

**PONCA CITY  
UTILITY AUTHORITY**

**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT**

**June 30, 2017**

# PONCA CITY UTILITY AUTHORITY

<u>TABLE OF CONTENTS</u>	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
REQUIRED SUPPLEMENTARY INFORMATION:	
Management's Discussion and Analysis	3
BASIC FINANCIAL STATEMENTS:	
Statement of Net Position	7
Statement of Revenue, Expenses, and Changes in Net Position	9
Statement of Cash Flows	10
Notes to Financial Statements	12
SUPPLEMENTARY INFORMATION:	
Combining Schedule of Net Position	30
Combining Schedule of Revenues, Expenses and Changes in Fund Net Position	32
Schedule of Revenue Bond and Note Debt Service Coverage	34
Schedule of Reserve Account Balances	35
Schedule of Utility Rates	36
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 <i>GOVERNMENTAL AUDITING STANDARDS</i>	37



## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Ponca City Utility Authority

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Ponca City Utility Authority ("PCUA"), a component unit of the City of Ponca City, Oklahoma (the "City"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise PCUA's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. 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. 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 PCUA, as of June 30, 2017, and the changes in financial position and cash flows thereof for the year 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 that the management's discussion and analysis as listed in the Table of Contents 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise PCUA's basic financial statements. The combining schedules, schedule of debt service coverage, schedule of reserve account balances, and the schedule of utility rates are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining schedules, schedule of debt service coverage, and schedule of reserve account balances are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules, schedule of debt service coverage, and schedule of reserve account balances are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of utility rates 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 the *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 2, 2018, on our consideration of PCUA'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, and not to provide an opinion on 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 PCUA's internal control over financial reporting and compliance.



January 2, 2018

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **June 30, 2017**

Our discussion and analysis of Ponca City Utility Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2017.

#### **FINANCIAL HIGHLIGHTS**

Net Position: The Authority's net position increased by \$7.2 million, or 11.2 %.

Unrestricted Net Position: Unrestricted net position of the Authority increased by \$3.81 million, or 18.1 %.

Revenues: The Authority's operating revenues increased by \$1.7 million, or 3 %.

Expenses: The Authority's operating expenses decreased by \$0.6 million, or -1.4% from the previous year.

#### **USING THIS ANNUAL REPORT**

##### **The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position**

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position include all assets and liabilities of the Authority using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenditures are taken into account, regardless of when the cash is received or paid. These statements provide information about whether the entity is better off or worse off as a result of the year's activities.

Net position is the difference between the Authority's assets and deferred outflows over liabilities. Over time, increases or decreases in the Authority's net position provide one indicator of the financial health of the Authority.

## FINANCIAL ANALYSIS

### Net Position

The Authority's net position increased by \$7.2 million, or 11.2%. A comparative overview of the major components of the Statement of Net Position is shown below.

	(in thousands)		
	<u>2017</u>	<u>2016</u>	<u>Change</u>
Total current assets	\$ 37,864	\$ 33,438	13.2%
Total noncurrent assets	<u>69,462</u>	<u>73,115</u>	-5.0%
Total assets	<u>107,326</u>	<u>106,553</u>	0.7%
Deferred outflows of resources	<u>802</u>	<u>1,192</u>	-32.7%
Total current liabilities	9,429	11,675	-19.2%
Total noncurrent liabilities	<u>26,640</u>	<u>31,611</u>	-15.7%
Total liabilities	<u>36,069</u>	<u>43,286</u>	-16.7%
Deferred inflows of resources	<u>385</u>	<u>-</u>	100.0%
Net position:			
Invested in capital assets, net of related debt	41,106	38,187	7.6%
Restricted for utility deposits	629	631	-0.3%
Restricted debt service	4,141	3,686	12.3%
Encumbrances	912	903	1.0%
Unrestricted	<u>24,887</u>	<u>21,052</u>	18.2%
Total net position	<u>\$ 71,675</u>	<u>\$ 64,459</u>	11.2%

## FINANCIAL ANALYSIS (continued)

### Changes in Net Position

A comparative overview of the major components of the Statement of Revenues, Expenses and Changes in Net Position is shown below.

#### Changes in net position (in thousands)

	<u>2017</u>	<u>2016</u>	<u>Percentage Change</u>
Operating revenues	\$ 57,868	\$ 56,204	3.0%
Operating expenses	42,438	43,060	-1.4%
Operating income	<u>\$ 15,430</u>	<u>\$ 13,144</u>	17.4%
Non-operating income (expense)	<u>(224)</u>	<u>(623)</u>	-64.0%
Net income before transfers	15,206	12,521	21.4%
Net transfers	<u>(7,990)</u>	<u>(7,665)</u>	4.2%
Change in net position	7,216	4,856	48.6%
Net position beginning of year	<u>64,459</u>	<u>59,603</u>	8.1%
Net position at end of year	<u><u>\$ 71,675</u></u>	<u><u>\$ 64,459</u></u>	11.2%

## CAPITAL ASSETS

This year's major additions to PCUA capital plant included rehabilitation of the water storage tank in the Industrial Park, a complete replacement of wi-fi radios across the community, a new tractor at the Landfill, as well as many electrical distribution system upgrades.

#### Capital assets, net of depreciation (in thousands)

	<u>2017</u>	<u>2016</u>
Land	\$ 591	\$ 591
Construction in progress	539	78
Buildings	11,685	12,444
Improvements	48,064	50,562
Machinery and equipment	<u>4,955</u>	<u>5,153</u>
Total	<u><u>\$ 65,834</u></u>	<u><u>\$ 68,828</u></u>

## DEBT ADMINISTRATION

At June 30, 2017, the Authority had \$24.8 million in bonds, notes and refundable grant obligations outstanding versus \$30.9 million last year.

### Outstanding debt, at fiscal year end (in thousands)

	<u>2017</u>	<u>2016</u>
Notes payables	\$ 7,792	\$ 9,388
Revenue bonds payable	16,935	21,395
Refundable grant obligations	<u>82</u>	<u>114</u>
Total	<u>\$ 24,809</u>	<u>\$ 30,897</u>

## ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES AND RATES

The Fiscal 2017-18 Budget was created with a primary emphasis on sustainability, as well as continued emphasis on performance measurement in PCUA departments. This type of attention to cost versus community benefit of PCUA services, including how we compare with peer cities and are measured by our users, will help guide operations to a more efficient and effective use of public funds.

Visible projects for Fiscal 2017-18 include a new water well, a new compactor for the Landfill, a waterline replacement on Highland Avenue, continued build out of the fiber optic network, and \$1.37 million in electrical distribution improvements.

As with the retail sector, there is minimal growth among the utilities, where modest increases in water, wastewater, electric and solid waste utility rates approved by the City Commission for Fiscal 2017-18.

## CONTACTING THE PONCA CITY UTILITY AUTHORITY MANAGEMENT

This financial report is designed to provide our citizens, customers, taxpayers, bondholders and creditors with a general overview of the Authority's finances and to show accountability for the money it receives. Financial information for the Authority is also presented in the audited financial report of the primary government, the City of Ponca City, Oklahoma. If you have questions about this report or need additional financial information, contact the Finance Department for the City of Ponca City, 516 E. Grand Avenue, Ponca City, Oklahoma 74601, or phone at (580) 767-0303.

