



McGee Creek Authority

A blended component unit of The Oklahoma City Water Utilities Trust
Annual Financial Report | for the Fiscal Year ended June 30, 2020

MCGEE CREEK AUTHORITY

Farris, Oklahoma

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

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Southern Oklahoma Development Trust

Management

Chris Browning, General Manager

Annual Financial Report for the Fiscal Year Ended June 30, 2020

Prepared by The Oklahoma City Finance Department, Accounting Services Division
Angela Pierce, CPA, Assistant Finance Director/Controller

MCGEE CREEK AUTHORITY

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Introductory Section



McGee Creek Authority

November 20, 2020

The Board of Trustees
McGee Creek Authority
Farris, Oklahoma

The McGee Creek Authority (Authority) audited annual financial report (annual report) provides a comprehensive overview of the Authority's financial position and the results of operations during the fiscal years ended June 30, 2020 and 2019. It complies with reporting requirements specified by Oklahoma Statutes and the dictates of effective financial management practices. The Oklahoma City Finance Department, Accounting Services Division, prepared this report in compliance with accounting principles generally accepted in the United States of America (U.S. GAAP). It is fairly stated in all material respects. Responsibility for the accuracy of the reported information and the completeness and fairness of the presentation, including disclosures, rests with the Authority's management.

The Authority's annual report includes the reports of independent auditors, management's discussion and analysis (MD&A), financial statements, and related notes. Management's narrative on the financial activities of the Authority for the fiscal years ended June 30, 2020 and 2019, is in the MD&A section of this report, immediately following the independent auditor's report on financial statements and required supplementary information. The Authority's reporting entity is comprised of financial and operating activities conducted within the legal framework of the Authority. The Authority is a blended component unit of the Oklahoma City Water Utilities Trust (OCWUT) and, as such, is included within the funds of OCWUT's annual financial report. OCWUT is a discretely presented component unit of the City of Oklahoma City (City) and the blended financial activities of OCWUT and the Authority are presented in the aggregate in the City's Comprehensive Annual Financial Report.

The Authority was established on August 1, 1977, to develop, operate and maintain the McGee Creek Reservoir (Reservoir) and to provide a municipal and industrial water supply for participants of the Authority (Participants) in central and southern Oklahoma. The Participants in the Authority are the City of Atoka, the County of Atoka, the Southern Oklahoma Development Trust, the City, and OCWUT.

The Authority operates and maintains the Reservoir and associated facilities, including an attached water pipeline, a surge tank, a regulating tank, a maintenance complex, and land easements surrounding these facilities. The U.S. Department of Interior, Bureau of Reclamation (Bureau) financed the construction of the Authority water system and granted the Authority operational use of the project office, aqueduct, appurtenances, and other operation and maintenance related facilities on September 1, 1990. In November 1992, the Authority issued revenue bonds to purchase water storage rights and specific assets at the Reservoir for an amount equal to the Bureau's construction costs for the McGee Creek Dam (Dam), Reservoir, and related assets. The Authority does not own the Dam or Reservoir.

The trust indenture of the Authority details the aliquot share requirements of the Participants. Aliquot share revenues and payments from the OCWUT representing the aliquot share requirements of the City are collected to fund cash requirements for debt service and operations. OCWUT, through an agreement of support (OCWUT Agreement), has pledged water revenues, not otherwise obligated, to supplement aliquot share revenue collections as needed.

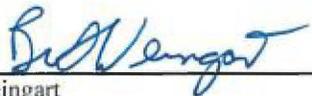
The City includes the Authority in its comprehensive accounting and budgetary system. Interim financial statements provide Authority management and other interested readers with regular financial analysis. Additionally, the Authority's management maintains budgetary controls to ensure effective financial oversight.

In compliance with statutory requirements, the Authority engaged Allen, Gibbs, and Houlik, L.C. to conduct its annual audit. The Authority acknowledges the professional and competent services of its independent auditors.

Respectfully submitted:



Chris Browning, General Manager
The City of Oklahoma City
Utilities Department Director



Bret Weingart
The City of Oklahoma City
Utilities Department Assistant Director



Angela Pierce, CPA
The City of Oklahoma City
Assistant Finance Director/Controller

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
McGee Creek Authority
Farris, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of McGee Creek Authority (Authority), a blended component unit of The City of Oklahoma City Water Utilities Trust, as of and for the years ended June 30, 2020 and 2019, and the related notes to financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2020 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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

November 20, 2020
Wichita, KS

Financial Section

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the McGee Creek Authority (Authority) annual financial report, the Authority's management provides narrative discussion and analysis of the financial activities of the Authority for the fiscal years ended June 30, 2020 and 2019. The Authority's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. Introductory information is available in the transmittal letter which precedes this discussion and analysis.

The Authority reports services for which the Authority charges customers a fee. Services are provided to customers external to the Authority and consists primarily of water storage and supply services. The Authority is a blended component unit of the Oklahoma City Water Utilities Trust (OCWUT).

Financial Summary

- Authority assets exceeded liabilities by \$66,298,596 (net position) for 2020. This compares to the previous year when assets exceeded liabilities by \$60,748,172 (net position).
- Total assets for the Authority increased by \$2,273,044 (1.6%) to \$145,954,449 during 2020 and increased by \$1,665,163 (1.2%) to \$143,681,405 for 2019.
- Total liabilities for the Authority decreased by \$3,277,380 (4.0%) to \$79,655,853 during 2020 and decreased by \$3,161,958 (3.7%) to \$82,933,233 during 2019.
- Total net position is comprised of the following:
 - (1) Net investment in capital assets of \$58,106,051 and \$52,816,825 for 2020 and 2019, respectively, includes property and equipment, net of accumulated depreciation and reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) Net position restricted for debt service for 2020 and 2019 of \$9,001,256 and \$8,833,952, respectively, is restricted by constraints imposed by debt covenants.
 - (3) Unrestricted deficit is \$808,711 for 2020 and \$902,605 for 2019.

Overview of the Financial Statements

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

Financial Statements

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

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

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

The third statement is the statement of cash flows which reports the inflows and outflows of cash.

