

# ROOTED IN STABILITY



## OKLAHOMA CITY WATER UTILITIES TRUST

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

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# **OKLAHOMA CITY WATER UTILITIES TRUST**

A Blended Component Unit Enterprise Fund of  
Oklahoma City, Oklahoma

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## ***Management***

Marsha Slaughter, General Manager

Annual Financial Report for the Fiscal Year Ended June 30, 2011

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



# **Introductory Section**



**OKLAHOMA CITY WATER UTILITIES TRUST**

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December 5, 2011

The Board of Trustees  
Oklahoma City Water Utilities Trust

The Oklahoma City Water Utilities Trust (Trust) annual financial report (annual report) provides a comprehensive overview of the Trust's financial position and the results of operations during the past fiscal year. It complies with reporting requirements specified by Oklahoma State Statutes and the dictates of effective financial management practices. The Oklahoma City Finance Department, Accounting Services Division, prepared this report in compliance with accounting principles generally accepted in the United States of America (U.S. GAAP). It is fairly stated in all material respects. Responsibility for the accuracy of the reported information and the completeness and fairness of the presentation, including disclosures, rests with the Trust's management.

The Trust's annual report includes the report of independent accountants, management's discussion and analysis (MD&A), financial statements, related notes, and supplementary information. Management's narrative on the financial activities of the Trust for the fiscal year ended June 30, 2011 is in the MD&A section of this report, immediately following the independent accountants' report on financial statements and supplementary information. The Trust's reporting entity is comprised of financial and operating activities conducted within the legal framework of the Trust. The Trust is a blended component unit of the City of Oklahoma City (City) and, as such, is included within the funds of the City's Comprehensive Annual Financial Report (CAFR).

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

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

During the fiscal year ended June 30, 2011, the Trust issued Series 2011 revenue bonds for \$68,725,000. The Series 2011 bonds provided funds to refund \$64,000,000 of commercial paper. In addition to these bond issues, the Trust received authorization to borrow from the Oklahoma Water Resources Board two additional revolving loans that are being used to fund several water and wastewater projects. These loan funds will be converted to permanent financing when all related projects are completed.

The economic environment and outlook for Oklahoma City are positive. Although the City experienced the economic downturn other cities faced over the last few years, the current year demonstrates a solid economy and recovery trend. Dr. Russell R. Evans, Director and Research Economist for the Center for Applied Economic Research at Oklahoma State University, reviewed the economic condition of the City and State in January 2011 and projected a modest national recovery in 2011. For Oklahoma, he projected employment and personal incomes to grow, unemployment to rise slightly then fall, and retail sales to continue their growth.

An unemployment rate of 5.7% in June 2011, annual personal income increase of 3.5%, significant gains in oil and natural gas rotary rig count from the same period last year, increased sales in motor vehicles, an additional 28,300 nonfarm jobs, and significant increases in sales tax revenues are strong indicators of economic growth. In fact, August 2011 sales tax collections were up 18 percent compared to the same month the previous year.

Several large commercial construction projects including a significant upgrade for airport retail shops and the opening of a new outlet mall with full occupancy of 82 new businesses contribute to the City's current economic condition. According to the June 21, 2011 Business Journal, these and other factors put Oklahoma City on the radar of every national retailer.

The City is also developing infrastructure for this growth through a major quality of life program funded by a temporary one-cent sales tax. This seven-year plan with improvements estimated to cost \$777 million, includes a 70-acre downtown park, a modern streetcar system, a new convention center, sidewalks, trails, improvements to the Oklahoma River, senior health and wellness centers, and expansion of the Oklahoma City Fairgrounds public event buildings.

The diversity of Oklahoma City's economy is reflected in the OKC Thunder, the City's NBA team, being ranked 6th-Best Pro Sports Franchise and 2nd Best in the NBA by ESPN.

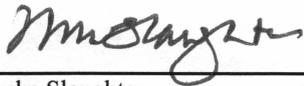
Oklahoma City's continued high rankings among metropolitan cities in the United States promises an immediate and sustainable economic growth outlook for the next few years. The City was ranked number 1 in America's Most Affordable City by Forbes Magazine (October 28, 2010); #1 in Tech Job Growth by Tech-America Foundation (December 2, 2010), 1st in Real GDP Gains among the Top 50 Markets by The Bureau of Economic Analysis (February 23, 2011), 2nd-Best Place to Start a Small Business by The Fiscal Times (July 1, 2011), and # 3 Best Cities for Recent Grads by Newsweek (June 1, 2011).

Oklahoma City's central location at the intersection of Interstate highways I-35, I-44 and I-40, its regional transportation hub at Will Rogers World Airport, ample water supplies, numerous performing arts, entertainment, and recreational facilities all contribute to a positive economic outlook for the near future.

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

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

Respectfully submitted:



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Marsha Slaughter  
General Manager



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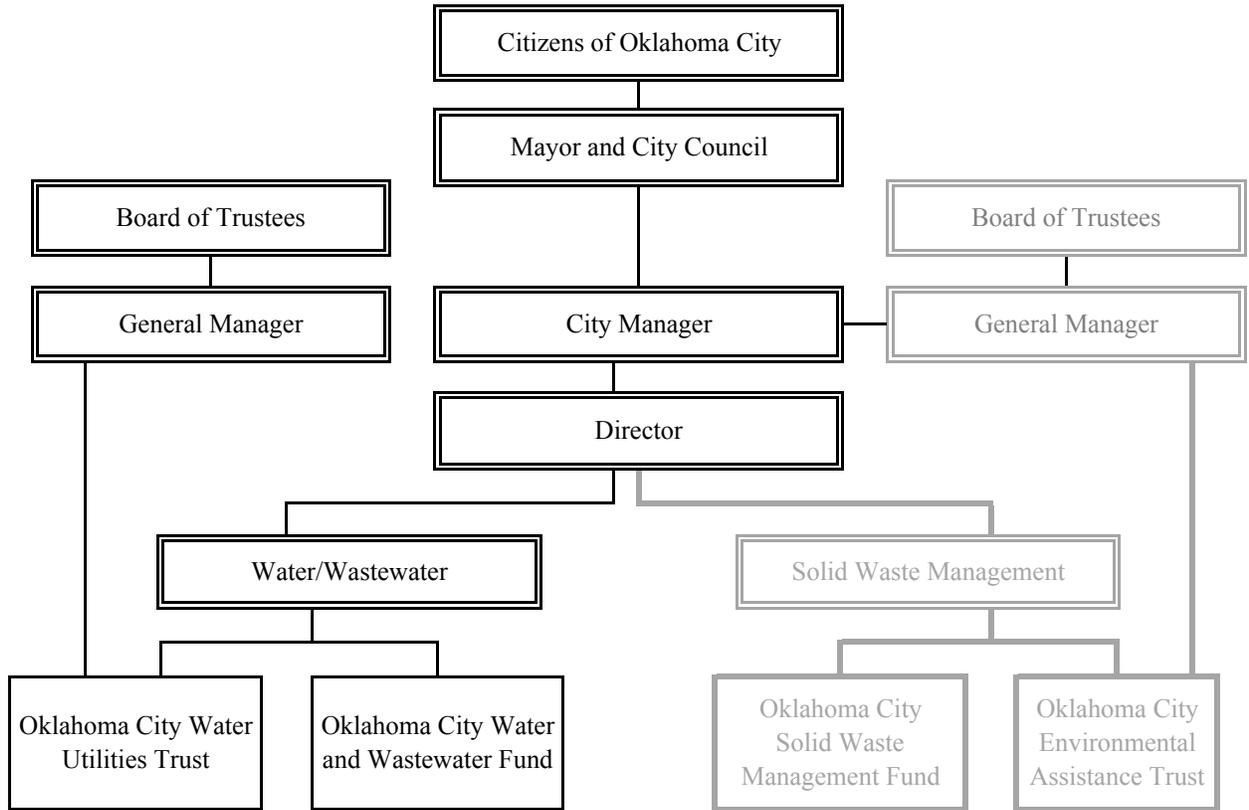
Bret Weingart  
City of Oklahoma City  
Utilities Department Assistant Director



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Glen D. Earley  
City of Oklahoma City Controller

# Oklahoma City Water Utilities Trust Organization Chart



# **Financial Section**



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

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

We have audited the accompanying basic financial statements of the Oklahoma City Water Utilities Trust (the Trust), a component unit of the City of Oklahoma City, Oklahoma, as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oklahoma City Water Utilities Trust as of June 30, 2011 and 2010, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note III, the previously issued 2010 financial statements have been restated. Our previously issued report on those financial statements dated December 6, 2010, is no longer to be relied upon because the previously issued statements were materially misstated and that report is replaced by this report on the restated 2010 financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2011, on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*BKD, LLP*

December 5, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Oklahoma City Water Utilities Trust (Trust) annual financial report, the Trust's management provides narrative discussion and analysis of the financial activities of the Trust for the fiscal years ended June 30, 2011 and 2010. The Trust's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. Introductory information is available in the transmittal letter which precedes this discussion and analysis. The Trust reports services for which the Trust charges customers a fee. Services are provided to customers external to the Trust consisting primarily of water and wastewater utility services provided to the public. The Trust is a blended component unit of the City of Oklahoma City (City).