**PONCA CITY UTILITY AUTHORITY**  
(A Component Unit of the City of Ponca City)  
Statement of Net Position  
June 30, 2017

**Assets**

Current assets:

Cash and cash equivalents	\$ 17,556,166
Investments	7,006,218

Restricted assets:

Cash and cash equivalents	2,470,312
Investments	629,338

Receivables:

Utility billing receivables	7,107,344
Other receivables	19,397

Inventory	<u>3,075,271</u>
-----------	------------------

Total current assets	<u>37,864,046</u>
----------------------	-------------------

Noncurrent assets:

Restricted assets:

Cash and cash equivalents	1,670,328
Investment in joint venture	1,958,459

Capital assets:

Nondepreciable	1,130,143
Depreciable, net of accumulated depreciation	<u>64,703,345</u>

Total noncurrent assets	<u>69,462,275</u>
-------------------------	-------------------

Total assets	<u>107,326,321</u>
--------------	--------------------

**Deferred outflows of resources:**

Deferred amounts related to pensions	<u>\$ 802,157</u>
--------------------------------------	-------------------

*(Continued)*

**PONCA CITY UTILITY AUTHORITY**  
(A Component Unit of the City of Ponca City)  
Statement of Net Position - (Continued)  
June 30, 2017

**Liabilities**

Current liabilities:

Accounts payable and accrued liabilities	\$ 3,306,558
Due to other funds	-
Accrued interest payable	231,191
Meter deposit liability	629,338
Advanced revenues	-
Current portion:	
Notes payable	1,712,694
Revenue bonds payable	3,495,000
Refundable grant obligations	25,250
Accrued compensated absences	28,578
	<hr/>
Total current liabilities	9,428,609
	<hr/>

Noncurrent liabilities:

Notes payable, net of unamortized premium	6,079,835
Revenue bonds payable	13,440,000
Refundable grant obligations	57,000
Accrued compensated absences	282,231
Net pension liability	3,790,325
Landfill closure/post-closure liability	2,990,457
	<hr/>
Total noncurrent liabilities	26,639,848
	<hr/>

Total liabilities	<hr/> 36,068,457 <hr/>
-------------------	------------------------

**Deferred inflows of resources:**

Deferred amounts related to pensions	<hr/> 385,258 <hr/>
--------------------------------------	---------------------

**Net Position**

Investment in capital assets, net of related debt	41,105,959
Restricted for debt service	4,140,640
Restricted for utility deposits	629,338
Restricted for encumbrances	911,679
Unrestricted	24,887,147
	<hr/>
Total net position	\$ 71,674,763
	<hr/> <hr/>

See accompanying notes to the financial statements.

**PONCA CITY UTILITY AUTHORITY**  
(A Component Unit of the City of Ponca City)  
Statement of Revenues, Expenses, and Changes in Net Position  
For the Year Ended June 30, 2017

**Operating Revenues:**

Charges for services:	
Electric	\$ 37,980,921
Water	7,935,112
Solid waste	5,024,030
Wastewater	6,299,242
Stormwater charges	503,408
Other charges	102,381
Miscellaneous	23,015
	<hr/>
Total operating revenues	57,868,109

**Operating Expenses:**

Electric	28,411,196
Water	4,701,516
Solid waste	4,078,378
Wastewater	3,673,329
Stormwater	186,610
Administrative	1,387,621
	<hr/>
Total operating expenses	42,438,650

Operating income	<hr/> 15,429,459
------------------	------------------

**Non-Operating Revenues (Expenses):**

Investment income	207,356
Income (loss) from joint venture	207,465
Gain (loss) on asset disposals	35,302
Interest and fiscal charges	(673,992)
	<hr/>
Net non-operating revenues (expenses)	(223,869)

Income before transfers	<hr/> 15,205,590
-------------------------	------------------

Capital contributions	75,744
Transfers from the City of Ponca City	2,302,736
Transfers to the City of Ponca City	(10,368,470)
	<hr/>
Net transfers	(7,989,990)

Change in net position	7,215,600
------------------------	-----------

Net position at beginning of year	<hr/> 64,459,163
-----------------------------------	------------------

Net position at end of year	<hr/> <hr/> \$ 71,674,763
-----------------------------	---------------------------

See accompanying notes to the financial statements.

**PONCA CITY UTILITY AUTHORITY**  
(A Component Unit of the City of Ponca City)  
Statement of Cash Flows  
For the Year Ended June 30, 2017

Cash flows from operating activities:	
Receipts from customers	\$ 57,784,460
Payments to suppliers	(28,326,589)
Payments to employees	(8,538,815)
Net refunds of customer meter deposits	<u>(1,729)</u>
Net cash provided by operating activities	<u>20,917,327</u>
Cash flows from noncapital financing activities:	
Transfers from the City of Ponca City	2,302,736
Transfers to the City of Ponca City	<u>(10,368,470)</u>
Net cash used in noncapital financing activities	<u>(8,065,734)</u>
Cash flows from capital and related financing activities:	
Proceeds from sale of assets	38,585
Transfer of capital assets	4,303
Purchases of capital assets	(2,951,363)
Principal paid on capital debt	(6,038,480)
Interest paid on capital debt	<u>(523,803)</u>
Net cash used in capital and related financing activities	<u>(9,470,758)</u>
Cash flows from investing activities:	
Proceeds from sale of investments	1,865,127
Interest and dividends	<u>187,465</u>
Net cash used in investing activities	<u>2,052,592</u>
Net increase in cash and cash equivalents	5,433,427
Balances, beginning of year	<u>16,263,379</u>
Balances, end of year	<u><u>\$ 21,696,806</u></u>
Reconciliation to Statement of Net Position:	
Cash and cash equivalents	\$ 17,556,166
Current restricted cash and cash equivalents	2,470,312
Noncurrent restricted cash and cash equivalents	<u>1,670,328</u>
Total cash and cash equivalents, end of year	<u><u>\$ 21,696,806</u></u>

(Continued)

**PONCA CITY UTILITY AUTHORITY**  
(A Component Unit of the City of Ponca City)  
Statement of Cash Flows - (Continued)  
For the Year Ended June 30, 2017

Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating income	\$ 15,429,459
------------------	---------------

Adjustments to reconcile operating income to net cash provided (used) by operating activities:

Depreciation expense	6,014,538
----------------------	-----------

Change in assets and liabilities:

(Increase) decrease in receivables, net	(23,431)
(Increase) decrease in inventories	(194,431)
(Increase) decrease in deferred outflows	775,459
Increase (decrease) in accounts and other payables	(81,428)
Increase (decrease) in advanced revenues	(60,218)
Increase (decrease) in customer meter deposits payable	(1,729)
Increase (decrease) in due to other funds	(89,539)
Increase (decrease) in landfill closure post closure obligation	(258,146)
Increase (decrease) in net pension obligation	(622,053)
Increase (decrease) in OPEB obligation	(25,024)
Increase (decrease) in accrued compensated absences	53,870

Net cash provided by operating activities	<u>\$ 20,917,327</u>
---	----------------------

Noncash activities:

Contributed capital assets	\$ 75,744
Total noncash activities	<u>\$ 75,744</u>

See accompanying notes to the financial statements.

**PONCA CITY UTILITY AUTHORITY**  
**(A Component Unit of the City of Ponca City)**  
**Notes to Financial Statements**  
**June 30, 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Ponca City Utility Authority (PCUA), a component unit of the City of Ponca City, Oklahoma (the “City”), prepares the accompanying financial statements on the accrual basis of accounting in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) promulgated by the Governmental Accounting Standards Board (GASB). The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

**A. FINANCIAL REPORTING ENTITY**

The Ponca City Utility Authority (PCUA) is a public trust created March 23, 1970, to finance, develop and operate the water, wastewater, solid waste, electric and storm water utility systems for the City. The current City Commission serves as PCUA governing body. Any issuances of debt would require a two-thirds approval of the City Commission.

PCUA is a blended component unit within the City of Ponca City’s financial reporting entity.

