



Oklahoma City Water Utilities Trust

*A discrete component unit of The City of Oklahoma City, Oklahoma
Annual Financial Report | for the Fiscal Year ended June 30, 2018*



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

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Management

Chris Browning, General Manager

Annual Financial Report for the Fiscal Year Ended June 30, 2018

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

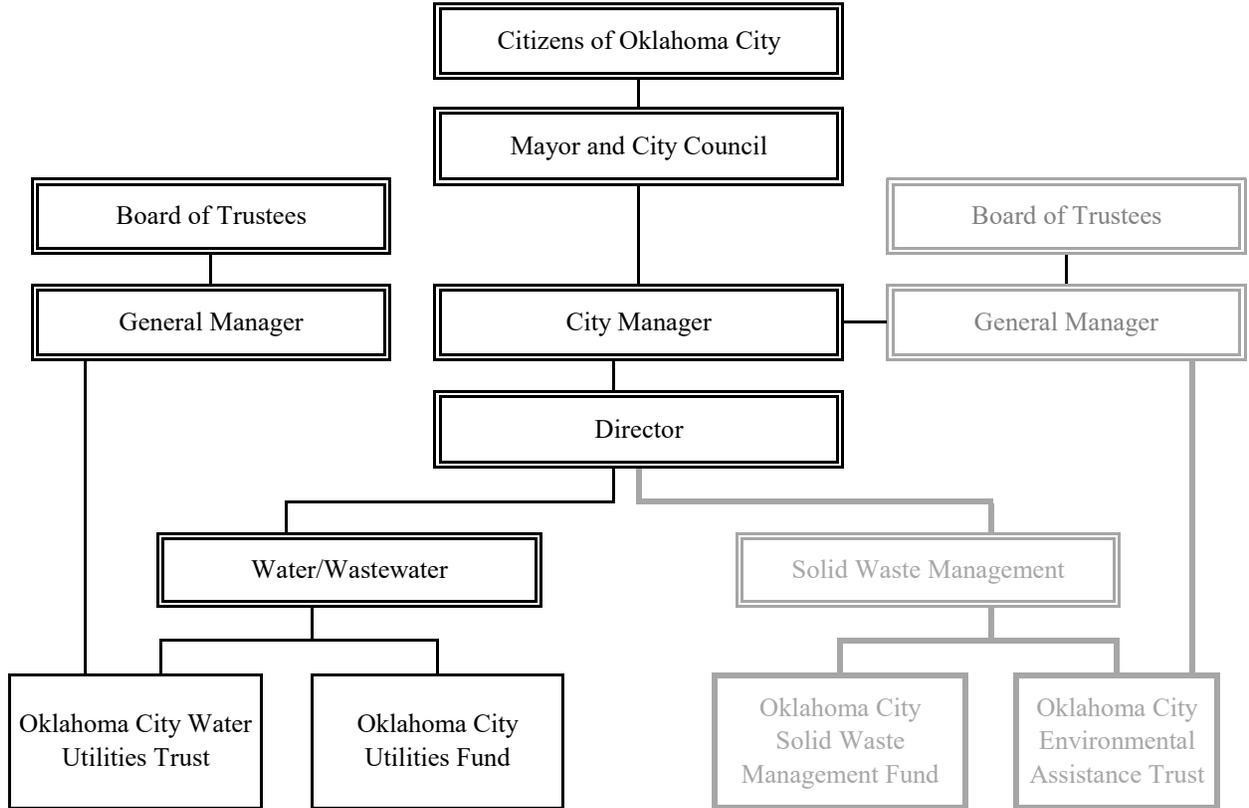
OKLAHOMA CITY WATER UTILITIES TRUST

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Oklahoma City Water Utilities Trust Organization Chart



Introductory Section



November 16, 2018

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 financial position and the results of operations during the fiscal years ended June 30, 2018 and 2017. It complies with reporting requirements specified by Oklahoma State Statutes. 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, 2018 and 2017, 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 operate and maintain the City water and wastewater utility system and 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) and 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, Atoka County, and the Southern Oklahoma Development Trust. 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.

Oklahoma City's recovery from the regional recession caused by the significant downturn in the energy industry took hold during fiscal year 2018. Higher oil and natural gas prices have meant significant gains in employment and investment in the energy sector and have led to broad economic strength in Oklahoma. While Oklahoma City has a diverse economic base, the energy industry still has a major impact on the health of the local economy. Going forward, Oklahoma City has a number of factors in its favor. The cost of living and the cost of doing business are consistently rated among the best in the country. In addition, low commuting times, convenient airline travel, and excellent entertainment and sports opportunities make Oklahoma City a great place for businesses and residents.

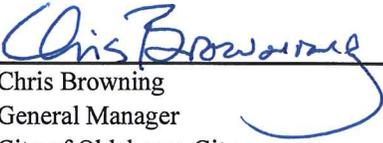
Oklahoma City is being recognized more and more as a great place to work, live, and visit. According to CNBC and Go Banking Rates, Oklahoma City was the number 1 city in the country where wages most outpaced expenses based on average annual income and average monthly living expenses. Oklahoma City was ranked as one of the top 10 "Best Cities for New Small Businesses" based on average annual revenue and profitability. The website OnlineDegrees.com rated the Oklahoma City metro as the number eleven "Best Big Cities for New Grads." Business Insider rated Oklahoma City as number 8 on their list of most popular cities everyone wants to live in right now based on factors such as migration ratio and growth rate. Southern Living magazine and Money magazine both ranked Oklahoma City as a top destination for travel.

In his February 6, 2018 report, Dr. Russel Evans, Executive Director of the Steven C. Agee Economic Research & Policy Institute of Oklahoma City University, provided his economic forecast to the City Council during the annual budget workshop. Dr. Evans highlighted state economic performance relative to the U.S. economy and how the two diverged significantly between 2015-early 2017 with Oklahoma impacted by the contraction in the oil and gas industry. Dr. Evans noted how important the metro areas in Oklahoma have become to the state economy and how much better Oklahoma City has performed on his macroeconomic performance index compared to Tulsa and the rest of the state. The macroeconomic index tracks employment, income and business creation. Dr. Evans forecasted U.S. Gross Domestic Product (GDP) to grow at a rate of 2.2% in 2018 and 2.1% in 2019. He is projecting higher growth in Oklahoma with projected gross state product growth of 3.6% in 2018 and 3.2% in 2019. The outlook for Oklahoma City is also very positive, with projections for steady growth in population, per capita personal income, and employment. Dr. Evans' fiscal forecast for Oklahoma City projects sales tax growth in FY19 of 3.0%-3.3%.

OCWUT and MCA participate in the City's comprehensive accounting and budgetary system. Semi-annual 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 AGH, L.C. to conduct its annual audit. The Consolidated Trust acknowledges the professional and competent services of its independent auditors.

Respectfully submitted,


Chris Browning
General Manager
City of Oklahoma City
Utilities Department Director


Bret Weingart
City of Oklahoma City
Utilities Department Assistant Director


Laura L. Papas
City of Oklahoma City Controller

Financial Section

INDEPENDENT AUDITOR'S REPORT

To the 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 (Trust), a discrete component unit of The City of Oklahoma City, Oklahoma (City), as of and the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as 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 opinions 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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 each major fund of the Trust as of June 30, 2018 and 2017, and the respective 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 Matters

As discussed in *Note I.B*, the financial statements present only the Oklahoma City Water Utilities Trust, a discrete component of the City, and do not purport to, and do not, present fairly the financial position of the Oklahoma City Water Department as of June 30, 2018 and 2017, the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

As discussed in *Note IV.*, in 2018, the Trust changed its method of accounting and recognized an additional liability and reduced net position, as of July 1, 2017, due to the chargeback from the City of Oklahoma City, Oklahoma (City) related to the City's adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Trust's basic financial statements. The accompanying transmittal letter is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2018 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Trust's 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.

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

November 16, 2018
Wichita, KS

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, 2018 and 2017. 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 and deferred outflows of resources exceeded liabilities by \$913,805,400 (net position) for 2018. This compares to the previous year when assets exceeded liabilities by \$892,152,403.
- Total assets for the Consolidated Trust increased \$123,465,842 to \$1,706,166,694 during the fiscal year. This compares to the previous year when assets increased \$110,414,254 to \$1,582,700,852.
- Total liabilities for the Consolidated Trust increased \$101,350,882 to \$803,692,825 during the fiscal year. This compares to the previous year when liabilities increased \$46,524,794 to \$702,341,943.
- Total net position is comprised of the following:
 - (1) Net investment in capital assets, of \$647,554,539 and \$611,829,637 for the years ended June 30, 2018 and 2017, 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 \$37,938,930 and \$35,205,268 for the years ended June 30, 2018 and 2017, respectively, is restricted for capital projects and by debt service constraints imposed by debt covenants.
 - (3) Unrestricted net position of \$228,311,931 and \$245,117,498 is reported for the years ended June 30, 2018 and 2017, 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 to which 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 indicate whether the financial position of the Consolidated Trust, as a whole, is improving or deteriorating, identify financial strengths and weaknesses, and be used to assess liquidity.

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018 and 2017

OKLAHOMA CITY
WATER UTILITIES TRUST

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

The third statement is the statement of cash flows that 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, 2018, is \$913,805,400. This is an increase of \$21,652,997 over fiscal year 2017 net position of \$892,152,403. The overall financial position of the Consolidated Trust improved during the 2018 fiscal year.

Summary of Net Position

| | 2018 | 2017 | 2018 - 2017 Amount of Change | 2018 - 2017 % | 2016 | 2017 - 2016 Amount of Change | 2017 - 2016 % |
|---|-----------------------------|-----------------------------|------------------------------------|------------------|-----------------------------|------------------------------------|------------------|
| Assets | | | | | | | |
| Current assets | \$291,066,462 | \$249,981,674 | \$41,084,788 | 16.4% | \$203,520,084 | \$46,461,590 | 22.8% |
| Capital assets, net | 1,313,046,086 | 1,232,854,923 | 80,191,163 | 6.5 | 1,174,179,109 | 58,675,814 | 5.0 |
| Other non-current assets | <u>102,054,146</u> | <u>99,864,255</u> | <u>2,189,891</u> | 2.2 | <u>94,587,405</u> | <u>5,276,850</u> | 5.6 |
| Total assets | <u>1,706,166,694</u> | <u>1,582,700,852</u> | <u>123,465,842</u> | 7.8 | <u>1,472,286,598</u> | <u>110,414,254</u> | 7.5 |
| Deferred Outflows of Resources | | | | | | | |
| | <u>11,331,531</u> | <u>11,793,494</u> | <u>(461,963)</u> | (3.9) | <u>8,180,178</u> | <u>3,613,316</u> | 44.2 |
| Liabilities | | | | | | | |
| Current liabilities | 180,219,754 | 146,811,493 | 33,408,261 | 22.8 | 138,243,098 | 8,568,395 | 6.2 |
| Non-current liabilities | <u>623,473,071</u> | <u>555,530,450</u> | <u>67,942,621</u> | 12.2 | <u>517,574,051</u> | <u>37,956,399</u> | 7.3 |
| Total liabilities | <u>803,692,825</u> | <u>702,341,943</u> | <u>101,350,882</u> | 14.4 | <u>655,817,149</u> | <u>46,524,794</u> | 7.1 |
| Net position | | | | | | | |
| Net investment | | | | | | | |
| in capital assets | 647,554,539 | 611,829,637 | 35,724,902 | 5.8 | 592,900,143 | 18,929,494 | 3.2 |
| Restricted | 37,938,930 | 35,205,268 | 2,733,662 | 7.8 | 24,657,235 | 10,548,033 | 42.8 |
| Unrestricted | <u>228,311,931</u> | <u>245,117,498</u> | <u>(16,805,567)</u> | (6.9) | <u>207,092,249</u> | <u>38,025,249</u> | 18.4 |
| Total net position | <u>\$913,805,400</u> | <u>\$892,152,403</u> | <u>\$21,652,997</u> | 2.4 | <u>\$824,649,627</u> | <u>\$67,502,776</u> | 8.2 |

Current assets increased by \$41.08 million in 2018. Cash and investments increased \$39.27 million and accounts receivable increased by \$2.23 million due primarily to rate increases and timing of customer payments. In 2017 current assets increased by \$46.46 million. Cash and investments increased by \$37.65 million and accounts receivable increased by \$3.57 million due to an increase in unbilled receivables of \$2.45 million.