### *Financial Summary*

- Trust assets exceeded liabilities by \$566,674,096 (net assets) for 2011. This compares to the previous year when assets exceeded liabilities by \$502,227,097.
- Total liabilities for the Trust increased \$39,393,037 to \$477,957,517 during the fiscal year. This compares to the previous year when liabilities increased \$158,068,269 to \$438,564,480.
- Total net assets are comprised of the following:
  - (1) Invested in capital assets, net of related debt, of \$425,445,287 and \$394,177,725 for year ended June 30, 2011 and 2010, respectively, include property and equipment, net of accumulated depreciation, reduced for outstanding debt related to the purchase or construction of capital assets.
  - (2) Net assets of \$16,081,167 and \$12,641,786 for year ended June 30, 2011 and 2010, respectively, are restricted for capital projects and by debt service constraints imposed by debt covenants.
  - (3) Unrestricted net assets of \$125,147,642 and \$95,407,586 for year ended June 30, 2011 and 2010, respectively.

### *Overview of the Financial Statements*

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

### **Financial Statements**

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

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

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

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

**Notes to the Financial Statements**

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

**Financial Analysis**

The Trust's net assets at June 30, 2011 are \$566,674,096. This is an increase of \$64,446,999 over fiscal year 2010 net assets of \$502,227,097. The overall financial position of the Trust improved during the 2011 fiscal year. Reclassifications in 2010 and 2009 net assets have been made to properly report retainages and capital related accounts payable and bond issuance costs funded with bond proceeds as part of invested in capital assets net of related debt instead of unrestricted net assets and interest receivable on bond investments as part of net assets restricted for debt service instead of unrestricted net assets. The 2009 balances presented in this discussion and analysis have not been adjusted to reflect the restatement of prior balances related to the prior period adjustment. See Note III. for more information.

**Summary of Net Assets**

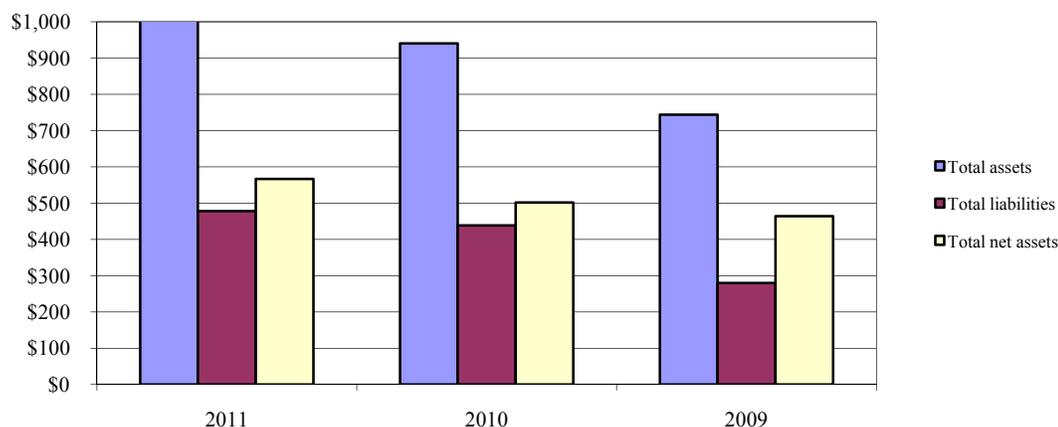
	2011	2010 (Restated)	2011 - 2010 Amount of Change	2011 - 2010 %	2009	2010 - 2009 Amount of Change	2010 - 2009 %
<b>Assets</b>							
Current assets	\$158,559,052	\$133,473,221	\$25,085,831	18.8%	\$117,976,608	\$15,496,613	13.1%
Capital assets, net	816,039,897	736,928,552	79,111,345	10.7	562,964,809	173,963,743	30.9
Other non-current assets	<u>70,032,664</u>	<u>70,389,804</u>	<u>(357,140)</u>	(0.5)	<u>63,103,834</u>	<u>7,285,970</u>	11.5
<b>Total assets</b>	<b><u>1,044,631,613</u></b>	<b><u>940,791,577</u></b>	<b><u>103,840,036</u></b>	11.0	<b><u>744,045,251</u></b>	<b><u>196,746,326</u></b>	26.4
<b>Liabilities</b>							
Current liabilities	78,434,033	103,884,282	(25,450,249)	(24.5)	56,433,542	47,450,740	84.1
Non-current liabilities	<u>399,523,484</u>	<u>334,680,198</u>	<u>64,843,286</u>	19.4	<u>224,062,669</u>	<u>110,617,529</u>	49.4
<b>Total liabilities</b>	<b><u>477,957,517</u></b>	<b><u>438,564,480</u></b>	<b><u>39,393,037</u></b>	9.0	<b><u>280,496,211</u></b>	<b><u>158,068,269</u></b>	56.4
<b>Net assets</b>							
Invested in capital assets	425,445,287	394,177,725	31,267,562	7.9	384,614,549	9,563,176	2.5
Restricted	16,081,167	12,641,786	3,439,381	27.2	6,244,011	6,397,775	102.5
Unrestricted	<u>125,147,642</u>	<u>95,407,586</u>	<u>29,740,056</u>	31.2	<u>72,690,480</u>	<u>22,717,106</u>	31.3
<b>Total net assets</b>	<b><u>\$566,674,096</u></b>	<b><u>\$502,227,097</u></b>	<b><u>\$64,446,999</u></b>	12.8	<b><u>\$463,549,040</u></b>	<b><u>\$38,678,057</u></b>	8.3

The increase in current assets for the fiscal years 2011 and 2010 is a result of an increase in the cash and investment balances of \$11.10 million and \$5.90 million, respectively, in preparation for debt payments in July. In addition, accounts receivable balances increased by \$4.75 million and \$6.49 million at June 30, 2011 and 2010, respectively. The increase in non-current assets for fiscal year 2011 is primarily the result of \$86.70 million in capital asset construction in process, offset by depreciation expense. The primary projects are the Atoka pipeline, Hefner Water Treatment plant expansion, and various water and sewer line projects. In fiscal year 2010, the non current assets increased by \$181.25 million due to the construction projects for the Atoka pipeline, Hefner treatment plant, various water and sewer line projects, and a restatement due for water rights for McGee Creek and Sardis Lake.

At June 30, 2011, current liabilities decreased by \$25.45 million compared to an increase at June 30, 2010 of \$47.45 million. These changes are primarily related to commercial paper borrowings. During 2011, commercial paper in the amount of \$28.50 million was issued and \$64 million was retired. During 2010, \$56.50 million of commercial paper was issued and \$29 million was retired. At June 30, 2011 and 2010, \$12 million and \$47.50 was outstanding, respectively, and is reported in current liabilities. The remaining changes in each period are related to timing of payments and the current portion of non current debt.

The non current liabilities at the 2011 year end increased by \$64.84 million due principally to the issuance of the Series 2011 revenue bonds offset by reductions for principal paid in the current year. In 2010, this increase was \$110.62 million due to the issuance of the Series 2009A and 2009B revenue bonds of \$60.30 million, an intergovernmental payable to the U. S. Government for \$39.54 million for future payments for Sardis Lake, and notes payable of \$9.11 million.

Summary of Net Assets  
(dollars are in millions)



Summary of Changes in Net Assets

	2011	2010 (Restated)	2011 - 2010 Amount of Change	2011 - 2010 %	2009	2010 - 2009 Amount of Change	2010 - 2009 %
<b>Operating revenues</b>							
Charges for services:							
Water	\$105,774,669	\$88,195,775	\$17,578,894	19.9%	\$82,543,560	\$5,652,215	6.8%
Wastewater	72,895,618	68,872,812	4,022,806	5.8	62,392,666	6,480,146	10.4
Other charges for services and other revenues	<u>4,254,831</u>	<u>3,262,587</u>	<u>992,244</u>	30.4	<u>2,832,925</u>	<u>429,662</u>	15.2
<b>Total operating revenues</b>	<b>182,925,118</b>	<b>160,331,174</b>	<b>22,593,944</b>	14.1	<b>147,769,151</b>	<b>12,562,023</b>	8.5
<b>Operating expenses</b>	<b>114,806,035</b>	<b>112,540,068</b>	<b>2,265,967</b>	2.0	<b>111,601,327</b>	<b>938,741</b>	0.8
<b>Operating income</b>	<b>68,119,083</b>	<b>47,791,106</b>	<b>20,327,977</b>	42.5	<b>36,167,824</b>	<b>11,623,282</b>	32.1
<b>Net non-operating expenses</b>	<b>(3,529,460)</b>	<b>(8,642,403)</b>	<b>5,112,943</b>	59.2	<b>(4,678,537)</b>	<b>(3,963,866)</b>	(84.7)
Capital contributions	5,460,033	3,162,240	2,297,793	72.7	1,423,911	1,738,329	122.1
Transfers, net	<u>(5,602,657)</u>	<u>(4,847,940)</u>	<u>(754,717)</u>	(15.6)	<u>(2,685,036)</u>	<u>(2,162,904)</u>	(80.6)
<b>Contributions and transfers</b>	<b>(142,624)</b>	<b>(1,685,700)</b>	<b>1,543,076</b>	91.5	<b>(1,261,125)</b>	<b>(424,575)</b>	(33.7)
<b>Changes in net assets</b>	<b>64,446,999</b>	<b>37,463,003</b>	<b>26,983,996</b>	72.0	<b>30,228,162</b>	<b>7,234,841</b>	23.9
Beginning net assets,							
As previously reported	502,227,097	463,549,040	38,678,057	8.3	383,330,179	80,218,861	20.9
Change in accounting principle	-	-	-	0.0	1,659,193	(1,659,193)	(100.0)
Prior period adjustment	-	1,215,054	(1,215,054)	(100.0)	48,331,506	(47,116,452)	(97.5)
As restated	<u>502,227,097</u>	<u>464,764,094</u>	<u>37,463,003</u>	8.1	<u>433,320,878</u>	<u>31,443,216</u>	7.3
<b>Ending net assets</b>	<b>\$566,674,096</b>	<b>\$502,227,097</b>	<b>\$64,446,999</b>	12.8	<b>\$463,549,040</b>	<b>\$38,678,057</b>	8.3