The City (along with PCUA) is a participant with other local Oklahoma governments in the Association for Landfill Financial Assurance (ALFA) to fund landfill closure and post-closure care costs (see Note 2.F.). ALFA is a not-for-profit Oklahoma corporation authorized by state law and approved by the Oklahoma Department of Environmental Quality as a financial assurance mechanism for landfill closure and post-closure care costs on behalf of each ALFA participant. ALFA’s board of directors consists of one representative from each government. Financial statements for the Association for Landfill Financial Assurance for the year ended June 30, 2017 may be obtained from its administrative offices at 100 E Street SW, Suite 200, Ardmore, OK 73401.

**B. BASIS OF PRESENTATION**

PCUA utilizes the accrual basis of accounting and economic resources measurement focus and the statements are presented for special purpose governments engaged solely in business-type activities similar to a single enterprise fund. Enterprise funds are financed in whole or in part by fees charged to external parties for good or services.

**C. BUDGETARY ACCOUNTING AND CONTROL**

In accordance with Title 60 of the Oklahoma State Statutes, PCUA is required to prepare an annual budget and submit a copy to the City as beneficiary. However, there are no further requirements such as form of budget, approval of the budget or definition of a legal level of control.

**PONCA CITY UTILITY AUTHORITY**  
**(A Component Unit of the City of Ponca City)**  
**Notes to Financial Statements**  
**June 30, 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**D. ASSETS, LIABILITIES AND NET POSITION**

*Cash and Cash Equivalents* – For the purposes of the statement of net position and statement of cash flows, “cash and cash equivalents” includes all demand deposits, savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

*Investments* – Investments in marketable securities are carried at fair value.

*Arbitrage Rebate* – The proceeds from PCUA’s tax exempt bond issues are subject to arbitrage rebate laws under the Internal Revenue Code. This arbitrage rebate limits the earnings on investment of tax exempt proceeds in non-purpose investments. PCUA had no arbitrage rebate liability at June 30, 2017.

*Capital Assets* – All capital assets, property, plant and equipment are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. PCUA’s capitalization threshold is \$5,000.

Depreciation of all exhaustible capital assets is recorded as an expense in the operating statements, with accumulated depreciation reflected in the statement of net position. Depreciation is provided over the assets’ estimated useful lives using the straight-line method of depreciation. The estimated useful lives of depreciable assets are as follows:

Improvements other than buildings	10-50 years
Buildings	15-50 years
Machinery and equipment	5-20 years

*Restricted Assets* – Restricted assets include assets that are legally restricted as to their use. The primary restricted assets are related to revenue bond and promissory note trustee accounts restricted for debt service, landfill financial assurance, and deposits held for refund.

*Compensated Absences* – Under the terms of the City’s personnel policies, PCUA employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation. The maximum accumulated vacation is 30 days. However, upon retirement, the maximum days of accumulated vacation for which the employee can be reimbursed cannot exceed 20 days. Sick leave accrues at the rate of eight (8) hours per month for full-time employees but is payable only for sick time actually taken. Therefore, PCUA does not record a liability for unused sick leave.

**PONCA CITY UTILITY AUTHORITY**  
**(A Component Unit of the City of Ponca City)**  
**Notes to Financial Statements**  
**June 30, 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**D. ASSETS, LIABILITIES AND NET POSITION (Cont'd)**

*Deferred Outflows of Resources* – Deferred outflows are the consumption of net position by PCUA that are applicable to a future reporting period. PCUA has one item that meets this criterion related to pensions at June 30, 2017.

*Deferred Inflows of Resources* – Deferred inflows are the acquisition of net position by PCUA that are applicable to a future reporting period PCUA has one item that meets this criterion related to pensions at June 30, 2017.

*Use of Estimates* – Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities in order to prepare the financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from these estimates.

*Net Position* – In the financial statements, net position represents the difference between assets plus deferred outflows of resources and liabilities. Net position is displayed in three components:

1. *Investment in capital assets, net of related debt* – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets.
2. *Restricted Net Position* – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
3. *Unrestricted Net Position* – All other net position that does not meet the definition of “restricted” or “Investment in capital assets, net of related debt.”

*Accounts Receivable* – PCUA reports accounts receivable for utility and other miscellaneous revenues that have not been collected at June 30, 2017. Allowances for uncollectable accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

**PONCA CITY UTILITY AUTHORITY**  
**(A Component Unit of the City of Ponca City)**  
**Notes to Financial Statements**  
**June 30, 2017**

**2. DETAIL NOTES – TRANSACTION CLASSES/ACCOUNTS**

**A. CASH AND INVESTMENTS**

Schedule of deposits and investments by type:

Type	Credit Rating	Fair Value	Maturities in Years				
			On Demand	Less Than One	1-5	6-10	More than 10
Petty cash	N/A	\$ 2,000	\$ 2,000	\$ -	\$ -	\$ -	\$ -
Demand deposits	N/A	21,694,806	21,694,806	-	-	-	-
Money market funds	Not Rated	1,061,522	-	1,061,522	-	-	-
Time deposits	N/A	6,000,000	-	6,000,000	-	-	-
U.S. Govt. Agencies	AA	574,034	-	-	-	-	574,034
<b>Total</b>		<b>\$ 29,332,362</b>	<b>\$ 21,696,806</b>	<b>\$ 7,061,522</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 574,034</b>

N/A- Not subject to rating

Reconciliation to Statement of Net Position:

Cash and cash equivalents	\$ 17,556,166
Investments	7,006,218
Current restricted cash and cash equivalents	2,470,312
Noncurrent restricted cash and cash equivalents	1,670,328
Restricted investments	629,338
<b>Total</b>	<b>\$ 29,332,362</b>

***Custodial Credit Risk*** – Custodial credit risk related to deposits is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of the counterparty. PCUA’s policy as it relates to custodial credit risk is to secure its uninsured deposits with collateral, valued at no more than market value, at least at a level to cover the uninsured deposits and accrued interest thereon. At June 30, 2017, PCUA was not exposed to custodial credit risk as defined above.

***Interest Rate Risk*** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a financial instrument. PCUA has a formal investment policy that limits investment maturities to not more than two years as a means of managing its exposure to fair value losses arising from increasing interest rates. Reserve funds may be invested longer than two years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds. PCUA discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments.

***Investment Credit Risk*** – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. PCUA’s investment policy limits investments to those allowed by state law applicable to municipalities. PCUA has no formal policy limiting investments based on credit rating, but discloses any such risk associated with their investments by reporting the credit quality ratings of investments in debt securities as determined by nationally recognized statistical rating organizations – rating agencies – as of the year end.

**PONCA CITY UTILITY AUTHORITY**  
**(A Component Unit of the City of Ponca City)**  
**Notes to Financial Statements**  
**June 30, 2017**

**2. DETAIL NOTES – TRANSACTION CLASSES/ACCOUNTS (Cont’d)**

**A. CASH AND INVESTMENTS (Cont’d)**

*Concentration of Credit Risk* – PCUA diversifies its investments by security type and institution. With the exception of U.S. Treasury Securities and authorized pools, no more than 50% of the total investment portfolio will be invested in a single security type or with a single financial institution.

*Fair Value Measurement and Application* – PCUA adopted GASB Statement No. 72, *Fair Value Measurement and Application*, during fiscal year 2017, which among other things, established a fair value hierarchy based on valuation inputs used to measure the fair value of the asset or liability. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. As of June 30, 2017, amounts reported at fair value on a recurring basis consist of U.S. Government Agency debt valued using Level 2 measurements.

**B. RESTRICTED ASSETS**

The amounts reported as restricted assets on the statement of net position are comprised of assets held by the trustee bank on behalf of PCUA related to their required revenue bonds and notes, amounts set aside for landfill financial assurance, and deposits held for refund.