Notes to the Financial Statements

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

Financial Analysis

The Authority's net position at June 30, 2020 and 2019, is \$66,298,596 and \$60,748,172, respectively. The overall financial condition of the Authority improved in fiscal year 2020.

	Summary of Net Position						
	2020	2019	2020-2019 Amount of Change	2020-2019 %	2018	2019-2018 Amount of Change	2019-2018 %
Assets							
Current assets	\$4,232,122	\$4,136,129	\$95,993	2.3%	\$3,950,054	\$186,075	4.7%
Capital assets, net	73,875,965	73,751,618	124,347	0.2	74,059,777	(308,159)	(0.4)
Other non-current assets	<u>67,846,362</u>	<u>65,793,658</u>	<u>2,052,704</u>	3.1	<u>64,006,411</u>	<u>1,787,247</u>	2.8
Total assets	<u>145,954,449</u>	<u>143,681,405</u>	<u>2,273,044</u>	1.6	<u>142,016,242</u>	<u>1,665,163</u>	1.2
Liabilities							
Current liabilities	6,268,844	6,041,024	227,820	3.8	5,848,982	192,042	3.3
Non-current liabilities	<u>73,387,009</u>	<u>76,892,209</u>	<u>(3,505,200)</u>	(4.6)	<u>80,246,209</u>	<u>(3,354,000)</u>	(4.2)
Total liabilities	<u>79,655,853</u>	<u>82,933,233</u>	<u>(3,277,380)</u>	(4.0)	<u>86,095,191</u>	<u>(3,161,958)</u>	(3.7)
Net position							
Net investment							
in capital assets	58,106,051	52,816,825	5,289,226	10.0	48,229,889	4,586,936	9.5
Restricted for debt service	9,001,256	8,833,952	167,304	1.9	8,593,261	240,691	2.8
Unrestricted	<u>(808,711)</u>	<u>(902,605)</u>	<u>93,894</u>	10.4	<u>(902,099)</u>	<u>(506)</u>	(0.1)
Total net position	<u>\$66,298,596</u>	<u>\$60,748,172</u>	<u>\$5,550,424</u>	9.1	<u>\$55,921,051</u>	<u>\$4,827,121</u>	8.6

Current assets increased \$96 thousand in 2020 primarily due to an increase in cash and investments of \$31 thousand, an increase of interest receivable of \$37 thousand, and an increase in accounts receivable of \$42 thousand. Current assets increased \$186 thousand in 2019 primarily due to an increase in interest receivable of \$211 thousand due to timing of interest payments.

Capital assets increased \$124 thousand in 2020 due to \$847 thousand in capital improvements and equipment purchases, offset by \$723 thousand in normal depreciation. In 2019, capital assets decreased \$308 thousand due to \$752 thousand in normal depreciation and asset retirements of \$22 thousand, offset by \$466 thousand in capital improvements and equipment purchases.

Other non-current assets increased \$2.05 million and \$1.79 million in 2020 and 2019, respectively, due to increases in aliquot share receivable of \$2.06 million and \$2.01 million.

Current liabilities increased \$228 thousand and \$192 thousand in 2020 and 2019, respectively. Bonds payable increased \$320 thousand and \$295 thousand in 2020 and 2019, respectively, for the reclassification of regularly scheduled bond principal payments to current liabilities, offset by scheduled bond payments. Accounts payable and accrued expenses increased \$64 thousand and \$41 thousand in 2020 and 2019, respectively, due to timing of vendor payments. Bond interest payable decreased \$158 thousand and \$149 thousand in 2020 and 2019, respectively, related to regularly scheduled debt service.

Non-current liabilities decreased \$3.51 million and \$3.35 million in 2020 and 2019, respectively, due primarily to decreases in bonds payable due to the reclassification of \$5.59 million and \$5.27 million to current liabilities for regularly scheduled debt service, offset by increases in advances from OCWUT for amounts received in excess of aliquot share requirements to fund operating costs and debt service of \$2.02 million and \$1.84 million as of June 30, 2020 and 2019, respectively.

Summary of Revenues, Expenses, and Changes in Net Position							
			2020-2019	2020-2019			2019-2018
			Amount of	%			Amount of
	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>Change</u>	<u>2018</u>	<u>Change</u>	<u>Change</u>
Operating revenues							
Charges for services	\$7,506,581	\$7,164,328	\$342,253	4.8%	\$7,063,353	\$100,975	1.4%
Other operating revenue	<u>127</u>	<u>271</u>	<u>(144)</u>	(53.1)	<u>104</u>	<u>167</u>	160.6
Total operating revenues	<u>7,506,708</u>	<u>7,164,599</u>	<u>342,109</u>	4.8	<u>7,063,457</u>	<u>101,142</u>	1.4
Operating expenses	<u>1,477,610</u>	<u>1,299,129</u>	<u>178,481</u>	13.7	<u>1,357,736</u>	<u>(58,607)</u>	(4.3)
Net operating income	6,029,098	5,865,470	163,628	2.8	5,705,721	159,749	2.8
Net non-operating expenses	<u>(478,674)</u>	<u>(1,038,349)</u>	<u>559,675</u>	53.9	<u>(1,314,599)</u>	<u>276,250</u>	21.0
Changes in net position	5,550,424	4,827,121	723,303	15.0	4,391,122	435,999	9.9
Beginning net position	<u>60,748,172</u>	<u>55,921,051</u>	<u>4,827,121</u>	8.6	<u>51,529,929</u>	<u>4,391,122</u>	8.5
Ending net position	<u>\$66,298,596</u>	<u>\$60,748,172</u>	<u>\$5,550,424</u>	9.1	<u>\$55,921,051</u>	<u>\$4,827,121</u>	8.6

Charges for services increased \$342 thousand and \$101 thousand in 2020 and 2019, primarily due to aliquot share revenues related to changes in cash requirements. Operating expenses increased by \$178 thousand in 2020 and decreased \$59 thousand in 2019, respectively, primarily due to changes in electricity usage related to the demand for pumping to Lake Atoka.

