma (the City), which are comprised of the statements of net position as of and for the years ended June 30, 2013 and 2012, and the statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and major funds of the Trust as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note IV* to the financial statements, in the current year, the Trust changed its method of accounting for component units and bond issuance costs with the adoption of Governmental Accounting Standards Board (GASB) Statements No. 61 and 65. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by GASB, 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. However, we noted the 2011 balances presented in the management's discussion and analysis do not reflect all the effects of the change in accounting principles disclosed in *Note IV*.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The transmittal letter preceding this report is presented for purposes of additional analysis and is not a required part of the basic financial statements. That transmittal letter has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2013, on our consideration of the Trust's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.

BKD, LLP

Oklahoma City, Oklahoma
December 6, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Oklahoma City Water Utilities Trust (Consolidated Trust) annual financial report, the Consolidated Trust's management provides narrative discussion and analysis of the financial activities of the Consolidated Trust for the fiscal years ended June 30, 2013 and 2012. The Consolidated 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 Consolidated Trust reports services for which customers are charged a fee. Services are provided to customers external to the Consolidated Trust consisting primarily of water and wastewater utility services provided to the public, and water storage and supply services. The Consolidated Trust is a discrete component unit of the City of Oklahoma City (City).

Financial Summary

- Consolidated Trust assets exceeded liabilities by \$661,680,213 (net position) for 2013. This compares to the previous year when assets exceeded liabilities by \$638,879,910.
- Total liabilities for the Consolidated Trust increased \$36,532,168 to \$625,594,332 during the fiscal year. This compares to the previous year when liabilities increased \$50,229,009 to \$589,062,164.
- Total net position is comprised of the following:
 - (1) Net investment in capital assets, of \$517,123,282 and \$490,863,935 for year ended June 30, 2013 and 2012, respectively, includes property and equipment, net of accumulated depreciation, reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) Net position in the amount of \$22,488,529 and \$25,222,624 for year ended June 30, 2013 and 2012, respectively, is restricted for capital projects and by debt service constraints imposed by debt covenants.
 - (3) Unrestricted net position of \$122,068,402 and \$122,793,351 is reported for the year ended June 30, 2013 and 2012, respectively.

Overview of the Financial Statements

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

Financial Statements

The Consolidated Trust's annual financial report includes three financial statements. These statements provide both long-term and short-term information about the overall status of the Consolidated Trust, and are presented to demonstrate the extent the Consolidated Trust has met its operating objectives efficiently and effectively using all the resources available and whether the Consolidated 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 basic financial statement is the statement of net position. This statement presents all of the Consolidated Trust's assets and deferred outflows less liabilities resulting in net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the Consolidated Trust, as a whole, is improving or deteriorating, identify financial strengths and weaknesses, and assess liquidity.

The second statement is the statement of revenues, expenses, and changes in net position, which reports how the Consolidated Trust's net position changed during the fiscal year, and can be used to assess the Consolidated Trust's operating results, in its entirety, and analyze how the Consolidated Trust's activities 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 the Consolidated Trust's cash.

Notes to the Financial Statements

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

Financial Analysis

The Consolidated Trust's net position at June 30, 2013 is \$661,680,213. This is an increase of \$22,800,303 over fiscal year 2012 net position of \$638,879,910. The overall financial position of the Consolidated Trust improved during the 2013 fiscal year. Fiscal year 2012 balances have been restated to reflect changes in accounting principles. The 2011 balances discussed in this analysis have been restated to reflect a change in accounting principles related to the implementation of Governmental Accounting Standards Board (GASB) statement number 61 and for the elimination of balances and related transactions between the Oklahoma City Water Utilities Trust (OCWUT) and McGee Creek Authority (MCA). The balances have not been restated for the effect of GASB statement number 65. See Note IV for more information regarding prior year restatements.

Summary of Net Position

	2013	2012 (Restated)	2013 - 2012 Amount of Change	2013 - 2012 %	2011 (Restated)	2012 - 2011 Amount of Change	2012 - 2011 %
Assets							
Current assets	\$142,486,081	\$157,249,641	(\$14,763,560)	(9.4%)	\$162,178,541	(\$4,928,900)	(3.0%)
Capital assets, net	1,054,830,091	988,064,797	66,765,294	6.8	892,375,131	95,689,666	10.7
Other non-current assets	<u>80,746,944</u>	<u>82,557,112</u>	<u>(1,810,168)</u>	(2.2)	<u>76,315,528</u>	<u>6,241,584</u>	8.2
Total assets	<u>1,278,063,116</u>	<u>1,227,871,550</u>	<u>50,191,566</u>	4.1	<u>1,130,869,200</u>	<u>97,002,350</u>	8.6
Deferred Outflows							
of Resources	<u>9,211,429</u>	<u>70,524</u>	<u>9,140,905</u>	12961.4	<u>-</u>	<u>9,140,905</u>	100.0
Liabilities							
Current liabilities	74,529,456	107,556,885	(33,027,429)	(30.7)	68,505,124	39,051,761	57.0
Non-current liabilities	<u>551,064,876</u>	<u>481,505,279</u>	<u>69,559,597</u>	14.4	<u>470,328,031</u>	<u>11,177,248</u>	2.4
Total liabilities	<u>625,594,332</u>	<u>589,062,164</u>	<u>36,532,168</u>	6.2	<u>538,833,155</u>	<u>50,229,009</u>	9.3
Net position							
Invested in capital assets	517,123,282	490,863,935	26,259,347	5.3	448,685,292	42,178,643	9.4
Restricted	22,488,529	25,222,624	(2,734,095)	(10.8)	23,821,531	1,401,093	5.9
Unrestricted	<u>122,068,402</u>	<u>122,793,351</u>	<u>(724,949)</u>	(0.6)	<u>119,529,222</u>	<u>3,264,129</u>	2.7
Total net position	<u>\$661,680,213</u>	<u>\$638,879,910</u>	<u>\$22,800,303</u>	3.6	<u>\$592,036,045</u>	<u>\$46,843,865</u>	7.9

Current assets decreased by \$14.76 million in 2013 and \$4.93 million in 2012. Cash and investments decreased \$8.81 million in 2013 primarily due to the purchase and construction of capital assets and a \$5.53 million decrease in accounts receivable balances. In 2012, cash and investments decreased \$5.72 million due to reinvestment of bond reserve amounts reported with cash in 2011 and non-current investments in 2012. In 2012, OCWUT had amounts due from Gaillardia Golf Course, LLC recorded as accounts, interest, and notes receivable. In 2013, these amounts were dismissed or reduced as a result of a settlement agreement (Gaillardia Agreement). Accounts receivable balances decreased in 2013 by \$5.53 million principally due to shortened time between meter readings and billings which reduced unbilled receivables. Additionally, a receivable of \$397 thousand was adjusted to \$379 thousand due to the Gaillardia Agreement. Accounts receivable increased by \$1.67 million in 2012 mostly due to utility rate increases and improved collections of outstanding amounts.

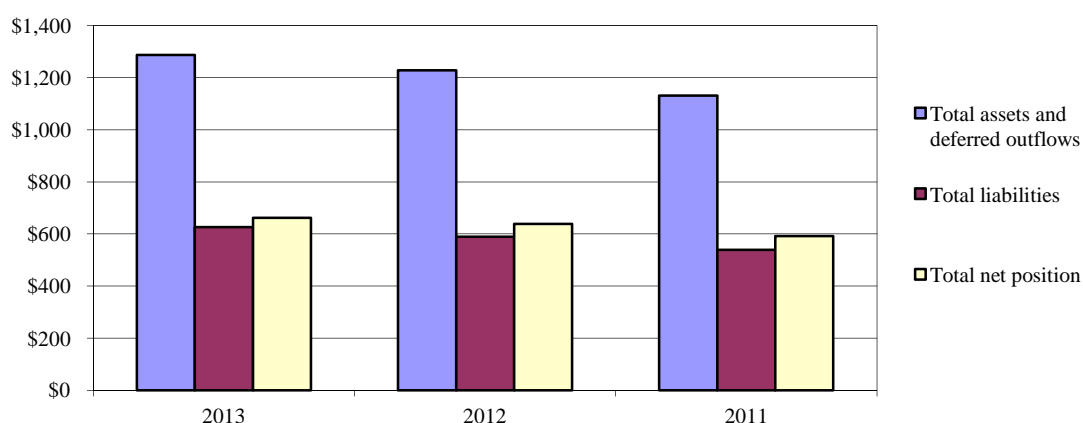
The \$66.67 million and \$95.69 million increase in capital assets for fiscal year 2013 and 2012, respectively, is the result of construction of capital assets, offset by normal depreciation. The \$1.81 million decrease in other non-current assets during 2013 is largely due to the Gaillardia Agreement which included dismissal of a \$1.22 million note receivable and \$51 thousand of accrued interest. Additionally, the \$969 thousand receivable from the Central Oklahoma Transportation Authority was forgiven in exchange for real property. In 2012, other non-current assets increased \$6.24 million largely due to the \$5.72 million increase in non-current investments related to bond reserves.

In 2013, deferred outflows of resources increased \$9.14 million as a result of increased deferred amounts on refunding related to the defeasance of 2004 Series and 2008 Series bonds in the amount of \$4.23 million and \$5.01 million, respectively, offset by normal amortization. The \$70 thousand increase in deferred outflows in 2012 occurred as a result of restatements due to a change in accounting principles. Deferred amounts on refunding of \$98 thousand are reported with bonds payable in 2011.

Current liabilities decreased during 2013 by \$33.03 million mostly due to commercial paper retirements of \$68.50 million, offset by new commercial paper borrowings of \$39 million. The \$39.05 million increase in current liabilities during 2012 was mostly due to commercial paper issuances of \$33 million. Accounts payable decreased \$918 thousand in 2013 compared to a \$2.40 million increase in 2012. Changes in accounts payable are mainly related to the timing of vendor payments. During 2013 the current portion of bonds payable decreased \$2.36 million due to changes in the current portion of scheduled debt service requirements and defeasance of the 2004 and 2008 Series revenue bonds. The \$1.59 million increase in the current portion of bonds payable in 2012 was a result of changes in the current portion of regularly scheduled debt service requirements.

The \$69.56 million increase in non-current liabilities during 2013 is largely due to issuance of a \$167.76 million 2013 Series revenue bond, offset by the \$113.80 million defeasance of the 2004 and 2008 Series revenue bonds. Additionally, during 2013 OCWUT borrowed \$9.56 million from the OWRB. The \$11.18 million increase in non-current liabilities during 2012 was mostly due to regularly scheduled bond debt service payments, offset by \$28.89 million of increased borrowing from the Oklahoma Water Resource Board (OWRB).