The restricted assets as of June 30, 2017 were as follows:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Investment in Joint Venture</u>	<u>Total</u>
Revenue bond and note trustee accounts	\$ 4,140,640	\$ -	\$ -	\$ 4,140,640
Landfill financial assurance	-	-	1,958,459	1,958,459
Deposits held for refund	-	629,338	-	629,338
Totals	<u>\$ 4,140,640</u>	<u>\$ 629,338</u>	<u>\$ 1,958,459</u>	<u>\$ 6,728,437</u>

**PONCA CITY UTILITY AUTHORITY**  
**(A Component Unit of the City of Ponca City)**  
**Notes to Financial Statements**  
**June 30, 2017**

**2. DETAIL NOTES – TRANSACTION CLASSES/ACCOUNTS (Cont'd)**

**C. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance at July 1, 2016	Additions	Transfers	Disposals	Balance at June 30, 2017
Business-type activities					
Non-depreciable:					
Land	\$ 591,493	\$ -	\$ -	\$ -	\$ 591,493
Construction-in-progress	78,433	487,117	-	(26,900)	538,650
Total non-depreciable assets at historical cost	<u>669,926</u>	<u>487,117</u>	<u>-</u>	<u>(26,900)</u>	<u>1,130,143</u>
Depreciable:					
Buildings	39,235,546	-	(57,361)	-	39,178,185
Improvements	116,125,116	1,769,773	-	-	117,894,889
Machinery and equipment	13,207,553	797,114	(135,794)	(742,544)	13,126,329
Total depreciable assets at historical cost	<u>168,568,215</u>	<u>2,566,887</u>	<u>(193,155)</u>	<u>(742,544)</u>	<u>170,199,403</u>
Less accumulated depreciation:					
Buildings	(26,791,347)	(755,383)	53,058	-	(27,493,672)
Improvements	(65,563,283)	(4,267,807)	-	-	(69,831,090)
Machinery and equipment	(8,055,003)	(991,348)	135,794	739,261	(8,171,296)
Total accumulated depreciation	<u>(100,409,633)</u>	<u>(6,014,538)</u>	<u>188,852</u>	<u>739,261</u>	<u>(105,496,058)</u>
Net depreciable assets	<u>68,158,582</u>	<u>(3,447,651)</u>	<u>(4,303)</u>	<u>(3,283)</u>	<u>64,703,345</u>
Business-type capital assets, net	<u>\$ 68,828,508</u>	<u>\$(2,960,534)</u>	<u>\$ (4,303)</u>	<u>\$ (30,183)</u>	<u>\$ 65,833,488</u>

Depreciation expense was charged to the following activities:

Water	\$ 1,409,368
Electric	1,914,123
Solid Waste	661,646
Wastewater	1,724,820
Stormwater	34,327
Administration	<u>270,254</u>
Total	<u>\$ 6,014,538</u>

**PONCA CITY UTILITY AUTHORITY**  
**(A Component Unit of the City of Ponca City)**  
**Notes to Financial Statements**  
**June 30, 2017**

**2. DETAIL NOTES – TRANSACTION CLASSES/ACCOUNTS (Cont’d)**

**D. INVESTMENT IN JOINT VENTURE**

As discussed in Note 1A, in accordance with the terms of the joint venture agreement with ALFA, PCUA is obligated to pay a share of ALFA’s operating budget each year in the form of participation fees. Through June 30, 2017, PCUA paid \$13,909 in such fees, which were reported in Professional Service Fees.

The joint venture agreement also requires that PCUA establish a “Funding Program” through ALFA to accumulate the estimated costs of closing and providing thirty years of maintenance and monitoring of its landfill by the time the landfill ceases operations. The amounts required for the Funding Program are determined by formula. Each ALFA member deposits funds annually into a common escrow account managed by ALFA. No amounts were funded in fiscal 2017. PCUA’s proportionate share of the net investment earnings in the escrow account, which includes unrealized gains and losses on investments, amounts to (\$18,351) which is reported as “Income (Loss) from Joint Venture”.

The sum of the deposits made and PCUA’s share of the net income or loss on the escrow account represents the equity interest in this joint venture. At June 30, 2017, PCUA’s equity interest totaled \$1,958,459 which is reported as “Investment in Joint Venture” on the statement of net position.

For the year ended June 30, 2017, the “Investment in Joint Venture” balance changed as follows:

Beginning investment in joint venture	\$ 1,976,810
Net loss in escrow fund	<u>(18,351)</u>
Ending investment in joint venture	<u>\$ 1,958,459</u>

**PONCA CITY UTILITY AUTHORITY**  
**(A Component Unit of the City of Ponca City)**  
**Notes to Financial Statements**  
**June 30, 2017**

**2. DETAIL NOTES – TRANSACTION CLASSES/ACCOUNTS (Cont'd)**

**E. LONG-TERM DEBT**

As of June 30, 2017, the long-term debt payable from PCUA resources consisted of the following:

***Revenue Bonds Payable:***

Sales Tax Revenue Notes, Series 2013 to Specialized Lending, LLC, dated November 20, 2013, original issue amount of \$12,510,000, secured by a pledge of sales tax revenue, interest rate of 1.86%, final maturity February 1, 2019	\$ 4,990,000
2012A Utility System Revenue Note to Bank of America Public Capital Corp, dated March 1, 2012, original issue amount of \$16,090,000, secured by gross revenues, interest rate of 2.7%, final maturity date August 1, 2025.	<u>11,945,000</u>
Total revenue bonds payable	<u>\$ 16,935,000</u>
Current portion	\$ 3,495,000
Non-current portion	<u>13,440,000</u>
Total revenue bonds payable	<u>\$ 16,935,000</u>

***Notes Payable:***

1998A Promissory Note to Oklahoma Water Resources Board, dated June 1, 1998, original issue amount of \$4,400,000, secured by a pledge and assignment of revenues derived from operations of water, sewer, electric and garbage systems, non-interest bearing, administrative fee of 0.5%, final maturity February 18, 2018	\$ 223,759
1999A Promissory Note to Oklahoma Water Resources Board, dated December 23, 1999 original issue amount of \$2,370,907, secured by a pledge and assignment of revenues derived from operations of water, sewer, electric and garbage systems, non-interest bearing, administrative fee of 0.5%, final maturity August 15, 2019	296,363
2007 Clean Water SRF Promissory Note to Oklahoma Water Resources Board, dated October 9, 2007, original issue amount of \$5,565,000, secured by a pledge and assignment of revenues derived from operations of water, sanitary sewer, garbage and electric systems, interest rate of 2.61% per annum plus an administrative fee of 0.5% per annum, final maturity September 15, 2029.	3,606,473

**PONCA CITY UTILITY AUTHORITY**  
**(A Component Unit of the City of Ponca City)**  
**Notes to Financial Statements**  
**June 30, 2017**

**2. DETAIL NOTES – TRANSACTION CLASSES/ACCOUNTS (Cont'd)**

**E. LONG-TERM DEBT (Cont'd)**

*Notes Payable (Cont'd):*

2009A Clean Water SRF Promissory Note to Oklahoma Water Resources Board, dated October 1, 2009, original issue amount of \$575,000, secured by a pledge and assignment of revenues derived from operations of water, sanitary sewer, garbage and electric systems, interest rate of 2.09% per annum plus an administrative fee of 0.5% per annum, final maturity March 15, 2030. 263,832

2012B Drinking Water SRF Promissory Note to Oklahoma Water Resources Board, dated March 28, 2012, original issue amount of \$7,825,000, secured by a pledge and assignment of revenues and receipts, interest rate ranging from 0.65% to 3.4%, final maturity September 15, 2019. \$ 3,305,000

Total notes payable	\$ 7,695,427
Add: unamortized premium	<u>97,102</u>
	<u>\$ 7,792,529</u>