In 2020, net non-operating expenses decreased \$560 thousand primarily due to a decrease in bond interest expense of \$316 thousand, an increase in investment income of \$131 thousand, an increase of Bureau of Reclamation revenue of \$62 thousand, and the sale of surplus property of \$19 thousand. During 2019, net non-operating expenses decreased \$276 thousand primarily for a decrease in bond interest expense of \$298 thousand.

Capital Assets and Long-term Debt

Capital Assets

The Authority's investment in capital assets, net of accumulated depreciation, as of June 30, 2020 and 2019, is \$73,875,965 and \$73,751,618, respectively.

	Capital Assets						
			Net of Accumulated Depreciation				
	<u>2020</u>	<u>2019</u>	2020 - 2019 Amount of <u>Change</u>	2020 - 2019 % <u>Change</u>	<u>2018</u>	2019 - 2018 Amount of <u>Change</u>	2019 - 2018 % <u>Change</u>
Non-Depreciable Assets							
Land and water storage rights	\$61,528,696	\$61,528,696	\$ -	0.0%	\$61,528,696	\$ -	0.0%
Construction in progress	<u>1,186,246</u>	<u>565,067</u>	<u>621,179</u>	109.9	<u>220,571</u>	<u>344,496</u>	156.2
Total non-depreciable assets	<u>62,714,942</u>	<u>62,093,763</u>	<u>621,179</u>	1.0	<u>61,749,267</u>	<u>344,496</u>	0.6
Depreciable Assets							
Buildings	1,997,326	2,094,805	(97,479)	(4.7)	2,201,784	(106,979)	(4.9)
Improvements other than buildings	8,811,731	9,372,075	(560,344)	(6.0)	9,963,970	(591,895)	(5.9)
Furniture, machinery, and equipment	<u>351,966</u>	<u>190,975</u>	<u>160,991</u>	84.3	<u>144,756</u>	<u>46,219</u>	31.9
Total depreciable assets	<u>11,161,023</u>	<u>11,657,855</u>	<u>(496,832)</u>	(4.3)	<u>12,310,510</u>	<u>(652,655)</u>	(5.3)
Totals	<u>\$73,875,965</u>	<u>\$73,751,618</u>	<u>\$124,347</u>	0.2	<u>\$74,059,777</u>	<u>(\$308,159)</u>	(0.4)

Capital assets increased \$124 thousand in 2020. Construction in progress increased \$621 thousand primarily related to an engineering project for the pump station and pipeline facilities evaluation at McGee Creek Lake. Total depreciable assets decreased \$497 thousand due to normal depreciation expense of \$723 thousand, offset by a \$216 thousand increase in equipment.

Capital assets decreased \$308 thousand in 2019. Construction in progress increased \$344 thousand primarily related to an engineering project for the pump station and pipeline facilities evaluation at McGee Creek Lake. Total depreciable assets decreased \$497 thousand due to normal depreciation expense of \$752 thousand, and asset retirements of \$22 thousand, offset by a \$121 thousand increase in equipment. See Note II. E. for more information regarding capital assets.

Long-term Debt

At the end of the 2020 and 2019 fiscal years, the Authority had total debt outstanding of \$78,919,929 and \$82,163,418, respectively.

Payable to OCWUT

On December 1, 1992, OCWUT and the Authority entered into an agreement (OCWUT Agreement) in conjunction with the issuance of the Series 1992 Water Revenue Bonds. The OCWUT Agreement details OCWUT's pledge of water utility revenues, not otherwise pledged or required by OCWUT. OCWUT is required to provide cash payments as needed to the Authority to fund debt service requirements, operation and maintenance, extraordinary expenses and capital improvements, as well as maintain the bond fund minimum required reserve balance. The Authority reports payments from OCWUT as payable for amounts paid on behalf of the other participants of the Authority. See Note V. A. for more information regarding interfund balances.

Revenue Bonds

The Authority Series 1992 Water Revenue Bonds were issued to purchase water storage rights and related assets, which in effect, repaid construction costs to the Bureau of Reclamation (Bureau) for the McGee Creek Reservoir. These bonds are secured by aliquot share revenues from participants of the Authority. In addition, the OCWUT Agreement provides OCWUT will advance the Authority funds as necessary. Should the Authority not have adequate funds, OCWUT is required under the terms of the OCWUT Agreement to transfer the funds necessary for the Authority to pay the principal and interest due annually. It is anticipated that the cash payments received from OCWUT will be used to repay the obligation.

The general bond indenture provides that the trustees of the Authority will generate revenue annually to equal 100% of the annual principal and interest requirements on the bonds for the year, plus an amount necessary to comply in all respects with the terms and provisions of the bond indenture. Amounts received from Participants and from OCWUT under the OCWUT Agreement are considered in determining the amount needed to comply with the indenture requirements. The Authority met this obligation for fiscal years 2020 and 2019. See Note III. C. for more information regarding revenue bonds.

Outstanding Long-term Debt

	2020 - 2019		2020 - 2019		2019 - 2018		2019 - 2018	
	2020	2019	Amount of	%	2018	Amount of	%	
			Change	Change		Change	Change	
Payable to OCWUT	\$61,139,929	\$59,118,418	\$2,021,511	3.4%	\$57,276,703	\$1,841,715	3.2%	
Revenue bonds	<u>17,780,000</u>	<u>23,045,000</u>	<u>(5,265,000)</u>	(22.8)	<u>28,015,000</u>	<u>(4,970,000)</u>	(17.7)	
	<u>\$78,919,929</u>	<u>\$82,163,418</u>	<u>(\$3,243,489)</u>	(3.9)	<u>\$85,291,703</u>	<u>(\$3,128,285)</u>	(3.7)	

The change in outstanding debt for both 2020 and 2019 is the result of amounts received under the OCWUT Agreement and scheduled principal bond debt service payments. See Note III. D. for more information on changes in long-term debt.

Bond Ratings

As of June 30, 2020 and 2019, Moody's Rating Services reported a credit rating of Baa2, which represents the credit rating of the insurer of the bonds. The Authority bonds are fully insured.