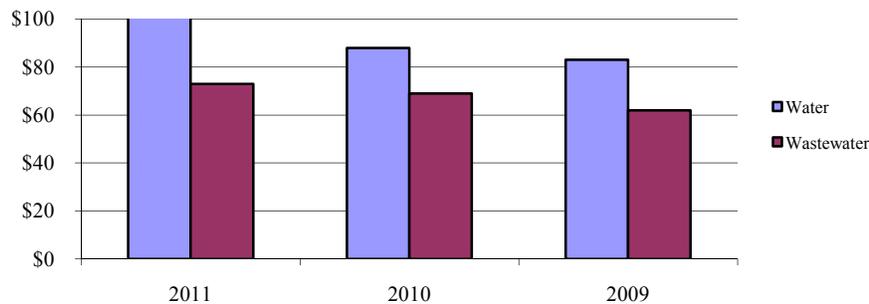
The 14.1% increase in operating revenues during 2011 was due to normal rate and quantity increases coupled with higher than normal temperatures and drought conditions. This compares to the previous year when operating revenue increased by 8.5%. Other charges for services and other revenues include rental income and recreational permits and charges for billing services provided to other City functions.

Investment income, included in net non-operating expenses, increased by \$410 thousand in fiscal year 2011 and decreased by \$1.82 million in fiscal year 2010. This was caused by the significant decline in market rates in 2010 that had begun to rebound in fiscal 2011. Bond interest expense decreased by \$2.94 million in fiscal year 2011 principally due to capitalizing a larger portion of the interest costs. This compares to an increase in bond interest expense in fiscal year 2010. The remaining non-operating expense change of \$1.73 million in 2011 was due to reimbursements for water and wastewater line relocations.

During 2011 and 2010, the Trust received capital contributions of \$5.46 million and \$3.16 million, respectively, from other sources for use in capital projects. The most significant revenue was a forgiveness of debt of \$4 million dollars from the Oklahoma Water Resources Board and a capital contribution of \$1.46 million from the Oklahoma City Economic Development Trust. In 2010, the Oklahoma Department of Transportation provided \$3.16 million for reimbursements for relocation of water and wastewater lines for major highway construction.

Included in transfers to and transfers from the City are franchise fees and payments to and from the City's Water Utilities Funds. Transfers to and from the City's Water Utilities Fund reflect the operating relationship between the Trust and the City. The transfers from the Trust increased in fiscal year 2011 and 2010.

**Charges for Services**  
(dollars are in millions)



**Capital Assets**

The Trust's investment in capital assets, net of accumulated depreciation, as of June 30, 2011 and 2010, was \$816,039,897 and \$736,928,552, respectively.

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

	<b>Capital Assets</b>						
	<b>Net of Accumulated Depreciation</b>						
	2011	2010 (Restated)	2011 - 2010 Amount of Change	2011 - 2010 %	2009	2010 - 2009 Amount of Change	2010 - 2009 %
<b>Non-Depreciable Assets</b>							
Land and water storage rights	\$97,708,699	\$95,836,547	\$1,872,152	2.0%	\$13,256,794	\$82,579,753	622.9%
Construction in progress	<u>233,614,304</u>	<u>160,292,441</u>	<u>73,321,863</u>	45.7	<u>75,035,240</u>	<u>85,257,201</u>	113.6
<b>Total non-depreciable assets</b>	<b><u>331,323,003</u></b>	<b><u>256,128,988</u></b>	<b><u>75,194,015</u></b>	29.4	<b><u>88,292,034</u></b>	<b><u>167,836,954</u></b>	113.6
<b>Depreciable Assets</b>							
Buildings	46,348,418	47,790,025	(1,441,607)	(3.0)	47,652,137	137,888	113.6
Improvements other than buildings	423,654,441	416,886,889	6,767,552	1.6	412,436,151	4,450,738	113.6
Furniture, machinery, and equipment	<u>14,714,035</u>	<u>16,122,650</u>	<u>(1,408,615)</u>	(8.7)	<u>14,584,487</u>	<u>1,538,163</u>	10.5
<b>Total depreciable assets</b>	<b><u>484,716,894</u></b>	<b><u>480,799,564</u></b>	<b><u>3,917,330</u></b>	0.8	<b><u>474,672,775</u></b>	<b><u>6,126,789</u></b>	1.3
	<b><u>\$816,039,897</u></b>	<b><u>\$736,928,552</u></b>	<b><u>\$79,111,345</u></b>	10.7	<b><u>\$562,964,809</u></b>	<b><u>\$173,963,743</u></b>	113.6

The total increase in capital assets in 2011 was 10.7% primarily resulting from construction and improvement projects for the water utilities system, offset by regular depreciation. See Note II. A. 3. for more information regarding capital assets.

#### *Long-term debt*

At the end of the 2011 and 2010 fiscal years, the Trust had total debt outstanding of \$381,576,843 and \$342,871,228, respectively.

#### **Intergovernmental Payable**

During fiscal year 2010, the Trust entered into an agreement with the Oklahoma Water Resources Board (OWRB) to repay the Federal government for certain costs related to construction of Sardis Lake in Southeastern Oklahoma. The initial cost to the Trust was \$27.81 million for the settlement of the OWRB's debt to the Federal government. In addition, the Trust has agreed to pay additional costs of \$39.54 million for future costs due and payable to the Federal government. This amount will incur interest at a rate of 4.012% and will be added to the amount now deferred. In fiscal year 2011, the interest amount of \$1.65 million was added to the future cost liability. See Note II. B. 1. for more information regarding intergovernmental payable.

#### **Water Resources Notes**

The OWRB provided partial funding for several water and wastewater projects in fiscal year 2011. These agreements provided up to \$59.90 million of loans of which \$7.53 million had been drawn at June 30, 2011. The balance will be utilized in fiscal year 2012, the completion of which will result in permanent financing notes with the OWRB. The OWRB provided funding for several water and wastewater projects in fiscal year 2010. These agreements provided up to \$17.10 million of loans of which \$9.11 million had been utilized at June 30, 2010. The balance was utilized in fiscal year 2011, the completion of which resulted in permanent financing notes with the OWRB, net of \$4 million grant funds from American Reinvestment and Recovery Act funds. See Note II. B. 2. for more information regarding notes payable.

**Commercial paper**

On January 17, 2006 the Trust established a commercial paper program authorizing the issuance of up to \$75 million of tax-exempt commercial paper notes with letter of credit security. On March 4, 2008, the Trust approved a resolution authorizing an increase in the commercial paper program to an amount not to exceed \$125 million at any one time effective April 1, 2008. On November 2, 2010, the Trust approved a second resolution authorizing an increase in the commercial paper program to an amount not to exceed \$150. This increase has not taken effect. 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. See Note II. B. 2. for more information regarding commercial paper.

**Revenue Bonds**

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

At the end of 2011 and 2010, the Trust had total revenue bond debt outstanding of \$309.92 million and \$246.72 million, respectively. This debt is supported by pledged water and wastewater revenues generated by the Trust's utility services. Bonds outstanding were also reduced by regular debt service payments. See Note II. B. 3. for more information regarding revenue bonds.

	<b>Outstanding Long Term Debt</b>						
			2011 - 2010		2010 - 2009		2010 - 2009
	2011	2010	Amount of	%	2009	Amount of	%
	(Restated)	Change	Change		Change	Change	
Intergovernmental payable	\$41,194,284	\$39,542,331	\$1,651,953	4.2%	\$ -	\$ -	10000.0%
Capital lease	-	-	-	0.0	472,180	(472,180)	(100.0)
Water Resources notes	18,461,980	9,110,408	9,351,572	102.6	-	9,110,408	100.0
Commercial paper	12,000,000	47,500,000	(35,500,000)	(74.7)	20,000,000	27,500,000	137.5
Revenue bonds	<u>309,920,579</u>	<u>246,718,489</u>	<u>63,202,090</u>	(74.7)	<u>186,795,079</u>	<u>59,923,410</u>	32.1
	<b><u>\$381,576,843</u></b>	<b><u>\$342,871,228</u></b>	<b><u>\$38,705,615</u></b>	11.3	<b><u>\$207,267,259</u></b>	<b><u>\$96,061,638</u></b>	46.3

The change in revenue bonds outstanding debt for both 2011 and 2010 is the result of bond issuances and scheduled principal bond debt service payments. See Note II. B. 4. for more information on changes in long-term debt.