The \$80.19 million and \$58.68 million increase in capital assets for fiscal year 2018 and 2017, respectively, is the result of continued construction and purchase of capital assets of \$126.13 million and \$105.15 million, offset by normal depreciation of \$45.89 million and \$43.09 million, respectively.

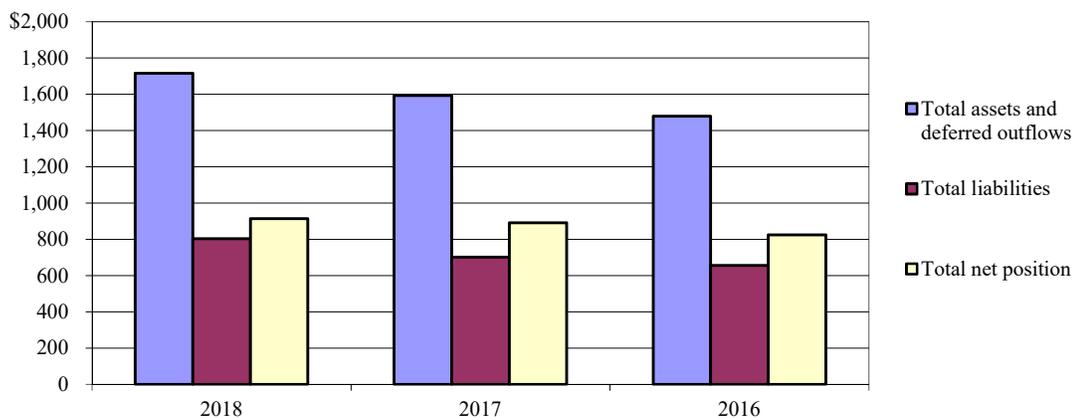
Non-current assets increased \$2.19 million during 2018 primarily due to an increase in aliquot share receivable of \$2.00 million related to increased cash requirements. In 2017, non-current assets increased \$5.28 million due to an increase in aliquot share receivable of \$2.05 million related to increased cash requirements and an increase in non-current investments of \$3.01 million related to the issuance of Series 2016 refunding bonds.

Deferred outflows of resources decreased by \$462 thousand at June 30, 2018 due to normal amortization of deferred amounts on refunding. Deferred outflows of resources increased by \$3.61 million at June 30, 2017 due to a partial defeasance of Series 2009A refunding bonds of \$4.03 million with the issuance of Series 2016 refunding bonds, offset by normal amortization of deferred amounts on refunding of \$417 thousand.

Current liabilities increased at June 30, 2018 by \$33.41 million primarily due to an increase in Oklahoma Water Resources Board (OWRB) notes payable of \$18.10 million, an increase in commercial paper of \$8.00 million, and an increase in accounts payable of \$6.43 million due to timing of vendor payments. Current liabilities increased at June 30, 2017 by \$8.57 million primarily due to an increase in OWRB notes payable of \$46.77 million and \$10.00 million for the Atoka and Sardis Lake conservation projects fund offset by a decrease in commercial paper borrowings of \$46.00 million due to the retirement of \$55.50 million and a net decrease of \$2.18 million in current bond principal and interest payable.

At June 30, 2018, non-current liabilities increased by \$67.94 million primarily due to an increase of \$58.85 million in the payable to the City for a change in accounting principle related to other post-employment benefits of \$57.47 million and \$1.38 million for operational needs of the City Water and Wastewater fund, as well as the issuance of 2018A clean water notes of \$15.55 million and the final financing of the 2015 drinking water note of \$35.18 million offset by a decrease in bonds payable of \$22.95 million due to regularly scheduled bond payments, the retirement of the 2010 clean water notes of \$15.16 million and reclassifications of non-current to current notes payable of \$3.54 million. The \$37.96 million increase in non-current liabilities at June 30, 2017, is largely due to the issuance of Series 2016 refunding bonds of \$97.14 million, offset by the retirement of Series 2009A refunding bonds of \$51.03 million.

Summary of Net Position
(dollars are in millions)



MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018 and 2017

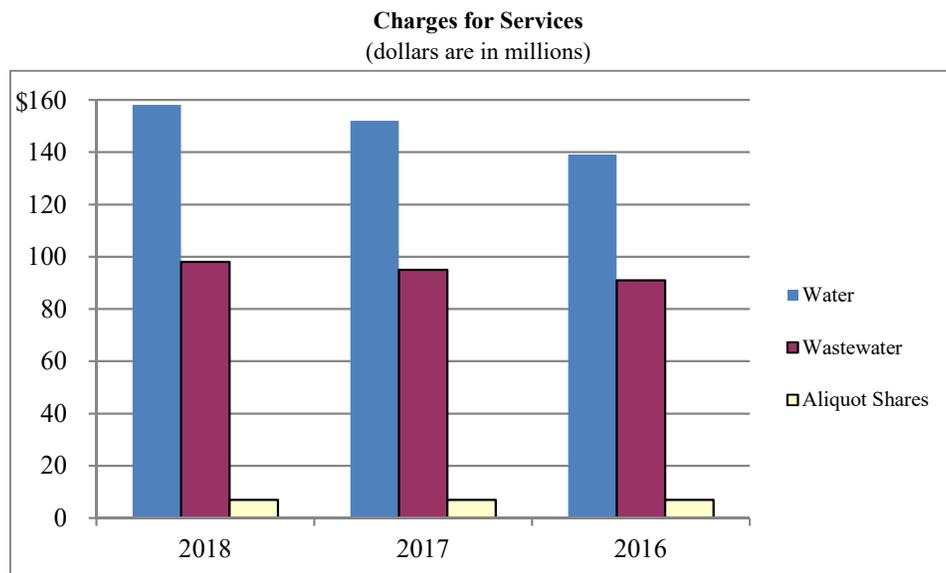
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| | Summary of Changes in Net Position | | | | | | |
|---|---|-----------------------------|---|-----------------------------------|-----------------------------|---|-----------------------------------|
| | <u>2018</u> | <u>2017</u> | 2018 - 2017 Amount of <u>Change</u> | 2018 - 2017 % <u>Change</u> | <u>2016</u> | 2017 - 2016 Amount of <u>Change</u> | 2017 - 2016 % <u>Change</u> |
| Operating revenues | | | | | | | |
| Charges for services: | | | | | | | |
| Water | \$158,130,736 | \$151,551,530 | \$6,579,206 | 4.3% | \$138,669,916 | \$12,881,614 | 9.3% |
| Wastewater | 98,334,630 | 95,255,444 | 3,079,186 | 3.2 | 90,971,035 | 4,284,409 | 4.7 |
| Aliquot share charges | 7,063,353 | 7,200,955 | (137,602) | (1.9) | 7,392,657 | (191,702) | (2.6) |
| Other charges for services and other revenues | <u>4,158,277</u> | <u>4,026,230</u> | <u>132,047</u> | 3.3 | <u>3,709,630</u> | <u>316,600</u> | 8.5 |
| Total operating revenues | 267,686,996 | 258,034,159 | 9,652,837 | 3.7 | 240,743,238 | 17,290,921 | 7.2 |
| Operating expenses | <u>170,033,197</u> | <u>163,799,409</u> | <u>6,233,788</u> | 3.8 | <u>153,886,393</u> | <u>9,913,016</u> | 6.4 |
| Operating income | 97,653,799 | 94,234,750 | 3,419,049 | 3.6 | 86,856,845 | 7,377,905 | 8.5 |
| Net non-operating expenses | <u>(19,526,792)</u> | <u>(26,731,974)</u> | <u>7,205,182</u> | 27.0 | <u>(14,930,232)</u> | <u>(11,801,742)</u> | (79.0) |
| Capital contributions | <u>1,000,418</u> | - | <u>1,000,418</u> | 100.0 | - | - | 0.0 |
| Changes in net position | 79,127,425 | 67,502,776 | 11,624,649 | 17.2 | 71,926,613 | (4,423,837) | (6.2) |
| Beginning net position | | | | | | | |
| As previously reported | 892,152,403 | 824,649,627 | 67,502,776 | 8.2 | 752,723,014 | 71,926,613 | 9.6 |
| Change in accounting principle | <u>(57,474,428)</u> | <u>-</u> | <u>(57,474,428)</u> | <u>100.0</u> | <u>-</u> | <u>-</u> | <u>0.0</u> |
| As restated | <u>834,677,975</u> | <u>824,649,627</u> | <u>10,028,348</u> | <u>1.2</u> | <u>752,723,014</u> | <u>71,926,613</u> | <u>9.6</u> |
| Ending net position | <u>\$913,805,400</u> | <u>\$892,152,403</u> | <u>\$21,652,997</u> | 2.4 | <u>\$824,649,627</u> | <u>\$67,502,776</u> | 8.2 |

Operating revenues were \$267.69 million at June 30, 2018, compared to \$258.03 million at June 30, 2017, for an increase of 3.7% or \$9.65 million and 7.2% or \$17.29 million in 2018 and 2017, respectively, due to normal growth and scheduled rate adjustments.

For the fiscal year ended June 30, 2018 operating expenses increased \$6.23 million or 3.8% primarily due to increases in maintenance, operations, and contractual services of \$1.52 million for increased electric expenses on the Atoka pipeline, an increase in IT chargebacks related to the SCADA system of \$999 thousand, and depreciation expense of \$2.80 million. For the fiscal year ended June 30, 2017, operating expenses increased \$9.91 million or 6.4% due to increases in maintenance, operations, and contractual services of \$5.91 million for increased electric expenses on the Atoka pipeline, personal services of \$2.57 million for increases in pension related expenses, and depreciation expense of \$3.44 million.

During 2018 net non-operating expenses increased \$7.21 million or 27.0%. This is primarily due to 2017 expenses not recurring in 2018 such as an inventory adjustment of \$3.27 million and contributions to the Sardis and Atoka conservation projects fund of \$5.00 million. During 2017 net non-operating expenses increased \$11.80 million or 79.0%. This is due to a decrease in investment income of \$2.31 million due to an decrease in market value of investments, a decrease in interest expenses of \$2.45 million due to lower overall interest rates on bonds payable, bond issue costs of \$602 thousand, required contributions to the Atoka and Sardis Lake conservation projects fund of \$2.5 million, and a \$3.27 loss on disposal of assets related to the biennial inventory.



Capital Assets

The Consolidated Trust's investment in capital assets, net of accumulated depreciation, as of June 30, 2018 and 2017, was \$1,313,046,086 and \$1,232,854,923, respectively.