Economic Factors

Utility Rates

Aliquot share revenue may be generated by payments from surrogates or designees of Participants. The Authority uses OCWUT's cost of service study information as a basis for determining rates and charges. In October 2014, a new tiered rate structure went into effect with rates based on meter size and usage volume. These rates were updated during the 2017 cost of service study and were implemented January 1, 2018.

Contacting the Authority's Financial Management

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

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Basic Financial Statements

Proprietary Fund Financial Statements

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

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

STATEMENTS OF NET POSITION
June 30,

MCGEE CREEK AUTHORITY

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Non-pooled cash-----	\$720,882	\$128,345
Investments-----	3,004,747	3,566,646
Accounts receivable, net-----	74,535	32,385
Interest receivable-----	272,851	235,509
Receivable from Oklahoma City Water Utilities Trust-----	77,971	77,971
Receivable from City of Oklahoma City-----	15	26,639
Intergovernmental receivables-----	75,109	60,522
Prepays-----	6,012	8,112
Total current assets-----	<u>4,232,122</u>	<u>4,136,129</u>
<u>NON-CURRENT ASSETS</u>		
Investments-----	6,876,158	6,875,647
Intergovernmental aliquot share receivable-----	60,964,996	58,906,791
Non-current prepaids-----	5,208	11,220
Capital assets:		
Land, water storage rights and construction in progress-----	62,714,942	62,093,763
Other capital assets, net of accumulated depreciation-----	11,161,023	11,657,855
Total capital assets-----	<u>73,875,965</u>	<u>73,751,618</u>
Total non-current assets-----	<u>141,722,327</u>	<u>139,545,276</u>
Total assets-----	<u>145,954,449</u>	<u>143,681,405</u>
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses-----	115,799	52,090
Wages and benefits payable-----	12,491	13,783
Payable to City of Oklahoma City-----	5,249	2,823
Compensated absences-----	16,905	15,978
Bond interest payable-----	533,400	691,350
Bonds payable-----	5,585,000	5,265,000
Total current liabilities-----	<u>6,268,844</u>	<u>6,041,024</u>
<u>NON-CURRENT LIABILITIES</u>		
Compensated absences-----	71,390	63,388
Intergovernmental payable-----	32,371	19,447
Payable to Oklahoma City Water Utilities Trust-----	61,139,929	59,118,418
Bonds payable:		
Bonds payable-----	12,195,000	17,780,000
Unamortized bond discount-----	(51,681)	(89,044)
Bonds payable, net-----	<u>12,143,319</u>	<u>17,690,956</u>
Total non-current liabilities-----	<u>73,387,009</u>	<u>76,892,209</u>
Total liabilities-----	<u>79,655,853</u>	<u>82,933,233</u>
<u>NET POSITION</u>		
Net investment in capital assets-----	58,106,051	52,816,825
Restricted for debt service-----	9,001,256	8,833,952
Unrestricted-----	(808,711)	(902,605)
Total net position-----	<u>\$66,298,596</u>	<u>\$60,748,172</u>

See accompanying notes to financial statements.

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

MCGEE CREEK AUTHORITY

For the Years Ended June 30,

	<u>2020</u>	<u>2019</u>
<u>OPERATING REVENUES</u>		
Charges for services:		
Aliquot share charges-----	\$2,488,959	\$2,514,701
Aliquot share payments from Oklahoma City Water Utilities Trust-----	5,017,622	4,649,627
Total charges for services-----	7,506,581	7,164,328
Other-----	127	271
Total operating revenues-----	7,506,708	7,164,599
<u>OPERATING EXPENSES</u>		
Personal services-----	306,474	288,347
Maintenance, operations, and contractual services-----	394,970	180,550
Materials and supplies-----	53,408	78,702
Depreciation-----	722,758	751,530
Total operating expenses-----	1,477,610	1,299,129
Operating income-----	6,029,098	5,865,470
<u>NET NON-OPERATING EXPENSES</u>		
Investment income-----	705,908	574,736
Interest on bonds-----	(1,262,113)	(1,578,289)
Bond insurance-----	(8,112)	(10,093)
Arbitrage-----	(12,925)	(19,447)
Other revenue (expenses)-----	98,568	(5,256)
Net non-operating expenses-----	(478,674)	(1,038,349)
Changes in net position-----	5,550,424	4,827,121
Total net position, beginning-----	60,748,172	55,921,051
Total net position, ending-----	\$66,298,596	\$60,748,172

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS
For the Years Ended June 30,

MCGEE CREEK AUTHORITY

	<u>2020</u>	<u>2019</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash received from customers-----	\$7,454,493	\$6,993,832
Cash payments to suppliers for goods and services-----	(445,003)	(205,840)
Cash payments to employees and professional contractors for services-----	(298,836)	(279,266)
Other cash receipts-----	64,798	29,314
Net cash provided by operating activities-----	6,775,452	6,538,040
<u>CASH FLOWS FROM CAPITAL AND CAPITAL RELATED FINANCING ACTIVITIES</u>		
Payments for acquisition and construction of capital assets-----	(784,579)	(437,134)
Principal paid on long-term debt-----	(5,265,000)	(4,970,000)
Interest paid on long-term debt-----	(1,382,700)	(1,680,900)
Proceeds from sale of assets-----	19,414	-
Net cash used by capital and capital related financing activities-----	(7,412,865)	(7,088,034)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Payments for purchase of investments-----	(26,237,188)	(32,512,865)
Proceeds from sale of investments-----	26,870,758	32,613,604
Investment income received-----	596,380	382,408
Net cash provided by investing activities-----	1,229,950	483,147
Net increase (decrease) in cash-----	592,537	(66,847)
Cash, beginning-----	128,345	195,192
Cash, ending-----	\$720,882	\$128,345
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>		
Operating income-----	\$6,029,098	\$5,865,470
<u>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>		
Depreciation-----	722,758	751,530
Other revenue (expense)-----	71,274	6,829
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable-----	(42,150)	(3,071)
(Increase) decrease in due from other funds-----	-	40,385
(Increase) decrease in receivable from City of Oklahoma City-----	26,624	(115)
(Increase) decrease in prepaid assets-----	8,112	11,128
(Increase) decrease in intergovernmental receivable-----	(14,587)	12,392
(Increase) decrease in intergovernmental aliquot share receivable-----	(2,058,205)	(2,009,297)
Increase (decrease) in accounts payable-----	954	12,732
Increase (decrease) in wages and benefits payable-----	(1,292)	1,871
Increase (decrease) in payable to the Oklahoma City Water Utilities Trust-----	2,021,511	1,841,715
Increase (decrease) in payable to City of Oklahoma City-----	2,426	(742)
Increase (decrease) in compensated absences-----	8,929	7,213
Total adjustments-----	746,354	672,570
Net cash provided by operating activities-----	\$6,775,452	\$6,538,040
<u>NON-CASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</u>		
Net increase (decrease) in fair value of investments-----	\$72,185	(\$18,195)
Total non-cash investing, capital, and financing activities-----	\$72,185	(\$18,195)