Summary of Net Position
(dollars are in millions)



MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013 and 2012

OKLAHOMA CITY
WATER UTILITIES TRUST

	Summary of Changes in Net Position						
	<u>2013</u>	<u>2012</u> <u>(Restated)</u>	2013 - 2012		<u>2011</u> <u>(Restated)</u>	2012 - 2011	
			Amount of <u>Change</u>	% <u>Change</u>		Amount of <u>Change</u>	% <u>Change</u>
Operating revenues							
Charges for services:							
Water	\$111,139,787	\$113,685,266	(\$2,545,479)	(2.2%)	\$105,774,669	\$7,910,597	7.5%
Wastewater	76,167,004	77,628,911	(1,461,907)	(1.9)	72,895,618	4,733,293	6.5
Aliquot share charges	2,518,808	2,461,676	57,132	2.3	2,299,823	161,853	7.0
Other charges for services and other revenues	<u>1,265,072</u>	<u>1,071,885</u>	<u>193,187</u>	18.0	<u>4,254,831</u>	<u>(3,182,946)</u>	(74.8)
Total operating revenues	191,090,671	194,847,738	(3,757,067)	(1.9)	185,224,941	9,622,797	5.2
Operating expenses	<u>153,861,756</u>	<u>136,865,083</u>	<u>16,996,673</u>	12.4	<u>115,796,059</u>	<u>21,069,024</u>	18.2
Operating income	<u>37,228,915</u>	<u>57,982,655</u>	<u>(20,753,740)</u>	(35.8)	<u>69,428,882</u>	<u>(11,446,227)</u>	(16.5)
Net non-operating expenses	<u>(14,464,874)</u>	<u>(9,589,709)</u>	<u>(4,875,165)</u>	(50.8)	<u>(6,438,990)</u>	<u>(3,150,719)</u>	(48.9)
Capital contributions	-	491,422	(491,422)	(100.0)	5,460,033	(4,968,611)	(91.0)
Transfers, net	-	-	-	0.0	<u>(3,171,936)</u>	<u>3,171,936</u>	100.0
Contributions and transfers	-	<u>491,422</u>	<u>(491,422)</u>	(100.0)	<u>2,288,097</u>	<u>(1,796,675)</u>	(78.5)
Special items	<u>36,262</u>	-	<u>36,262</u>	100.0	-	-	0.0
Changes in net position	22,800,303	48,884,368	(26,084,065)	(53.4)	65,277,989	(16,393,621)	(25.1)
Beginning net position,							
As previously reported	638,879,910	592,036,045	46,843,865	7.9	499,315,661	92,720,384	18.6
Change in accounting principle	-	<u>(2,040,503)</u>	<u>2,040,503</u>	100.0	<u>27,442,395</u>	<u>(29,482,898)</u>	(107.4)
As restated	<u>638,879,910</u>	<u>589,995,542</u>	<u>48,884,368</u>	8.3	<u>526,758,056</u>	<u>63,237,486</u>	12.0
Ending net position	<u>\$661,680,213</u>	<u>\$638,879,910</u>	<u>\$22,800,303</u>	3.6	<u>\$592,036,045</u>	<u>\$46,843,865</u>	7.9

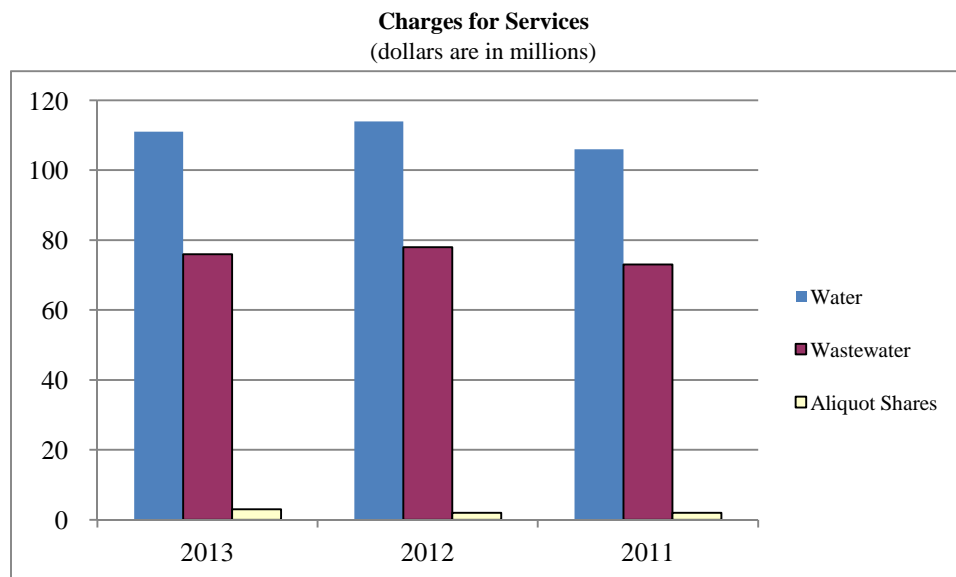
Operating revenues decreased 1.9% during 2013 as a result of odd-even watering restrictions implemented during the summer of 2013, offset by normal rate increases, high temperatures and drought conditions. The 5.2% increase in operating revenues during fiscal 2012 was due to normal rate and quantity increases coupled with higher than normal temperatures and a change in drought conditions. Other charges for services and other revenues include rental income and recreational permits. Due to a change in accounting principles billing charges to the City previously included in other charges have been reclassified to non-operating payments from the City and account for the \$3.18 million decrease in other charges during 2012.

Operating expenses increased 12.4% during 2013 primarily due to a \$8.25 million increase in depreciation expense coupled with a \$3.85 million increase in payments to the City related to increased personnel costs. Additionally, during 2013 OCWUT began sludge removal and de-watering operations increasing maintenance expenditures by \$4.20 million. The 18.2% increase in 2012 operating expenses is mostly due to increased maintenance costs for a significant increase in water main breaks and increased electricity related to running additional pump stations.

The 50.80% increase in net non-operating expenses during 2013 is largely due to \$1.12 million in bond issue cost related to the Series 2013 revenue bond issue coupled with a \$1.29 million loss recognized in relation to the Gaillardia Agreement. Additionally, a \$768 thousand loss on disposal of assets was recognized due to adjustments related to the biennial inventory of fixed assets and interest on long-term debt increased \$916 thousand during 2013 due to the issuance of the 2013 Series revenue bonds. The 48.9% increase in net non-operating expense during 2012 was mostly due to a \$4.86 million increase in interest on long-term debt due to the 2011 Series revenue bond issue, offset by the \$2.66 million increase in payments from the City which were previously reported with other charges.

Capital contributions decreased \$491 thousand in 2013 due to a one-time only reimbursement of \$289 thousand for the cost of installing water utilities related to the Paycom construction project and a one-time only \$244 thousand contribution of assets from Gaillardia Golf Course, LLC. Capital contributions in 2012 decreased \$4.97 million primarily related to a \$4.00 million forgiveness of debt for OWRB notes payable in 2011.

Special items recognized during 2013 include a \$1.10 million purchase of real estate offset by a \$1.14 million gain on the defeasance of the 2004 and 2008 Series bonds.



Capital Assets

The Consolidated Trust's investment in capital assets, net of accumulated depreciation, as of June 30, 2013 and 2012, was \$1,054,830,091 and \$988,064,797, respectively.

In fiscal year 2001, OCWUT 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 OCWUT's 20-year plan for capital improvements along with a 50-year plan for water supply availability.

	Capital Assets						
	Net of Accumulated Depreciation						
		2012	2013 - 2012	2013 - 2012	2011	2012 - 2011	2012 - 2011
	2013	(Restated)	Amount of	%	(Restated)	Amount of	%
			Change	Change		Change	Change
Non-Depreciable Assets							
Land and water storage rights	\$162,629,288	\$160,664,568	\$1,964,720	1.2%	\$159,237,395	\$1,427,173	0.9%
Construction in progress	<u>167,646,002</u>	<u>226,164,647</u>	<u>(58,518,645)</u>	(25.9)	<u>234,207,318</u>	<u>(8,042,671)</u>	(3.4)
Total non-depreciable assets	<u>330,275,290</u>	<u>386,829,215</u>	<u>(56,553,925)</u>	(14.6)	<u>393,444,713</u>	<u>(6,615,498)</u>	(1.7)
Depreciable Assets							
Buildings	46,045,151	47,389,126	(1,343,975)	(2.8)	48,933,923	(1,544,797)	(3.2)
Improvements other than buildings	651,549,085	539,608,117	111,940,968	20.7	435,106,020	104,502,097	24.0
Furniture, machinery, and equipment	<u>26,960,565</u>	<u>14,238,339</u>	<u>12,722,226</u>	89.4	<u>14,890,475</u>	<u>(652,136)</u>	(4.4)
Total depreciable assets	<u>724,554,801</u>	<u>601,235,582</u>	<u>123,319,219</u>	20.5	<u>498,930,418</u>	<u>102,305,164</u>	20.5
	<u>\$1,054,830,091</u>	<u>\$988,064,797</u>	<u>\$66,765,294</u>	6.8	<u>\$892,375,131</u>	<u>\$95,689,666</u>	10.7

Capital assets, net of accumulated depreciation, increased 6.8% during 2013 due to OCWUT construction and improvement projects for the water utilities system, offset by regular depreciation. Major construction projects in progress at June 30, 2013 include; Hefner Water Treatment Plant Expansion, Witcher Pump Station improvements, potable water line along Hefner Road to Western Avenue, Portland Avenue water main, and Oklahoma River siphon improvements. The 10.7% increase in capital assets, net of accumulated depreciation, in 2012 was mostly due to construction and improvement projects for the water utilities system, offset by depreciation. See Note II. F. for more information regarding capital assets.

Long-term Liabilities

At the end of the 2013 and 2012 fiscal years, the Consolidated Trust had total debt outstanding of \$509,488,484 and \$458,521,453, respectively.

Intergovernmental Payable

During fiscal year 2010, OCWUT 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 OCWUT was \$27.80 million for the settlement of the OWRB's debt to the Federal government. In addition, OCWUT agreed to pay additional costs of \$39.61 million 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 amount due. Accrued interest in the amount of \$1.79 million and \$1.62 million was added to the future liability in 2013 and 2012, respectively. 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. The balance due is \$59.58 million and \$57.85 million at June 30, 2013 and 2012, respectively. See Note III. B. for more information regarding intergovernmental payable.

OWRB Notes Payable

The OWRB provided partial funding to OCWUT for several clean water and drinking water projects during the past five years. These agreements provided up to \$59.50 million in loans, of which \$56.56 million and \$47.34 million had been drawn at June 30, 2013 and 2012, respectively. At June 30, 2013 clean water projects were finalized, however, drinking water projects are ongoing. See Note III. C. for more information regarding notes payable.

Revenue Bonds

At June 30, 2013 and 2012, the Consolidated Trust had total revenue bond debt outstanding of \$393.35 million and \$353.33 million, respectively. See Note III. E. for more information regarding revenue bonds.

OCWUT

In March, 2013 OCWUT issued Series 2013 revenue bonds for \$167.76 million. These bonds retired \$68.50 million of commercial paper, permitting OCWUT to continue funding construction projects with commercial paper proceeds. Additionally, the Series 2013 bonds defeased Series 2004 and, Series 2008 revenue bonds. Regularly scheduled debt service payments also reduced revenue bond debt outstanding by \$10.43 million.

At June 30, 2013 and 2012, OCWUT had total revenue bond debt outstanding of \$344.41 million and \$300.88 million, respectively. This debt is supported by pledged water and wastewater revenues generated by OCWUT's utility services. See Note III. E. for more information regarding revenue bonds.

MCA

MCA issued Series 1992 revenue bonds to purchase water storage rights and related assets, which in effect, repaid construction costs to the Bureau of Reclamation for McGee Creek Reservoir. These bonds are secured by aliquot share revenues from participants of MCA (Participants). At June 30, 2013 and 2012, MCA had total revenue bond debt outstanding of \$48.95 million and \$52.45 million, respectively.