In fiscal year 2003 the water master plan was completed, which included a 50-year plan for water supply availability. In 2009 the wastewater system master plan was completed, which included plans for capital improvements through 2051. In 2014 the Southeast Oklahoma Raw Water Supply System Plan and the Hefner/Draper System Interconnection study were completed. These two recent studies enhance the water master plan and provide guidance for capital improvements for the next 40 years.

| | Capital Assets | | | | | | |
|-------------------------------------|--|-------------------------------|---|-----------------------------------|-------------------------------|---|-----------------------------------|
| | Net of Accumulated Depreciation | | | | | | |
| | <u>2018</u> | <u>2017</u> | 2018 - 2017 Amount of <u>Change</u> | 2018 - 2017 % <u>Change</u> | <u>2016</u> | 2017 - 2016 Amount of <u>Change</u> | 2017 - 2016 % <u>Change</u> |
| Non-Depreciable Assets | | | | | | | |
| Land and water storage rights | \$122,033,836 | \$121,008,996 | \$1,024,840 | 0.8% | \$119,664,803 | \$1,344,193 | 1.1% |
| Construction in progress | <u>194,836,558</u> | <u>190,576,646</u> | <u>4,259,912</u> | 2.2 | <u>168,456,374</u> | <u>22,120,272</u> | 13.1 |
| Total non-depreciable assets | <u>316,870,394</u> | <u>311,585,642</u> | <u>5,284,752</u> | 1.7 | <u>288,121,177</u> | <u>23,464,465</u> | 8.1 |
| Depreciable Assets | | | | | | | |
| Buildings | 37,949,945 | 38,531,613 | (581,668) | (1.5) | 41,757,723 | (3,226,110) | (7.7) |
| Improvements other than buildings | 919,503,469 | 853,105,312 | 66,398,157 | 7.8 | 818,884,812 | 34,220,500 | 4.2 |
| Furniture, machinery, and equipment | <u>38,722,278</u> | <u>29,632,356</u> | <u>9,089,922</u> | 30.7 | <u>25,415,397</u> | <u>4,216,959</u> | 16.6 |
| Total depreciable assets | <u>996,175,692</u> | <u>921,269,281</u> | <u>74,906,411</u> | 8.1 | <u>886,057,932</u> | <u>35,211,349</u> | 4.0 |
| | <u>\$1,313,046,086</u> | <u>\$1,232,854,923</u> | <u>\$80,191,163</u> | 6.5 | <u>\$1,174,179,109</u> | <u>\$58,675,814</u> | 5.0 |

Capital assets, net of accumulated depreciation, increased by \$80.19 million or 6.5% during 2018 due to OCWUT's construction and improvement projects for the water utilities system. Depreciation expense increased by \$2.80 million or 6.5% in 2018 due to construction projects completed during 2017. A construction project finalized in fiscal year 2018 includes the Draper water treatment plant high service pump station. Major construction projects in progress at June 30, 2018, include multiple improvements at Hefner, Draper, and Overholser water treatment plants and the Atoka pipeline project. Capital assets, net of accumulated depreciation, increased by \$58.68 million or 5.0% during 2017 due to OCWUT's construction and improvement projects for the water utilities system. Depreciation expense increased by \$3.44 million or 8.67% in 2017 due to construction projects completed during 2016. Major construction projects finalized during 2017 include transmissions mains and sewer relief inceptors. Major construction projects in progress at June 30, 2017, included improvements at Hefner Water Treatment Plant and the Draper Water Treatment Plant high service pump and Atoka surge protection projects. See Note II. F. for more information regarding capital assets.

Long-term Liabilities

At the end of the 2018 and 2017 fiscal years, the Consolidated Trust had total debt outstanding of \$669,239,032 and \$640,883,864, respectively.

OWRB Notes Payable

The OWRB provided partial funding to OCWUT for several clean water and drinking water projects since 2009. These agreements provided up to \$286.28 million in loans, of which \$173.08 million and \$122.95 million remained outstanding at June 30, 2018 and 2017, respectively. See Note III. D. for more information regarding notes payable.

Revenue Bonds

At June 30, 2018 and 2017, the Consolidated Trust had total revenue bond debt outstanding of \$483.66 million and \$505.44 million, respectively. See Note III. F. for more information regarding revenue bonds.

OCWUT

At June 30, 2018 and 2017, OCWUT had total revenue bond debt outstanding of \$455.78 million and \$472.92 million, respectively. This debt is supported by pledged water and wastewater revenues generated by OCWUT's utility services.

MCA

MCA issued Series 1992 Water Revenue Bonds to purchase water storage rights and related assets, which in effect, repaid construction costs to the Bureau of Reclamation for the McGee Creek Reservoir. These bonds are secured by aliquot share revenues from participants of MCA and an agreement of support with OCWUT. At June 30, 2018 and 2017, MCA had total revenue bond debt outstanding of \$27.88 million and \$32.51 million, respectively.

| | Outstanding Long Term Debt | | | | | | |
|---------------------------|-----------------------------|-----------------------------|----------------------------|-------------|-----------------------------|----------------------------|-------------|
| | | | 2018 - 2017 | 2018 - 2017 | 2017 - 2016 | | 2017 - 2016 |
| | 2018 | 2017 | Amount of | % | 2016 | Amount of | % |
| | | Change | Change | | Change | Change | |
| Intergovernmental payable | \$12,500,000 | \$12,500,000 | \$ - | 0.0% | \$15,053,038 | (\$2,553,038) | (17.0%) |
| OWRB notes payable | 173,075,774 | 122,945,917 | 50,129,857 | 40.8 | 77,603,611 | 45,342,306 | 58.4 |
| Revenue bonds | <u>483,663,258</u> | <u>505,437,947</u> | <u>(21,774,689)</u> | (4.3) | <u>458,993,176</u> | <u>46,444,771</u> | 10.1 |
| | <u>\$669,239,032</u> | <u>\$640,883,864</u> | <u>\$28,355,168</u> | 4.4 | <u>\$551,649,825</u> | <u>\$89,234,039</u> | 16.2 |

OWRB notes payable increased \$50.13 million at June 30, 2018 as a result of draws on OWRB notes payable of \$53.55 million and the issuance of the 2018A clean water note of \$15.55 million, offset by the retirement of the 2010 clean water note of \$15.16 million and regularly scheduled payments of \$3.23 million. OWRB notes payable increased \$45.34 million at June 30, 2017, as a result of draws on OWRB notes payable of \$47.32 million offset by regularly scheduled payments of \$1.98 million. The \$21.77 million decrease in revenue bonds during 2018 is due to regularly scheduled bond payments. The \$46.44 million increase in revenue bonds during 2017 is due to the issuance of series 2016 revenue bonds of \$97.14 million, offset by the partial defeasance of Series 2009A refunding bonds of \$51.03 million and regularly scheduled debt service payments of \$12.79 million.

Bond Ratings

On the OCWUT's bonded debt, as of June 30, 2018 and 2017, Standard and Poor's Rating Services reported a credit rating of AAA and Moody's Rating Services reported a credit rating of Aaa.

Effective December 1, 2017, Standard and Poor's Rating Services are no longer rating McGee Creek Authority's debt. As of June 30, 2018 and 2017, Moody's Rating Services reported a credit rating of A2 and A3, respectively. The Authority bonds are fully insured and the ratings represent the credit ratings of the insurer of the bonds.

Commercial Paper ratings

OCWUT's short-term credit rating for its commercial paper program is A-1+ and P1 from Standard & Poor's and Moody's, respectively. These are the highest credit ratings available for commercial paper from each firm.

Economic Factors and Rates

Economic Factors

The current economic environment in Oklahoma City is positive. The City continues its recovery from the regional recession caused by the significant downturn in the energy industry. Higher oil and natural gas prices have meant significant gains in employment and investment in the energy sector and have led to broad economic strength in Oklahoma.

Utility Rates

In November 2017 the City Council approved an ordinance for a 4 year rate plan which included a new tiered rate plan for residential and commercial customers that went into effect January 2018. The four-year approved rate plan provided an average annual revenue adjustment of 5.4% and 3.8% for water and wastewater, respectively. The adjustment included two additional inclining block conservation-oriented rates. For residential customers, the first block is defined as water usage for the first 2,000 gallons. The second block is defined as the next 8,000 gallons. The third block is defined as the next 20,000 gallons, and the fourth block is defined as water usage over 30,000 gallons. For non-residential customers, the first block is for water usage up to the customer's average winter consumption (AWC), the second block is for water usage 100% through 250% of the customer's AWC, and the third block is for water usage over 250% of the customer's AWC.

Aliquot Shares

Aliquot share revenue may be generated by payments from surrogates or designees of Participants. MCA uses OCWUT's rate study information as a basis for determining these charges. In October 2014, a new tiered rate structure went into effect with rates based on meter size and usage volume.

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.

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Basic Financial Statements

Proprietary Fund Financial Statements

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

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

STATEMENTS OF NET POSITION
June 30,

OKLAHOMA CITY
WATER UTILITIES TRUST

| | 2018 | | | | 2017 | | | |
|--|----------------------|---------------------|---------------------|----------------------|----------------------|---------------------|---------------------|----------------------|
| | Water | McGee Creek | Eliminations | Consolidated | Water | McGee Creek | Eliminations | Consolidated |
| | Utilities Trust | Authority | | | Utilities Trust | Authority | | |
| ASSETS | | | | | | | | |
| CURRENT ASSETS | | | | | | | | |
| Non-pooled cash----- | \$25,645,456 | \$195,192 | \$ - | \$25,840,648 | \$46,907,135 | \$1,113,076 | \$ - | \$48,020,211 |
| Investments----- | 222,393,635 | 3,471,640 | - | 225,865,275 | 161,872,022 | 2,547,125 | - | 164,419,147 |
| Accounts receivable, net----- | 32,112,698 | 29,314 | - | 32,142,012 | 29,882,257 | 24,771 | - | 29,907,028 |
| Interest, dividends, and royalties receivable----- | 813,705 | 24,986 | - | 838,691 | 542,746 | 18,860 | - | 561,606 |
| Due from other funds----- | - | 118,356 | (118,356) | - | - | - | - | - |
| Receivable from City of Oklahoma City----- | 732,787 | 26,524 | - | 759,311 | 517,528 | 24,513 | - | 542,041 |
| Intergovernmental receivables----- | 5,138,371 | 72,914 | - | 5,211,285 | 5,968,602 | 56,388 | - | 6,024,990 |
| Prepays----- | 398,112 | 11,128 | - | 409,240 | 493,438 | 13,213 | - | 506,651 |
| Total current assets----- | 287,234,764 | 3,950,054 | (118,356) | 291,066,462 | 246,183,728 | 3,797,946 | - | 249,981,674 |
| NON-CURRENT ASSETS | | | | | | | | |
| Investments----- | 35,777,476 | 7,089,585 | - | 42,867,061 | 35,548,285 | 7,089,744 | - | 42,638,029 |
| Advance to McGee Creek Authority----- | 57,276,703 | - | (57,276,703) | - | 55,224,549 | - | (55,224,549) | - |
| Intergovernmental aliquot share receivable----- | - | 56,897,494 | - | 56,897,494 | - | 54,896,241 | - | 54,896,241 |
| Other non-current assets----- | 2,171,893 | - | - | 2,171,893 | 2,171,893 | - | - | 2,171,893 |
| Prepays----- | 98,366 | 19,332 | - | 117,698 | 128,668 | 29,424 | - | 158,092 |
| Capital assets: | | | | | | | | |
| Land, water storage rights and construction in progress----- | 255,121,127 | 61,749,267 | - | 316,870,394 | 250,056,946 | 61,528,696 | - | 311,585,642 |
| Other capital assets, net of accumulated depreciation----- | 983,865,182 | 12,310,510 | - | 996,175,692 | 908,207,877 | 13,061,404 | - | 921,269,281 |
| Total capital assets----- | 1,238,986,309 | 74,059,777 | - | 1,313,046,086 | 1,158,264,823 | 74,590,100 | - | 1,232,854,923 |
| Total non-current assets----- | 1,334,310,747 | 138,066,188 | (57,276,703) | 1,415,100,232 | 1,251,338,218 | 136,605,509 | (55,224,549) | 1,332,719,178 |
| Total assets----- | 1,621,545,511 | 142,016,242 | (57,395,059) | 1,706,166,694 | 1,497,521,946 | 140,403,455 | (55,224,549) | 1,582,700,852 |
| DEFERRED OUTFLOWS | | | | | | | | |
| OF RESOURCES----- | 11,331,531 | - | - | 11,331,531 | 11,793,494 | - | - | 11,793,494 |
| LIABILITIES | | | | | | | | |
| CURRENT LIABILITIES | | | | | | | | |
| Accounts payable and accrued expenses----- | 33,799,669 | 10,942 | - | 33,810,611 | 27,378,567 | 4,480 | - | 27,383,047 |
| Wages and benefits payable----- | - | 11,912 | - | 11,912 | - | 10,683 | - | 10,683 |
| Due to other funds----- | 118,356 | - | (118,356) | - | - | - | - | - |
| Payable to City of Oklahoma City----- | 2,178,584 | 3,565 | - | 2,182,149 | 2,159,388 | 5,975 | - | 2,165,363 |
| Interest payable----- | 1,538,887 | - | - | 1,538,887 | 1,043,825 | - | - | 1,043,825 |
| Compensated absences----- | - | 12,113 | - | 12,113 | - | 17,883 | - | 17,883 |
| Commercial paper----- | 12,500,000 | - | - | 12,500,000 | 4,500,000 | - | - | 4,500,000 |
| Notes payable----- | 90,004,575 | - | - | 90,004,575 | 71,907,021 | - | - | 71,907,021 |
| Unearned revenue----- | 370,788 | - | - | 370,788 | 108,570 | - | - | 108,570 |
| Bond interest payable----- | 9,398,269 | 840,450 | - | 10,238,719 | 10,233,076 | 981,150 | - | 11,214,226 |
| Bonds payable----- | 14,580,000 | 4,970,000 | - | 19,550,000 | 13,680,000 | 4,690,000 | - | 18,370,000 |
| Intergovernmental payable----- | 10,000,000 | - | - | 10,000,000 | 10,023,740 | 67,135 | - | 10,090,875 |
| Total current liabilities----- | 174,489,128 | 5,848,982 | (118,356) | 180,219,754 | 141,034,187 | 5,777,306 | - | 146,811,493 |
| NON-CURRENT LIABILITIES | | | | | | | | |
| Compensated absences----- | - | 60,040 | - | 60,040 | - | 47,306 | - | 47,306 |
| Payable to City of Oklahoma City----- | 63,723,735 | - | - | 63,723,735 | 4,871,603 | - | - | 4,871,603 |
| Intergovernmental payable----- | 12,500,000 | - | - | 12,500,000 | 12,500,000 | - | - | 12,500,000 |
| Notes payable----- | 83,071,199 | - | - | 83,071,199 | 51,038,896 | - | - | 51,038,896 |
| Advance from OCWUT----- | - | 57,276,703 | (57,276,703) | - | - | 55,224,549 | (55,224,549) | - |
| Unearned revenue----- | 4,839 | - | - | 4,839 | 4,698 | - | - | 4,698 |
| Bonds payable, net----- | 441,203,792 | 22,909,466 | - | 464,113,258 | 459,243,582 | 27,824,365 | - | 487,067,947 |
| Total non-current liabilities----- | 600,503,565 | 80,246,209 | (57,276,703) | 623,473,071 | 527,658,779 | 83,096,220 | (55,224,549) | 555,530,450 |
| Total liabilities----- | 774,992,693 | 86,095,191 | (57,395,059) | 803,692,825 | 668,692,966 | 88,873,526 | (55,224,549) | 702,341,943 |
| NET POSITION | | | | | | | | |
| Net investment in capital assets----- | 599,324,650 | 48,229,889 | - | 647,554,539 | 567,704,324 | 44,125,313 | - | 611,829,637 |
| Restricted for: | | | | | | | | |
| Capital projects----- | 34 | - | - | 34 | 34 | - | - | 34 |
| Debt service----- | 29,345,635 | 8,593,261 | - | 37,938,896 | 26,702,005 | 8,503,229 | - | 35,205,234 |
| Unrestricted----- | 229,214,030 | (902,099) | - | 228,311,931 | 246,216,111 | (1,098,613) | - | 245,117,498 |
| Total net position----- | \$857,884,349 | \$55,921,051 | \$ - | \$913,805,400 | \$840,622,474 | \$51,529,929 | \$ - | \$892,152,403 |