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 McGee Creek Authority (Authority) financial activities for the fiscal years ended June 30, 2020 and 2019.

I. B. REPORTING ENTITY AND RELATIONSHIP TO THE OKLAHOMA CITY WATER UTILITIES TRUST (TRUST) AND THE CITY OF OKLAHOMA CITY (CITY)

Reporting Entity

The Authority is a public trust created pursuant to Title 60 of the Oklahoma statutes, sections 176 to 180.4 inclusive, et seq. The Authority was established on August 1, 1977. The purpose of the Authority is, generally, to act as the contracting party for acquiring land, constructing facilities, and operating and maintaining a water storage and transportation facility at the McGee Creek Reservoir (Reservoir). The beneficiaries of the Authority (Beneficiaries) are the City; City of Atoka, Oklahoma; Atoka County, Oklahoma; and Southern Oklahoma Development Trust. The participants of the Authority (Participants) are the Beneficiaries and Oklahoma City Water Utilities Trust (OCWUT).

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

Recreation activities at the Reservoir are managed by the Oklahoma Department of Wildlife Conservation and the Oklahoma Tourism and Recreation Department. The Authority does not manage recreation activities.

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

The Authority is presented as a blended component unit of OCWUT and is presented with OCWUT's financial reporting entity. The Authority meets the requirements for blending because OCWUT is expected to fund the repayment of the Authority's debt. The financial activities of the Authority are blended and presented in the OCWUT annual statement. The blended financial activities of OCWUT and the Authority are presented in aggregate in the City's CAFR. The OCWUT annual statement and the City CAFR may be obtained from the Finance Department, Accounting Services Division, 100 N. Walker Avenue, Suite 300, Oklahoma City, OK 73102.

Authority Administration

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

I. B. 1. BASIC FINANCIAL STATEMENTS

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

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

Generally Accepted Accounting Principles (U.S. GAAP)

The financial statements of the Authority are prepared in accordance with U.S. GAAP. The Authority applies all relevant GASB pronouncements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

I. C. BUDGET LAW AND PRACTICE

Oklahoma Statutes require the submission of financial information for public trusts. However, legal budgetary control levels are not specified. Accordingly, financial information for the Authority is submitted to its governing body. Appropriations are not recorded. Management's policy prohibits disbursements which exceed available cash.

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

I. D. 1. IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

In May of 2020, the Governmental Accounting Standards Board (GASB) issued statement number 95, Postponement of the Effective Dates of Certain Authoritative Guidance, effective immediately to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. Certain Statements that first became effective after June 15, 2018 and later have been postponed by one year up to 18 months depending upon the pronouncement. The Authority has elected to postpone implementation of GASB statement number 84 Fiduciary Activities and GASB statement number 90 Majority Equity Interests to fiscal year 2021.

I. D. 2. CASH AND INVESTMENTS

Cash and Investments

The Authority's governing board has not formally adopted deposit and investment policies other than applicable deposit and investment policies specified in the bond indenture.

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

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

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

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

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

Level 3 - Significant unobservable prices or inputs.

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

I. D. 3. RECEIVABLES AND UNCOLLECTIBLE ACCOUNTS

Significant receivables include amounts due from Participants and surrogates or designees of Participants for actual water usage. Accounts receivable are reported net of an allowance for uncollectible accounts and revenues are reported net of uncollectible amounts. The allowance amount is estimated using accounts receivable past due more than 90 days.

I. D. 4. PREPAIDS

Prepays are payments to vendors that benefit future reporting periods and are reported on the consumption basis. Non-current prepaids benefit periods beyond the following 12-month period. Payments to vendors that are less than \$5,000 are considered de minimus and are reported with expenses in the year of payment.

I. D. 5. RESTRICTED ASSETS

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

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

I. D. 6. CAPITALIZED INTEREST

Interest costs are capitalized when incurred by enterprise funds on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized.

I. D. 7. CAPITAL ASSETS AND DEPRECIATION

Property and equipment are valued at cost and presented net of accumulated depreciation. The Authority generally capitalizes assets with cost of \$10,000 or more. Depreciation is computed on the straight-line method over the estimated useful lives of the assets.

Maintenance and repairs are charged to operations, while renewals and betterments are capitalized. When the Authority disposes of property and equipment, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	10 - 50
Infrastructure and improvements other than buildings	10 - 50
Equipment, furniture, and machinery	5 - 20

I. D. 8. BOND DISCOUNT

Bond discounts related to the issuance of revenue bonds are capitalized and amortized over the term of the respective bonds using a method that approximates the effective interest method.

I. D. 9. COMPENSATED ABSENCES

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

I. D. 10. RISK MANAGEMENT

The Authority's risk management activities are recorded in the City Risk Management Fund and the Oklahoma City Municipal Facilities Authority (OCMFA) Services Fund. The purpose of these funds is to administer property and liability insurance programs of the City, in which the Authority participates. These funds account for the risk financing activities of the Authority and constitute a transfer of risk from the Authority.