Bond Ratings

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

Commercial Paper ratings

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

*Economic Factors and Rates*

**Economic Factors**

The Trust serves more than 550,000 people in Oklahoma City and some suburbs with outstanding quality water from Lake Draper, Lake Hefner, and Lake Overholser water treatment facilities. The water system treats and delivers approximately 100 million gallons of water each day and has a maximum capacity of 250 million gallons per day, with a peak consumption day of 202 million gallons. Oklahoma City gets raw water from the North Canadian River, supplemented by Canton Reservoir in western Oklahoma and the Atoka and McGee Creek Reservoirs in southeastern Oklahoma.

With water production growth anticipated at 1.5% per year, the City supply is adequate for the next 50 years. A raw water supply study completed in 2009 determined Central Oklahoma will reach its water supply capacity by 2030 and that water demand will double to 316 million gallons per day by 2060. A rich supply of water coupled with a strong projected demand for such resources positions Oklahoma City as a leader in the southwestern United States.

**Rates**

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

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

*Contacting the Trust's Financial Management*

This financial report is designed to provide a general overview of the Trust's finances, comply with finance-related laws and regulations, and demonstrate commitment to public accountability. If you have questions about this report or would like to request additional information, contact the City's Finance Department, Accounting Services Division, at 100 North Walker, Suite 300, Oklahoma City, Oklahoma 73102.

# **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.*

*Generally report services for which the Trust charges customers a fee using full accrual accounting and provide both long-term financial information.*

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

**OKLAHOMA CITY WATER UTILITIES TRUST**

	<u>2011</u>	<u>2010</u> <u>(Restated)</u>
<b><u>ASSETS</u></b>		
<b><u>CURRENT ASSETS</u></b>		
Non-pooled cash-----	\$25,317,802	\$6,218,805
Investments-----	104,568,834	102,589,354
Accounts receivable, net-----	24,927,401	20,172,270
Interest, dividends, and royalties receivable-----	488,655	421,402
Due from other funds-----	3,052,445	3,950,140
Receivable from Central Oklahoma Transportation and Parking Authority-----	124,182	121,250
Note receivable-----	13,266	-
Prepays-----	66,467	-
Total current assets-----	<u>158,559,052</u>	<u>133,473,221</u>
<b><u>NON-CURRENT ASSETS</u></b>		
Investments-----	23,222,394	25,896,956
Note receivable-----	750,562	763,828
Advance to McGee Creek Authority-----	43,256,623	41,328,338
Receivable from Central Oklahoma Transportation and Parking Authority-----	1,091,250	1,212,500
Deferred debt expense, net-----	1,711,835	1,188,182
Capital assets:		
Land, water storage rights and construction in progress-----	331,323,003	256,128,988
Other capital assets, net of accumulated depreciation-----	484,716,894	480,799,564
Total capital assets-----	<u>816,039,897</u>	<u>736,928,552</u>
Total non-current assets-----	<u>886,072,561</u>	<u>807,318,356</u>
<b>Total assets-----</b>	<b><u>1,044,631,613</u></b>	<b><u>940,791,577</u></b>
<b><u>LIABILITIES</u></b>		
<b><u>CURRENT LIABILITIES</u></b>		
Accounts payable-----	26,001,583	20,946,929
Due to other funds-----	627,864	909,753
Interest payable-----	151,030	54,806
Notes payable and commercial paper-----	12,348,954	47,539,085
Bond interest payable-----	15,265,369	13,910,798
Bonds payable-----	9,039,233	5,522,911
Intergovernmental payable-----	15,000,000	15,000,000
Total current liabilities-----	<u>78,434,033</u>	<u>103,884,282</u>
<b><u>NON-CURRENT LIABILITIES</u></b>		
Intergovernmental payable-----	41,194,284	39,542,331
Notes payable and commercial paper-----	18,113,026	9,071,323
Bond interest payable-----	34,633,752	39,538,760
Bonds payable:		
Bonds payable-----	300,881,346	241,195,578
Unamortized bond discount/premium-----	4,799,649	5,336,303
Deferred amount on refunding-----	(98,573)	(4,097)
Bonds payable, net-----	<u>305,582,422</u>	<u>246,527,784</u>
Total non-current liabilities-----	<u>399,523,484</u>	<u>334,680,198</u>
<b>Total liabilities-----</b>	<b><u>477,957,517</u></b>	<b><u>438,564,480</u></b>
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt-----	425,445,287	394,177,725
Restricted for:		
Capital projects-----	2	14
Debt service-----	16,081,165	12,641,772
Unrestricted-----	125,147,642	95,407,586
<b>Total net assets-----</b>	<b><u>\$566,674,096</u></b>	<b><u>\$502,227,097</u></b>

See accompanying notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS

OKLAHOMA CITY WATER UTILITIES TRUST

For the Years Ended June 30,

	<u>2011</u>	<u>2010</u> <u>(Restated)</u>
<b><u>OPERATING REVENUES</u></b>		
<b><u>CHARGES FOR SERVICES</u></b>		
Water charges-----	\$105,774,669	\$88,195,775
Wastewater charges-----	72,895,618	68,872,812
Other charges-----	2,624,204	2,389,450
Total charges for services-----	<u>181,294,491</u>	<u>159,458,037</u>
Lease and rental income-----	662,437	635,115
Other-----	968,190	238,022
<b>Total operating revenues-----</b>	<b><u>182,925,118</u></b>	<b><u>160,331,174</u></b>
<b><u>OPERATING EXPENSES</u></b>		
Personal services-----	40,903,024	41,321,321
Maintenance, operations, and contractual services-----	38,910,058	37,496,502
Materials and supplies-----	10,829,150	10,884,726
Depreciation-----	24,163,803	22,837,519
<b>Total operating expenses-----</b>	<b><u>114,806,035</u></b>	<b><u>112,540,068</u></b>
<b>Operating income-----</b>	<b><u>68,119,083</u></b>	<b><u>47,791,106</u></b>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>		
Grant operating-----	121,864	-
Investment income-----	1,652,983	1,243,455
Interest on bonds-----	(6,828,174)	(9,765,341)
Amortization-----	(346,810)	(264,759)
Oil and gas royalties-----	60,599	56,620
Other revenue-----	1,810,078	87,622
<b>Net non-operating expenses-----</b>	<b><u>(3,529,460)</u></b>	<b><u>(8,642,403)</u></b>
<b>Income before contributions and transfers-----</b>	<b><u>64,589,623</u></b>	<b><u>39,148,703</u></b>
<b><u>CONTRIBUTIONS AND TRANSFERS</u></b>		
Grant capital-----	4,000,000	-
Other capital contributions-----	1,460,033	3,162,240
Transfers from other funds-----	3,504,311	3,980,601
Transfers to other funds-----	(9,106,968)	(8,828,541)
<b>Total contributions and transfers-----</b>	<b><u>(142,624)</u></b>	<b><u>(1,685,700)</u></b>
<b>Changes in net assets-----</b>	<b><u>64,446,999</u></b>	<b><u>37,463,003</u></b>
Total net assets, beginning, as previously reported-----	502,227,097	463,549,040
Prior period adjustment-----	-	1,215,054
Total net assets, beginning, as restated-----	<u>502,227,097</u>	<u>464,764,094</u>
<b>Total net assets, ending-----</b>	<b><u>\$566,674,096</u></b>	<b><u>\$502,227,097</u></b>

See accompanying notes to financial statements.