See accompanying notes to financial statements.

**STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION**
For the Years Ended June 30,

**OKLAHOMA CITY
WATER UTILITIES TRUST**

| | 2018 | | | | 2017 | | | |
|--|----------------------|---------------------|--------------|----------------------|----------------------|---------------------|--------------|----------------------|
| | Water | McGee Creek | Eliminations | Consolidated | Water | McGee Creek | Eliminations | Consolidated |
| | Utilities Trust | Authority | | | Utilities Trust | Authority | | |
| OPERATING REVENUES | | | | | | | | |
| CHARGES FOR SERVICES | | | | | | | | |
| Water charges----- | \$158,130,736 | \$ - | \$ - | \$158,130,736 | \$151,551,530 | \$ - | \$ - | \$151,551,530 |
| Wastewater charges----- | 98,334,630 | - | - | 98,334,630 | 95,255,444 | - | - | 95,255,444 |
| Aliquot share charges----- | - | 7,063,353 | - | 7,063,353 | - | 7,200,955 | - | 7,200,955 |
| Other charges----- | 3,095,000 | - | - | 3,095,000 | 2,978,000 | - | - | 2,978,000 |
| Total charges for services----- | 259,560,366 | 7,063,353 | - | 266,623,719 | 249,784,974 | 7,200,955 | - | 256,985,929 |
| Lease and rental income----- | 637,334 | - | - | 637,334 | 641,998 | - | - | 641,998 |
| Other----- | 425,839 | 104 | - | 425,943 | 406,232 | - | - | 406,232 |
| Total operating revenues----- | 260,623,539 | 7,063,457 | - | 267,686,996 | 250,833,204 | 7,200,955 | - | 258,034,159 |
| OPERATING EXPENSES | | | | | | | | |
| Personal services----- | 48,866,771 | 268,283 | - | 49,135,054 | 49,199,384 | 254,448 | - | 49,453,832 |
| Maintenance, operations, and contractual services--- | 63,778,317 | 268,397 | - | 64,046,714 | 60,342,522 | 435,367 | - | 60,777,889 |
| Materials and supplies----- | 10,911,670 | 46,429 | - | 10,958,099 | 10,430,119 | 45,474 | - | 10,475,593 |
| Depreciation----- | 45,118,703 | 774,627 | - | 45,893,330 | 42,358,082 | 734,013 | - | 43,092,095 |
| Total operating expenses----- | 168,675,461 | 1,357,736 | - | 170,033,197 | 162,330,107 | 1,469,302 | - | 163,799,409 |
| Operating income----- | 91,948,078 | 5,705,721 | - | 97,653,799 | 88,503,097 | 5,731,653 | - | 94,234,750 |
| NON-OPERATING REVENUES (EXPENSES) | | | | | | | | |
| Grant operating----- | (2,319) | - | - | (2,319) | 2,706 | - | - | 2,706 |
| Investment income----- | 1,251,583 | 532,067 | - | 1,783,650 | 809,220 | 563,975 | - | 1,373,195 |
| Interest on bonds----- | (13,124,246) | (1,876,702) | - | (15,000,948) | (11,335,997) | (2,158,124) | - | (13,494,121) |
| Bond issue costs----- | (77,486) | - | - | (77,486) | (601,646) | - | - | (601,646) |
| Bond insurance----- | - | (11,963) | - | (11,963) | (157) | (13,726) | - | (13,883) |
| Arbitrage----- | - | (7,465) | - | (7,465) | - | (14,097) | - | (14,097) |
| Oil and gas royalties----- | 57,932 | - | - | 57,932 | 100,378 | - | - | 100,378 |
| Payments to City of Oklahoma City----- | (7,454,136) | - | - | (7,454,136) | (8,435,921) | - | - | (8,435,921) |
| Other revenue (expenses)----- | 1,136,479 | 49,464 | - | 1,185,943 | (5,665,119) | 16,534 | - | (5,648,585) |
| Net non-operating expenses----- | (18,212,193) | (1,314,599) | - | (19,526,792) | (25,126,536) | (1,605,438) | - | (26,731,974) |
| Income before contributions and transfers----- | 73,735,885 | 4,391,122 | - | 78,127,007 | 63,376,561 | 4,126,215 | - | 67,502,776 |
| CONTRIBUTIONS AND TRANSFERS | | | | | | | | |
| Other capital contributions----- | 1,000,418 | - | - | 1,000,418 | - | - | - | - |
| Total contributions and transfers----- | 1,000,418 | - | - | 1,000,418 | - | - | - | - |
| Changes in net position----- | 74,736,303 | 4,391,122 | - | 79,127,425 | 63,376,561 | 4,126,215 | - | 67,502,776 |
| Total net position, beginning, as previously reported- | 840,622,474 | 51,529,929 | - | 892,152,403 | 777,245,913 | 47,403,714 | - | 824,649,627 |
| Change in accounting principle----- | (57,474,428) | - | - | (57,474,428) | - | - | - | - |
| Total net position, beginning, as restated----- | 783,148,046 | 51,529,929 | - | 834,677,975 | 777,245,913 | 47,403,714 | - | 824,649,627 |
| Total net position, ending----- | \$857,884,349 | \$55,921,051 | \$ - | \$913,805,400 | \$840,622,474 | \$51,529,929 | \$ - | \$892,152,403 |

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS
For the Years Ended June 30,

OKLAHOMA CITY
WATER UTILITIES TRUST

| | 2018 | | | | 2017 | | | |
|---|---------------------|--------------------|--------------|---------------------|---------------------|--------------------|--------------|---------------------|
| | 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----- | \$257,665,076 | \$7,107,804 | \$ - | \$264,772,880 | \$245,798,953 | \$7,186,590 | \$ - | \$252,985,543 |
| Cash payments to suppliers for goods and services----- | (39,466,779) | (428,917) | - | (39,895,696) | (38,334,893) | (498,407) | - | (38,833,300) |
| Cash payments to employees and professional contractors for services----- | - | (260,090) | - | (260,090) | - | (249,821) | - | (249,821) |
| Cash payments for internal services----- | (1,245,679) | - | - | (1,245,679) | (229,653) | - | - | (229,653) |
| Operating payments from City of Oklahoma City----- | 1,030,000 | - | - | 1,030,000 | - | - | - | - |
| Cost reimbursements from (to) other funds----- | (82,900,000) | - | - | (82,900,000) | (79,440,000) | - | - | (79,440,000) |
| Other cash receipts----- | - | 20,477 | - | 20,477 | - | 33,687 | - | 33,687 |
| Net cash provided by operating activities----- | 135,082,618 | 6,439,274 | - | 141,521,892 | 127,794,407 | 6,472,049 | - | 134,266,456 |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | | | | | | | |
| Cash received from operating grants----- | 827,912 | - | - | 827,912 | 456,137 | - | - | 456,137 |
| Non-financing payments to City of Oklahoma City----- | (7,437,610) | - | - | (7,437,610) | (7,795,538) | - | - | (7,795,538) |
| Other non-capital financing cash receipts----- | 1,948 | - | - | 1,948 | (1,948) | - | - | (1,948) |
| Net cash used by non-capital financing activities----- | (6,607,750) | - | - | (6,607,750) | (7,341,349) | - | - | (7,341,349) |
| CASH FLOWS FROM CAPITAL AND CAPITAL RELATED FINANCING ACTIVITIES | | | | | | | | |
| Proceeds from issuance of long-term debt and commercial paper----- | 77,024,160 | - | - | 77,024,160 | 171,334,864 | - | - | 171,334,864 |
| Payments for acquisition and construction of capital assets----- | (112,294,488) | (244,304) | - | (112,538,792) | (101,129,206) | (420,089) | - | (101,549,295) |
| Principal paid on long-term debt and commercial paper----- | (32,765,465) | (4,690,000) | - | (37,455,465) | (65,825,816) | (4,420,000) | - | (70,245,816) |
| Interest paid on long-term debt and commercial paper----- | (23,609,530) | (1,962,300) | - | (25,571,830) | (28,200,004) | (2,227,500) | - | (30,427,504) |
| Payments to defease bonds----- | - | - | - | - | (56,725,570) | - | - | (56,725,570) |
| Arbitrage paid----- | - | (74,600) | - | (74,600) | - | - | - | - |
| Proceeds from sale of assets----- | 713,875 | - | - | 713,875 | 105,230 | 5,000 | - | 110,230 |
| Capital grants and contributions received----- | 1,000,417 | 12,461 | - | 1,012,878 | - | - | - | - |
| Net cash used by capital financing activities----- | (89,931,031) | (6,958,743) | - | (96,889,774) | (80,440,502) | (7,062,589) | - | (87,503,091) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | | | |
| Purchase of investments----- | (385,463,430) | (25,782,245) | - | (411,245,675) | (444,393,059) | (20,257,800) | - | (464,650,859) |
| Proceeds from sale of investments----- | 322,180,777 | 24,813,461 | - | 346,994,238 | 394,327,897 | 20,090,808 | - | 414,418,705 |
| Investment income received----- | 3,445,699 | 570,369 | - | 4,016,068 | 2,158,608 | 562,170 | - | 2,720,778 |
| Purchased interest----- | (26,494) | - | - | (26,494) | (12,811) | - | - | (12,811) |
| Receipts from oil and gas royalties----- | 57,932 | - | - | 57,932 | 100,378 | - | - | 100,378 |
| Net cash provided (used) by investing activities----- | (59,805,516) | (398,415) | - | (60,203,931) | (47,818,987) | 395,178 | - | (47,423,809) |
| Net decrease in cash----- | (21,261,679) | (917,884) | - | (22,179,563) | (7,806,431) | (195,362) | - | (8,001,793) |
| Cash, beginning----- | 46,907,135 | 1,113,076 | - | 48,020,211 | 54,713,566 | 1,308,438 | - | 56,022,004 |
| Cash, ending----- | \$25,645,456 | \$195,192 | \$ - | \$25,840,648 | \$46,907,135 | \$1,113,076 | \$ - | \$48,020,211 |