The Authority has no costs or liabilities related to risk management activities. Costs and liabilities for commercial insurance, stop-loss insurance, and related claims paid are recorded in the City Risk Management Fund and the OCMFA Services Fund.

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic and recommended worldwide mitigation measures. The extent of COVID-19's effect on the Authority's operational and financial performance will depend on future developments, including the duration, spread and intensity of the pandemic, all of which are uncertain and difficult to predict considering the rapidly evolving landscape. As a result, it is not currently possible to ascertain the overall impact of COVID-19 on the operations. However, if the pandemic continues to evolve it is likely to have a negative impact on aliquot share revenues received from participating municipalities.

I. D. 11. FUND EQUITY

Net Position

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

Net Investment in Capital Assets

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

Restricted Net Position

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

I. D. 12. USE OF ESTIMATES

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

I. E. MAJOR REVENUES

Aliquot share revenues represent revenues collected or collectible from Participants. OCWUT aliquot share payments are reported as payments from OCWUT. The Authority Trust Indenture assigns the aliquot shares of the Participants and details the requirements of the Participants to fund the Authority cash requirements based on the aliquot share ratio.

I. F. TAX STATUS

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

I. G. RETAINAGES

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

II. ASSETS

II. A. DEPOSITS AND INVESTMENTS

Deposits

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

At June 30, 2020 and 2019, the Authority's cash is collateralized with securities held by the pledging financial institution in the name of the Authority or the City, less the Federal depository insurance.

Investments

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019

MCGEE CREEK AUTHORITY

2020								
	Cost	Fair Value/ Carrying Amount	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Measured at NAV (1)	Average Credit Quality/ Ratings (2)	Weighted Average (months) (3)
Money market (4)(5)	\$364,718	\$364,718	\$364,718	\$ -	\$ -	\$ -	AAA/Aaa	1.30
U.S. Treasury bills	1,861,555	1,907,154	-	1,907,154	-	-	N/A	6.13
U.S. Treasury notes	926,455	956,533	-	956,533	-	-	N/A	6.13
Guaranteed investment contracts (4)	<u>6,652,500</u>	<u>6,652,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	A/A1	30.53
	<u>\$9,805,228</u>	<u>\$9,880,905</u>	<u>\$364,718</u>	<u>\$2,863,687</u>	<u>\$-</u>	<u>\$-</u>		

2019								
	Cost	Fair Value/ Carrying Amount	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Measured at NAV (1)	Average Credit Quality/ Ratings (2)	Weighted Average (months) (3)
Money market (4)(5)	\$3,347,557	\$3,347,557	\$3,347,557	\$ -	\$ -	\$ -	AAA/Aaa	0.83
U.S. Treasury bills	438,744	442,236	-	442,236	-	-	N/A	3.40
Guaranteed investment contracts (4)	<u>6,652,500</u>	<u>6,652,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	A/A1	42.73
	<u>\$10,438,801</u>	<u>\$10,442,293</u>	<u>\$3,347,557</u>	<u>\$442,236</u>	<u>\$-</u>	<u>\$-</u>		

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

Fair Value Measurement

The following is a description of the valuation methodologies used for assets measured at fair value in the tables above. There have been no changes in the methodologies used at June 30, 2020 and 2019.

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

Money market funds are reported at cost which approximates fair value, traded on active markets at quoted prices, and are valued at level 1. U.S. Treasury bills and notes use pricing models that maximize the use of observable inputs for similar securities and are valued at level 2.

The guaranteed investment contract is valued at cost and therefore does not report a fair value measurement. The Authority's guaranteed investment contract security is considered a nonparticipating contract with redemption terms that does not consider market rates.

Bond Indenture Restrictions

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

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

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

Restricted Deposits and Investments

	<u>2020</u>	<u>2019</u>
Bond principal and interest accounts	\$3,538,147	\$3,566,646
Bond reserve	<u>6,876,158</u>	<u>6,875,647</u>
	<u>\$10,414,305</u>	<u>\$10,442,293</u>

Compliance with State Requirements

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

II. B. ACCOUNTS RECEIVABLE AND UNCOLLECTIBLE AMOUNTS

Receivables include billings for aliquot share services provided by the Authority to surrogates and designees of the Participants and non-operating revenues. These receivables are due in less than one year. Since there are no delinquencies associated with these accounts, no allowance for uncollectible amounts has been accrued at June 30, 2020 and 2019.

II. C. INTERGOVERNMENTAL RECEIVABLES

Intergovernmental Receivable - Current

Each year the Authority performs minimal maintenance tasks for the Bureau of Reclamation (Bureau). Charges to the Bureau for these services are based on agreed upon allocation rates of specifically identified costs. The Authority recorded unbilled amounts receivable from the Bureau at June 30, 2020 and 2019 for services provided of \$75,109 and \$60,522, respectively.

Intergovernmental Aliquot Share Receivable

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

II. D. PREPAIDS

As of June 30, 2020 and 2019, the Authority had prepaid bond insurance of \$11,220 and \$19,332, respectively, related to the issuance of Series 1992 revenue bonds.

II. E. CAPITAL ASSETS

Changes in Capital Assets

	2020							
	Capital Assets, Not Depreciated			Capital Assets, Depreciated				Total Capital Assets, net
	Land and Water Storage Rights	Construction In Progress	Total	Improvements Other Than Buildings	Furniture, Machinery, & Equipment	Total		
CAPITAL ASSETS								
Balance, June 30, 2019	\$61,528,696	\$565,067	\$62,093,763	\$5,118,078	\$23,153,717	\$925,577	\$29,197,372	\$91,291,135
Increases	-	621,179	621,179	9,500	-	216,657	226,157	847,336
Decreases	-	-	-	-	-	(21,259)	(21,259)	(21,259)
Balance, June 30, 2020	<u>61,528,696</u>	<u>1,186,246</u>	<u>62,714,942</u>	<u>5,127,578</u>	<u>23,153,717</u>	<u>1,120,975</u>	<u>29,402,270</u>	<u>92,117,212</u>
ACCUMULATED DEPRECIATION								
Balance, June 30, 2019				3,023,273	13,781,642	734,602	17,539,517	17,539,517
Increases				106,979	560,344	55,435	722,758	722,758
Decreases				-	-	(21,028)	(21,028)	(21,028)
Balance, June 30, 2020				<u>3,130,252</u>	<u>14,341,986</u>	<u>769,009</u>	<u>18,241,247</u>	<u>18,241,247</u>
Capital assets, net	<u>\$61,528,696</u>	<u>\$1,186,246</u>	<u>\$62,714,942</u>	<u>\$1,997,326</u>	<u>\$8,811,731</u>	<u>\$351,966</u>	<u>\$11,161,023</u>	<u>\$73,875,965</u>