	Outstanding Long Term Debt							
	2013 - 2012		2013 - 2012		2012 - 2011		2012 - 2011	
	2013	2012	Amount of	%	2011	Amount of	%	
	(Restated)	Change	Change	(Restated)	Change	Change		
Intergovernmental payable	\$59,575,031	\$57,846,999	\$1,728,032	3.0%	\$56,269,673	\$1,577,326	2.8%	
OWRB notes payable	56,560,661	47,343,108	9,217,553	19.5	18,461,980	28,881,128	156.4	
Revenue bonds	<u>393,352,792</u>	<u>353,331,346</u>	<u>40,021,446</u>	11.3	<u>365,675,579</u>	<u>(12,344,233)</u>	(3.4)	
	<u>\$509,488,484</u>	<u>\$458,521,453</u>	<u>\$50,967,031</u>	11.1	<u>\$440,407,232</u>	<u>\$18,114,221</u>	4.1	

The \$1.73 million and \$1.58 million increase in the intergovernmental payable during 2013 and 2012, respectively, was due to accrued interest. OWRB notes payable increased \$9.22 million and \$28.88 million in 2013 and 2012, respectively, as a result of continued borrowing offset by regularly scheduled payments. The \$40.02 increase in revenue bonds in 2013 was due to \$167.76 million Series 2013 revenue bond issue, offset by the \$113.80 million defeasance of the Series 2004 and 2008 revenue bonds and \$10.43 million in regularly scheduled debt service payments. The \$12.34 million decrease in revenue bonds during 2012 is due to regularly scheduled debt service payments.

Bond Ratings

	<u>Moody's</u>	<u>Standard and Poor's</u>
OCWUT 1986 Series C	N/A	AAA
OCWUT 2009A Series	Aa2	AAA
OCWUT 2009B Series	Aa2	AAA
OCWUT 2011 Series	Aa1	AAA
OCWUT 2013 Series	Aaa	AAA
MCA 1992 Series	Baa1	A

In 2013, Standard and Poor's rating agency changed MCA 1992 Series bond rating from BBB to A.

Commercial Paper ratings

OCWUT received a short-term bond rating for its commercial paper program of A-1+ 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 of the Consolidated Trust.

Utility Rates

On August 17, 2010, OCWUT adopted a resolution directing the OCWUT 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. OCWUT 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 OCWUT'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.

Aliquot Shares

Aliquot share revenue may be generated by payments from surrogates or designees of MCA Participants: the City; City of Atoka, Oklahoma; and Atoka County, Oklahoma. MCA uses water rates established by OCWUT as a basis of determining these charges. MCA increased the rate 5% effective October 1, 2009 and an additional 4% effective October 1, 2010 and November 1, 2012, when OCWUT increased water utility rates.

Contacting the Consolidated Trust's Financial Management

This financial report is designed to provide a general overview of the Consolidated 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.

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 POSITION
June 30,

OKLAHOMA CITY
WATER UTILITIES TRUST

	2013				2012 (Restated)			
	Water		McGee Creek		Water		McGee Creek	
	Utilities Trust	Authority	Eliminations	Consolidated	Utilities Trust	Authority	Eliminations	Consolidated
ASSETS								
CURRENT ASSETS								
Non-pooled cash-----	\$18,719,576	\$1,625,319	\$ -	\$20,344,895	\$30,880,054	\$2,451,209	\$ -	\$33,331,263
Investments-----	96,758,819	2,581,962	-	99,340,781	93,348,203	1,816,475	-	95,164,678
Accounts receivable, net-----	21,059,065	27,529	-	21,086,594	26,596,850	22,916	-	26,619,766
Interest, dividends, and royalties receivable---	336,218	5,782	-	342,000	636,313	44,050	-	680,363
Due from other funds-----	-	-	-	-	-	791	-	791
Receivable from component unit-----	-	-	-	-	121,250	-	-	121,250
Receivable from primary government-----	886,744	-	-	886,744	705,515	-	-	705,515
Intergovernmental receivables-----	31,499	58,560	-	90,059	-	64,825	-	64,825
Prepays-----	376,569	18,439	-	395,008	541,354	19,836	-	561,190
Total current assets-----	138,168,490	4,317,591	-	142,486,081	152,829,539	4,420,102	-	157,249,641
NON-CURRENT ASSETS								
Investments-----	27,072,271	6,653,528	-	33,725,799	28,749,087	6,653,528	-	35,402,615
Note receivable-----	-	-	-	-	1,216,354	-	-	1,216,354
Advance to McGee Creek Authority-----	47,433,587	-	(47,433,587)	-	45,391,204	-	(45,391,204)	-
Receivable from component unit-----	-	-	-	-	969,999	-	-	969,999
Intergovernmental aliquot share receivable---	-	46,927,379	-	46,927,379	-	44,798,782	-	44,798,782
Other-----	6,305	87,461	-	93,766	63,463	105,899	-	169,362
Capital assets:								
Land, water storage rights and construction in progress-----	268,722,947	61,552,343	-	330,275,290	325,300,519	61,528,696	-	386,829,215
Other capital assets, net of accumulated depreciation-----	710,938,142	13,616,659	-	724,554,801	586,982,886	14,252,696	-	601,235,582
Total capital assets-----	979,661,089	75,169,002	-	1,054,830,091	912,283,405	75,781,392	-	988,064,797
Total non-current assets-----	1,054,173,252	128,837,370	(47,433,587)	1,135,577,035	988,673,512	127,339,601	(45,391,204)	1,070,621,909
Total assets-----	1,192,341,742	133,154,961	(47,433,587)	1,278,063,116	1,141,503,051	131,759,703	(45,391,204)	1,227,871,550
DEFERRED OUTFLOWS								
OF RESOURCES -----	9,211,429	-	-	9,211,429	70,524	-	-	70,524
LIABILITIES								
CURRENT LIABILITIES								
Accounts payable-----	27,683,968	17,479	-	27,701,447	28,454,097	24,124	-	28,478,221
Wages and benefits payable-----	-	6,632	-	6,632	-	7,227	-	7,227
Payable to component units-----	-	-	-	-	1,160,936	-	-	1,160,936
Payable to primary government-----	1,238,498	-	-	1,238,498	943,155	-	-	943,155
Interest payable-----	587,714	-	-	587,714	380,864	-	-	380,864
Compensated absences-----	-	7,493	-	7,493	-	10,512	-	10,512
Commercial paper-----	15,500,000	-	-	15,500,000	45,000,000	-	-	45,000,000
Notes payable-----	1,505,280	-	-	1,505,280	344,663	-	-	344,663
Unearned revenue-----	73,957	-	-	73,957	-	-	-	-
Bond interest payable-----	14,861,271	1,468,350	-	16,329,621	15,618,992	1,573,500	-	17,192,492
Bonds payable-----	7,863,814	3,715,000	-	11,578,814	10,433,553	3,505,000	-	13,938,553
Intergovernmental payable-----	-	-	-	-	-	100,262	-	100,262
Total current liabilities-----	69,314,502	5,214,954	-	74,529,456	102,336,260	5,220,625	-	107,556,885
NON-CURRENT LIABILITIES								
Compensated absences-----	-	33,119	-	33,119	-	55,690	-	55,690
Payable to primary government-----	3,238,175	-	-	3,238,175	4,184,684	-	-	4,184,684
Intergovernmental payable-----	59,566,021	9,010	-	59,575,031	57,846,999	-	-	57,846,999
Notes payable-----	55,055,381	-	-	55,055,381	46,998,445	-	-	46,998,445
Advance from other funds-----	-	47,433,587	(47,433,587)	-	-	45,391,204	(45,391,204)	-
Bond interest payable-----	22,922,358	-	-	22,922,358	29,111,002	-	-	29,111,002
Bonds payable, net-----	365,498,592	44,742,220	-	410,240,812	294,955,600	48,352,859	-	343,308,459
Total non-current liabilities-----	506,280,527	92,217,936	(47,433,587)	551,064,876	433,096,730	93,799,753	(45,391,204)	481,505,279
Total liabilities-----	575,595,029	97,432,890	(47,433,587)	625,594,332	535,432,990	99,020,378	(45,391,204)	589,062,164
NET POSITION								
Net investment in capital assets-----	488,365,970	28,757,312	-	517,123,282	464,896,504	25,967,431	-	490,863,935
Restricted for:								
Capital projects-----	3	-	-	3	3	-	-	3
Debt service-----	14,534,835	7,953,691	-	22,488,526	17,358,909	7,863,712	-	25,222,621
Unrestricted-----	123,057,334	(988,932)	-	122,068,402	123,885,169	(1,091,818)	-	122,793,351
Total net position-----	\$625,958,142	\$35,722,071	\$ -	\$661,680,213	\$606,140,585	\$32,739,325	\$ -	\$638,879,910

See accompanying notes to financial statements.

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

**OKLAHOMA CITY
WATER UTILITIES TRUST**

For the Years Ended June 30,

	2013				2012 (Restated)			
	Water		McGee Creek		Water		McGee Creek	
	Utilities Trust	Authority	Eliminations	Consolidated	Utilities Trust	Authority	Eliminations	Consolidated
OPERATING REVENUES								
CHARGES FOR SERVICES								
Water charges-----	\$111,139,787	\$ -	\$ -	\$111,139,787	\$113,685,266	\$ -	\$ -	\$113,685,266
Wastewater charges-----	76,167,004	-	-	76,167,004	77,628,911	-	-	77,628,911
Aliquot share charges-----	-	2,518,808	-	2,518,808	-	2,461,676	-	2,461,676
Other charges-----	-	-	-	-	19,026	-	-	19,026
Total charges for services-----	187,306,791	2,518,808	-	189,825,599	191,333,203	2,461,676	-	193,794,879
Lease and rental income-----	538,118	-	-	538,118	699,535	-	-	699,535
Other-----	726,919	35	-	726,954	353,324	-	-	353,324
Total operating revenues-----	188,571,828	2,518,843	-	191,090,671	192,386,062	2,461,676	-	194,847,738
OPERATING EXPENSES								
Personal services-----	-	194,487	-	194,487	-	219,595	-	219,595
Maintenance, operations, and contractual services----	117,340,342	414,040	-	117,754,382	108,904,489	359,737	-	109,264,226
Materials and supplies-----	532,512	60,470	-	592,982	246,722	64,797	-	311,519
Depreciation-----	34,683,868	636,037	-	35,319,905	26,436,574	633,169	-	27,069,743
Total operating expenses-----	152,556,722	1,305,034	-	153,861,756	135,587,785	1,277,298	-	136,865,083
Operating income-----	36,015,106	1,213,809	-	37,228,915	56,798,277	1,184,378	-	57,982,655
NON-OPERATING REVENUES (EXPENSES)								
Investment income-----	1,372,017	548,443	-	1,920,460	1,512,150	576,360	-	2,088,510
Interest on bonds-----	(12,820,629)	(3,146,211)	-	(15,966,840)	(11,903,723)	(3,327,948)	-	(15,231,671)
Bond issue costs-----	(1,118,722)	-	-	(1,118,722)	-	-	-	-
Bond insurance-----	(8,794)	(19,836)	-	(28,630)	(11,447)	(21,047)	-	(32,494)
Arbitrage-----	-	(9,010)	-	(9,010)	-	(24,874)	-	(24,874)
Oil and gas royalties-----	107,727	-	-	107,727	56,090	-	-	56,090
Payments from primary government-----	2,663,000	-	-	2,663,000	2,746,000	-	-	2,746,000
Other revenue (expenses)-----	(2,061,066)	28,207	-	(2,032,859)	775,643	33,087	-	808,730
Net non-operating expenses-----	(11,866,467)	(2,598,407)	-	(14,464,874)	(6,825,287)	(2,764,422)	-	(9,589,709)
Income (loss) before contributions and transfers--	24,148,639	(1,384,598)	-	22,764,041	49,972,990	(1,580,044)	-	48,392,946
CONTRIBUTIONS AND TRANSFERS								
Grant capital-----	-	-	-	-	202,233	-	-	202,233
Other capital contributions-----	-	-	-	-	289,189	-	-	289,189
Transfers from other funds-----	-	4,367,344	(4,367,344)	-	-	4,313,131	(4,313,131)	-
Transfers to other funds-----	(4,367,344)	-	4,367,344	-	(4,313,131)	-	4,313,131	-
Total contributions and transfers-----	(4,367,344)	4,367,344	-	-	(3,821,709)	4,313,131	-	491,422
SPECIAL ITEM								
Special item-----	36,262	-	-	36,262	-	-	-	-
Changes in net position-----	19,817,557	2,982,746	-	22,800,303	46,151,281	2,733,087	-	48,884,368
Total net position, beginning, as previously reported-----	606,140,585	32,739,325	-	638,879,910	561,990,937	-	-	561,990,937
Change in accounting principle-----	-	-	-	-	(2,001,633)	30,006,238	-	28,004,605
Total net position, beginning, as restated-----	606,140,585	32,739,325	-	638,879,910	559,989,304	30,006,238	-	589,995,542
Total net position, ending-----	\$625,958,142	\$35,722,071	\$ -	\$661,680,213	\$606,140,585	\$32,739,325	\$ -	\$638,879,910