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

**OKLAHOMA CITY WATER UTILITIES TRUST**

	<b>2011</b>	<b>2010 (Restated)</b>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Cash received from customers-----	\$180,338,384	\$151,045,544
Cash payments to suppliers for goods and services-----	(48,629,022)	(45,919,422)
Cash payments to employees and professional contractors for services-----	(40,903,024)	(41,321,321)
Operating payments from (to) component units-----	118,318	-
Other cash receipts-----	288,695	873,137
<b>Net cash provided by operating activities-----</b>	<b>91,213,351</b>	<b>\$64,677,938</b>
<b><u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u></b>		
Transfers received from (paid to) other funds-----	(7,812,307)	(10,934,814)
Non-financing payments from (to) component units-----	182,084	4,101,851
Other non-capital financing cash receipts-----	-	(20,416)
<b>Net cash used by non-capital financing activities-----</b>	<b>(7,630,223)</b>	<b>(6,853,379)</b>
<b><u>CASH FLOWS FROM CAPITAL AND CAPITAL RELATED FINANCING ACTIVITIES</u></b>		
Proceeds from issuance of long-term debt-----	113,122,887	190,415,768
Payments for acquisition and construction of capital assets-----	(97,514,377)	(147,286,403)
Principal paid on long-term debt-----	(72,576,042)	(87,180,269)
Interest paid on long-term debt-----	(11,275,015)	(8,275,209)
Capital/financing payments from (to) component units-----	(1,520,029)	-
Proceeds from sale of assets-----	487,693	87,622
Capital grants and contributions received-----	1,460,033	3,162,240
Other capital and capital related financing activities-----	-	(264,759)
<b>Net cash used by capital and capital related financing activities-----</b>	<b>(67,814,850)</b>	<b>(49,341,010)</b>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Purchase of investments-----	(352,273,704)	(485,461,019)
Proceeds from sale of investments-----	353,958,093	480,235,198
Investment income received-----	1,585,730	1,728,991
Receipts from oil and gas royalties-----	60,600	-
<b>Net cash provided (used) by investing activities-----</b>	<b>3,330,719</b>	<b>(3,496,830)</b>
<b>Net increase in cash-----</b>	<b>19,098,997</b>	<b>4,986,719</b>
Cash, beginning-----	6,218,805	1,232,086
<b>Cash, ending-----</b>	<b>\$25,317,802</b>	<b>\$6,218,805</b>
<b><u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b>		
Operating income-----	\$68,119,083	\$47,791,106
<b><u>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b>		
Depreciation-----	24,163,803	22,837,519
Non-operating revenue (expense)-----	369	-
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable-----	(4,755,133)	(6,490,300)
(Increase) decrease in due from other funds-----	2,975,912	(1,922,180)
(Increase) decrease in receivable from component units-----	118,318	-
(Increase) decrease in prepaid assets-----	(66,467)	60,000
(Increase) decrease in other assets-----	121,854	-
Increase (decrease) in accounts payable-----	999,583	3,093,086
Increase (decrease) in due to other funds-----	(463,971)	(670,335)
Increase (decrease) in liabilities payable from restricted assets-----	-	(20,958)
Total adjustments-----	23,094,268	16,886,832
<b>Net cash provided by operating activities-----</b>	<b>\$91,213,351</b>	<b>\$64,677,938</b>
<b><u>NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</u></b>		
Net increase (decrease) in fair value of investments-----	\$989,308	(\$479,358)
Deferred interest expense on revenue bonds-----	-	4,300,114
Forgiveness of debt-----	4,000,000	-
Transfer of capital assets from (to) other funds-----	220,200	-
<b>Total non-cash investing, capital, and financing activities-----</b>	<b>\$5,209,508</b>	<b>\$3,820,756</b>

See accompanying notes to financial statements.

# **Notes to Financial Statements**



## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### I. A. INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the Oklahoma City Water Utilities Trust (Trust) financial activities for the fiscal year ended June 30, 2011 and 2010. Reclassifications in 2010 have been made to properly report retainages and capital related accounts payable and bond issuance costs funded with bond proceeds as part of invested in capital assets net of related debt instead of unrestricted net assets and interest receivable on bond investments as part of net assets restricted for debt service instead of unrestricted net assets.

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

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

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

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

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

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

#### *Trust Administration*

The Trust has no employees. Trust activities are performed by City employees.

The Trust has chosen to provide for the operations, maintenance, and improvements of the water and wastewater system through the City's Utilities Department. Accordingly, operations are performed by City employees. The Trust reimburses the City for the cost of water and wastewater operations including amounts classified as personal services and those expenses in Trust reporting with corresponding net payments to or from the City's Water and Wastewater Fund.

*Related Organizations*

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

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

**McGee Creek Authority (MCA)**

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

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

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

**Lake Atoka Reservation Association (LARA)**

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

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

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

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

The financial statements of the Trust are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The Trust applies all relevant Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The Trust does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The basic financial statements report using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income includes revenues and expenses related to the primary, continuing operations of the Trust. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

**I. C. BUDGET LAW AND PRACTICE**

Oklahoma Statutes require the submission of financial information for public trusts. However, legal budgetary control levels are not specified. Accordingly, the Trust's budget is submitted to its governing body for approval. Appropriations are recorded and available to pay expenses as revenue is received in cash. Budgetary control is exercised on a project-length basis. Therefore, appropriations are carried forward each year until projects are completed. Management's policy prohibits expenses to exceed appropriations. Management may transfer appropriations within the Trust without governing body approval.

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

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

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

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

**I. D. 2. PREPAIDS**

Prepays are recorded when purchased and expensed when used. Prepays consist of annual memberships and dues.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*Net Assets*

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

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

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

**Restricted Net Assets**

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

**I. D. 10. USE OF ESTIMATES**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

**I. D. 11. RISK FINANCING**

The Trust's risk management activities are recorded in the City Risk Management Fund and the OCMFA Services Fund, internal service funds. The purpose of these funds is to administer employee life, employee health, property and liability, workers' compensation, unemployment, and disability insurance programs of the City on a cost-reimbursement basis. These funds account for the risk financing activities related to property and liability programs of the Trust but do not constitute a transfer of risk from the Trust.

Significant losses are covered by commercial insurance for the property and liability program. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The City records an estimated liability for indemnity health care, workers' compensation, torts, pollution remediation, and other claims against the City. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred but not reported based on historical experience. Claims liabilities include specific, incremental claim adjustment expenses, allocated loss adjustment expenses, and are reduced for estimated recoveries on unsettled claims such as subrogation. The Trust does not recognize any liabilities related to risk financing.

**I. E. MAJOR REVENUES**

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

**I. F. TAX STATUS**

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

**I. G. RETAINAGES**

It is the policy of the Trust to retain a percentage of construction contracts until a completed project has been accepted by the Trustees. Contractors may request to opt out of this retainage by providing a certificate of deposit with the Trust. The Trust would hold the certificate of deposit and the Trust would retain the risk of incurring costs related to a contractor's failure to perform. However, in the event of non-performance, the Trust would call the certificate and pay the proceeds to the Trust to cover any costs incurred. The Trust does not record the effect of holding the certificates of deposit.

**II. ASSETS AND LIABILITIES**

**II. A. ASSETS**

II. A. 1. DEPOSITS AND INVESTMENTS

*Deposits*

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

The Trust's cash is insured or collateralized with securities held by the Trust, or its agent in the Trust's name, less the amount of the Federal depository insurance.

*Investments*

The Trust invests in various investment securities. Investment securities are exposed to various risks such as interest rate risk and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the Trust's financial position. Because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

<b>2011</b>				
	Fair Value/ <u>Carrying Amount</u>	<u>Cost</u>	<u>Rating (1)</u>	Weighted Average Months to <u>Maturity (2)</u>
Federal obligations	\$43,731,709	\$43,664,376	AAA/Aaa	22.23
Money market funds	49,159,623	49,159,623	AAA/Aaa	1.47
Fannie Mae	19,497,597	19,772,440	AAA/Aaa	17.89
U.S. Treasury Notes	<u>15,402,299</u>	<u>15,537,422</u>	N/A	20.62
<b>Total investments</b>	<b><u>\$127,791,228</u></b>	<b><u>\$128,133,861</u></b>		
<b>2010</b>				
	Fair Value/ <u>Carrying Amount</u>	<u>Cost</u>	<u>Rating (1)</u>	Weighted Average Months to <u>Maturity (2)</u>
Federal obligations	\$28,589,382	\$28,648,216	AAA/Aaa	15.89
Money market funds	51,545,673	51,545,673	AAA/Aaa	0.83
Fannie Mae	16,665,937	16,929,750	AAA/Aaa	17.47
U.S. Treasury Notes	14,518,318	14,761,953	N/A	13.80
U.S. Treasury Bills	<u>17,167,000</u>	<u>16,856,250</u>	N/A	0.03
<b>Total investments</b>	<b><u>\$128,486,310</u></b>	<b><u>\$128,741,842</u></b>		

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

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

**Investment Policy**

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

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

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

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

Portfolio Structure (1)

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

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

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

**Bond Indenture Restrictions**

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

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

**Investments Held by Others**

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

**Compliance with State Requirements**

Trust investment policy is more restrictive than the requirements of Oklahoma law found in Title 60 of the Oklahoma Statutes and the standards of the Oklahoma Uniform Prudent Investor Rule defined by Title 60 of the Oklahoma Statutes to consider the purposes, terms, distribution requirements, and other circumstances of the Trust and to exercise reasonable care, skill, and caution. Investment decisions must be evaluated not in isolation, but in the context of the trust portfolio as a whole and as a part of the overall investment strategy having risk and return objectives reasonably suited to the Trust.

**Restricted Deposits and Investments**

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

	<u>2011</u>	<u>2010</u>
Commercial paper construction account	\$1,128,991	\$147,869
Bond principal and interest debt service accounts	24,631,699	17,945,790
Bond reserve	28,754,394	26,026,158
Bond construction account	126,918	12,090,536
	<u><u>\$54,642,002</u></u>	<u><u>\$56,210,353</u></u>

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

During fiscal year 2010, the Trust fully implemented its new SAP Billing system. In fiscal year 2009, certain billing cycles were moved to early June to allow for the shut down of the old system. This resulted in some cash collections occurring before year end in the prior year that normally would have occurred in fiscal year 2010.