(continued)

Changes in Capital Assets (continued)

	2019							
	Capital Assets, Not Depreciated			Capital Assets, Depreciated				Total Capital Assets, net
	Land and Water	Construction	Total	Improvements	Furniture, Machinery, &	Total		
	Storage Rights	In Progress		Buildings	Other Than Buildings		Equipment	
CAPITAL ASSETS								
Balance, June 30, 2018	\$61,528,696	\$220,571	\$61,749,267	\$5,118,078	\$23,176,660	\$804,524	\$29,099,262	\$90,848,529
Increases	-	344,496	344,496	-	-	121,053	121,053	465,549
Decreases	-	-	-	-	(22,943)	-	(22,943)	(22,943)
Balance, June 30, 2019	<u>61,528,696</u>	<u>565,067</u>	<u>62,093,763</u>	<u>5,118,078</u>	<u>23,153,717</u>	<u>925,577</u>	<u>29,197,372</u>	<u>91,291,135</u>
ACCUMULATED DEPRECIATION								
Balance, June 30, 2018				2,916,294	13,212,690	659,768	16,788,752	16,788,752
Increases				106,979	569,717	74,834	751,530	751,530
Decreases				-	(765)	-	(765)	(765)
Balance, June 30, 2019				<u>3,023,273</u>	<u>13,781,642</u>	<u>734,602</u>	<u>17,539,517</u>	<u>17,539,517</u>
Capital assets, net	<u>\$61,528,696</u>	<u>\$565,067</u>	<u>\$62,093,763</u>	<u>\$2,094,805</u>	<u>\$9,372,075</u>	<u>\$190,975</u>	<u>\$11,657,855</u>	<u>\$73,751,618</u>

Depreciation Expense

Depreciation expense was \$722,758 for 2020 and \$751,530 for 2019.

III. LIABILITIES

III. A. INTERGOVERNMENTAL PAYABLE

Arbitrage Compliance

Proceeds from tax-exempt bonds issued after September 1, 1986, are subject to the 1986 Tax Reform Act. The Authority invests, records, and reports these proceeds in the manner set forth by the U.S. Treasury and Internal Revenue Service to maintain the tax-exempt status of the bonds. There was \$32,371 and \$19,447 arbitrage liability as of June 30, 2020 and 2019, respectively.

III. B. COMPENSATED ABSENCES

Compensated absences balances changed from 2019 to 2020 by accruals of \$24,633 and usages of \$15,704 compared to changes in accruals of \$22,329 and usages of \$15,116 from 2018 to 2019.

III. C. REVENUE BONDS

Water Revenue Bonds

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

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

The bond indenture and its supplement require the use of bond proceeds, project, revenue, and bond accounts. These accounts are held in trust by banks and managed pursuant to terms of the indenture agreement. The indenture provides that gross revenues from operations will be deposited in the revenue account and transfers will be made to the other accounts for current requirements on a monthly basis. However, if the payments and deposits required by the bond indenture are made on or before the 25th day of the month, then during the subsequent month, the gross revenues may be deposited as received directly into the Authority's operating fund, which is not subject to the lien of the indenture. For the years ended June 30, 2020 and 2019, required accounts were maintained in accordance with the bond indenture.

Bonded Debt Service Requirements to Maturity

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$5,585,000	\$1,066,800	\$6,651,800
2022	5,920,000	731,700	6,651,700
2023	<u>6,275,000</u>	<u>376,500</u>	<u>6,651,500</u>
	<u>\$17,780,000</u>	<u>\$2,175,000</u>	<u>\$19,955,000</u>

Revenue Bonds Outstanding

Interest on the bonds is payable semi-annually on January 1 and July 1 of each year beginning July 1, 1993, continuing until the principal amount of the bonds is paid.

	Amount	Interest	Issue	Principal	<u>2020</u>	<u>2019</u>
	<u>Issued</u>	<u>Rate %</u>	<u>Date</u>	<u>Maturity</u>	<u>Principal</u>	<u>Principal</u>
				<u>Date</u>	<u>Balance</u>	<u>Balance</u>
Water Revenue Bonds, Series 1992	<u>\$91,860,000</u>	3.0% to 6.0%	12-01-92	01-01-23	<u>\$17,780,000</u>	<u>\$23,045,000</u>

Bond Coverage

	<u>2020</u>	<u>2019</u>
Gross revenue, including non-operating revenues and payments from OCWUT	\$8,311,184	\$7,739,335
Direct operating expenses, excluding depreciation and amortization	<u>754,852</u>	<u>547,599</u>
Net revenue available for debt service	<u>\$7,556,332</u>	<u>\$7,191,736</u>
Principal amounts	\$5,265,000	\$4,970,000
Interest amounts	<u>1,382,700</u>	<u>1,680,900</u>
Total debt service requirements	<u>\$6,647,700</u>	<u>\$6,650,900</u>
Revenue bond coverage (1)	<u>1.14</u>	<u>1.08</u>

(1) Per the agreement of support between the Authority and OCWUT, the bond coverage is always 1.0 and any difference above or below the required coverage is attributed to the timing of transfers received from OCWUT.