STATEMENTS OF CASH FLOWS
For the Years Ended June 30,

OKLAHOMA CITY
WATER UTILITIES TRUST

| | 2018 | | | | 2017 | | | |
|---|----------------------|--------------------|--------------|----------------------|----------------------|--------------------|--------------|----------------------|
| | Water | McGee Creek | Eliminations | Consolidated | Water | McGee Creek | Eliminations | Consolidated |
| | Utilities Trust | Authority | | | Utilities Trust | Authority | | |
| RECONCILIATION OF OPERATING INCOME | | | | | | | | |
| PROVIDED BY OPERATING ACTIVITIES TO NET CASH | | | | | | | | |
| Operating income----- | \$91,948,078 | \$5,705,721 | \$ - | \$97,653,799 | \$88,503,097 | \$5,731,653 | \$ - | \$94,234,750 |
| ADJUSTMENTS TO RECONCILE OPERATING INCOME | | | | | | | | |
| PROVIDED BY OPERATING ACTIVITIES TO NET CASH | | | | | | | | |
| Depreciation----- | 45,118,703 | 774,627 | - | 45,893,330 | 42,358,082 | 734,013 | - | 43,092,095 |
| Non-operating revenue (expense)----- | 451,215 | 25,040 | - | 476,255 | 105,669 | 6,688 | - | 112,357 |
| Changes in assets and liabilities: | | | | | | | | |
| (Increase) decrease in accounts receivable----- | (2,230,443) | (4,543) | - | (2,234,986) | (3,592,278) | 22,265 | - | (3,570,013) |
| (Increase) decrease in due from other funds----- | (2,052,155) | (118,356) | - | (2,170,511) | (2,034,601) | - | - | (2,034,601) |
| (Increase) decrease in receivable from City of Oklahoma City----- | (217,207) | (2,011) | - | (219,218) | (23,371) | (24,513) | - | (47,884) |
| (Increase) decrease in prepaid assets----- | 125,629 | 12,177 | - | 137,806 | (216,081) | 13,761 | - | (202,320) |
| (Increase) decrease in intergovernmental receivable----- | - | (16,526) | - | (16,526) | - | 13,273 | - | 13,273 |
| (Increase) decrease in Intergovernmental aliquot share receivable-- | - | (2,001,253) | - | (2,001,253) | - | (2,046,718) | - | (2,046,718) |
| (Increase) decrease in other assets----- | - | - | - | - | (121,674) | - | - | (121,674) |
| Increase (decrease) in accounts payable and accrued expenses----- | 91,649 | 6,460 | - | 98,109 | 2,080,135 | (20,177) | - | 2,059,958 |
| Increase (decrease) in wages and benefits payable----- | - | 1,229 | - | 1,229 | - | 890 | - | 890 |
| Increase (decrease) in due to other funds----- | 118,356 | 2,052,154 | - | 2,170,510 | - | 2,034,601 | - | 2,034,601 |
| Increase (decrease) in payable to City of Oklahoma City----- | 1,490,174 | (2,409) | - | 1,487,765 | 738,790 | 2,578 | - | 741,368 |
| Increase (decrease) in compensated absences----- | - | 6,964 | - | 6,964 | - | 3,735 | - | 3,735 |
| Increase (decrease) in intergovernmental payable----- | (23,740) | - | - | (23,740) | - | - | - | - |
| Increase (decrease) in deferred revenue----- | 262,359 | - | - | 262,359 | (3,361) | - | - | (3,361) |
| Total adjustments----- | 43,134,540 | 733,553 | - | 43,868,093 | 39,291,310 | 740,396 | - | 40,031,706 |
| Net cash provided by operating activities----- | \$135,082,618 | \$6,439,274 | \$ - | \$141,521,892 | \$127,794,407 | \$6,472,049 | \$ - | \$134,266,456 |
| NON-CASH INVESTING, CAPITAL, | | | | | | | | |
| AND FINANCING ACTIVITIES | | | | | | | | |
| Net increase (decrease) in fair value of investments----- | (\$2,531,853) | (\$44,426) | \$ - | (\$2,576,279) | (\$1,578,243) | \$8,127 | \$ - | (\$1,570,116) |
| Forgiveness of debt----- | - | - | - | - | 2,500,000 | - | - | 2,500,000 |
| Total non-cash investing, capital, | | | | | | | | |
| and financing activities----- | (\$2,531,853) | (\$44,426) | \$ - | (\$2,576,279) | \$921,757 | \$8,127 | \$ - | \$929,884 |

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 years ended June 30, 2018 and 2017.

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 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 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 1, 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; Atoka County, Oklahoma; and the Southern Oklahoma Development Trust. 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

MCA was 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 unit 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 at the McGee Creek Reservoir. OCWUT transfers funds to the City for the cost of these services in the City Utilities Department, including the MCA administration. 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

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

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.

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

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

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

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

Level 3 - Significant unobservable prices or inputs.

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

I. D. 2. RECEIVABLES AND UNCOLLECTIBLE ACCOUNTS

Significant receivables include amounts due from 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 payments to vendors that benefit future reporting periods and are reported on the consumption basis. Non-current prepaids benefit periods beyond the following 12 month period. Payments to vendors that are less than \$5,000 are considered de minimis and are reported with expenses/expenditures in the year of payment.

I. D. 4. RESTRICTED ASSETS

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

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.

City employees perform certain administrative and management services for OCWUT. Reimbursements for the costs of these services, which includes salaries, pension, and OPEB are included with payments to the primary government. The payable to primary government represents the unfunded liabilities of the City Funds.

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.

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

Net Investment in Capital Assets

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

Restricted Net Position

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

I. D. 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 Stanley Draper, and Lake 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, 2018 and 2017, 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.

NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

OKLAHOMA CITY
WATER UTILITIES TRUST

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.

| 2018 | | | | | | | | |
|------------------------------------|-----------------------------|-----------------------------------|----------------------------|-----------------------------|-------------------|------------------------|---|-------------------------------------|
| | <u>Cost</u> | Fair Value/ Carrying Amount | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Measured at NAV (1) | Average Credit Quality/ Ratings (2) | Weighted Average (months) (3) |
| Federal obligations | \$91,449,545 | \$89,990,605 | \$ - | \$89,990,605 | \$ - | \$ - | AA/Aaa | 16.31 |
| Money market (4)(5) | 64,010,650 | 64,010,650 | 64,010,650 | - | - | - | AAA/Aaa | 0.94 |
| Fannie Mae | 30,828,803 | 30,501,681 | - | 30,501,681 | - | - | AA/Aaa | 7.94 |
| U.S. Treasury Bonds | 1,651,668 | 1,668,526 | - | 1,668,526 | - | - | N/A | 1.80 |
| U.S. Treasury notes | 76,769,356 | 75,908,374 | - | 75,908,374 | - | - | AAA/Aaa | 22.42 |
| Guaranteed investment contract (4) | <u>6,652,500</u> | <u>6,652,500</u> | - | - | - | - | A1/A | 54.90 |
| Total investments | <u>\$271,362,522</u> | <u>\$268,732,336</u> | <u>\$64,010,650</u> | <u>\$198,069,186</u> | <u>\$-</u> | <u>\$-</u> | | |

| 2017 | | | | | | | | |
|------------------------------------|-----------------------------|-----------------------------------|----------------------------|-----------------------------|-------------------|------------------------|---|-------------------------------------|
| | <u>Cost</u> | Fair Value/ Carrying Amount | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Measured at NAV (1) | Average Credit Quality/ Ratings (2) | Weighted Average (months) (3) |
| Federal obligations | \$67,338,845 | \$67,166,072 | \$ - | \$67,166,072 | \$ - | \$ - | AA/Aaa | 14.56 |
| Money market (4)(5) | 52,987,938 | 52,987,938 | 52,987,938 | - | - | - | N/A | 1.14 |
| Fannie Mae | 31,815,111 | 31,959,532 | - | 31,959,532 | - | - | AA/Aaa | 9.33 |
| U.S. Treasury Bonds | 389,887 | 402,214 | - | 402,214 | - | - | N/A | 6.13 |
| U.S. Treasury notes | 47,777,842 | 47,888,920 | - | 47,888,920 | - | - | AAA/Aaa | 13.64 |
| Guaranteed investment contract (4) | <u>6,652,500</u> | <u>6,652,500</u> | - | - | - | - | N/A | 67.07 |
| Total investments | <u>\$206,962,123</u> | <u>\$207,057,176</u> | <u>\$52,987,938</u> | <u>\$147,416,738</u> | <u>\$-</u> | <u>\$-</u> | | |

- (1) The net asset value (NAV) is a practical expedient to estimate fair value.
- (2) Ratings are provided where applicable to indicate associated credit risk.
- (3) Interest rate risk is estimated using weighted average months to maturity.
- (4) Cost approximates fair value.
- (5) Consists solely of U.S. Treasury securities.

Fair Value Measurement

The following is a description of the valuation methodologies used for assets measured at fair value in the tables above. There have been no changes in the methodologies used at June 30, 2018 and 2017.

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

Federal obligations consist of Federal Home Loan Bank, Freddie Mac, and Fannie Mae notes. These securities use pricing models that maximize the use of observable inputs for similar securities and are valued at level 2. U.S. Treasury notes use similar pricing models and are also valued at level 2.

MCA's guaranteed investment contracts securities are valued at cost. They are considered nonparticipating contracts with redemption terms that do not consider market rates.

Money market funds are reported at cost which approximates fair value, are traded on active markets at quoted prices, and are valued at level 1.

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, State and Local Government Series (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, and (g) Government National Mortgage Association; (3) investments fully insured by Federal deposit insurance: (a) certificates of deposit, (b) savings accounts, (c) deposit accounts, and (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 trusts 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 and new projects funded by initial bond proceeds. 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.

| | 2018 | | 2017 | |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|
| | OCWUT | MCA | OCWUT | MCA |
| Commercial paper construction account | \$378,980 | \$ - | \$302,398 | \$ - |
| Bond principal and interest accounts | 25,491,507 | 3,471,640 | 24,899,656 | 3,528,275 |
| Bond reserve | 35,777,475 | 7,089,585 | 35,548,285 | 7,089,744 |
| Bond project account | 34 | - | 34 | - |
| | <u>\$61,647,996</u> | <u>\$10,561,225</u> | <u>\$60,750,373</u> | <u>\$10,618,019</u> |

II. B. RECEIVABLES AND UNCOLLECTIBLE ACCOUNTS

OCWUT

| | 2018 | 2017 |
|--|----------------------------|----------------------------|
| Accounts receivable | \$33,144,063 | \$30,692,441 |
| Less: allowance for uncollectible accounts | (1,031,365) | (810,184) |
| Net accounts receivable | <u>\$32,112,698</u> | <u>\$29,882,257</u> |
| Affect on revenues for change in uncollectibles | <u>(\$221,181)</u> | <u>\$12,653</u> |

MCA

Receivables of \$29,314 and \$24,771 at June 30, 2018 and 2017, 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, 2018 and 2017.