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS
For the Years Ended June 30,

OKLAHOMA CITY
WATER UTILITIES TRUST

	2013				2012 (Restated)			
	Water	McGee Creek	Eliminations	Consolidated	Water	McGee Creek	Eliminations	Consolidated
	Utilities Trust	Authority			Utilities Trust	Authority		
CASH FLOWS FROM OPERATING ACTIVITIES								
Cash received from customers-----	\$194,466,420	\$197,933	\$187,707	\$194,852,060	\$193,443,583	\$207,704	\$150,993	\$193,802,280
Cash payments to suppliers for goods and services-----	(32,216,989)	(479,526)	-	(32,696,515)	(26,682,997)	(419,278)	-	(27,102,275)
Cash payments to employees and professional contractors for services----	-	(220,673)	-	(220,673)	-	(216,721)	-	(216,721)
Operating payments from (to) component units-----	-	-	-	-	2,932	-	-	2,932
Operating payments from (to) City of Oklahoma City-----	(86,452,703)	-	-	(86,452,703)	(84,993,798)	-	-	(84,993,798)
Other cash receipts-----	141,627	35,259	-	176,886	678,387	22,474	-	700,861
Net cash provided (used) by operating activities-----	75,938,355	(467,007)	187,707	75,659,055	82,448,107	(405,821)	150,993	82,193,279
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES								
Transfers paid to other funds-----	-	6,597,433	(6,597,433)	-	-	6,598,708	(6,598,708)	-
Transfers received from other funds-----	(6,409,726)	-	6,409,726	-	(6,447,715)	-	6,447,715	-
Non-financing payments from (to) component units-----	-	-	-	-	1,282,186	-	-	1,282,186
Non-financing payments from (to) City of Oklahoma City-----	669,672	-	-	669,672	4,624,111	-	-	4,624,111
Net cash provided (used) by non-capital financing activities-----	(5,740,054)	6,597,433	(187,707)	669,672	(541,418)	6,598,708	(150,993)	5,906,297
CASH FLOWS FROM CAPITAL AND CAPITAL RELATED FINANCING ACTIVITIES								
Proceeds from issuance of long-term debt-----	241,082,162	-	-	241,082,162	61,885,418	-	-	61,885,418
Payments for acquisition and construction of capital assets-----	(96,925,767)	(25,280)	-	(96,951,047)	(112,691,550)	(137,392)	-	(112,828,942)
Principal paid on long-term debt-----	(202,572,011)	(3,505,000)	-	(206,077,011)	(10,088,734)	(3,305,000)	-	(13,393,734)
Interest paid on long-term debt-----	(24,201,713)	(3,147,000)	-	(27,348,713)	(22,795,167)	(3,345,300)	-	(26,140,467)
Arbitrage paid-----	-	(100,262)	-	(100,262)	-	-	-	-
Capital/financing payments from (to) component units-----	-	-	-	-	289,189	-	-	289,189
Proceeds from sale of assets-----	230,924	-	-	230,924	-	-	-	-
Net cash used by capital financing activities-----	(82,386,405)	(6,777,542)	-	(89,163,947)	(83,400,844)	(6,787,692)	-	(90,188,536)
CASH FLOWS FROM INVESTING ACTIVITIES								
Purchase of investments-----	(351,530,396)	(11,927,400)	-	(363,457,796)	(284,680,240)	(9,202,209)	-	(293,882,449)
Proceeds from sale of investments-----	349,769,595	11,165,278	-	360,934,873	290,374,180	11,077,361	-	301,451,541
Investment income received-----	1,680,700	584,816	-	2,265,516	1,306,377	534,797	-	1,841,174
Purchased interest-----	107,727	(1,468)	-	106,259	-	-	-	-
Receipts from oil and gas royalties-----	-	-	-	-	56,090	-	-	56,090
Net cash provided (used) by investing activities-----	27,626	(178,774)	-	(151,148)	7,056,407	2,409,949	-	9,466,356
Net increase (decrease) in cash-----	(12,160,478)	(825,890)	-	(12,986,368)	5,562,252	1,815,144	-	7,377,396
Cash, beginning-----	30,880,054	2,451,209	-	33,331,263	25,317,802	636,065	-	25,953,867
Cash, ending-----	\$18,719,576	\$1,625,319	\$ -	\$20,344,895	\$30,880,054	\$2,451,209	\$ -	\$33,331,263

STATEMENTS OF CASH FLOWS
For the Years Ended June 30,

OKLAHOMA CITY
WATER UTILITIES TRUST

	2013				2012 (Restated)			
	Water	McGee Creek	Eliminations	Consolidated	Water	McGee Creek	Eliminations	Consolidated
	Utilities Trust	Authority			Utilities Trust	Authority		
<u>RECONCILIATION OF OPERATING INCOME</u>								
<u>PROVIDED BY OPERATING ACTIVITIES TO NET CASH</u>								
Operating income-----	\$36,015,106	\$1,213,809	\$ -	\$37,228,915	\$56,798,277	\$1,184,378	\$ -	\$57,982,655
<u>ADJUSTMENTS TO RECONCILE OPERATING INCOME</u>								
<u>PROVIDED BY OPERATING ACTIVITIES TO NET CASH</u>								
Depreciation-----	34,683,868	636,037	-	35,319,905	26,436,574	633,169	-	27,069,743
Non-operating revenue (expense)-----	105,536	28,207	-	133,743	364,608	33,087	-	397,695
Changes in assets and liabilities:								
(Increase) decrease in accounts receivable-----	5,537,784	(4,611)	-	5,533,173	(1,669,441)	134	-	(1,669,307)
(Increase) decrease in due from other funds-----	-	-	-	-	-	(318)	-	(318)
(Increase) decrease in receivable from component units-----	-	791	-	791	2,931	-	-	2,931
(Increase) decrease in prepaid assets-----	128,231	-	-	128,231	(466,094)	34,468	-	(431,626)
(Increase) decrease in intergovernmental receivable-----	-	(2,122,336)	-	(2,122,336)	-	(2,147,878)	-	(2,147,878)
Increase (decrease) in accounts payable-----	(532,170)	(5,012)	-	(537,182)	981,252	5,259	-	986,511
Increase (decrease) in wages and benefits payable-----	-	(595)	-	(595)	-	(1,105)	-	(1,105)
Increase (decrease) in due to other funds-----	-	(187,707)	187,707	-	-	(150,993)	150,993	-
Increase (decrease) in compensated absences-----	-	(25,590)	-	(25,590)	-	3,978	-	3,978
Total adjustments-----	39,923,249	(1,680,816)	187,707	38,430,140	25,649,830	(1,590,199)	150,993	24,210,624
Net cash provided (used) by operating activities-----	\$75,938,355	(\$467,007)	\$187,707	\$75,659,055	\$82,448,107	(\$405,821)	\$150,993	\$82,193,279
<u>NON-CASH INVESTING, CAPITAL</u>								
<u>AND FINANCING ACTIVITIES</u>								
Net increase (decrease) in fair value of investments-----	\$ -	\$3,364	\$ -	\$3,364	\$ -	(\$305)	\$ -	(\$305)
Donated assets-----	-	-	-	-	202,233	-	-	202,233
Water storage rights-----	1,719,022	-	-	1,719,022	1,652,715	-	-	1,652,715
Forgiveness of debt-----	(1,091,250)	-	-	(1,091,250)	-	-	-	-
Transfer of capital assets from (to) other funds-----	207,245	-	-	207,245	-	-	-	-
Total non-cash investing, capital,								
and financing activities-----	\$835,017	\$3,364	\$ -	\$838,381	\$1,854,948	(\$305)	\$ -	\$1,854,643

See accompanying notes to financial statements.

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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 (Consolidated Trust) financial activities for the fiscal year ended June 30, 2013 and 2012. Certain reclassifications were made to the 2012 financial statements to conform to the 2013 financial statement presentation. Charges to City funds for billing services previously reported in operating revenues are now reported as non-operating revenues. These reclassifications had no effect on the change in net position.

I. B. REPORTING ENTITY

Fund Types and Major Funds

Major Proprietary Funds

Oklahoma City Water Utilities Trust (OCWUT) Fund

Accounts for balances and transactions related to water and wastewater utilities operations, construction, contracting, related debt, and other matters requiring commitment for more than one fiscal year.

OCWUT was created as a public trust pursuant to Title 60 of the Oklahoma Statutes, section 176, et seq (Title 60). OCWUT was established August 1, 1960, with the City named as beneficiary. The purpose of OCWUT, generally, is 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 OCWUT will lease or otherwise manage the related water and wastewater system. OCWUT 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 OCWUT, 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 OCWUT. OCWUT does not have the power to levy taxes, but may, with City council approval, fix, demand, and collect charges, rentals, and fees for the services and facilities of OCWUT. Although the City has no obligation for debt issued by OCWUT, the City must approve the issuance of debt.

McGee Creek Authority (MCA) Fund

Accounts for balances and transactions related to the purchase of water storage rights, related debt and operations of the McGee Creek Reservoir (Reservoir).

MCA is a public trust created pursuant to Title 60. MCA was established on August 17, 1977. The purpose of MCA is, generally, to act as the contracting party for acquiring land, constructing facilities, operating, and maintaining a water storage and transportation facility at the Reservoir. Recreation activities at the Reservoir are managed by the Oklahoma Department of Wildlife Conservation and the Oklahoma Tourism and Recreation Department. MCA does not manage recreation activities. The beneficiaries of MCA (Beneficiaries) are the City; City of Atoka, Oklahoma; and Atoka County, Oklahoma. The participants of MCA (Participants) are the Beneficiaries and OCWUT.

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

Component Unit

MCA

Established to finance the purchase of water storage rights at the McGee Creek Reservoir for the benefit of OCWUT. MCA Trustees are the Mayors/Chairpersons of the respective beneficiaries including the Chairperson of OCWUT and other participants.

MCA meets the criteria of a blended component unit of OCWUT because OCWUT is expected to fund the debt of MCA due to an agreement of support (OCWUT Agreement) between OCWUT and MCA dated October 11, 1979. The OCWUT Agreement details OCWUT's pledge of water utility revenues, not otherwise pledged or required by OCWUT. OCWUT is required to provide cash payments for shortfalls of MCA to fund debt service requirements, operation and maintenance, extraordinary expenses and capital improvements, as well as maintain the bond fund minimum required balance reserve. Additionally, MCA is a significant source of OCWUT's water supply. Therefore, MCA's balances and transactions are blended with OCWUT's in the Consolidated Trust annual financial statements.