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

III. D. CHANGES IN LONG-TERM LIABILITIES

	2020					
	Balance July 1, 2019	Issued	Retired	Balance June 30, 2020	Due Within One Year	Due After One Year
Intergovernmental payable	\$19,447	\$12,924	\$ -	\$32,371	\$ -	\$32,371
Payable to OCWUT	59,118,418	2,021,511	-	61,139,929	-	61,139,929
Compensated absences	79,366	24,633	15,704	88,295	16,905	71,390
Revenue bonds	<u>23,045,000</u>	-	<u>5,265,000</u>	<u>17,780,000</u>	<u>5,585,000</u>	<u>12,195,000</u>
	<u>\$82,262,231</u>	<u>\$2,059,068</u>	<u>\$5,280,704</u>	<u>\$79,040,595</u>	<u>\$5,601,905</u>	<u>\$73,438,690</u>
	2019					
	Balance July 1, 2018	Issued	Retired	Balance June 30, 2019	Due Within One Year	Due After One Year
Intergovernmental payable (1)	\$ -	\$19,447	\$ -	\$19,447	\$ -	\$19,447
Payable to OCWUT	57,276,703	1,841,715	-	59,118,418	-	59,118,418
Compensated absences	72,153	22,329	15,116	79,366	15,978	63,388
Revenue bonds	<u>28,015,000</u>	-	<u>4,970,000</u>	<u>23,045,000</u>	<u>5,265,000</u>	<u>17,780,000</u>
	<u>\$85,363,856</u>	<u>\$1,883,491</u>	<u>\$4,985,116</u>	<u>\$82,262,231</u>	<u>\$5,280,978</u>	<u>\$76,981,253</u>

(1) Intergovernmental payable does not include amounts payable within one year. Retirement represents amount reclassified to current liabilities.

III. E. PLEDGED REVENUES

The Authority issued revenue bonds to support its water utilities. The financial statements report revenue-supported debt. The Authority recognized \$7,506,581 and \$7,164,328 in aliquot share revenues for 2020 and 2019, respectively.

IV. NET POSITION

Net Investment in Capital Assets

	<u>2020</u>	<u>2019</u>
Capital assets, net	\$73,875,965	\$73,751,618
Retainages and accounts payable	(91,173)	(28,415)
Bonds payable, net	(17,728,319)	(22,955,956)
Bond reserve funded with bond proceeds	1,152,500	1,152,500
Bond issuance costs paid from bond proceeds	<u>897,078</u>	<u>897,078</u>
	<u>\$58,106,051</u>	<u>\$52,816,825</u>

Restricted for Debt Service

	<u>2020</u>	<u>2019</u>
Bond principal and interest accounts	\$3,538,147	\$3,566,646
Bond reserve	6,876,158	6,875,647
Bond reserve funded with bond proceeds	(1,152,500)	(1,152,500)
Interest receivable on bond investments	272,851	235,509
Current bond interest payable	<u>(533,400)</u>	<u>(691,350)</u>
	<u>\$9,001,256</u>	<u>\$8,833,952</u>

Unrestricted

	<u>2020</u>	<u>2019</u>
Unrestricted	<u>(\$808,711)</u>	<u>(\$902,605)</u>

V. OCWUT TRANSACTIONS

V. A. RECEIVABLE FROM AND PAYABLE TO OCWUT

Receivable from the City

The Authority had a receivable from the City of \$15 at June 30, 2020 for the reimbursement of Covid-19 supplies. The Authority had a receivable of \$26,639 at June 30, 2019 for deposits collected by the City and not yet remitted to the Authority.

Payable to the City

Payable to the City consists of \$5,249 and \$2,823 at June 30, 2020 and 2019, respectively, for the cost of materials and supplies prepaid by the City General Fund on behalf of the Authority.

Receivable from OCWUT

In October 2017, the Authority transferred \$267,330 to OCWUT for environmental and cultural/archaeological assessments along the alignment of the McGee Creek pipeline easement from the Atoka Reservoir to the McGee Creek Reservoir. At June 30, 2020 and 2019, the Authority had receivables from OCWUT of \$77,971 for unspent transfers.

Payable to OCWUT

The OCWUT Agreement guarantees OCWUT will advance funds as necessary to the Authority for debt service requirements, operation and maintenance, extraordinary expenses and capital improvements, as well as funds necessary to maintain the bond fund minimum required balance reserve. The Authority has recorded a payable to OCWUT to recognize the amount loaned under the OCWUT Agreement. At June 30, 2020 and 2019, the balance due to OCWUT is \$61,139,929 and \$59,118,418, respectively.

V. B. OTHER OCWUT TRANSACTIONS

Aliquot Share Requirements

The Authority received \$5,017,622 and \$4,649,627 from OCWUT for aliquot share requirements in 2020 and 2019, respectively. These amounts are reported with aliquot share revenues.

VI. RELATED PARTY TRANSACTIONS

On-Behalf Collections

The Authority received payments on behalf of participants for aliquot shares. Collections were made from customers for water usage. These revenues are reported with aliquot share revenues.

VII. DEFINED CONTRIBUTION PENSION

Authority employees participate in a deferred compensation, defined contribution plan (Plan) administered by Nationwide Retirement Systems and established through the U.S. Conference of Mayors and approved by the Authority. Participants of the Plan are comprised of all eligible employees of the Authority. All full-time employees are eligible. At June 30, 2020 and 2019, all eligible employees were participating in the Plan.

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

<u>Fiscal Year</u>	<u>Contributions</u>	
	<u>Employer</u>	<u>Employee</u>
2020	\$14,549	\$10,831
2019	14,025	10,494
2018	13,029	9,760
2017	12,271	9,203
2016	12,309	9,232

The annual financial report that includes financial statements and required supplementary information for the Plan may be obtained from Nationwide Retirement Solutions, P.O. Box 182797, Columbus, Ohio 43218-2797.

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

To the Board of Trustees
McGee Creek Authority
Farris, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of McGee Creek Authority (Authority), a blended component unit of the Oklahoma City Water Utilities Trust, as of and for the years ended June 30, 2020 and 2019, and the related notes to financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents, and have issued our report thereon dated November 20, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

November 20, 2020
Wichita, Kansas