II. C. PREPAIDS

Prepays are payments to vendors that benefit future reporting periods and are also reported on the consumption basis. As of June 30, 2018 and 2017, the Consolidated Trust had prepaid items totaling \$526,938 and \$664,743, respectively.

| | <u>2018</u> | <u>2017</u> |
|-------------------------------|-------------------------|-------------------------|
| Memberships and dues | \$25,032 | \$29,124 |
| Software licenses and support | 301,262 | 406,369 |
| Other | <u>200,644</u> | <u>229,250</u> |
| | <u>\$526,938</u> | <u>\$664,743</u> |

II. D. INTERGOVERNMENTAL RECEIVABLE

Receivable from The Chickasaw and Choctaw Nations

OCWUT is acting as the escrow agent for the Atoka and Sardis Lake conservation projects fund. At June 30, 2018 and 2017, OCWUT reported a \$5,000,000 receivable from the Chickasaw and Choctaw Nations.

Receivable from the Federal Emergency Management Agency (FEMA)

OCWUT had a receivable of \$830,231 as of June 30, 2017 from FEMA related to the May 2015 flooding that was paid during fiscal year 2018. The state match receivable balance was \$138,371 at June 30, 2018 and 2017.

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

Every year MCA performs minimal maintenance tasks for the Bureau. Charges to the Bureau for these services are based on agreed upon rates. MCA had amounts receivable from the Bureau for services provided in 2018 and 2017 of \$72,914 and \$56,388, 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. E. OTHER ASSETS

Advance Funded Costs

OCWUT Tinker Air Force Base Advance Funded Costs

On May 8, 2014, the Trust contracted with MWH Americas, Inc. to provide consulting services for the municipalization of Tinker Air Force Base's water and wastewater utilities. The consulting services were ongoing at June 30, 2017; however, no formal agreement with Tinker Air Force Base was in effect. The Trust does not anticipate any fund usage in the next 12 months. The balance at June 30, 2018 and 2017 was \$1,894,747.

Non-Current Receivables

OCWUT Receivable From Gaillardia Golf Course, LLC

An agreement between the Trust 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 the Trust to recover the additional costs to the Trust for constructing ultraviolet and chlorination treatment facilities needed to comply with changes in the environmental regulations. A note receivable was recorded to recognize the unreimbursed costs.

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. At June 30, 2018 and 2017, the remaining balance payable to OCWUT was \$277,146, subject to adjustment.

Non-Current Prepaids

Prepaids are recorded when purchased and expensed when used. Prepaids consist of memberships and dues, subscriptions, bond insurance, and maintenance support agreements. Non-current prepaids will be expensed in periods beyond the twelve month period subsequent to the reporting date. As of June 30, 2018 and June 30, 2017 the non-current prepaid balances were \$117,698 and \$158,092 respectively.

II. F. CAPITAL ASSETS

Changes in Capital Assets

| | 2018 | | | | | | | |
|---------------------------------|---------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|----------------------------|-----------------------------|---------------------------------|
| | 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, 2017 | \$121,008,996 | \$190,576,646 | \$311,585,642 | \$86,319,982 | \$1,283,909,941 | \$104,069,361 | \$1,474,299,284 | \$1,785,884,926 |
| Increases | 1,024,840 | 107,900,725 | 108,925,565 | - | 3,687,676 | 13,517,555 | 17,205,231 | 126,130,796 |
| Decreases | - | (755) | (755) | - | - | (2,233,750) | (2,233,750) | (2,234,505) |
| Transfers | - | (103,640,058) | (103,640,058) | 923,377 | 99,702,778 | 3,013,903 | 103,640,058 | - |
| Balance, June 30, 2018 | <u>122,033,836</u> | <u>194,836,558</u> | <u>316,870,394</u> | <u>87,243,359</u> | <u>1,387,300,395</u> | <u>118,367,069</u> | <u>1,592,910,823</u> | <u>1,909,781,217</u> |
| ACCUMULATED DEPRECIATION | | | | | | | | |
| Balance, June 30, 2017 | | | | 47,788,369 | 430,804,629 | 74,437,005 | 553,030,003 | 553,030,003 |
| Increases | | | | 1,505,045 | 36,931,892 | 7,456,393 | 45,893,330 | 45,893,330 |
| Decreases | | | | - | - | (2,188,202) | (2,188,202) | (2,188,202) |
| Transfers | | | | - | 60,405 | (60,405) | - | - |
| Balance, June 30, 2018 | | | | <u>49,293,414</u> | <u>467,796,926</u> | <u>79,644,791</u> | <u>596,735,131</u> | <u>596,735,131</u> |
| Capital Assets, net | <u>\$122,033,836</u> | <u>\$194,836,558</u> | <u>\$316,870,394</u> | <u>\$37,949,945</u> | <u>\$919,503,469</u> | <u>\$38,722,278</u> | <u>\$996,175,692</u> | <u>\$1,313,046,086</u> |

| | 2017 | | | | | | | |
|---------------------------------|---------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|----------------------------|-----------------------------|---------------------------------|
| | 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, 2016 | \$119,664,803 | \$168,456,374 | \$288,121,177 | \$89,342,652 | \$1,215,153,226 | \$97,381,195 | \$1,401,877,073 | \$1,689,998,250 |
| Increases | 1,344,193 | 91,154,347 | 92,498,540 | 22,714 | 3,424,027 | 9,207,579 | 12,654,320 | 105,152,860 |
| Decreases | - | - | - | (3,045,384) | (2,184,261) | (4,036,539) | (9,266,184) | (9,266,184) |
| Transfers | - | (69,034,075) | (69,034,075) | - | 67,516,949 | 1,517,126 | 69,034,075 | - |
| Balance, June 30, 2017 | <u>121,008,996</u> | <u>190,576,646</u> | <u>311,585,642</u> | <u>86,319,982</u> | <u>1,283,909,941</u> | <u>104,069,361</u> | <u>1,474,299,284</u> | <u>1,785,884,926</u> |
| ACCUMULATED DEPRECIATION | | | | | | | | |
| Balance, June 30, 2016 | | | | 47,584,929 | 396,268,414 | 71,965,798 | 515,819,141 | 515,819,141 |
| Increases | | | | 1,535,066 | 35,120,098 | 6,436,931 | 43,092,095 | 43,092,095 |
| Decreases | | | | (1,331,626) | (583,883) | (3,965,724) | (5,881,233) | (5,881,233) |
| Balance, June 30, 2017 | | | | <u>47,788,369</u> | <u>430,804,629</u> | <u>74,437,005</u> | <u>553,030,003</u> | <u>553,030,003</u> |
| Capital Assets, net | <u>\$121,008,996</u> | <u>\$190,576,646</u> | <u>\$311,585,642</u> | <u>\$38,531,613</u> | <u>\$853,105,312</u> | <u>\$29,632,356</u> | <u>\$921,269,281</u> | <u>\$1,232,854,923</u> |

Depreciation Expense

Depreciation expense of \$45,893,330 in fiscal year 2018 and \$43,092,095 in 2017 was charged to the Consolidated Trust's utilities function.

Capitalized Interest

OCWUT

| <u>2018</u> | | <u>2017</u> | |
|----------------------------------|-------------------------|----------------------------------|-------------------------|
| Total Interest Costs Incurred | Capitalized Interest | Total Interest Costs Incurred | Capitalized Interest |
| <u>\$23,383,459</u> | <u>\$7,261,388</u> | <u>\$20,832,665</u> | <u>\$6,661,927</u> |

MCA

MCA had interest costs in 2018 and 2017 of \$1,876,702 and \$2,158,124, respectively. MCA has no investments restricted for construction and there was no capitalized interest.

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> | <u>2018</u> | <u>2017</u> |
|----------------------------------|-----------------------------|---------------------|---------------------|
| OCWUT Series 2009A Bonds | OCWUT Series 2016 Bonds | \$3,803,595 | \$3,939,437 |
| OCWUT Series 2004 and 2008 Bonds | OCWUT Series 2013 Bonds | <u>7,527,936</u> | <u>7,854,057</u> |
| | | <u>\$11,331,531</u> | <u>\$11,793,494</u> |

III. LIABILITIES

III. A. UNEARNED REVENUES

Unearned Revenues

| | <u>2018</u> | <u>2017</u> |
|--|------------------|------------------|
| <u>CURRENT</u> | | |
| Land and Property Rentals | \$59,668 | \$ - |
| Tower Rentals | 44,823 | 108,570 |
| Unspent payments for sewer main relocation project from the Oklahoma City Urban Renewal Authority | <u>266,297</u> | <u>-</u> |
| | 370,788 | 108,570 |
| <u>NON-CURRENT</u> | | |
| Tower Rentals | <u>4,839</u> | <u>4,698</u> |
| | <u>\$375,627</u> | <u>\$113,268</u> |

III. B. COMMERCIAL PAPER

Commercial Paper

On January 17, 2006, OCWUT established a commercial paper program authorizing the issuance of tax-exempt commercial paper notes with letter of credit security. The commercial paper program provides interim financing for the Trust's ongoing capital program. Maturity of commercial paper may range from 1 to 270 days, depending on market conditions at the time of issue. The commercial paper program provides interim financing for OCWUT's ongoing capital program.

During fiscal year 2018, new commercial paper issuances totaled \$8,000,000. In 2017, new commercial paper issuances totaled \$9,500,000. The total outstanding balance at June 30, 2018 and 2017, was \$12,500,000 and \$4,500,000, respectively, and the weighted average interest rate for the year was 1.62% and 0.93%, respectively.

Commercial Paper Changes in Short-Term Debt

| | <u>2018</u> | <u>2017</u> |
|---------------------------|----------------------------|---------------------------|
| Beginning Balance July 1, | \$4,500,000 | \$50,500,000 |
| Issuances | 8,000,000 | 9,500,000 |
| Retirements | - | (55,500,000) |
| Balance June 30, | <u>\$12,500,000</u> | <u>\$4,500,000</u> |

III. C. 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 pay for a water storage permit at Sardis Lake in Southeastern Oklahoma. The amount payable at June 30, 2018 and 2017, was \$12,500,000.

Payable to Oklahoma Department Of Transportation (ODOT)

Periodically, OCWUT enters into agreements with ODOT for cost sharing on projects funded with Federal grants awarded to ODOT. These agreements require OCWUT to fund the match requirement of the grant. The amount payable at June 30, 2017 of \$23,740 was paid during fiscal year 2018. There was no payable at June 30, 2018.

Payable to Atoka and Sardis Conservation Projects Fund

During 2017, OCWUT entered into an agreement with the Chickasaw Nation, the Choctaw Nation and the State of Oklahoma to create the Atoka and Sardis conservation projects fund for the benefit of Atoka and Sardis Lake areas. OCWUT is acting as the escrow agent. At June 30, 2018 and 2017, the amount in the Atoka and Sardis Lake conservation projects fund consists of \$5,000,000 deposited by OCWUT and a \$5,000,000 receivable from the Chickasaw and Choctaw Nations.

Arbitrage Compliance

Proceeds from tax-exempt bonds issued after September 1, 1986, are subject to the 1986 Tax Reform Act. The Consolidated Trust 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. OCWUT has no arbitrage liability at June 30, 2018 and 2017. For MCA, there was no liability for arbitrage at June 30, 2018 and the balance at June 30, 2017 was \$67,135.

III. D. NOTES PAYABLE

Notes Payable Revolving Loans

The Trust borrows funds from time to time for water and wastewater improvements from the Oklahoma Water Resources Board (OWRB) utilizing the Drinking Water State Revolving Fund (DWSRF) and the Clean Water State Revolving Fund (CWSRF). Upon completion of the construction projects allocated to each loan, the final loan amounts are determined and closed to a long-term debt schedule. The term of the loans are 30 years with 2009 CWSRF being the only 20 year loan. Principal and interest payments are semi-annual on September 15 and March 15.

NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

OKLAHOMA CITY
WATER UTILITIES TRUST

Additionally the 2009 DWSRF and CWSRF loans each had a provision for a \$2,000,000 match in the form of principal forgiveness from the American Recovery and Reinvestment Act (ARRA) of 2009. This amount was deducted from those loan amounts for calculation of their respective debt repayment schedules.