	<u>2011</u>	<u>2010</u>
Accounts receivable	\$27,069,693	\$23,364,681
Less: allowance for uncollectible accounts	2,142,292	3,192,411
<b>Net accounts receivable</b>	<u><u>\$24,927,401</u></u>	<u><u>\$20,172,270</u></u>
<b>Affect on revenues for change in uncollectibles</b>	<u><u>\$1,050,119</u></u>	<u><u>(\$2,471,501)</u></u>

NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

OKLAHOMA CITY WATER UTILITIES TRUST

II. A. 3. PREPAIDS

Prepays are payments to vendors that benefit future reporting periods and are also reported on the consumption basis. As of June 30, 2011 the Trust had prepaid items totaling \$66,467. This balance is composed primarily of prepaid memberships to state and national water organizations. There were no prepaid items recorded at the end of fiscal year 2010.

II. A. 4. CAPITAL ASSETS

*Changes in Capital Assets*

	2011							
	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
<b>CAPITAL ASSETS</b>								
Balance, June 30, 2010	\$95,836,547	\$160,292,441	\$256,128,988	\$84,078,156	\$646,980,418	\$69,020,084	\$800,078,658	\$1,056,207,646
Increases	1,872,152	97,467,752	99,339,904	4,773	25,708,508	2,377,019	28,090,300	127,430,204
Decreases	-	(24,145,889)	(24,145,889)	-	(323,149)	(184,654)	(507,803)	(24,653,692)
Balance, June 30, 2011	<u>97,708,699</u>	<u>233,614,304</u>	<u>331,323,003</u>	<u>84,082,929</u>	<u>672,365,777</u>	<u>71,212,449</u>	<u>827,661,155</u>	<u>1,158,984,158</u>
<b>ACCUMULATED DEPRECIATION</b>								
Balance, June 30, 2010				36,288,131	230,093,529	52,897,434	319,279,094	319,279,094
Increases				1,446,380	18,933,292	3,784,131	24,163,803	24,163,803
Decreases				-	(315,485)	(183,151)	(498,636)	(498,636)
Balance, June 30, 2011				<u>37,734,511</u>	<u>248,711,336</u>	<u>56,498,414</u>	<u>342,944,261</u>	<u>342,944,261</u>
<b>Capital Assets, net</b>	<b><u>\$97,708,699</u></b>	<b><u>\$233,614,304</u></b>	<b><u>\$331,323,003</u></b>	<b><u>\$46,348,418</u></b>	<b><u>\$423,654,441</u></b>	<b><u>\$14,714,035</u></b>	<b><u>\$484,716,894</u></b>	<b><u>\$816,039,897</u></b>
	2010							
	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
	<b>CAPITAL ASSETS</b>							
Balance, June 30, 2009	\$13,256,794	\$75,035,240	\$88,292,034	\$81,995,992	\$625,725,921	\$63,506,877	\$771,228,790	\$859,520,824
Increases	82,579,753	110,828,762	193,408,515	2,082,164	21,254,497	5,627,647	28,964,308	222,372,823
Decreases	-	(25,571,561)	(25,571,561)	-	-	(114,440)	(114,440)	(25,686,001)
Balance, June 30, 2010	<u>95,836,547</u>	<u>160,292,441</u>	<u>256,128,988</u>	<u>84,078,156</u>	<u>646,980,418</u>	<u>69,020,084</u>	<u>800,078,658</u>	<u>1,056,207,646</u>
<b>ACCUMULATED DEPRECIATION</b>								
Balance, June 30, 2009				34,343,855	213,289,770	48,922,390	296,556,015	296,556,015
Increases				1,944,276	16,803,759	4,089,484	22,837,519	22,837,519
Decreases				-	-	(114,440)	(114,440)	(114,440)
Balance, June 30, 2010				<u>36,288,131</u>	<u>230,093,529</u>	<u>52,897,434</u>	<u>319,279,094</u>	<u>319,279,094</u>
<b>Capital Assets, net</b>	<b><u>\$95,836,547</u></b>	<b><u>\$160,292,441</u></b>	<b><u>\$256,128,988</u></b>	<b><u>\$47,790,025</u></b>	<b><u>\$416,886,889</u></b>	<b><u>\$16,122,650</u></b>	<b><u>\$480,799,564</u></b>	<b><u>\$736,928,552</u></b>

Depreciation expense of \$24,163,803 in fiscal year 2011 and \$22,837,519 in 2010 was charged to the Trust's utilities.

*Capitalized Interest*

<u>2011</u>		<u>2010</u>	
<u>Total Interest Costs Incurred</u>	<u>Capitalized Interest</u>	<u>Total Interest Costs Incurred</u>	<u>Capitalized Interest</u>
<u>\$16,189,644</u>	<u>\$8,276,077</u>	<u>\$14,485,413</u>	<u>\$4,033,972</u>

**II. B. LIABILITIES**

**II. B. 1. INTERGOVERNMENTAL PAYABLE**

*Arbitrage Compliance*

Proceeds from tax-exempt revenue bonds issued after September 1, 1986, are subject to the 1986 Tax Reform Act. The 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. The Trust did not have an arbitrage liability as of June 30, 2011 or 2010.

*Payable to Federal and State Government*

During fiscal year 2010, the Trust entered into an agreement with the Oklahoma Water Resources Board (OWRB) to repay the Federal government for certain costs related to construction of Sardis Lake in Southeastern Oklahoma. The initial cost to the Trust was \$27,814,262 for the settlement of the OWRB's debt to the Federal government. In addition, the Trust has agreed to pay for additional costs of \$41,194,284 for future costs due and payable to the Federal government. This amount will incur interest at a rate of 4.012% and will be added to the payable. Moreover, an additional amount of \$15 million is payable to reimburse the OWRB for certain costs which the state previously made payments and upon the event of the issuance of a water use permit by the OWRB in accordance with Oklahoma law.

**II. B. 2. NOTES PAYABLE AND COMMERCIAL PAPER**

*Notes Payable Revolving Loans*

On November 13, 2009, the Trust finalized two revolving loans for a maximum of \$7,634,177 for water line improvements and \$9,469,450 in wastewater improvements. Each loan has a provision for a minimum 20% match, \$2,000,000 maximum from the American Recovery and Reinvestment Act of 2009. The match was in the form of principal forgiveness in each loan. The notes payable balance is \$5,218,210 for water line improvements and \$6,076,769 for wastewater improvements at June 30, 2011. The interest rates of the two loans are 3.57% and 2.86%, respectively, payable on March 15 and September 15 for the term of the loans. Principal payments will commence on September 15, 2011 and will continue semiannually for the term of the loans. The loans expire on March 15, 2031 and September 15, 2040, respectively. At June 30, 2011 construction projects related to the 2009 loans are not complete.

On December 15, 2010, the Trust finalized two revolving loans for a maximum of \$35 million for water line improvements and \$24,926,727 in wastewater improvements. As of June 30, 2011, \$3,733,489 for water line improvements and \$3,433,511 for wastewater improvements has been received. The interim effective interest rates of the two loans are 3.57% and 3.27% payable on March 15 and September 15 for the term of the loans. Principal payments will commence on the earlier of March 15 or September 15 following the completion of the construction projects or September 15, 2013 and will continue semiannually for the term of the loans. The loans expire on March 15, 2032 and September 15, 2042, respectively. At June 30, 2011 construction projects related to the 2010 loans are not complete.

*Commercial Paper*

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

During fiscal year 2011 new commercial paper issuances totaled \$28.50 million. In February 2011, \$64 million of the outstanding commercial paper was paid off with the issuance of the Water and Sewer Revenue bonds, 2011 Series. The total outstanding balance at June 30, 2011 was \$12 million and the weighted average interest rate for the year was 0.28% and 0.32% for 2011 and 2010, respectively.

*Notes Payable and Commercial Paper Requirements to Maturity*

	Notes Payable		Commercial Paper	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$348,954	\$301,375	\$12,000,000	\$33,600
2013	563,707	506,885	-	-
2014	579,103	491,489	-	-
2015	594,926	475,666	-	-
2016	611,189	459,403	-	-
2017 - 2021	3,316,152	2,036,808	-	-
2022 - 2026	3,796,187	1,556,774	-	-
2027 - 2031	4,344,726	1,006,002	-	-
2032 - 2036	2,014,180	523,622	-	-
2036 - 2041	<u>2,292,856</u>	<u>220,976</u>	-	-
	<b><u>\$18,461,980</u></b>	<b><u>\$7,579,000</u></b>	<b><u>\$12,000,000</u></b>	<b><u>\$33,600</u></b>

**II. B. 3. REVENUE BONDS**

*Water Revenue Bond Indentures and Covenants*

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

The general bond indenture and its supplements require the use of revenue, bond, operations and maintenance, reserve, construction, and renewal and replacement accounts, which have been combined for financial reporting purposes. These accounts are held in trust by banks and managed pursuant to terms of the indenture agreement. The indenture provides that gross revenues from operations will be deposited into the revenue account and transfers will be made to the other accounts for current requirements on a monthly basis.

However, if the payments and deposits required by the general bond indenture are made on or before the 25th day of the month, then during the subsequent month, the gross revenues may be deposited as received directly into the Trust's operating fund, which is not subject to the lien of the indenture. For the years ended June 30, 2011, and 2010, required accounts were maintained in accordance with the bond indenture.

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

The general bond indenture provides that the Trustees will fix, maintain, charge, and collect a schedule of rates for use of the facilities of the Trust estate that will provide in every year net revenues which provide at least 120% of the maximum amount required for debt service. For the years ended June 30, 2011 and 2010, the schedule of rates in effect provided revenues in excess of the minimum requirements.