MCA issues separate audited financial statements. Copies of MCA's financial statements may be obtained from the City's Finance Department, Accounting Services Division, at 100 N. Walker, Suite 300, Oklahoma City, Oklahoma 73102.

I. B. 1. RELATIONSHIP WITH THE CITY

Due to restrictions of the state constitution relating to the issuance of municipal debt, public trusts are created to finance 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.

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

The Consolidated Trust is presented as a component because OCWUT utility rates and fees are set by City ordinance and the City must approve all debt issuances of OCWUT and MCA. The Consolidated Trust is discretely presented because the majority of the Board of Trustees of OCWUT is not the same as the voting majority of the City Council.

The Consolidated Trust is a component unit of the City and is included in the City's CAFR. Copies of the City CAFR financial statements may be obtained from the City's Finance Department, Accounting Services Division, 100 N. Walker, Suite 300, Oklahoma City, OK 73102.

Trust Administration

All administrative functions are performed by City employees. MCA employees perform operational functions. OCWUT transfers funds to the City for the cost of these services for the City Utilities Department, including the MCA. MCA does not reimburse OCWUT for its share of these costs.

I. B. 2. BASIC FINANCIAL STATEMENTS

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

I. B. 3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Implementation of New Accounting Standards

Effective July 1, 2011, the Consolidated 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 Consolidated 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.

Effective July 1, 2012 the Consolidated Trust implemented Governmental Accounting Standards Board (GASB) statement number 61, The Financial Reporting Entity: Omnibus. This statement modified certain requirements for inclusion of component units in the financial reporting entity. Prior to implementation of GASB 61, both OCWUT and MCA were reported as blended component units of the City. As a result of the implementation, OCWUT and MCA are blended into the Consolidated Trust which is reported as a discrete component unit of the City.

Generally Accepted Accounting Principles (U.S. GAAP)

The financial statements of the Consolidated Trust are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

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 Consolidated 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

OCWUT

Oklahoma Statutes require the submission of financial information for public trusts. However, legal budgetary control levels are not specified. Accordingly, OCWUT'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 OCWUT without governing body approval.

MCA

MCA submits financial information to its governing body, however, appropriations are not recorded. Management's policy prohibits disbursements which exceed available cash.

I. D. POLICIES RELATED TO ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND EQUITY

Implementation of New Accounting Standard

Effective July 1, 2012, the Consolidated Trust implemented GASB statement number 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This statement defines deferred outflows and deferred inflows of resources and where they are to be reported in the financial statements and redefine calculations for the classifications of net position.

I. D. 1. CASH AND INVESTMENTS

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

The MCA governing board has not formally adopted deposit and investment policies other than applicable deposit and investment policies specified in the bond indenture and state law.

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

I. D. 2. RECEIVABLES AND UNCOLLECTIBLE ACCOUNTS

Significant receivables include amounts due from customers for utility services and amounts due from Participants and surrogates or designees of Participants for actual water usage. Unbilled accounts receivable represent amounts recognized as revenue for which invoices have not yet been sent to customers. Unbilled receivables are calculated as a ratio of days of the total billing period for water meters read after year-end. Accounts receivable are reported net of an allowance for uncollectible accounts and revenues net of uncollectibles. The allowance amount is estimated using accounts receivable past due more than 90 days.

I. D. 3. PREPAIDS

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

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 Consolidated Trust's policy to use restricted resources first, then unrestricted resources as needed.

I. D. 5. INTERFUND BALANCES

Balances between OCWUT and MCA that represent lending/borrowing arrangements outstanding at the end of the fiscal year are reported 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). Balances between OCWUT and MCA are eliminated on the statement of net position.

Balances between OCWUT and the City that represent lending/borrowing arrangements outstanding at the end of the fiscal year are reported as payable to the primary government and receivable from the primary government, depending on the nature of related transactions. Balances between OCWUT and component units of the City are reported as payable to component units or receivable from component units.

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. Generally, assets with a cost of \$7,500 or more are capitalized 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. Interest is capitalized 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. BOND DISCOUNT/PREMIUM AND DEFERRED AMOUNTS ON REFUNDING

Bond discounts and premiums are capitalized and amortized over the term of the respective bonds using the method that approximates the effective interest method. Deferred charges on refunding of bonds results from a difference in the carrying value of refunded debt to its reacquisition price. The amounts are deferred and amortized over the shorter of the life of the refunded or refunding debt.

I. D. 9. DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

In addition to assets and liabilities, the statement of net position may report separate sections of deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period which will not be recognized as an outflow of resources until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future period which will not be recognized as an inflow of resources until that time.

I. D. 10. COMPENSATED ABSENCES

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

I. D. 11. RISK MANAGEMENT

The Consolidated Trust's risk management activities are recorded in the City Risk Management Fund and the Oklahoma City Municipal Facilities Authority (OCMFA) Services Fund. The purpose of these funds is to administer property and liability insurance programs of the City, in which the Consolidated Trust participates. These funds account for the risk financing activities of the Consolidated Trust and constitute a transfer of risk from the Consolidated Trust. OCWUT pays premiums through the City Water and Wastewater fund and has no other costs or liabilities related to risk management activities. Costs and liabilities for commercial insurance, stop-loss insurance, and claims paid are recorded in the City Risk Management Fund and the OCMFA Services Fund.

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.

I. D. 12. FUND EQUITY

Net Position

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

Net Investment in Capital Assets

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

Restricted Net Position

Amounts reported as restricted for debt service include those amounts held in restricted accounts as required by the debt instrument. Restricted amounts held to pay bond interest are reduced by accrued interest payable. Net 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. 13. 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. E. MAJOR REVENUES

OCWUT

The major revenues for OCWUT 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.

MCA

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

I. F. TAX STATUS

OCWUT and MCA are exempt from Federal and state income taxes under Section 115 of the Internal Revenue Code for any trade or business related to the tax-exempt purpose or function.

I. G. RETAINAGES

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

II. ASSETS AND DEFERRED OUTFLOWS

II. A. DEPOSITS AND INVESTMENTS

Deposits

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

At June 30, 2013 and 2012, the Consolidated Trust's cash is insured or collateralized with securities held by OCWUT, MCA, or the City, less the amount of the Federal depository insurance.

Investments

The Consolidated 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 Consolidated 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.

	2013			
	Fair Value/ Carrying Amount	Cost	Rating (1)	Weighted Average Months to Maturity (2)
Federal obligations	\$59,572,888	\$60,736,710	AA/Aaa	10.32
Money market funds	53,792,992	53,792,992	AAA/Aaa	1.84
Fannie Mae	8,093,186	8,238,990	AAA/Aaa	5.97
U.S. Treasury notes	4,955,014	4,673,511	N/A	8.41
Guaranteed investment contract	<u>6,652,500</u>	<u>6,652,500</u>	A/A2	115.77
Total investments	<u>\$133,066,580</u>	<u>\$134,094,703</u>		

(continued)

Investments (continued)

	2012 (Restated)			Weighted Average Months to Maturity (2)
	Fair Value/ Carrying Amount	Cost	Rating (1)	
Federal obligations	\$56,550,304	\$57,007,220	AA+/Aaa	17.45
Money market funds	45,437,338	45,437,338	AAA/Aaa	1.92
Fannie Mae	11,262,224	11,248,920	AA+/Aaa	15.35
U.S. Treasury notes	10,664,927	10,700,102	N/A	13.65
Guaranteed investment contract	<u>6,652,500</u>	<u>6,652,500</u>	A/A2	127.97
Total investments	<u>\$130,567,293</u>	<u>\$131,046,080</u>		

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

OCWUT Investment Policy

OCWUT Trustees adopted a separate investment policy in addition to the investment provisions of bond indentures. OCWUT 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; (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.

OCWUT 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 OCWUT's desired maturity or is a variable rate instrument. Collateralization is further restricted to permitted investments shown previously as items (1) and (2).

The OCWUT 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 OCWUT's investments 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 OCWUT's total 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%.

OCWUT's 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

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

OCWUT

Concentration of credit risk is the risk of loss attributed to the magnitude of OCWUT's investment in a single issuer. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The bond indenture provides that investments mature not later than the respective dates, as estimated, when the monies in said funds and accounts shall be required for the purposes intended, but in no event more than six months for the interest account, twelve months for the principal account and sixty months for the renewal and replacement account and the bond reserve account.

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

MCA

Concentration of credit risk is the risk of loss attributed to the magnitude of the MCA's investment in a single issuer. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The bond indenture provides that investments mature in no more than twelve months, depending on the purpose of the funds and the requirements of the account in which funds are deposited. This provision does not apply to the reserve fund which includes a guaranteed investment contract that is 105% collateralized with government backed securities.

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

Investments Held by Others

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, OCWUT and MCA will not be able to recover the value of its investments or collateral securities in the possession of an outside party. The OCWUT Investment Policy provides that investment collateral is held by a third party custodian with whom the City has a current custodial agreement in OCWUT's or the 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 OCWUT. MCA has not adopted policies addressing custodial credit risk, concentration of credit risk, or interest rate risk for deposits or investments other than restrictions specified in the bond indenture applicable to restricted accounts.

Compliance with State Requirements

OCWUT and MCA investment practices are more restrictive than the requirements of Oklahoma law found in Title 60 of the Oklahoma Statutes and the standards of the Oklahoma Uniform Prudent Investor Act defined by Title 60 of the Oklahoma Statutes. These statutes require public trust to consider the purposes, terms, distribution requirements, and other circumstances of the Consolidated 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

Bond indentures require 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 final bond principal and interest payments.

	2013		2012 (Restated)	
	OCWUT	MCA	OCWUT	MCA
Commercial paper construction account	\$377,485	\$ -	\$466,499	\$ -
Bond principal and interest accounts	23,253,421	3,701,249	26,468,590	3,675,475
Bond reserve	32,606,104	6,868,977	28,749,087	6,870,187
Bond construction account	126,944	-	126,931	-
	<u>\$56,363,954</u>	<u>\$10,570,226</u>	<u>\$55,811,107</u>	<u>\$10,545,662</u>

II. B. RECEIVABLES AND UNCOLLECTIBLE ACCOUNTS

OCWUT

	2013	2012 (Restated)
	Accounts receivable	\$22,726,960
Less: allowance for uncollectible accounts	(1,667,895)	(1,773,748)
Net accounts receivable	<u>\$21,059,065</u>	<u>\$26,596,850</u>
Affect on revenues for change in uncollectibles	<u>\$105,853</u>	<u>\$368,544</u>

MCA

Receivables of \$27,529 and \$22,916 at June 30, 2013 and 2012 respectively, include billings for aliquot share services provided by MCA to surrogates and designees of the Participants and non-operating revenues. These receivables are due in less than one year. Since there are no delinquencies associated with these accounts, no allowance for uncollectible amounts has been accrued at June 30, 2013 and 2012.

II. C. NOTES RECEIVABLE

An agreement between OCWUT and Gaillardia Golf Course, LLC (Gaillardia) to construct, operate and maintain a recycled water system to irrigate the Gaillardia Golf Course 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 OCWUT. A new agreement was entered into in 2008 between Gaillardia and OCWUT to recover the additional costs to OCWUT for constructing ultraviolet and chlorination treatment facilities needed to comply with changes in environmental regulations. A note receivable was recorded to recognize the unreimbursed costs. Continuing negotiations at June 30, 2012 estimated the note receivable balance at June 30, 2012 to be \$1,216,354.