On December 19, 2017, the Trust approved three revolving loans for a maximum of \$68,800,000 for wastewater line improvements. The 2018A OWRB Clean Water note refunded the 2010 OWRB Clean Water note for \$15,550,000 and has an interest rate of 2.43%. The 2018B and 2018C OWRB Notes will finance several wastewater projects. The interim effective interest rate for these loans is 2.50%, payable on March 15 and September 15. Principal payments will commence the March 15 or September 15 following the date the project is completed or on March 15, 2020, and will continue semiannually for the term of the loan. There were no draws on the 2018C CWSRF at June 30, 2018.

| Agreement | | Interest | | | | |
|-----------|-----------------|-------------|-------|---------------|-----------------------------|-----------------------------|
| Date | Loan Name | Loan Amount | Rate | Maturity Date | 2018 | 2017 |
| 11/1/2009 | 2009 DWSRF (1) | \$5,412,339 | 3.57% | 9/15/2040 | \$4,483,571 | \$4,610,901 |
| 11/1/2009 | 2009 CWSRF (1) | 6,167,735 | 2.86 | 3/15/2031 | 4,399,291 | 4,674,386 |
| 12/1/2010 | 2010 DWSRF | 29,424,009 | 3.74 | 3/15/2043 | 26,219,164 | 26,840,163 |
| 12/1/2010 | 2010 CWSRF | 17,177,703 | 3.27 | 3/15/2043 | - | 15,742,378 |
| 3/1/2015 | 2015 DWSRF | 35,838,000 | 2.93 | 3/15/2046 | 34,258,333 | 34,780,109 |
| 6/1/2015 | 2015 CWSRF | 611,235 | 2.71 | 3/15/2046 | 584,171 | 597,887 |
| 4/1/2016 | 2016 DWSRF (2) | 65,550,000 | 2.55 | 9/15/2047 | 61,446,986 | 35,700,093 |
| 11/1/2016 | 2017 DWSRF (2) | 57,300,000 | 2.98 | 9/15/2049 | 23,455,317 | - |
| 12/1/2017 | 2018A CWSRF | 15,550,000 | 2.43 | 3/15/2043 | 15,432,596 | - |
| 12/1/2017 | 2018B CWSRF (2) | 15,550,000 | 2.50 | 9/15/2049 | 2,796,345 | - |
| 12/1/2017 | 2018C CWSRF (3) | 37,700,000 | 2.50 | 9/15/2049 | - | - |
| | | | | | <u>\$173,075,774</u> | <u>\$122,945,917</u> |

- (1) The 2009 DWSRF and CWSRF loan amounts are net of the \$2,000,000 ARRA Grant for each loan.
- (2) Financing is not finalized. The outstanding balance is reported with current liabilities.
- (3) There are no draws on this loan as of June 30, 2018.

Notes Payable Requirements to Maturity

| | Notes Payable | |
|-----------|-----------------------------|----------------------------|
| | Principal | Interest |
| 2019 | \$90,004,575 | \$4,390,091 |
| 2020 | 2,371,531 | 2,614,879 |
| 2021 | 2,453,445 | 2,532,966 |
| 2022 | 2,530,915 | 2,455,496 |
| 2023 | 2,610,891 | 2,375,522 |
| 2024-2028 | 14,335,506 | 10,596,549 |
| 2029-2033 | 15,932,827 | 8,182,043 |
| 2034-2038 | 17,305,456 | 5,583,181 |
| 2039-2043 | 19,533,987 | 2,621,887 |
| 2044-2048 | 5,996,641 | 361,403 |
| | <u>\$173,075,774</u> | <u>\$41,714,017</u> |

III. E. COMPENSATED ABSENCES

MCA compensated absences balances changed from 2017 to 2018 by accruals of \$19,283 and usages of \$12,319 compared to changes in accruals of \$19,902 and usages of \$16,166 from 2016 to 2017.

III. F. REVENUE BONDS

Unamortized Bond Discount/Premium

| | <u>2018</u> | | <u>2017</u> | |
|-------------------------------------|----------------------|---------------------|----------------------|---------------------|
| | <u>OCWUT</u> | <u>MCA</u> | <u>OCWUT</u> | <u>MCA</u> |
| Bonds payable | \$412,025,000 | \$28,015,000 | \$425,705,000 | \$32,705,000 |
| Unamortized bond premium (discount) | <u>43,758,792</u> | <u>(135,534)</u> | <u>47,218,582</u> | <u>(190,635)</u> |
| Bonds payable, net | <u>\$455,783,792</u> | <u>\$27,879,466</u> | <u>\$472,923,582</u> | <u>\$32,514,365</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 20th 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, 2018 and 2017, 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, 2018 and 2017, 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 Series 1992 Water Revenue Bonds 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 on the bonds annually, net of funds available from 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, 2018 and 2017, required accounts were maintained in accordance with the bond indenture.

Bonded Debt Service to Maturity

| <u>Fiscal Year</u> | <u>OCWUT</u> | | |
|--------------------|-----------------------------|-----------------------------|-----------------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2019 | \$14,580,000 | \$18,472,669 | \$33,052,669 |
| 2020 | 14,240,000 | 17,825,319 | 32,065,319 |
| 2021 | 14,075,000 | 17,211,394 | 31,286,394 |
| 2022 | 13,160,000 | 16,607,219 | 29,767,219 |
| 2023 | 13,730,000 | 15,953,010 | 29,683,010 |
| 2024-2028 | 81,415,000 | 67,800,290 | 149,215,290 |
| 2029-2033 | 85,100,000 | 49,368,480 | 134,468,480 |
| 2034-2038 | 88,815,000 | 29,662,796 | 118,477,796 |
| 2039-2043 | 63,375,000 | 11,494,571 | 74,869,571 |
| 2044-2048 | <u>23,535,000</u> | <u>1,924,125</u> | <u>25,459,125</u> |
| | <u>\$412,025,000</u> | <u>\$246,319,873</u> | <u>\$658,344,873</u> |

(continued)

Bonded Debt Service to Maturity (continued)

| Fiscal Year | MCA | | |
|-------------|----------------------------|---------------------------|----------------------------|
| | Principal | Interest | Total |
| 2019 | \$4,970,000 | \$1,680,900 | \$6,650,900 |
| 2020 | 5,265,000 | 1,382,700 | 6,647,700 |
| 2021 | 5,585,000 | 1,066,800 | 6,651,800 |
| 2022 | 5,920,000 | 731,700 | 6,651,700 |
| 2023 | <u>6,275,000</u> | <u>376,500</u> | <u>6,651,500</u> |
| | <u>\$28,015,000</u> | <u>\$5,238,600</u> | <u>\$33,253,600</u> |

Revenue Bonds Outstanding

| Water and Sewer System Bonds | Original Amount Issued | Interest Rate | Issue Date | Final Maturity | Principal Balance | |
|---------------------------------|---------------------------|------------------|---------------|-------------------|-----------------------------|-----------------------------|
| | | | | | 2018 | 2017 |
| OCWUT Series 2009A | 70,290,000 | 3.00% to 5.625% | 10/20/2009 | 2039 | \$14,500,000 | \$16,260,000 |
| OCWUT Series 2009B | 47,470,000 | 3.00% to 5.625% | 10/20/2009 | 2039 | 10,990,000 | 14,895,000 |
| OCWUT Series 2011 | 68,725,000 | 0.60% to 4.80% | 2/9/2011 | 2040 | 60,530,000 | 62,005,000 |
| OCWUT Series 2013 | 167,760,000 | 3.25% to 5.00% | 3/14/2013 | 2042 | 161,220,000 | 167,760,000 |
| OCWUT Series 2015 | 67,650,000 | 3.00% to 5.00% | 2/4/2015 | 2045 | 67,650,000 | 67,650,000 |
| OCWUT Series 2016 | 97,135,000 | 3.04% to 5.00% | 11/17/2016 | 2046 | 97,135,000 | 97,135,000 |
| MCA Series 1992 | 91,860,000 | 3.00% to 6.00% | 12/1/1992 | 2023 | <u>28,015,000</u> | <u>32,705,000</u> |
| | | | | | <u>\$440,040,000</u> | <u>\$458,410,000</u> |

Bond Defeasance

Prior Years Defeasance

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 | |
|--------------------|-----------------------------|---------------------|--------------------|
| | | <u>2018</u> | <u>2017</u> |
| OCWUT Series 1977F | \$6,480,000 | \$ - | \$400,000 |
| OCWUT Series 1978G | 1,865,000 | 55,000 | 165,000 |
| OCWUT Series 2009A | 51,030,000 | 51,030,000 | 51,030,000 |

NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

OKLAHOMA CITY
WATER UTILITIES TRUST

Bond Coverage

| | 2018 | | 2017 | |
|--|-----------------------------|---------------------------|-----------------------------|---------------------------|
| | <u>OCWUT</u> | <u>MCA</u> | <u>OCWUT</u> | <u>MCA</u> |
| Gross revenue, including non-operating revenues and transfers in | \$264,067,632 | \$7,644,988 | \$251,745,508 | \$7,781,464 |
| Expenses and transfers, excluding depreciation and amortization | <u>131,010,894</u> | <u>583,109</u> | <u>134,073,065</u> | <u>735,289</u> |
| Net revenue available for debt service | <u>\$133,056,738</u> | <u>\$7,061,879</u> | <u>\$117,672,443</u> | <u>\$7,046,175</u> |
| Principal amounts | \$20,010,000 | \$4,690,000 | \$20,010,000 | \$4,420,000 |
| Interest amounts | <u>14,266,988</u> | <u>1,962,300</u> | <u>14,266,988</u> | <u>2,227,500</u> |
| Total debt service requirements | <u>\$34,276,988</u> | <u>\$6,652,300</u> | <u>\$34,276,988</u> | <u>\$6,647,500</u> |
| Revenue bond coverage | <u>3.88</u> | <u>1.06</u> | <u>3.43</u> | <u>1.06</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 expenses as they do not affect funds available for debt service. Per the bond indenture, principal and interest amounts are derived from the highest aggregate 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 expenses as they do not affect funds available for debt service. The required revenue bond coverage for MCA is 1.0.

III. G. CHANGES IN LONG-TERM LIABILITIES

| | 2018 | | | | | |
|-------------------------------|-----------------------------|----------------------------|----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Balance July 1, 2017 | Issued | Retired | Balance June 30, 2018 | Due Within One Year | Due After One Year |
| Intergovernmental payable (1) | \$12,500,000 | \$ - | \$ - | \$12,500,000 | \$ - | \$12,500,000 |
| Compensated absences | 65,189 | 19,283 | 12,319 | 72,153 | 12,113 | 60,040 |
| Notes payable | 122,945,917 | 69,101,647 | 18,971,790 | 173,075,774 | 90,004,575 | 83,071,199 |
| OCWUT revenue bonds | 472,923,582 | - | 17,139,790 | 455,783,792 | 14,580,000 | 441,203,792 |
| MCA revenue bonds | <u>32,514,365</u> | <u>-</u> | <u>4,634,899</u> | <u>27,879,466</u> | <u>4,970,000</u> | <u>22,909,466</u> |
| | <u>\$640,949,053</u> | <u>\$69,120,930</u> | <u>\$40,758,798</u> | <u>\$669,311,185</u> | <u>\$109,566,688</u> | <u>\$559,744,497</u> |

(continued)

III. G. CHANGES IN LONG-TERM LIABILITIES (continued)

| | 2017 | | | | | |
|-------------------------------|-----------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|
| | Balance July 1, 2016 | Issued | Retired | Balance June 30, 2017 | Due Within One Year | Due After One Year |
| Intergovernmental payable (1) | \$15,053,038 | \$ - | \$2,553,038 | \$12,500,000 | \$ - | \$12,500,000 |
| Compensated absences | 61,453 | 19,902 | 16,166 | 65,189 | 17,883 | 47,306 |
| Notes payable | 77,603,611 | 47,318,262 | 1,975,956 | 122,945,917 | 71,907,021 | 51,038,896 |
| OCWUT revenue bonds | 422,122,034 | 115,118,405 | 64,316,857 | 472,923,582 | 13,680,000 | 459,243,582 |
| MCA revenue bonds | <u>36,871,142</u> | <u>-</u> | <u>4,356,777</u> | <u>32,514,365</u> | <u>4,690,000</u> | <u>27,824,365</u> |
| | <u>\$551,711,278</u> | <u>\$162,456,569</u> | <u>\$73,218,794</u> | <u>\$640,949,053</u> | <u>\$90,294,904</u> | <u>\$550,654,149</u> |

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

III. H. 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 \$158,130,736 and \$151,551,530 in water charges and \$98,334,630 and \$95,255,444 in wastewater charges in 2018 and 2017, respectively. MCA recognized \$7,063,353 and \$7,200,955 in aliquot share revenues in 2018 and 2017, respectively.