Current portion	\$ 1,712,694
Non-current portion	<u>6,079,835</u>
Total notes payable	<u>\$ 7,792,529</u>

*Refundable Grant Obligations:*

\$250,000 refundable grant obligation used for a 12-acre landfill expansion project, dated January 1, 1998, payable in semi-annual installments of \$6,250, final payment due June 2018, non-interest bearing. \$ 6,250

\$380,000 refundable grant obligation for water line improvements, dated July 1, 2001, payable in semi-annual installments of \$9,500, final payment due July 1, 2021, non-interest bearing 76,000

Total refundable grant obligations	<u>\$ 82,250</u>
------------------------------------	------------------

Current portion	\$ 25,250
Non-current portion	<u>57,000</u>
Total refundable grant obligations	<u>\$ 82,250</u>

**PONCA CITY UTILITY AUTHORITY**  
**(A Component Unit of the City of Ponca City)**  
**Notes to Financial Statements**  
**June 30, 2017**

**2. DETAIL NOTES – TRANSACTION CLASSES/ACCOUNTS (Cont'd)**

**E. LONG-TERM DEBT (Cont'd)**

*Accrued Compensated Absences:*

Accrued compensated absences are comprised of:

Current portion	\$ 28,578
Non-current portion	<u>282,231</u>
Total accrued compensated absences	<u>\$ 310,809</u>

**Changes in Long-term Debt:**

The following is a summary of changes in long-term debt for the year ended June 30, 2017:

	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Amount due</u> <u>in one year</u>
Notes payable	\$ 9,388,087	\$ -	\$ (1,595,558)	\$ 7,792,529	\$ 1,712,694
Revenue bonds payable	21,395,000	-	(4,460,000)	16,935,000	3,495,000
Refundable grant obligations	113,750	-	(31,500)	82,250	25,250
Accrued compensated absences	<u>256,939</u>	<u>53,870</u>	<u>-</u>	<u>310,809</u>	<u>28,578</u>
Totals	<u>\$ 31,153,776</u>	<u>\$ 53,870</u>	<u>\$ (6,087,058)</u>	<u>\$ 25,120,588</u>	<u>\$ 5,261,522</u>

**PONCA CITY UTILITY AUTHORITY**  
**(A Component Unit of the City of Ponca City)**  
**Notes to Financial Statements**  
**June 30, 2017**

**2. DETAIL NOTES – TRANSACTION CLASSES/ACCOUNTS (Cont'd)**

**E. LONG-TERM DEBT (Cont'd)**

**Debt Service Requirements to Maturity:**

Year Ending June 30,	Notes Payable		Revenue Bonds Payable		Refundable Grant Obligations
	Principal	Interest	Principal	Interest	Principal
2018	\$ 1,712,694	\$ 193,648	\$ 3,495,000	\$ 397,005	\$ 25,250
2019	1,531,950	150,087	3,610,000	322,751	19,000
2020	1,472,202	105,266	1,160,000	257,648	19,000
2021	281,781	78,474	1,250,000	225,720	19,000
2022	290,635	71,059	1,330,000	191,430	-
2023-2027	1,595,887	235,785	6,090,000	419,917	-
2028-2032	810,277	36,324	-	-	-
<b>Total</b>	<b>\$ 7,695,426</b>	<b>\$ 870,643</b>	<b>\$ 16,935,000</b>	<b>\$ 1,814,471</b>	<b>\$ 82,250</b>

**F. LANDFILL CLOSURE AND POST-CLOSURE LIABILITY**

Oklahoma laws and regulations require PCUA to perform certain closure activities for its landfill and to provide certain maintenance and monitoring functions at the site for thirty years after it ceases operations. Although closure and post-closure care costs will be paid only near or after the date the facility stops accepting waste, PCUA reports a portion of these closure and post-closure care costs as an operating expense in each period based on the landfill capacity used as of each year-end. The \$2,990,457 reported as “Landfill Closures/Post-Closure Cost” at June 30, 2017, represents the cumulative amount to date based on the use of 53% of the estimated capacity of the landfill. PCUA will recognize the remaining estimated cost of closure and post-closure care of \$2,607,553 as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care at the site in 2017.

However, PCUA expects its landfill to remain in operation for another 44 years with closure scheduled for the year 2061. Therefore, actual cost may be higher due to inflation, changes in technology, or changes in laws and regulations.

PCUA is also required by Federal and State regulations to provide evidence of financial assurance that funds are available to properly close the facility and to perform post-closure care for thirty years after the facility has stopped accepting waste. PCUA is in compliance with this requirement and, as evidence of the financial assurance obligation, PCUA is a member of and has entered into a participation agreement with the Association for Landfill Financial Assurance (ALFA), an Oklahoma not-for-profit corporation.

**PONCA CITY UTILITY AUTHORITY**  
**(A Component Unit of the City of Ponca City)**  
**Notes to Financial Statements**  
**June 30, 2017**

**2. DETAIL NOTES – TRANSACTION CLASSES/ACCOUNTS (Cont'd)**

**F. LANDFILL CLOSURE AND POST-CLOSURE LIABILITY (Cont'd)**

ALFA is a joint venture of local government owners and operators of landfills, including PCUA and is authorized by Oklahoma statute to serve as an approved financial assurance mechanism for its members (see Note 2.D.)

PCUA periodically deposits a portion of the revenues derived from the operation of its landfill to a common escrow account managed by AFLA in amounts calculated to aggregate the estimated total cost of closure and post-closure care over the remaining operating life of the facility and through the post-closure period such amounts are determined in accordance with the terms of the joint venture agreement between PCUA and ALFA. PCUA expects that future inflation costs will be paid from investment earnings on these restricted assets.

However, if investment earnings are inadequate or if additional closure and post-closure care expenditures are deemed necessary due, for example, to changes in technology or applicable laws or regulations, then these costs may need to be covered by charges to future landfill users or from future borrowing.

**PONCA CITY UTILITY AUTHORITY**  
**(A Component Unit of the City of Ponca City)**  
**Notes to Financial Statements**  
**June 30, 2017**

**3. OTHER NOTES**

**A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS**

*Ponca City Employees Retirement System* – Single Employer, Defined Benefit Pension Plan

PCUA participates in the City of Ponca City Employees’ Retirement System (the “System”), which is a single employer defined benefit pension plan administered by the City. All non-union full-time PCUA employees are eligible to participate in the System. The System has an actuarial valuation performed annually to determine if the City’s fixed contribution rate is adequate to fund the actuarially the actuarially determined contribution requirement. The System does not issue separate annual financial statements.

The City and PCUA have elected to use December 31, 2016, as its measurement date; therefore, net pension liability and related deferred inflows and outflows are reported as of that date. Pension payments made by PCUA from the measurement date through June 30, 2017, are reported as deferred outflows. PCUA accounts for its share of the net pension liability, deferred outflows/inflows of resources and pension expense as a cost-sharing defined benefit pension plans for PCUA’s stand-alone financial reporting.

*Summary of Significant Accounting Policies*

For purposes of measuring the net pension liability, deferred flows of resources related to pension, and pension expense, amounts and disclosures have been prepared using the accrual basis of accounting. Employee and employer contributions are recognized as System revenues in the period in which they are due to the plan. Benefits and refunds are recognized when due and payable pursuant to plan provisions. Investments are reported at fair value.

Method used to Value Investments – Values of System assets are reported at fair value. As of December 31, 2016, the System held no related party investments.