On April 16, 2013 a new agreement between OCWUT and Gaillardia was made for the sale and purchase of recycled water and for settlement of all prior claims. The agreement was made effective January 1, 2013 for financial purposes, and effectively terminated all prior agreements and obligations. The details of the agreement are described in the table below.

Dismiss note receivable	(\$1,216,353)
Dismiss accrued interest on note receivable	(50,800)
Adjustment of accounts receivable	<u>(18,416)</u>
Loss as a result of settlement	<u>(\$1,285,569)</u>

II. D. PREPAIDS

Prepays are payments to vendors that benefit future reporting periods and are also reported on the consumption basis. As of June 30, 2013 and 2012 the Consolidated Trust had prepaid items totaling \$488,774 and \$679,752, respectively.

	<u>2013</u>	<u>2012</u> <u>(Restated)</u>
Memberships and dues	\$92,171	\$91,821
Water storage rights	119,560	146,911
Software licenses and support	135,475	286,473
Other	<u>141,568</u>	<u>154,547</u>
	<u>\$488,774</u>	<u>\$679,752</u>

II. E. INTERGOVERNMENTAL RECEIVABLE

Receivable from the United States Department of the Interior Bureau of Reclamation (Bureau)

In 2007, \$100,000 was advanced to the U.S. Bureau of Reclamation (Bureau) to conduct a feasibility study. The study was completed during fiscal year 2012 and the unused balance of \$34,468 was due to be returned to the MCA as of June 30, 2012. The remaining balance was paid back during fiscal year 2013.

Every year MCA performs minimal maintenance tasks for the Bureau. Charges to the Bureau for these services are based on agreed upon allocation rates of specifically identified costs. MCA recorded amounts receivable from the Bureau for services provided of \$58,560 and \$64,825 in 2013 and 2012, respectively.

Aliquot Share Receivable

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

II. F. CAPITAL ASSETS

Changes in Capital Assets

	2013							
	Capital Assets, not depreciated			Capital Assets, depreciated				Total Capital Assets, net
	Land and Water	Construction	Total	Improvements Other Than	Furniture, Machinery, &	Total		
	Storage Rights	In Progress		Buildings	Buildings			Equipment
CAPITAL ASSETS								
Balance, June 30, 2012	\$160,664,568	\$226,164,647	\$386,829,215	\$88,880,533	\$817,489,833	\$76,204,745	\$982,575,111	\$1,369,404,326
Increases	1,964,720	95,225,725	97,190,445	507,539	139,636,377	18,795,502	158,939,418	256,129,863
Decreases	-	(153,744,370)	(153,744,370)	-	-	(194,109)	(194,109)	(153,938,479)
Balance, June 30, 2013	<u>162,629,288</u>	<u>167,646,002</u>	<u>330,275,290</u>	<u>89,388,072</u>	<u>957,126,210</u>	<u>94,806,138</u>	<u>1,141,320,420</u>	<u>1,471,595,710</u>
ACCUMULATED DEPRECIATION								
Balance, June 30, 2012				41,491,407	277,881,716	61,966,406	381,339,529	381,339,529
Increases				1,851,514	27,695,409	6,073,276	35,620,199	35,620,199
Decreases				-	-	(194,109)	(194,109)	(194,109)
Balance, June 30, 2013				<u>43,342,921</u>	<u>305,577,125</u>	<u>67,845,573</u>	<u>416,765,619</u>	<u>416,765,619</u>
Capital Assets, net	<u>\$162,629,288</u>	<u>\$167,646,002</u>	<u>\$330,275,290</u>	<u>\$46,045,151</u>	<u>\$651,549,085</u>	<u>\$26,960,565</u>	<u>\$724,554,801</u>	<u>\$1,054,830,091</u>

	2012 (Restated)							
	Capital Assets, not depreciated			Capital Assets, depreciated				Total Capital Assets, net
	Land and Water	Construction	Total	Improvements Other Than	Furniture, Machinery, &	Total		
	Storage Rights	In Progress		Buildings	Buildings			Equipment
CAPITAL ASSETS								
Balance, June 30, 2011	\$159,237,395	\$234,207,318	\$393,444,713	\$88,878,027	\$693,365,959	\$71,197,910	\$853,441,896	\$1,246,886,609
Increases	1,427,173	107,272,161	108,699,334	2,506	124,123,874	5,248,687	129,375,067	238,074,401
Decreases	-	(115,314,832)	(115,314,832)	-	-	(241,852)	(241,852)	(115,556,684)
Balance, June 30, 2012	<u>160,664,568</u>	<u>226,164,647</u>	<u>386,829,215</u>	<u>88,880,533</u>	<u>817,489,833</u>	<u>76,204,745</u>	<u>982,575,111</u>	<u>1,369,404,326</u>
ACCUMULATED DEPRECIATION								
Balance, June 30, 2011				39,944,104	258,259,939	56,307,435	354,511,478	354,511,478
Increases				1,547,303	19,621,777	5,900,663	27,069,743	27,069,743
Decreases				-	-	(241,692)	(241,692)	(241,692)
Balance, June 30, 2012				<u>41,491,407</u>	<u>277,881,716</u>	<u>61,966,406</u>	<u>381,339,529</u>	<u>381,339,529</u>
Capital Assets, net	<u>\$160,664,568</u>	<u>\$226,164,647</u>	<u>\$386,829,215</u>	<u>\$47,389,126</u>	<u>\$539,608,117</u>	<u>\$14,238,339</u>	<u>\$601,235,582</u>	<u>\$988,064,797</u>

Depreciation Expense

Depreciation expense of \$35,319,905 in fiscal year 2013 and \$27,069,743 in 2012 was charged to the Consolidated Trust's utilities function.

Transfer of Capital Assets

On August 2, 2012, OCWUT acquired real estate from COTPA through an exchange of cash and the cancellation of notes receivable from COTPA. The asset was transferred with cost of \$507,539 and accumulated depreciation of \$300,294.

Capitalized Interest

2013		2012 (Restated)	
<u>Total Interest Costs Incurred</u>	<u>Capitalized Interest</u>	<u>Total Interest Costs Incurred</u>	<u>Capitalized Interest</u>
<u>\$18,628,232</u>	<u>\$4,767,879</u>	<u>\$18,119,666</u>	<u>\$6,234,749</u>

II. G. DEFERRED OUTFLOW

Deferred Amount on Bond Refunding

Deferred charges on refunding of bonds results from a difference in the carrying value of refunded debt to its reacquisition price. The amounts are deferred and amortized over the shorter of the life of the refunded or refunding debt.

<u>Original Bond Issue</u>	<u>Refunding Bond Issue</u>	2013	2012 (Restated)
OCWUT Series 1999 Bonds	OCWUT Series 2009A & B Bonds	\$52,892	\$70,524
OCWUT Series 2004 and 2008 Bonds	OCWUT Series 2013 Bonds	9,158,537	-
		<u>\$9,211,429</u>	<u>\$70,524</u>

III. LIABILITIES

III. A. COMMERCIAL PAPER

Commercial Paper

On January 17, 2006, OCWUT 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, OCWUT 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, OCWUT 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 OCWUT'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 2013 new commercial paper issuances totaled \$39,000,000. In March 2013, \$68,500,000 of the outstanding commercial paper was paid off with the issuance of the OCWUT Water and Sewer Revenue bonds, 2013 Series. The total outstanding balance at June 30, 2013 and 2012 was \$15,500,000 and \$45,000,000, respectively, and the weighted average interest rate for the year was 0.17% and 0.16%, respectively.

Commercial Paper Changes in Short-Term Debt

	<u>2013</u>	<u>2012</u> (Restated)
Beginning Balance July 1,	45,000,000	\$12,000,000
Issuances	39,000,000	33,000,000
Retirements	<u>(68,500,000)</u>	<u>-</u>
Balance June 30,	<u>\$15,500,000</u>	<u>\$45,000,000</u>

III. B. INTERGOVERNMENTAL PAYABLE

Payable to Federal and State Government

During fiscal year 2010, OCWUT entered into an agreement with the Oklahoma Water Resource Board (OWRB) to repay the Federal government for certain costs related to construction of Sardis Lake in Southeastern Oklahoma. The initial cost to OCWUT was \$27,814,629 for the settlement of the OWRB's debt to the Federal government. In addition, OCWUT 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, 2013 and 2012 was \$44,566,021 and \$42,846,999, 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.

Arbitrage Compliance

Proceeds from tax-exempt bonds issued after September 1, 1986, are subject to the 1986 Tax Reform Act. OCWUT and MCA invests, records, and reports these proceeds in the manner set forth by the U.S. Treasury and Internal Revenue Service to maintain the tax-exempt status of the bonds. The MCA liability for arbitrage is \$9,010 and \$100,262 reported with non-current and current liabilities at June 30, 2013 or 2012, respectively. OCWUT has no arbitrage liability at June 30, 2013 and 2012.

III. C. NOTES PAYABLE

Notes Payable Revolving Loans

On November 13, 2009, OCWUT 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 \$5,076,478 for water line improvements and \$5,698,513 for wastewater improvements at June 30, 2013. 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, 2013 construction projects related to the 2009 loans are complete.

On December 15, 2010, OCWUT 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, 2013, \$28,607,966 for water line improvements and \$17,177,703 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, 2013 construction projects related to the 2010 water improvement loan are complete, while constructions projects related to the 2010 wastewater improvement loan are ongoing.

Notes Payable Requirements to Maturity

	Notes Payable	
	Principal	Interest
2014	\$1,505,280	\$1,967,994
2015	1,556,908	1,916,366
2016	1,609,443	1,863,831
2017	1,665,553	1,807,722
2018	1,722,724	1,750,551
2019-2023	9,542,069	7,824,306
2024-2028	11,298,885	6,067,488
2029-2033	12,547,977	4,001,029
2034-2038	7,206,590	2,231,876
2039-2043	<u>7,905,232</u>	<u>800,472</u>
	<u>\$56,560,661</u>	<u>\$30,231,635</u>

III. D. COMPENSATED ABSENCES

MCA compensated absences balances changed from 2012 to 2013 by accruals of \$12,774 and usages of \$38,364 compared to changes in accruals of \$13,511 and usages of \$9,533 from 2011 to 2012.

III. E. REVENUE BONDS

Unamortized Bond Discount/Premium

	2013		2012 (Restated)	
	OCWUT	MCA	OCWUT	MCA
Bonds payable	344,407,792	48,945,000	\$300,881,346	\$52,450,000
Unamortized bond premium (discount)	<u>28,954,614</u>	<u>(487,780)</u>	<u>4,507,807</u>	<u>(592,141)</u>
Bonds payable, net	<u>\$373,362,406</u>	<u>\$48,457,220</u>	<u>\$305,389,153</u>	<u>\$51,857,859</u>

Water Revenue Bond Indentures and Covenants

OCWUT

The OCWUT 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 OCWUT'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 OCWUT's operating fund, which is not subject to the lien of the indenture. For the years ended June 30, 2013, and 2012, 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 the OCWUT 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, 2013 and 2012, the schedule of rates in effect provided revenues in excess of the minimum requirements.

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.

MCA

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

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

The bond indenture and its supplement require the use of bond proceeds, project, revenue, and bond accounts. These accounts are held in trust by banks and managed pursuant to terms of the indenture agreement. The indenture provides that gross revenues from operations will be deposited in the revenue account and transfers will be made to the other accounts for current requirements on a monthly basis. However, if the payments and deposits required by the bond indenture are made on or before the 25th day of the month, then during the subsequent month, the gross revenues may be deposited as received directly into MCA's operating fund, which is not subject to the lien of the indenture. For the years ended June 30, 2013 and 2012, required accounts were maintained in accordance with the bond indenture.