IV. NET POSITION

Net Investment in Capital Assets

| | 2018 | | 2017 | |
|---|-----------------------------|----------------------------|-----------------------------|----------------------------|
| | <u>OCWUT</u> | <u>MCA</u> | <u>OCWUT</u> | <u>MCA</u> |
| Capital assets, net | \$1,238,986,309 | \$74,059,777 | \$1,158,264,823 | \$74,590,100 |
| Retainages and accounts payable | (21,723,056) | - | (15,407,052) | - |
| Intergovernmental payable | (12,500,000) | - | (12,500,000) | - |
| Notes payable | (173,075,774) | - | (122,945,917) | - |
| Commercial paper | (12,500,000) | - | (4,500,000) | - |
| Commercial paper construction account funded with proceeds | 378,980 | - | 302,398 | - |
| Bonds payable, net | (455,783,792) | (27,879,466) | (472,923,582) | (32,514,365) |
| Deferred amount on refunding | 11,331,531 | - | 11,793,494 | - |
| Bond accounts funded with bond proceeds | 21,091,576 | 1,152,500 | 22,501,284 | 1,152,500 |
| Bond issuance costs paid with bond proceeds | <u>3,118,876</u> | <u>897,078</u> | <u>3,118,876</u> | <u>897,078</u> |
| | <u>\$599,324,650</u> | <u>\$48,229,889</u> | <u>\$567,704,324</u> | <u>\$44,125,313</u> |

NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

OKLAHOMA CITY
WATER UTILITIES TRUST

Restricted for Capital Projects

| | 2018 | | 2017 | |
|---|--------------------|-------------------|--------------------|-------------------|
| | <u>OCWUT</u> | <u>MCA</u> | <u>OCWUT</u> | <u>MCA</u> |
| Commercial paper reserve for construction projects | \$378,980 | \$ - | \$302,398 | \$ - |
| Commercial paper construction account funded with proceeds | (378,980) | - | (302,398) | - |
| Bond construction account | <u>34</u> | <u>-</u> | <u>34</u> | <u>-</u> |
| | <u>\$34</u> | <u>\$-</u> | <u>\$34</u> | <u>\$-</u> |

Restricted for Debt Service

| | 2018 | | 2017 | |
|--|----------------------------|---------------------------|----------------------------|---------------------------|
| | <u>OCWUT</u> | <u>MCA</u> | <u>OCWUT</u> | <u>MCA</u> |
| Bond principal and interest accounts | \$25,491,507 | \$3,471,640 | \$24,899,656 | \$3,528,275 |
| Bond reserve | 35,777,475 | 7,089,585 | 35,548,285 | 7,089,744 |
| Bond reserve funded with bond proceeds | (21,091,576) | (1,152,500) | (22,501,284) | (1,152,500) |
| Interest receivable on bond investments | 105,385 | 24,986 | 32,249 | 18,860 |
| Current bond interest payable and commercial paper | <u>(10,937,156)</u> | <u>(840,450)</u> | <u>(11,276,901)</u> | <u>(981,150)</u> |
| | <u>\$29,345,635</u> | <u>\$8,593,261</u> | <u>\$26,702,005</u> | <u>\$8,503,229</u> |

Unrestricted

| | 2018 | | 2017 | |
|--------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|
| | <u>OCWUT</u> | <u>MCA</u> | <u>OCWUT</u> | <u>MCA</u> |
| Unrestricted | <u>\$229,214,030</u> | <u>(\$902,099)</u> | <u>\$246,216,111</u> | <u>(\$1,098,613)</u> |

OCWUT Change in Accounting Principle

Effective July 1, 2017, OCWUT changed its method of accounting and recognized an additional liability and reduction to net position due to the chargeback from the City of Oklahoma City (City) related to the City's adoption of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. OCWUT recognized \$57,474,428 in chargebacks for post-employment benefits other than pension in 2018.

V. REVENUES AND EXPENSES

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. On March 27, 2018 the City Council adopted and set the assessment roll for the Water Improvement District for the Clifford Farms Subdivision. The total cost of improvements at Clifford Farms was \$445,555 to be paid equally by all residents over a 10-year period with an interest rate of 4.1%.

In fiscal year 2018 and 2017, OCWUT collected special assessment revenue of \$79,210 and \$761, respectively

Lease Revenues

Cancelable and Short-Term Leases

| <u>CURRENT</u> | <u>OCWUT</u> |
|-----------------------------|-------------------------|
| Land and property rentals | \$308,088 |
| Communication tower rentals | <u>109,077</u> |
| | <u>\$417,165</u> |

Non-cancelable Leases

OCWUT leases certain land at Lake Hefner to the Oklahoma City Boat Club for its headquarters, docks, wet stalls, etc. The current lease term began September 1, 2009 and is for 25 years. In consideration, the Boat Club paid OCWUT \$750 annually for the first 5 years. Annual payments increase by \$250 every 5 years thereafter through the end of the lease term.

OCWUT leases a section of land at Lake Stanley Draper to the Cleveland County Public Facilities Authority. The lease is in effect until 2034 with annual payments of \$250.

OCWUT leases wet and dry boat stalls at various locations with lease terms ranging from April 1st to March 31st. Rental income in 2018 and 2017 related to these leases was \$213 thousand and \$192 thousand, respectively.

OCWUT has a surface use lease with Sunoco Pipeline LP to use the Deer Creek Wastewater Treatment Plant property to operate and maintain a crude oil pipeline compressor station with related facilities. The lease is in effect until 2019 with annual payments of \$2 thousand.

OCWUT allows the City to utilize an area of Southeast Park otherwise known as Kitchen Lake Park for recreational and park purposes for the benefit of its citizens for an annual lease payment of \$2,736. The current lease term continues until October 31, 2052.

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 Series 1992 Water Revenue Bonds in the amount of \$91,860,000. Proceeds from the Series 1992 Water Revenue 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.

NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

OKLAHOMA CITY
WATER UTILITIES TRUST

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 Water Revenue 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 its aliquot share to MCA under the OCWUT Agreement. The amount of funds advanced to MCA was \$57,276,703 and \$55,224,549 as of June 2018 and 2017, respectively.

Receivable from the City

| | <u>Purpose</u> | <u>2018</u> | <u>2017</u> |
|--|-----------------------|-------------------------|-------------------------|
| City General Fund | Deposits held by City | \$105,731 | \$82,680 |
| City General Fund | Utility billing | 13,058 | - |
| Court Administration and Training Fund | Utility billing | - | 1,947 |
| City Water and Wastewater Fund | Utility billing | 536,629 | 456,072 |
| Oklahoma City Environmental Assistance Trust | Utility billing | - | 256 |
| City Medical Services Fund | Utility billing | 33,708 | 451 |
| City Stormwater Drainage Fund | Utility billing | <u>70,185</u> | <u>635</u> |
| | | <u>\$759,311</u> | <u>\$542,041</u> |

Payable to the City

| <u>CURRENT</u> | | <u>Purpose</u> | <u>2018</u> | <u>2017</u> |
|--|--|---|----------------------------|---------------------------|
| City General Fund | | Payment in lieu of franchise fees (PILOT) and utility lease | \$2,167,341 | \$1,647,160 |
| City General Fund | | Utility billing | 4 | - |
| City General Fund | | Purchasing Card | 3,565 | - |
| City Grants Management Fund | | Federal grant match | | 457,995 |
| Oklahoma City Environmental Assistance Trust | | Utility billing | 5,934 | - |
| Oklahoma City Municipal Facilities Authority | | Software license | - | 56,291 |
| City Stormwater Drainage Fund | | Public Works | 5,305 | |
| | | Administrative Charges | | |
| City Stormwater Drainage Fund | | Utility billing | <u>-</u> | <u>3,917</u> |
| | | | <u>\$2,182,149</u> | <u>\$2,165,363</u> |
| <u>NON-CURRENT</u> | | | | |
| City Water and Wastewater Fund | | Cost reimbursement | <u>\$63,723,735</u> | <u>\$4,871,603</u> |

Cost Reimbursement Receivable (Payable) From City Water and Wastewater Fund

City employees perform all administrative and management services for OCWUT. Reimbursements for the costs of these services are included in OCWUT's expenses. The advance represents the unfunded non-current liabilities of the City Water and Wastewater Fund.

| | <u>2018</u> | <u>2017</u> |
|---|------------------------------|-----------------------------|
| Beginning balance | (\$4,871,603) | (\$3,802,915) |
| Change in accounting principle (see Note IV for more information) | (57,474,428) | - |
| Personal Services | (49,896,770) | (49,199,384) |
| Other services | (24,108,039) | (21,500,701) |
| Material and supplies | (10,426,692) | (10,045,415) |
| Interest income | 93,273 | 137,139 |
| Other non operating revenue | 77,050 | 99,673 |
| Capital Outlay | (16,526) | - |
| Reimbursement to the City | <u>82,900,000</u> | <u>79,440,000</u> |
| Advance from City Water and Wastewater Fund | <u>(\$63,723,735)</u> | <u>(\$4,871,603)</u> |

VI. B. INTERFUND PAYMENTS

Payments To and From the City

PAYMENTS TO THE CITY

NON-OPERATING

| | | <u>2018</u> | <u>2017</u> |
|--------------------------------|----------------------|---------------------------|---------------------------|
| City General Fund | PILOT fees | \$4,491,412 | \$4,310,646 |
| Grant Management Fund | Grant matching funds | 2,962,724 | 3,788,095 |
| City Water and Wastewater Fund | Cost reimbursement | - | <u>337,180</u> |
| | | <u>\$7,454,136</u> | <u>\$8,435,921</u> |

PILOT

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

VI. C. OTHER INTERFUND TRANSACTIONS

Aliquot Share Payments to MCA

Payments from OCWUT to MCA during fiscal year 2018 and 2017 were \$4,621,001 and \$4,766,544, respectively for OCWUT's aliquot share requirements.

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 bonded debt 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 reported in the City Water and Wastewater Fund. MCA does not reimburse OCWUT for its share of these costs.

OCWUT Parks Charges

OCWUT pays the City Parks Department a fee based on costs incurred for services performed by the Parks Department.

Billing Services

In order to reduce cost and simplify the payment of services by citizens, OCWUT bills the City for services provided by the City Solid Waste Management Fund, the City Stormwater Drainage Fund, and the City Medical Services Fund. Each fund pays OCWUT a fee for the cost of these services.

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, 2018 and 2017, 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> |
| 2018 | \$13,029 | \$9,760 |
| 2017 | 12,272 | 9,203 |
| 2016 | 12,309 | 9,232 |
| 2015 | 11,969 | 8,977 |
| 2014 | 10,621 | 7,966 |

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>2018</u> | <u>2017</u> |
|---|----------------------------|-----------------------------|
| Construction projects - system improvements | \$45,034,998 | \$67,102,604 |
| Contracted wastewater treatment services | 40,529,843 | 48,975,642 |
| | <u>\$85,564,841</u> | <u>\$116,078,246</u> |

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

IX. CONTINGENCIES

Litigation

At June 30, 2018 and 2017, OCWUT was 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.

MCA is not party to any legal proceedings at June 30, 2018 or 2017.

Federal and State Grants

In the normal course of operations OCWUT receives grant funds from various Federal and state agencies. The grant programs are subject to audit by agents of the granting authorities the purpose of which is to ensure compliance with conditions predicated to the granting of funds. Any liability for reimbursement that may arise as the result of these audits is not believed to be material.

X. RELATED PARTY TRANSACTIONS

Lake Atoka Reservation Association (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 2018 and 2017 in the amount of \$231,331 and \$249,544, respectively.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and each major fund of the Oklahoma City Water Utilities Trust (Trust) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents, and have issued our report thereon dated November 16, 2018.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 audits 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*.

Purpose of this Report

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

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

November 16, 2018
Wichita, Kansas