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

***Issuances***

On January 12, 2011, the Trust approved issuance of water and sewer revenue refunding bonds, series 2011 in principal amount of \$68,725,000. The Series 2011 bonds provided funds to refund \$64,000,000 of the Trust's outstanding commercial paper notes issued for the water and sewer system, thereby restoring the Trust's available capacity under its commercial paper note program, establish a reserve fund and pay for the cost of issuance of the Series 2011 bonds.

On October 20, 2009, the Trust approved issuance of water and sewer revenue refunding bonds, series 2009B in principal amount of \$47,470,000 and water and sewer system revenue bonds, series 2009A in principal amount of \$70,290,000 (together, the Bonds). The Series 2009B bonds defeased the existing 1999A and 1999B Series of Bonds and the Series 2009A bonds defeased existing commercial paper borrowings and provided funding for construction, purchase, maintenance and repair of certain water and/or wastewater facilities.

***Bonded Debt Service to Maturity***

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$9,039,233	\$22,132,913	\$31,172,146
2013	10,433,553	22,367,292	32,800,845
2014	10,508,814	22,203,004	32,711,818
2015	10,829,009	21,948,453	32,777,462
2016	11,070,107	21,669,117	32,739,224
2017 - 2021	47,164,863	65,934,948	113,099,811
2022 - 2026	49,140,000	46,331,885	95,471,885
2027 - 2031	54,430,000	33,748,956	88,178,956
2032 - 2036	61,755,000	18,801,809	80,556,809
2037 - 2041	41,285,000	4,895,694	46,180,694
2042	<u>4,265,000</u>	<u>-</u>	<u>4,265,000</u>
	<b><u>\$309,920,579</u></b>	<b><u>\$280,034,071</u></b>	<b><u>\$589,954,650</u></b>

**Revenue Bonds Outstanding**

Water and Sewer System Bonds	Original Amount Issued	Interest Rate	Issue Date	Final Maturity	Principal Balance	
					2011	2010
Series 1986C	\$22,760,000	7.60% to 7.85%	8/1/1986	2016	\$7,665,579	\$9,353,489
Series 2004	70,000,000	3.85% to 5.25%	6/7/2004	2034	70,000,000	70,000,000
Series 2008	49,605,000	3.00% to 5.80%	12/18/2008	2038	48,770,000	49,605,000
Series 2009A	70,290,000	3.00% to 5.625%	10/20/2009	2039	70,290,000	70,290,000
Series 2009B	70,290,000	3.00% to 5.625%	10/20/2009	2039	44,470,000	47,470,000
Series 2011	68,725,000	0.60% to 4.80 %	2/9/2011	2040	<u>68,725,000</u>	<u>-</u>
					<b><u>\$309,920,579</u></b>	<b><u>\$246,718,489</u></b>

**Bond Interest Payable**

The 1986C deferred interest bonds accumulated deferred interest until 2005 when the related bonds began to mature. The deferred interest balances reported as a non-current liability is \$34,633,752 and \$39,538,760 at June 30, 2011 and 2010, respectively. Interest on all other bonds is payable on the first day of January and July of each year through maturity.

**Bond Defeasance**

**Prior Years Defeasance**

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

**Outstanding Defeased Bonds**

		Original Amount Defeased	Outstanding Balance	
			<u>2011</u>	<u>2010</u>
Water System Revenue Bonds	Series 1977G	\$1,865,000	\$675,000	\$755,000
Water System Revenue Bonds	Series 1978F	6,480,000	2,070,000	2,350,000
Water System Revenue Bonds	Series 1999A (1)	24,210,000	-	-
Water System Revenue Bonds	Series 1999B (1)	27,760,000	-	-

(1) Called January 2010.

**Bond Coverage**

	<u>2011</u>	<u>2010</u>
Gross revenue, including non-operating revenues and transfers in	\$190,074,953	\$165,699,472
Direct operating expenses and transfers, excluding depreciation and amortization	<u>99,749,200</u>	<u>98,531,090</u>
<b>Net revenue available for debt service</b>	<b><u>\$90,325,753</u></b>	<b><u>\$67,168,382</u></b>
Principal amounts	\$10,433,553	\$9,143,553
Interest amounts	<u>22,367,292</u>	<u>19,180,810</u>
<b>Total debt service requirements</b>	<b><u>\$32,800,845</u></b>	<b><u>\$28,324,363</u></b>
<b>Revenue bond coverage</b>	<b><u>2.75</u></b>	<b><u>2.37</u></b>

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

**II. B. 4. CHANGES IN LONG-TERM DEBT**

	<b>2011</b>					
	Balance July 1, 2010	Issued	Retired	Balance June 30, 2011	Due Within One Year	Due After One Year
Intergovernmental payable (1)	\$39,542,331	\$1,651,953	\$ -	\$41,194,284	\$ -	\$41,194,284
Notes payable	9,110,408	13,478,803	4,127,231	18,461,980	348,954	18,113,026
Commercial paper	47,500,000	28,500,000	64,000,000	12,000,000	12,000,000	-
Bond interest payable (2)	39,538,760	-	4,905,008	34,633,752	-	34,633,752
Revenue bonds	<u>246,718,489</u>	<u>68,725,000</u>	<u>5,522,910</u>	<u>309,920,579</u>	<u>9,039,233</u>	<u>300,881,346</u>
	<b><u>\$382,409,988</u></b>	<b><u>\$112,355,756</u></b>	<b><u>\$78,555,149</u></b>	<b><u>\$416,210,595</u></b>	<b><u>\$21,388,187</u></b>	<b><u>\$394,822,408</u></b>
	<b>2010</b>					
	Balance July 1, 2009	Issued	Retired	Balance June 30, 2010	Due Within One Year	Due After One Year
Intergovernmental payable (1)	\$ -	\$39,542,331	\$ -	\$39,542,331	\$ -	\$39,542,331
Notes payable	-	9,110,408	-	9,110,408	39,085	9,071,323
Commercial paper	20,000,000	56,500,000	29,000,000	47,500,000	47,500,000	-
Bond interest payable (2)	43,838,874	-	4,300,114	39,538,760	-	39,538,760
Revenue bonds	<u>186,795,079</u>	<u>117,760,000</u>	<u>57,836,590</u>	<u>246,718,489</u>	<u>5,522,911</u>	<u>241,195,578</u>
	<b><u>\$250,633,953</u></b>	<b><u>\$222,912,739</u></b>	<b><u>\$91,136,704</u></b>	<b><u>\$382,409,988</u></b>	<b><u>\$53,061,996</u></b>	<b><u>\$329,347,992</u></b>

(1) Intergovernmental payable does not include the current intergovernmental payable to the Oklahoma Water Resources Board.

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

**II. B. 5. SEGMENT INFORMATION AND PLEDGED REVENUES**

The Trust issued revenue bonds to support its water and wastewater activities. The financial statements report revenue-supported debt. The Trust recognized \$105,774,669 and \$88,195,775 in water charges and \$72,895,618 and \$68,872,812 in wastewater charges in 2011 and 2010, respectively.

II. C. INTERFUND BALANCES

*Due Within City*

	<u>2011</u>	<u>2010</u>
<b>DUE TO OTHER FUNDS</b>		
General Fund	\$570,331	\$906,784
City Stormwater Drainage Fund	-	2,969
Oklahoma City Environmental Assistance Trust	<u>57,533</u>	<u>-</u>
	<b><u>\$627,864</u></b>	<b><u>\$909,753</u></b>
<b>DUE FROM OTHER FUNDS</b>		
City Grants Management Fund	\$ -	\$189,395
City Stormwater Drainage Fund	361,100	-
City Medical Services Fund	51,566	-
City Water and Wastewater Fund	784,111	3,760,745
Oklahoma City Public Property Authority	1,387,147	-
Oklahoma City Municipal Facilities Authority	<u>468,521</u>	<u>-</u>
	<b><u>\$3,052,445</u></b>	<b><u>\$3,950,140</u></b>
<b>RECEIVABLE FROM</b>		
COTPA	<b><u>\$1,215,432</u></b>	<b><u>\$1,333,750</u></b>

*Advance to MCA*

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

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

In August 1992, the MCA trust indenture was amended to define the relationship between MCA and Participants including the Trust. Payment of the aliquot share of the costs affords the Participants the right to store and transport water they are permitted to use. The portion of funds paid to MCA by the Participants for aliquot shares are a period cost. Payments to MCA from Participants reduce the aliquot share payments receivable.

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

The Trust has transferred funds in excess of its aliquot share to MCA under the Agreement of Support. The amount of funds advanced to MCA was \$43,256,623 and \$41,328,338 as of June 2011 and 2010, respectively.

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

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

On June 29, 1988, the Trust loaned \$2,426,436 to COTPA pursuant to the Agreement. COTPA is obligated under the Agreement to repay this note (without interest) in monthly payments over 20 years from net revenues after all funds, reserves, and accounts of COTPA created by its bond indenture have been reestablished at their minimum required levels. At June 30, 2011 and 2010, the balance of this receivable was \$1,212,500 and \$1,333,750, respectively. The debt service requirement is \$121,500 annually.