*Eligibility Factors and Benefit Provisions*

Year established and governing authority	1961; City Commission
Determination of contribution requirements	City ordinance: actuarially-determined
Employer	7.00%
Plan members	0.00%
Funding of administrative costs	Investment earnings

**PONCA CITY UTILITY AUTHORITY**  
**(A Component Unit of the City of Ponca City)**  
**Notes to Financial Statements**  
**June 30, 2017**

**3. OTHER NOTES (Cont'd)**

**A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS (Cont'd)**

*Ponca City Employees Retirement System – (Continued)*

Period required to vest	5 years – 50%; additional 10% Vesting each year thereafter
Post-retirement benefit increases	None
Eligibility for distribution	Aged 65 with five years of credited Service, or age 55 with ten years credited service
Provisions for:	
Disability benefits	Yes
Death benefits	Yes

PCUA is required to contribute 7% of covered payroll to the System, which has been actuarially determined. System participants of PCUA contributed \$0 during the year ended December 31, 2016, and PCUA contributed \$737,699 for the year ended December 31, 2016.

*Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources Related to Pensions*

As of June 30, 2017, PCUA reports a liability of \$3,790,325 for its proportionate share of the System's liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017. PCUA's proportion of the net pension liability was based on its contributions to the total contributions for all participating employees. Based on this information, its proportion was approximately 48%. There were no changes in assumptions or changes in benefit terms that affected measurement of the total pension liability subsequent to actuarial valuation date that would have a significant impact on the net pension liability.

**PONCA CITY UTILITY AUTHORITY**  
**(A Component Unit of the City of Ponca City)**  
**Notes to Financial Statements**  
**June 30, 2017**

**3. OTHER NOTES (Cont'd)**

**A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS (Cont'd)**

At June 30, 2017, PCUA reported deferred outflows of resources related to this plan from the following sources:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Differences between expected and actual experience	\$ 138,175	\$ (97,618)
Effects of changes in assumptions	100,848	(287,640)
Net difference between expected and net investment income	379,964	-
PCUA contributions subsequent to the measurement date	<u>183,170</u>	<u>-</u>
Total	<u>\$ 802,157</u>	<u>\$ (385,258)</u>

At June 30, 2017, deferred outflows of resources totaling \$183,170 related to pensions resulting from PCUA contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2018	\$ 180,144
2019	48,864
2020	9,383
2021	<u>(4,662)</u>
	<u>\$ 233,729</u>

**PONCA CITY UTILITY AUTHORITY**  
**(A Component Unit of the City of Ponca City)**  
**Notes to Financial Statements**  
**June 30, 2017**

**3. OTHER NOTES (Cont'd)**

**A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS (Cont'd)**

*Actuarial Assumptions*

Key assumptions uses the actuarial valuation were:

Discount Rate	7.25%
Long-term expected rate of return	7.25%
Measurement date	January 1, 2017
Inflation	2.25%
Projected salary increases	Age related
Mortality	RP-2006
Retirement rates	Experience
Actuarial cost method	Entry age normal

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the actuarially determined contribution amounts. Based on the assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return was adjusted to all periods of projected benefit payments to determine the total pension liability.

There are no assets legally reserved for purposes other than the payment of plan member benefits. There are no long-term contracts for contributions.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following present the net pension liability using the discount rate of 7.25%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.25%) or 1-percentage point higher (8.25%) than the applied rate:

	1% Decrease (6.25%)	Current discount rate (7.25%)	1% Increase (8.25%)
Net pension liability	\$ 5,677,031	\$ 3,790,325	\$ 2,192,110

***Other Post-Employment Benefits***

The City provides post-retirement benefit options for health care for retired employees and their dependents that elect to make required contributions. At June 30, 2017, two retired employees were receiving benefits under this plan. Management expects few, if any, employees to qualify for and take advantage of this benefit. No liability has been accrued for this benefit as management does not believe the amount would be material to the financial statements.

**PONCA CITY UTILITY AUTHORITY**  
**(A Component Unit of the City of Ponca City)**  
**Notes to Financial Statements**  
**June 30, 2017**

**3. OTHER NOTES (Cont'd)**

**A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS (Cont'd)**

Schedule of Funding Progress and Schedule of Employer Contributions

Information regarding the schedule of funding progress, employer contributions and other notes to required supplementary information on pension plan funding and other post-employment benefits is available in the City of Ponca City's separately-issued financial statements.

**B. RISK MANAGEMENT**

PCUA is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters.

PCUA manages these various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
a. General Liability: Torts Errors and omissions Police liability Vehicle	Purchased insurance with Oklahoma Municipal Assurance Group	None
b. Physical Property: Theft Damage to assets Natural disasters	Purchased insurance with \$50,000 deductible	None
c. Workers Compensation: Employee injuries	Participant in City self-insured plan. Self-insured with third-party administration of the claims process. Insurance Fund used to account for activities with participating funds charged through an estimated annual claim cost for each fund. Administered by United Safety Claims.	Entire risk of loss retained by City.
d. Health and Life: Medical Dental	Participant in City self-insured plan. Self-insured with City paying a portion of health care premiums, and all of life and disability premiums. Administered by UMR.	Claims up to \$270,000 per individual self-funded with stop-loss insurance up to \$1,000,000 per person.

**PONCA CITY UTILITY AUTHORITY**  
**(A Component Unit of the City of Ponca City)**  
**Notes to Financial Statements**  
**June 30, 2017**

**3. OTHER NOTES (Cont'd)**

**C. COMMITMENTS AND CONTINGENCIES**

*Grant Program Involvement:*

In the normal course of operations, PCUA participates in various federal or state grant and loan programs from year to year. The grant and loan programs are often subject to additional audits by agents of the granting or loaning agency to ensure compliance with specific provisions of the grant or loan. Any liability or reimbursement which may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

**PONCA CITY UTILITY AUTHORITY**  
(A Component Unit of the City of Ponca City)  
Combining Schedule of Net Position  
June 30, 2017

Assets	<u>Electric</u>	<u>Water</u>	<u>Solid Waste</u>	<u>Wastewater</u>	<u>Stormwater</u>	<u>Bond Accounts</u>	<u>Operating Accounts</u>	<u>Totals</u>
Current assets:								
Cash and cash equivalents	\$ 500	\$ 200	\$ 300	\$ -	\$ -	\$ -	\$ 17,555,166	\$ 17,556,166
Investments	-	-	-	-	-	-	7,006,218	7,006,218
Restricted assets:								
Cash and cash equivalents	284,176	902,864	-	212,277	-	1,070,995	-	2,470,312
Investments	-	-	-	-	-	-	629,338	629,338
Receivables:								
Utility billing	5,099,334	988,602	584,178	762,865	58,390	-	(386,025)	7,107,344
Other receivables	17,858	-	-	-	-	-	1,539	19,397
Intracount balances	13,775,961	2,834,789	3,851,077	3,532,108	1,181,545	(1,454,678)	(23,720,802)	-
Inventory	2,352,802	536,279	-	100,603	-	-	85,587	3,075,271
Total current assets	<u>21,530,631</u>	<u>5,262,734</u>	<u>4,435,555</u>	<u>4,607,853</u>	<u>1,239,935</u>	<u>(383,683)</u>	<u>1,171,021</u>	<u>37,864,046</u>
Noncurrent assets:								
Restricted assets:								
Cash and cash equivalents	424,490	1,040,501	-	205,337	-	-	-	1,670,328
Investment in joint venture	-	-	1,958,459	-	-	-	-	1,958,459
Capital assets:								
Nondepreciable	88,469	60,029	356,000	70,039	122,429	-	433,177	1,130,143
Depreciable, net of accumulated depreciation	26,317,493	22,254,390	3,617,983	10,450,286	1,096,773	-	966,420	64,703,345
Total noncurrent assets	<u>26,830,452</u>	<u>23,354,920</u>	<u>5,932,442</u>	<u>10,725,662</u>	<u>1,219,202</u>	<u>-</u>	<u>1,399,597</u>	<u>69,462,275</u>
Total assets	<u>48,361,083</u>	<u>28,617,654</u>	<u>10,367,997</u>	<u>15,333,515</u>	<u>2,459,137</u>	<u>(383,683)</u>	<u>2,570,618</u>	<u>107,326,321</u>
Deferred outflows of resources:								
Deferred amounts related to pensions	<u>\$ 254,513</u>	<u>\$ 149,312</u>	<u>\$ 246,856</u>	<u>\$ 109,529</u>	<u>\$ 7,657</u>	<u>\$ -</u>	<u>\$ 34,290</u>	<u>\$ 802,157</u>