Issuances

On July 17, 2012, the Trust approved issuance of Water and Sewer Revenue Refunding Bonds, Series 2013 in principal amount of \$167,760,000. Bond proceeds of \$192,460,532 included \$24,700,532 in premium. Issuance cost were \$391,746. The Series 2013 bonds defeased the existing 2004 and 2008 series of bonds in the amount of \$113,800,000 and refunded \$68,500,000 of outstanding tax-exempt commercial paper notes, thereby restoring the available borrowing capacity under the commercial paper program. Additionally, bond proceeds were used to establish a reserve fund and pay the cost of issuance.

Bonded Debt Service to Maturity

Fiscal Year	Principal		Interest		Total	
	OCWUT	MCA	OCWUT	MCA	OCWUT	MCA
2014	\$7,863,813	\$3,715,000	\$22,206,784	\$2,936,700	\$30,070,597	\$6,651,700
2015	8,059,009	3,935,000	23,549,491	2,713,800	31,608,500	6,648,800
2016	8,165,107	4,170,000	23,404,918	2,477,700	31,570,025	6,647,700
2017	14,909,863	4,420,000	23,188,562	2,227,500	38,098,425	6,647,500
2018	14,885,000	4,690,000	13,459,550	2,227,500	28,344,550	6,917,500
2019-2023	60,200,000	28,015,000	59,216,364	5,238,600	119,416,364	33,253,600
2024-2028	66,590,000	-	43,828,089	-	110,418,089	-
2029-2033	69,630,000	-	29,399,730	-	99,029,730	-
2034-2038	63,830,000	-	14,975,925	-	78,805,925	-
2039-2043	<u>30,275,000</u>	<u>-</u>	<u>2,341,334</u>	<u>-</u>	<u>32,616,334</u>	<u>-</u>
	<u>\$344,407,792</u>	<u>\$48,945,000</u>	<u>\$255,570,747</u>	<u>\$17,821,800</u>	<u>\$599,978,539</u>	<u>\$66,766,800</u>

Revenue Bonds Outstanding

Water and Sewer System Bonds	Original Amount Issued	Interest Rate	Issue Date	Final Maturity	Principal Balance	
					2013	2012 (Restated)
OCWUT Series 1986C	\$22,760,000	7.60% to 7.85%	8/1/1986	2016	\$4,677,792	\$6,116,346
OCWUT Series 2004	70,000,000	3.85% to 5.25%	6/7/2004	2034	-	68,420,000
OCWUT Series 2008	49,605,000	3.00% to 5.80%	12/18/2008	2038	-	47,910,000
OCWUT Series 2009A	70,290,000	3.00% to 5.625%	10/20/2009	2039	69,290,000	69,790,000
OCWUT Series 2009B	70,290,000	3.00% to 5.625%	10/20/2009	2039	35,245,000	39,920,000
OCWUT Series 2011	70,290,000	3.00% to 5.625%	10/20/2009	2039	67,435,000	68,725,000
OCWUT Series 2013	167,760,000	3.25% to 5.00%	3/14/2013	2040	167,760,000	-
MCA Series 1992	91,860,000	3.00% to 6.00%	12/1/1992	2023	<u>48,945,000</u>	<u>52,450,000</u>
					<u>\$393,352,792</u>	<u>\$353,331,346</u>

Bond Interest Payable

The OCWUT Series 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 \$22,922,358 and \$29,111,002 at June 30, 2013 and 2012, respectively. Interest on all other bonds is payable on the first day of January and July of each year through maturity.

Bond Defeasance

Current Year Defeasance

In fiscal year 2013, OCWUT defeased Series 2004 and Series 2008 revenue bonds with face amounts of \$70,000,000 and \$49,605,000, respectively. Future interest requirements on the defeased bonds are \$42,829,713 and \$41,067,652, with interest rates of 5.00% and 4.89%, respectively. Deposits to escrow accounts consisted of \$11,223,098 from funds previously restricted for debt service and \$110,931,812 from 2013 bond proceeds. The aggregate difference in debt service requirements between the refunded debt and the refunding debt is \$19,681,935. OCWUT recognized an economic gain of \$8,458,837 on the defeasance.

Prior Years Defeasance

In prior years, OCWUT 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 Consolidated Trust's financial statements.

Outstanding Defeased Bonds

	Original Amount Defeased	Outstanding Balance	
		2013	2012 (Restated)
OCWUT Series 1977G	\$1,865,000	\$555,000	\$645,000
OCWUT Series 1978F	6,480,000	1,800,000	2,110,000
OCWUT Series 2004	66,780,000	66,780,000	-
OCWUT Series 2008	47,020,000	47,020,000	-

Bond Coverage

	2013		2012 (Restated)	
	OCWUT	MCA	OCWUT	MCA
Gross revenue, including non-operating revenues and transfers in	\$192,714,572	\$7,462,837	\$197,475,945	\$7,384,254
Direct operating expenses and transfers, excluding depreciation and amortization	122,240,198	668,997	113,464,342	644,129
Net revenue available for debt service	<u>\$70,474,374</u>	<u>\$6,793,840</u>	<u>\$84,011,603</u>	<u>\$6,740,125</u>
Principal amounts	\$14,909,863	\$3,505,000	\$10,433,553	\$3,305,000
Interest amounts	23,188,562	3,147,000	22,367,292	3,345,300
Total debt service requirements	<u>\$38,098,425</u>	<u>\$6,652,000</u>	<u>\$32,800,845</u>	<u>\$6,650,300</u>
Revenue bond coverage	<u>1.85</u>	<u>1.02</u>	<u>2.56</u>	<u>1.01</u>

The OCWUT 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 for OCWUT is 1.2.

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

III. F. CHANGES IN LONG-TERM DEBT

	2013					
	Balance July 1, 2012	Issued	Retired	Balance June 30, 2013	Due Within One Year	Due After One Year
Intergovernmental payable	\$57,846,999	\$1,728,032	\$ -	\$59,575,031	\$ -	\$59,575,031
Compensated absences	66,202	12,775	38,365	40,612	7,493	33,119
Notes payable	47,343,108	9,562,216	344,663	56,560,661	1,505,280	55,055,381
Bond interest payable (1)	29,111,002	-	6,188,644	22,922,358	-	22,922,358
OCWUT revenue bonds	300,881,346	167,760,000	124,233,554	344,407,792	7,863,814	336,543,978
MCA revenue bonds	<u>52,450,000</u>	<u>-</u>	<u>3,505,000</u>	<u>48,945,000</u>	<u>3,715,000</u>	<u>45,230,000</u>
	<u>\$487,698,657</u>	<u>\$179,063,023</u>	<u>\$134,310,226</u>	<u>\$532,451,454</u>	<u>\$13,091,587</u>	<u>\$519,359,867</u>

	2012 (Restated)					
	Balance July 1, 2011	Issued	Retired	Balance June 30, 2012	Due Within One Year	Due After One Year
Intergovernmental payable	\$56,269,673	\$1,652,715	\$75,389	\$57,846,999	\$ -	\$57,846,999
Compensated absences	62,224	13,511	9,533	66,202	10,512	55,690
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
OCWUT revenue bonds	309,920,579	-	9,039,233	300,881,346	10,433,553	290,447,793
MCA revenue bonds	<u>55,755,000</u>	<u>-</u>	<u>3,305,000</u>	<u>52,450,000</u>	<u>3,505,000</u>	<u>48,945,000</u>
	<u>\$475,103,208</u>	<u>\$34,114,236</u>	<u>\$21,518,787</u>	<u>\$487,698,657</u>	<u>\$14,293,728</u>	<u>\$473,404,929</u>

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

III. G. SEGMENT INFORMATION AND PLEDGED REVENUES

OCWUT and MCA issued revenue bonds to support their water and wastewater activities. The financial statements report revenue-supported debt. OCWUT recognized \$111,139,787 and \$113,685,266 in water charges and \$76,167,004 and \$77,628,911 in wastewater charges in 2013 and 2012, respectively. MCA recognized \$2,518,808 and \$2,461,676 in aliquot share revenues and \$4,367,344 and \$4,313,131 in debt service and operating transfers from OCWUT in 2013 and 2012, respectively.

IV. NET POSITION

Change in Accounting Principle

GASB 61 Implementation

Effective July 1, 2012, the Consolidated Trust implemented GASB statement number 61, The Financial Reporting Entity: Omnibus. This statement modified certain requirements for inclusion of component units in the financial reporting entity. Prior to implementation of GASB 61, both OCWUT and MCA were reported as blended component units of the City. As a result of the implementation, OCWUT and MCA are blended into the Consolidated Trust which is reported as a discrete component unit of the City. The implementation of GASB 61 resulted in a \$30,045,108 change in beginning net position.

Balances previously reported as due to or from the City have been reclassified as payables to or receivable from the City. Advances from other funds have been reclassified to payable to the City. Transactions previously reported as transfers have been reclassified to payments to or from the City depending on the nature of the transactions.

GASB 65 Implementation

Effective July 1, 2012, the Consolidated Trust implemented GASB statement number 65, Items Previously Reported as Assets and Liabilities. This statement redefines certain financial elements previously reported as assets and liabilities as deferred outflows and deferred inflows of resources. In addition, the statement changes the method of reporting debt issuance costs. Prior to implementation of GASB statement number 65, the Consolidated Trust reported debt issuance costs, including costs related to bond insurance, as deferred debt expense which was capitalized and amortized over the life of the debt. Deferred debt expense was reported as a non-current asset on the statement of net position. In GASB statement number 65, bond issuance costs, excluding bond insurance costs which should be treated as a prepaid asset, are to be recognized in the period of the debt issue. This resulted in a restatement of previously reported net position.

	<u>OCWUT</u>	<u>MCA</u>
Deferred debt expense (As previously reported)	\$1,885,341	\$163,119
Amortization of deferred debt expense	149,196	22,533
Prepaid bond insurance cost:		
Current	(8,794)	(19,836)
Non-current	(12,663)	(105,899)
Recognition of current year insurance cost	<u>(11,447)</u>	<u>(21,047)</u>
	<u>\$2,001,633</u>	<u>\$38,870</u>

Net Investment in Capital Assets

	2013		2012 (Restated)	
	<u>OCWUT</u>	<u>MCA</u>	<u>OCWUT</u>	<u>MCA</u>
Capital assets, net	\$979,661,089	\$75,169,002	\$912,283,405	\$75,781,392
Retainages and accounts payable	(19,235,020)	(4,048)	(19,822,147)	(5,680)
Intergovernmental payable	(59,566,021)	-	(57,846,999)	-
Notes payable	(56,560,661)	-	(47,343,108)	-
Commercial paper	(15,500,000)	-	(45,000,000)	-
Commercial paper construction account funded with proceeds	377,485	-	466,499	-
Bonds payable, net	(373,362,406)	(48,457,220)	(305,318,629)	(51,857,859)
Bond accounts funded with bond proceeds	26,002,969	1,152,500	22,166,681	1,152,500
Bond issuance costs paid with bond proceeds	<u>6,548,535</u>	<u>897,078</u>	<u>5,310,802</u>	<u>897,078</u>
	<u>\$488,365,970</u>	<u>\$28,757,312</u>	<u>\$464,896,504</u>	<u>\$25,967,431</u>