**III. NET ASSETS**

*Prior Period Adjustment*

The financial statements for 2010 have been restated for the effect of a prior period adjustment which resulted in a change in net assets and beginning net assets of \$1,215,054. An agreement to construct, operate, and maintain a recycled water system to irrigate the Gaillardia Golf Development golf course was entered into in 1996. The construction cost of \$617,688 was recorded as a capital lease with the cost the assets expected to be paid over the life of the agreement. Prior to completing the construction, the agreement was amended to a recycled water sales contract and assets were donated to the City and OCWUT. The capital lease should have ended and a donated asset recorded on the books. A new agreement was entered into in 2008 between Gaillardia and OCWUT to recover OCWUT's cost of \$763,828 for constructing ultraviolet and chlorination treatment facilities needed to comply with changes in environmental regulations. The effect of the prior period adjustment reduced previously reported 2009 changes in net assets by \$15,442.

**Effect on the Statement of Net Assets**

Remove capital lease liability

Current portion of capital lease	\$22,924
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Non-current portion of capital lease	<u>428,302</u>
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	<u>451,226</u>
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Recognize note receivable

Note receivable for cost recovery	763,828
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<b>Total prior period adjustment</b>	<b><u>\$1,215,054</u></b>
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*Invested in Capital Assets, Net of Related Debt*

	<u>2011</u>	<u>2010</u>
Capital assets, net	\$816,039,897	\$736,928,552
Retainages and accounts payable	(17,923,152)	(14,504,338)
Intergovernmental payable	(56,194,284)	(54,542,331)
Notes payable	(18,461,980)	(9,110,408)
Commercial paper	(12,000,000)	(47,500,000)
Commercial paper construction account funded with proceeds	1,128,991	147,869
Bonds payable, net	(314,621,655)	(252,050,695)
Bond accounts funded with bond proceeds	22,166,668	29,651,673
Bond issuance costs paid with bond proceeds	<u>5,310,802</u>	<u>5,157,403</u>
	<u><b>\$425,445,287</b></u>	<u><b>\$394,177,725</b></u>

*Restricted for Capital Projects*

	<u>2011</u>	<u>2010</u>
Commercial paper reserve for construction projects	\$1,128,991	\$147,869
Commercial paper construction account funded with proceeds	(1,128,991)	(147,869)
Bond construction account	126,918	12,090,536
Bond construction account funded with bond proceeds	(126,918)	(12,090,536)
Interest receivable on construction accounts	<u>2</u>	<u>14</u>
	<u><b>\$2</b></u>	<u><b>\$14</b></u>

*Restricted for Debt Service*

	<u>2011</u>	<u>2010</u>
Bond principal and interest accounts	\$24,631,699	\$17,945,790
Bond reserve	28,754,394	26,026,158
Bond reserve funded with bond proceeds	(22,039,750)	(17,561,137)
Interest receivable on bond investments	191	141,759
Current bond interest payable	<u>(15,265,369)</u>	<u>(13,910,798)</u>
	<u><b>\$16,081,165</b></u>	<u><b>\$12,641,772</b></u>

*Unrestricted*

	<u>2011</u>	<u>2010</u>
Unrestricted	<u><b>\$125,147,642</b></u>	<u><b>\$95,407,586</b></u>

**IV. REVENUES AND EXPENSES**

**IV. A. SPECIAL ASSESSMENTS**

Special assessments are levied against a water or sewer group of homes to pay for construction or extension of service by the Trust. The Trust charges each homeowner for their individual share of the construction cost, amortized over a 10-year period. Amounts receivable are reported with accounts receivable. In fiscal year 2011 and 2010, the Trust collected \$14,815 and \$29,732, respectively.

**IV. C. INTERFUND TRANSFERS**

*Transfers Within the City*

	<u>2011</u>	<u>2010</u>
<b>TRANSFERS FROM OTHER FUNDS</b>		
City Water and Wastewater Fund	\$1,896,930	\$3,980,601
City Public Property Authority Fund	1,387,147	-
City Special Purpose Fund	35	-
City Solid Waste Management Fund	<u>220,199</u>	<u>-</u>
	<b><u>\$3,504,311</u></b>	<b><u>\$3,980,601</u></b>
	<u>2011</u>	<u>2010</u>
<b>TRANSFERS TO OTHER FUNDS</b>		
City General Fund	\$4,779,318	\$4,160,877
City Information Technology Fund	-	28,000
City Street and Alley Fund	-	37,808
City Bond Fund	-	123,283
MCA	<u>4,327,650</u>	<u>4,478,573</u>
	<b><u>\$9,106,968</u></b>	<b><u>\$8,828,541</u></b>

The day to day operation of the system is carried out in the City Water and Wastewater Fund. At year end, all of the personnel, supplies, and other operating expenses of the City fund are transferred to the Trust.

**Lease Agreement**

A water lease agreement dated August 1, 1960, amended July 1, 1986, and a separate wastewater lease agreement dated July 1, 1986, between the Trust and the City provide that all City-owned water and wastewater system assets (as of the date of the lease, as well as property acquired thereafter) would be leased to the Trust. The lease also provides that all revenue generated by these assets will accrue to the Trust. Pursuant to a lease extension dated May 20, 2003, the water and wastewater lease term continues until June 30, 2050, or until all indebtedness authorized by the general bond indenture has been paid or provision has been made for it to be paid, whichever is later. In connection with the lease extension, the Trust is required to transfer an annual lease payment of one percent of gross revenue receipts from residential and commercial utilities sales. For fiscal years 2011 and 2010, the Trust made annual lease payments of \$1,593,106 and \$1,386,958, respectively.

**Transfers in Lieu of Franchise Fees**

During fiscal year 2011 and 2010, \$3,186,212 and \$2,773,919, respectively, were transferred to the City General Fund in lieu of fees paid for the exclusive right to provide water services to the citizens of the City.

***Administrative and Internal Service Chargebacks***

City employees perform all administrative and management services for the Trust. Reimbursements for the costs of these services are included in the transfers to the City Water and Wastewater Fund. During fiscal year 2011 and 2010, \$66,857,627 and \$63,800,000 was transferred to the City Water and Wastewater Fund for operations. Of this amount \$11,491,517 and \$5,736,644, respectively, was paid to the City General Fund from the City Water and Wastewater Fund for administrative and internal service charges.

**V. COMMITMENTS**

	<u>2011</u>	<u>2010</u>
Construction projects -system improvements	\$67,709,504	\$20,082,965
Contracted wastewater treatment services	<u>24,304,572</u>	<u>14,556,338</u>
	<b><u>\$92,014,076</u></b>	<b><u>\$34,639,303</u></b>

In 2011, construction projects are funded with commercial paper, utility charges, and Oklahoma Water Resources Board loans. In 2010, Revenue Bonds Series 2009A funded \$40,000,000 of the Atoka pipeline project.

**VI. CONTINGENCIES**

*Litigation*

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

**VII. RELATED PARTY TRANSACTIONS**

*LARA - Jointly Governed Organizations*

LARA was formed under the provisions of an interlocal agreement. The agreement provides that the Trust will reimburse LARA for the budgeted or actual expenditures. The Trust reimbursed LARA for expenditures in fiscal year 2011 and 2010 in the amount of \$222,656 and \$182,780, respectively.

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

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

We have audited the basic financial statements of the Oklahoma City Water Utilities Trust (the Trust), a component unit of the City of Oklahoma City, Oklahoma (the City), as of and for the year ended June 30, 2011, and have issued our report thereon dated December 5, 2011, which contained an explanatory paragraph disclosing that the prior year financial statements have been restated. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Trust's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 11-01 to be a material weakness.

**Compliance and Other Matters**

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

We also noted certain matters that we reported to the Trust's management in a separate letter dated December 5, 2011.

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

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

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

*BKD, LLP*

December 5, 2011

**Oklahoma City Water Utilities and Trust**  
Schedule of Findings and Responses  
Year Ended June 30, 2011

<b>Reference Number</b>	<b>Finding</b>
11-01	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – During 2011, management identified certain adjustments in the initial accounting of transactions relating to a capital lease and note receivable related to agreements with a golf course and third-party service provider, which required restatement of prior year financial statements. The material nature of the adjustments indicates a deficiency in the internal controls of the Trust.</p> <p>Context – Timely and accurate financial statements are critical to managing operations and communicating financial position and results of operations to interested parties.</p> <p>Effect – Material misstatements in the financial statements resulted from errors not detected and/or corrected in a timely manner which resulted in a restatement of prior year’s financial statements.</p> <p>Cause – Notifications of these nonstandard transactions were not communicated to the appropriate personnel for recording in the Trust’s financial statements.</p> <p>Recommendation – We recommend the Trust’s management evaluate the current notification procedures and communication of nonstandard transaction, so that those transactions may be properly evaluated and reported within the Trust’s financial statements.</p> <p>Views of Responsible Officials and Planned Corrective Actions – The Finance Department-Accounting Services Division reviews Trust agendas for identifying non-routine transactions and makes determinations regarding necessary accounting transactions. In addition, the Accounting Services Division has established a year-end closing process to review for unusual events occurring during the year.</p>