(Continued)

**PONCA CITY UTILITY AUTHORITY**  
(A Component Unit of the City of Ponca City)  
Combining Schedule of Net Position - (Continued)  
June 30, 2017

Liabilities	<u>Electric</u>	<u>Water</u>	<u>Solid Waste</u>	<u>Wastewater</u>	<u>Stormwater</u>	<u>Bond Accounts</u>	<u>Operating Accounts</u>	<u>Totals</u>
Current liabilities:								
Accounts payable and accrued liabilities	\$ 2,859,770	\$ 143,078	\$ 137,284	\$ 113,782	\$ 1,521	\$ -	\$ 51,123	\$ 3,306,558
Accrued interest payable	67,191	88,260	-	37,068	-	38,672	-	231,191
Meter deposit liability	-	-	-	-	-	-	629,338	629,338
Current portion:								
Refundable grant obligations	-	19,000	6,250	-	-	-	-	25,250
Accrued compensated absences	9,833	5,362	5,207	4,787	301	-	3,088	28,578
Revenue bonds payable	512,500	512,500	-	-	-	2,470,000	-	3,495,000
Notes payable	-	835,170	-	877,524	-	-	-	1,712,694
Total current liabilities	<u>3,449,294</u>	<u>1,603,370</u>	<u>148,741</u>	<u>1,033,161</u>	<u>1,822</u>	<u>2,508,672</u>	<u>683,549</u>	<u>9,428,609</u>
Noncurrent liabilities:								
Net pension liability	1,202,616	705,524	1,166,435	517,542	36,181	-	162,027	3,790,325
Net OPEB obligation	-	-	-	-	-	-	-	-
Landfill closure/post-closure liability	-	-	2,990,457	-	-	-	-	2,990,457
Refundable grant obligations	-	57,000	-	-	-	-	-	57,000
Accrued compensated absences	96,349	52,699	53,502	46,466	2,813	-	30,402	282,231
Revenue bonds payable	5,460,000	5,460,000	-	-	-	2,520,000	-	13,440,000
Notes payable, net of unamortized premium	-	1,716,420	-	4,363,415	-	-	-	6,079,835
Total noncurrent liabilities	<u>6,758,965</u>	<u>7,991,643</u>	<u>4,210,394</u>	<u>4,927,423</u>	<u>38,994</u>	<u>2,520,000</u>	<u>192,429</u>	<u>26,639,848</u>
Total liabilities	<u>10,208,259</u>	<u>9,595,013</u>	<u>4,359,135</u>	<u>5,960,584</u>	<u>40,816</u>	<u>5,028,672</u>	<u>875,978</u>	<u>36,068,457</u>
Deferred outflows of resources:								
Deferred amounts related to pensions	<u>122,237</u>	<u>71,711</u>	<u>118,559</u>	<u>52,604</u>	<u>3,678</u>	<u>-</u>	<u>16,469</u>	<u>385,258</u>
Net Position								
Investment in capital assets, net of related debt	20,433,462	13,790,329	3,973,983	5,279,386	1,219,202	(4,990,000)	1,399,597	41,105,959
Restricted for:								
Debt service	708,666	1,943,365	-	417,614	-	1,070,995	-	4,140,640
Utility Deposits	-	-	-	-	-	-	629,338	629,338
Encumbrances	732,613	113,758	9,398	46,512	-	-	9,398	911,679
Unrestricted	<u>16,410,359</u>	<u>3,252,790</u>	<u>2,153,778</u>	<u>3,686,344</u>	<u>1,203,098</u>	<u>(1,493,350)</u>	<u>(325,872)</u>	<u>24,887,147</u>
Total net position	<u>\$ 38,285,100</u>	<u>\$ 19,100,242</u>	<u>\$ 6,137,159</u>	<u>\$ 9,429,856</u>	<u>\$ 2,422,300</u>	<u>\$ (5,412,355)</u>	<u>\$ 1,712,461</u>	<u>\$ 71,674,763</u>

**PONCA CITY UTILITY AUTHORITY**

(A Component Unit of the City of Ponca City)

Combining Schedule of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2017

	<u>Electric</u>	<u>Water</u>	<u>Solid Waste</u>	<u>Wastewater</u>	<u>Stormwater</u>	<u>Bond Accounts</u>	<u>Operating Accounts</u>	<u>Totals</u>
Operating Revenues:								
Utility charges for service	\$ 37,980,921	\$ 7,935,112	\$ 5,024,030	\$ 6,299,242	\$ -	\$ -	\$ -	\$ 57,239,305
Utility charges for service - other	-	-	-	-	503,408	-	102,381	605,789
Miscellaneous	-	-	1	12,220	-	-	10,794	23,015
Total operating revenues	<u>37,980,921</u>	<u>7,935,112</u>	<u>5,024,031</u>	<u>6,311,462</u>	<u>503,408</u>	<u>-</u>	<u>113,175</u>	<u>57,868,109</u>
Operating Expenses:								
Personal services	2,794,429	1,535,644	2,613,902	1,137,333	51,247	-	588,512	8,721,067
Materials and supplies	107,870	398,132	31,401	73,551	21,560	-	181,584	814,098
Maintenance, operations and contractual services	1,724,263	1,358,372	771,429	737,625	79,476	-	347,271	5,018,436
Electricity purchased	21,870,511	-	-	-	-	-	-	21,870,511
Depreciation	1,914,123	1,409,368	661,646	1,724,820	34,327	-	270,254	6,014,538
Total operating expenses	<u>28,411,196</u>	<u>4,701,516</u>	<u>4,078,378</u>	<u>3,673,329</u>	<u>186,610</u>	<u>-</u>	<u>1,387,621</u>	<u>42,438,650</u>
Operating income (loss)	<u>9,569,725</u>	<u>3,233,596</u>	<u>945,653</u>	<u>2,638,133</u>	<u>316,798</u>	<u>-</u>	<u>(1,274,446)</u>	<u>15,429,459</u>
Non-operating Revenues (Expenses):								
Investment income	96,714	26,156	62,431	19,701	-	2,354	-	207,356
Income (loss) from joint venture	-	-	200,158	-	7,307	-	-	207,465
Gain (loss) on disposal of assets	-	9,585	25,717	-	-	-	-	35,302
Interest and fiscal charges	(167,664)	(217,606)	-	(178,302)	-	(110,420)	-	(673,992)
Net non-operating revenues (expenses)	<u>(70,950)</u>	<u>(181,865)</u>	<u>288,306</u>	<u>(158,601)</u>	<u>7,307</u>	<u>(108,066)</u>	<u>-</u>	<u>(223,869)</u>
Income (loss) before transfers	<u>\$ 9,498,775</u>	<u>\$ 3,051,731</u>	<u>\$ 1,233,959</u>	<u>\$ 2,479,532</u>	<u>\$ 324,105</u>	<u>\$ (108,066)</u>	<u>\$ (1,274,446)</u>	<u>\$ 15,205,590</u>

(Continued)

**PONCA CITY UTILITY AUTHORITY**

(A Component Unit of the City of Ponca City)

Combining Schedule of Revenues, Expenses and Changes in Net Position - (Continued)