Restricted for Capital Projects

	2013		2012 (Restated)	
	<u>OCWUT</u>	<u>MCA</u>	<u>OCWUT</u>	<u>MCA</u>
Commercial paper reserve for construction projects	\$377,485	\$ -	\$466,499	\$ -
Commercial paper construction account funded with proceeds	-	-	-	-
(377,485)	(377,485)	-	(466,499)	-
Bond construction account	126,944	-	126,931	-
Bond construction account funded with bond proceeds	(126,944)	-	(126,931)	-
Interest receivable on construction accounts	<u>3</u>	<u>-</u>	<u>3</u>	<u>-</u>
	<u>\$3</u>	<u>\$-</u>	<u>\$3</u>	<u>\$-</u>

Restricted for Debt Service

	2013		2012 (Restated)	
	<u>OCWUT</u>	<u>MCA</u>	<u>OCWUT</u>	<u>MCA</u>
	Bond principal and interest accounts	\$23,253,421	\$3,701,250	\$26,468,590
Bond reserve	32,606,104	6,868,977	28,749,087	6,870,187
Bond reserve funded with bond proceeds	(25,876,028)	(1,152,500)	(22,039,750)	(1,152,500)
Interest receivable on bond investments	323	4,314	180,838	44,050
Current bond interest payable and commercial paper	<u>(15,448,985)</u>	<u>(1,468,350)</u>	<u>(15,999,856)</u>	<u>(1,573,500)</u>
	<u>\$14,534,835</u>	<u>\$7,953,691</u>	<u>\$17,358,909</u>	<u>\$7,863,712</u>

Unrestricted

	2013		2012 (Restated)	
	<u>OCWUT</u>	<u>MCA</u>	<u>OCWUT</u>	<u>MCA</u>
	Unrestricted	<u>\$123,057,334</u>	<u>(\$988,932)</u>	<u>\$123,885,169</u>

V. REVENUES AND EXPENSES

V. A. SPECIAL ASSESSMENTS

Special assessments are levied against a water or sewer group of homes to pay for construction or extension of service by OCWUT. OCWUT 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 2013 and 2012, OCWUT collected \$11,983 and \$17,430, respectively.

V. B. SPECIAL ITEMS

Gain on Defeasance of Water and Wastewater Revenue Bonds

On March 14, 2013, OCWUT issued \$167,760,000 in revenue bonds to advance refund \$66,780,000 of outstanding 2004 Series bonds, \$47,020,000 of outstanding 2008 Series bonds, and \$68,500,000 of outstanding commercial paper debt. As a result, OCWUT realized a non-cash gain on defeasance in the amount of \$1,144,016.

Exchange of Property with COTPA

On August 2, 2012, OCWUT acquired real estate from COTPA through an exchange of cash and the cancellation of amounts receivable from COTPA.

Cash payment	(\$223,750)
Cancellation of advance to COTPA	(1,030,624)
Cancellation of amount receivable from COTPA	(60,625)
Net book value of real estate	<u>207,245</u>
Loss on exchange of property	<u>(\$1,107,754)</u>

VI. INTERFUND TRANSACTIONS

VI. A. INTERFUND BALANCES

Advances Within the Consolidated Trust

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 (bonds) in the amount of \$91,860,000. Proceeds from the Series 1992 bonds supplemented by an advance in the amount of \$5,500,000 from OCWUT 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 OCWUT. Payment of the aliquot share of the costs affords the Participants the right to store and transport water they are permitted to use. The portion of funds paid to MCA by the Participants for aliquot shares are a period cost. Payments to MCA from Participants reduce the aliquot share payments receivable.

Under the OCWUT Agreement, OCWUT 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 Series 1992 bonds. OCWUT 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.

OCWUT has transferred funds in excess of it's aliquot share to MCA under the OCWUT Agreement. The amount of funds advanced to MCA was \$47,433,587 and \$45,391,204 as of June 2013 and 2012, respectively.

Receivable from the Primary Government

	<u>Purpose</u>	<u>2013</u>	<u>2012</u> <u>(Restated)</u>
City General Fund	Deposits held by City	\$15,280	\$9,048
City Grant Management Fund	Grant reimbursement	263,974	18,080
City Capital Improvement Fund	Construction reimbursement	10,774	-
City Water Wastewater Utilities Fund	Utility billing	<u>596,716</u>	<u>678,387</u>
		<u>\$886,744</u>	<u>\$705,515</u>

Payable to the Primary Government

	<u>Purpose</u>	<u>2013</u>	<u>2012</u> <u>(Restated)</u>
City General Fund	Payment in Lieu of Franchise fees (PILOT) and utility lease	\$970,343	\$938,743
City Grants Management Fund	Federal grant match	63,206	3,104
Oklahoma City Public Property Authority Fund	Gas utility chargeback	1,129	1,308
Oklahoma City Municipal Facilities Authority Fund	Software license	4,580	-
City Stormwater Drainage Fund	Utility billing	182	-
City Water Wastewater Utilities Fund	Cost reimbursement	198,636	-
Oklahoma City Environmental Assistance Trust	Utility billing	<u>422</u>	<u>-</u>
		<u>\$1,238,498</u>	<u>\$943,155</u>

Receivable from COTPA

OCWUT and COTPA entered into an agreement of support (COTPA Agreement) on July 1, 1986, amended September 1, 1996. The COTPA Agreement provided for financial support of COTPA's parking system from the monthly net revenues of the water and wastewater systems of the City. OCWUT was required to replenish COTPA's bond reserve account if the balance in such account remained below the minimum required amount for a period of eleven months. OCWUT was 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 was available. OCWUT did 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 remained outstanding. The COTPA Agreement was not subject to OCWUT's bond indentures, and the rights of the holders of OCWUT's bonds. However, the COTPA Agreement did not alter or impair the rights and privileges of the holders of OCWUT's bonds.

On June 29, 1988, OCWUT loaned \$2,426,436 to COTPA pursuant to the Agreement. On August 2, 2012 OCWUT purchased real estate from COTPA. The purchase was partially funded by cancelling the \$1,091,249 outstanding debt. On June 30, 2012 the loan balance was \$1,091,249.

VI. B. INTERFUND TRANSFERS

Transfers Within the Consolidated Trust

Debt service transfers from OCWUT to MCA during fiscal year 2013 and 2012 were \$3.827 million and \$3.813 million, respectively. OCWUT transferred \$540 thousand and \$500 thousand during fiscal year 2013 and 2012 to cover operations, respectively.

Payments To and From the City

	<u>Purpose</u>	<u>2013</u>	<u>2012</u> <u>(Restated)</u>
PAYMENTS FROM THE CITY			
Oklahoma City Environmental Assistance Trust	Billing services	\$1,720,000	\$1,800,000
Oklahoma City Stormwater Drainage Fund	Billing services	768,000	776,000
Oklahoma City Medical Services Fund	Billing services	<u>175,000</u>	<u>170,000</u>
		<u>\$2,663,000</u>	<u>\$2,746,000</u>
PAYMENTS TO THE CITY (1)			
City General Fund	PILOT fees	\$3,586,309	\$3,556,466
City General Fund	Utility lease agreement	1,793,155	1,778,233
City General Fund	OCWUT administration	33,057	50,800
City Water and Wastewater Fund	OCWUT administration	<u>80,998,798</u>	<u>77,225,075</u>
		<u>\$86,411,319</u>	<u>\$82,610,574</u>

(1) Payments to the City are reported with operating expenses.

Billing Services

In order to reduce cost and simplify the payment of services by citizens; OCWUT includes billing for services provided by the City Solid Waste Management Fund, the Oklahoma City Stormwater Drainage Fund, and the Oklahoma City Medical Services Fund. Each fund reimburses OCWUT for the cost of monthly billing.

PILOT

PILOT fees are paid by OCWUT to the City for the exclusive right to provide water services to the citizens of the City.

Utility 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 OCWUT 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 OCWUT. The lease also provides that all revenue generated by these assets will accrue to OCWUT. 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, OCWUT is required to pay an annual lease payment of one percent of gross revenue receipts from residential and commercial utilities sales.

OCWUT Administration

City employees perform administrative and management services for the Consolidated Trust. OCWUT reimburses the City for the cost of services provided by the City. MCA does not reimburse OCWUT for its share of these costs.

VII. DEFINED CONTRIBUTION PENSION

MCA employees participate in a deferred compensation, defined contribution plan (Plan) administered by Nationwide Retirement Systems and established through the U.S. Conference of Mayors and approved by MCA. Participants of the Plan are comprised of all eligible employees of MCA. All full-time employees are eligible. At June 30, 2013 and 2012 all eligible employees were participating in the Plan.

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

<u>Fiscal Year</u>	<u>Contributions</u>	
	<u>Employer</u>	<u>Employee</u>
2013 (1)	\$9,310	\$25,583
2012	11,448	8,586
2011	10,582	7,936
2010	10,436	7,827

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

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

VIII. COMMITMENTS

OCWUT

	<u>2013</u>	<u>2012</u> <u>(Restated)</u>
Construction projects - system improvements	\$24,274,670	\$62,716,268
Contracted wastewater treatment services	<u>36,439,988</u>	<u>46,851,413</u>
	<u>\$60,714,658</u>	<u>\$109,567,681</u>

Construction projects are funded with commercial paper, utility charges, and OWRB loans.

IX. CONTINGENCIES

Litigation

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

X. RELATED PARTY TRANSACTIONS

COTPA

In 1986, revised in 1996, OCWUT entered into a support agreement with COTPA (COTPA Agreement). The COTPA Agreement provided for financial support of COTPA's parking system as long as the COTPA Series 1996 bonds remained outstanding. A similar agreement was entered into when the COTPA Series 2003 and 2006 revenue bonds were issued.

On March 28, 2006 COTPA issued Series 2006 revenue bonds. The Series 2006 bond issue defeased the Series 1996 and Series 2003 bonds.

On January 11, 2012, the Broadway Kerr Parking Garage was sold to Sandridge Realty, L.L.C. Proceeds from the sale were placed into a special escrow account, thereby defeasing the remaining Series 2006 Bonds outstanding. The defeasance of the 2006 Series bonds effectively ended the COTPA Agreement with OCWUT.

LARA - Jointly Governed Organizations

LARA was formed under the provisions of an interlocal agreement. The agreement provides that OCWUT will reimburse LARA for the budgeted or actual expenditures. The Trust reimbursed LARA for expenditures in fiscal year 2013 and 2012 in the amount of \$228,821 and \$184,649, respectively.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the major funds of the Oklahoma City Water Utilities Trust (the Trust), a component unit of the City of Oklahoma City, Oklahoma (the City), which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 6, 2013, which contained an emphasis of matter paragraph regarding changes in accounting principles.

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.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified. We identified a deficiency in internal control described in the accompanying schedule of findings and responses as item 13-01 that we consider to be a significant deficiency in internal control.

Compliance

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*.

The Trust's Response to the Finding

The Trust's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Trust's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Other Matter

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

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

BKD, LLP

Oklahoma City, Oklahoma
December 6, 2013

Oklahoma City Water Utilities and Trust
Schedule of Findings and Responses
Year Ended June 30, 2013

Reference Number	Finding
13-01	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – During the course of the audit, we identified certain adjustments related to capital assets that were not made because their aggregate effect is not currently material to the financial statements (passed adjustments).</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 – Misstatements in the financial statements resulting from errors that occurred and were not detected and/or corrected in a timely manner created multiple audit adjustments that were not booked. The individual misstatements have been provided to the City’s Finance Department.</p> <p>Cause – Certain deficiencies in the overall review process of the financial statements were not in place to identify these errors.</p> <p>Recommendation – We recommend the Finance Department enhance their review of the quarterly flux reports and other supporting documentation in an effort to limit errors in the Trust’s financial statements.</p> <p>Views of Responsible Officials and Planned Corrective – We agree. We will continue our efforts to educate and train management staff throughout the City and related component units to improve capital asset records.</p>