For the Year Ended June 30, 2017

	<u>Electric</u>	<u>Water</u>	<u>Solid Waste</u>	<u>Wastewater</u>	<u>Stormwater</u>	<u>Bond Accounts</u>	<u>Operating Accounts</u>	<u>Totals</u>
Transfers from other accounts	\$ -	\$ -	\$ 650,000	\$ -	\$ -	\$ -	\$ 1,058,000	\$ 1,708,000
Transfers to other accounts	(292,000)	(252,000)	(902,000)	(252,000)	(10,000)	-	-	(1,708,000)
Transfers from the City of Ponca City	-	-	-	-	-	2,097,736	205,000	2,302,736
Transfers to the City of Ponca City	(7,145,827)	(1,847,011)	(663,534)	(682,546)	(29,552)	-	-	(10,368,470)
Capital Contributions	(431,386)	-	-	-	-	-	507,130	75,744
Net transfers	<u>(7,869,213)</u>	<u>(2,099,011)</u>	<u>(915,534)</u>	<u>(934,546)</u>	<u>(39,552)</u>	<u>2,097,736</u>	<u>1,770,130</u>	<u>(7,989,990)</u>
Change in net position	<u>1,629,562</u>	<u>952,720</u>	<u>318,425</u>	<u>1,544,986</u>	<u>284,553</u>	<u>1,989,670</u>	<u>495,684</u>	<u>7,215,600</u>
Net position at beginning of year	<u>36,655,538</u>	<u>18,147,522</u>	<u>5,818,734</u>	<u>7,884,870</u>	<u>2,137,747</u>	<u>(7,402,025)</u>	<u>1,216,777</u>	<u>64,459,163</u>
Net position at end of year	<u>\$ 38,285,100</u>	<u>\$ 19,100,242</u>	<u>\$ 6,137,159</u>	<u>\$ 9,429,856</u>	<u>\$ 2,422,300</u>	<u>\$ (5,412,355)</u>	<u>\$ 1,712,461</u>	<u>\$ 71,674,763</u>

**PONCA CITY UTILITY AUTHORITY**  
(A Component Unit of the City of Ponca City)  
Schedule of Note Debt Service Coverage  
June 30, 2017

	Electric	Water	Solid Waste	Wastewater	Total
Gross Revenues of the System:					
Utility charges for service	\$ 37,980,921	\$ 7,935,112	\$ 5,024,030	\$ 6,299,242	\$ 57,239,305
Investment income	96,714	26,156	62,431	19,701	205,002
Total operating revenues	<u>38,077,635</u>	<u>7,961,268</u>	<u>5,086,461</u>	<u>6,318,943</u>	<u>57,444,307</u>
Operation and Maintenance Expenses:					
Personal services	2,794,429	1,535,644	2,613,902	1,137,333	8,081,308
Materials and supplies	107,870	398,132	31,401	73,551	610,954
Maintenance, operations and contractual services	1,724,263	1,358,372	771,429	737,625	4,591,689
Electricity purchased	21,870,511	-	-	-	21,870,511
Total operating expenses	<u>26,497,073</u>	<u>3,292,148</u>	<u>3,416,732</u>	<u>1,948,509</u>	<u>35,154,462</u>
Net revenues available for debt service	<u>\$ 11,580,562</u>	<u>\$ 4,669,120</u>	<u>\$ 1,669,729</u>	<u>\$ 4,370,434</u>	<u>\$ 22,289,845</u>
Maximum annual debt service					3,246,970 *
Coverage					6.86
Required coverage					1.25

\* Maximum annual debt services is based on 2017 debt service requirements for Oklahoma Water Resources Board Notes Payable Series 1998A, 1999A, Series 2007 and 2009A Clean Water SRF Promissory Note, and Series 2012B Promissory Note as well as 2012A Utility System Revenue Note

**PONCA CITY UTILITY AUTHORITY**  
 (A Component Unit of the City of Ponca City)  
 SCHEDULE OF RESERVE ACCOUNT BALANCES  
 June 30, 2017

<u>Description</u>	<u>Required Reserves</u>	<u>Reserve Balance June 30, 2016</u>	<u>Excess Balance (Under) Required Reserves</u>
Notes Payable:			
2012 A Banc of America Public	\$ 848,980	848,980	-
2012 B OWRB	821,377	821,348	(29)

**PONCA CITY UTILITY AUTHORITY**  
(A Component Unit of the City of Ponca City)  
Schedule of Utility Rates  
June 30, 2017

<b>ELECTRIC RATES</b>	
Residential:	
User fee	\$ 10.620
Summer season (May thru Sept) per KWh	0.105
Winter season (Oct thru April):	
First 600 KWh	0.105
Over 600 KWh	0.074
Rural residential:	
User fee	15.900
Summer season (May thru Sept) per KWh	0.109
Winter season (Oct thru April):	
First 600 KWh	0.109
Over 600 KWh	0.076
Residential with approved 40-gallon electric water heater:	
User fee	10.620
Summer season (May thru Sept):	
First 400 KWh	0.074
Over 400 KWh	0.105
Winter season (Oct thru April):	
First 400 KWh	0.074
Next 600 KWh	0.105
Over 1000 KWh	0.074
Rural residential with approved 40-gallon electric water heater:	
User fee	15.900
Summer season (May thru Sept):	
First 400 KWh	0.076
Over 400 KWh	0.109
Winter season (Oct thru April):	
First 400 KWh	0.076
Next 600 KWh	0.109
Over 1000 KWh	0.076
Commercial:	
City user fee	14.970
City KWh	0.104
Rural user fee	22.460
Rural KWh	0.107
Industrial:	
Medium	
User fee	24.960
KWh	0.062
Summer user fee	14.970
Winter user fee	8.740
Large	
User fee	249.660
KWh	0.062
Summer user fee	11.860
Winter user fee	3.740

<b>WATER RATES</b>		
<b>OCTOBER-APRIL</b>		
<b>Type of service</b>	<b>City</b>	<b>Rural</b>
Residential	\$ 1.71	1.79
Commercial	1.71	1.79
<b>MAY-SEPTEMBER</b>		
<b>Type of service</b>	<b>City</b>	<b>Rural</b>
Residential:		
0-10 units	\$ 1.79	1.87
11-20 units	1.87	1.96
21-50 units	1.96	2.09
51-100 units	2.09	2.17
>100 units	2.17	2.33
Commercial	1.71	1.79
<b>CUSTOMER BASE USER FEE</b>		
City residential customer	\$	\$10.03/mo
Rural residential customer		15.09/mo
City commercial customer		29.73/mo
Rural commercial customer		44.60/mo

<b>GARBAGE/REFUSE</b>	
Residential	\$ 19.35
Senior citizen	18.58
Commercial standard	32.72

<b>SEWER/WASTEWATER</b>		
	<b>User Fee</b>	<b>Unit Fee</b>
Residential	\$ 14.99	2.65
Senior citizen	14.24	2.65
Commercial	22.48	3.97
Non-residential	22.48	3.97
Sewer rates are calculated on the average water usage during the months of December, January and February. This average is set in July and remains unchanged until the following July.		

<b>STORM WATER FEE</b>	
Each individually billed single family resident	\$ 3.00/mo
All other developed real estate tracts not covered by above	6.00/mo

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*



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  
Ponca City Utility Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Ponca City Utility Authority ("PCUA"), a component unit of the City of Ponca City, Oklahoma, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise PCUA's basic financial statements, and have issued our report thereon dated January 2, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered PCUA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PCUA's internal control. Accordingly, we do not express an opinion on the effectiveness of PCUA'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 a 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 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 PCUA's financial statements are free from 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 and compliance and the results of that testing, and not to provide an opinion on the effectiveness of PCUA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PCUA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Arledge & Associates, P.C.*

January 2, 2018