

State of Oklahoma



WATER RESOURCES BOARD
the water agency

**OKLAHOMA CLEAN WATER STATE REVOLVING
FUND LOAN ACCOUNT PROGRAM**

**ANNUAL FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011
AND INDEPENDENT AUDITOR'S REPORTS**

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

TABLE OF CONTENTS

	Page
Independent Auditor's Report on Financial Statements	3-4
Management's Discussion and Analysis	5-9
The Basic Financial Statements:	
Statements of Net Assets	11
Statements of Revenues, Expenses, and Changes in Net Assets	12
Statements of Cash Flows	13
Footnotes to Statements	14-22



INDEPENDENT AUDITOR'S REPORT

To the Members of the
Oklahoma Water Resources Board

We have audited the accompanying statements of net assets of the Oklahoma Water Resources Board/Oklahoma Clean Water State Revolving Fund Loan Account Program (the "Program") as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Program as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2012, on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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.

Arlidge & Associates, P.C.

Edmond, Oklahoma
September 20, 2012

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

MANAGEMENT'S DISCUSSION AND ANALYSIS

OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Oklahoma Clean Water State Revolving Loan Fund Account Program's (the "Program") financial performance provides an overview of the Program's financial activities for the fiscal years ended June 30, 2012 and 2011. Please read it in conjunction with the Program's financial statements, which begin on page 10. The Oklahoma Water Resources Board (the "Board") administers the Program.

Program Highlights

- During FY 2012, eleven (11) construction loan commitments totaling approximately \$55.19 million were made to protect, maintain and improve waters of the State towards the "fishable/swimmable" goals of the Clean Water Act.
- The Program recognized seven (7) of the eleven (11) projects as incorporating "green" components equaling approximately \$2.92 million.
- The Program completed construction during the year on eighteen (18) projects totaling approximately \$30.9 million.
- The Program made binding commitments for seven (7) new construction loans, totaling approximately \$42.9 million, in wastewater construction for communities discharging to priority stream segments identified as threatened or impaired on the Impaired Waterbodies List (Section 303(d)) of Oklahoma's Integrated Water Quality Assessment Report.
- Nine (9) of eleven (11) projects funded were proposed to assist Oklahoma communities to attain compliance with the enforceable permit requirements of the Clean Water Act in place to protect the water quality of receiving streams and lakes.

Financial Highlights

- The Program experienced an increase in the number of outstanding loans in FY 2012. At June 30, 2012 there were 195 outstanding loans with a principal balance of \$396,110,792. At June 30, 2011 the Program had 187 loans with a balance of \$328,333,447.
- Ending Program net assets increased from \$283,644,523 to \$304,828,753 between FY 2011 and FY 2012 of which \$42,512,086 is restricted for debt service. Ending Program net assets increased from \$257,576,198 to \$283,644,523 between FY 2010 and FY 2011 of which \$43,065,369 is restricted for debt service.

Using This Annual Report

This annual report is presented in a format that substantially meets the presentation requirements of the Governmental Accounting Standards Board (GASB) in accordance with generally accepted accounting principles. The Program is accounted for and presented similar to a special-purpose government engaged solely in business-type activities.

(Unaudited. See accompanying auditor's report.)

OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011

The financial statements for the Program are presented after the Management’s Discussion and Analysis in this annual report and then followed by the footnotes in this order:

- Management’s Discussion and Analysis – that provides useful analysis that facilitates a better understanding of the Program’s financial condition and changes therein.
- Basic Financial Statements
 - Statements of Net Assets
 - Statements of Revenues, Expenses and Changes in Net Assets
 - Statements of Cash Flows
- Footnotes - that elaborate on the accounting principles used in the preparation of the financial statements and further explain financial statement elements.

A Financial Analysis of the Program

One of the most frequently asked questions about the Program’s finances is, “Has the overall financial condition improved, declined or remained steady over the past year?” The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Activities report information about the Program as a whole and about its activities in a way that helps answer this question. The following tables present a condensed comparative presentation of net assets and changes therein.

Oklahoma Water Resources Board
CWSRF Loan Account Program
Net Assets

	Business-Type Activities		
	June 30		
	2012	2011	2010
Current assets	\$ 66,730,105	\$ 120,181,477	\$ 70,276,905
Non-current assets	423,180,343	359,698,637	294,297,835
Total assets	489,910,448	479,880,114	364,574,740
Current liabilities	12,798,125	12,414,539	6,853,439
Non-current liabilities	172,283,570	183,821,052	100,145,103
Total liabilities	185,081,695	196,235,591	106,998,542
Net assets			
Restricted	42,512,086	43,065,369	45,627,620
Unrestricted	262,316,667	240,579,154	211,948,578
Total net assets	\$ 304,828,753	\$ 283,644,523	\$ 257,576,198

With the addition of new loans, as discussed on page 6, our loans receivable amount increased as would be expected. The increase in non-current liabilities in fiscal year 2011 is directly attributable to the issuance of \$85,000,000 in revenue bonds. The decrease in non-current liabilities in fiscal year 2012 is directly attributable to the payment of long-term debt.

(Unaudited. See accompanying auditor’s report.)

OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011

Oklahoma Water Resources Board
CWSRF Loan Account Program
Revenues, Expenses, and Changes in Net Assets

	Business-Type Activities		
	Years Ended June 30,		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenues			
Loan program income, net	\$ 7,728,248	\$ 5,900,679	\$ 4,585,504
Federal grants	-	273,022	993,462
Investment interest income	4,264,024	2,717,568	4,567,736
Total revenues	<u>11,992,272</u>	<u>8,891,269</u>	<u>10,146,702</u>
Expenses			
Trustee fees	23,434	15,955	13,691
Administration expenses	32,993	846,532	510,922
Interest expense	7,724,254	5,162,409	4,644,130
Amortization of debt issuance cost	61,868	37,523	30,906
Total expenses	<u>7,842,549</u>	<u>6,062,419</u>	<u>5,199,649</u>
Net Income before transfers	4,149,723	2,828,850	4,947,053
Federal grants	25,145,121	29,661,879	20,918,490
Federal grant principal forgiveness	(5,160,884)	(6,435,220)	(19,768,625)
Transfers from other programs	50,270	12,816	29,407
Transfers to other programs	(3,000,000)	-	(8,679,660)
Increase (decrease) in net assets	<u>21,184,230</u>	<u>26,068,325</u>	<u>(2,553,335)</u>
Total net assets - beginning	283,644,523	257,576,198	260,129,533
Total net assets - ending	<u>\$ 304,828,753</u>	<u>\$ 283,644,523</u>	<u>\$ 257,576,198</u>

The decrease in Federal Grant Revenue in 2012 is attributable to the ending of grant funds related to the American Reinvestment Recovery Act. The Program received funds to provide for additional subsidization to Oklahoma Borrowers for projects which met the intent of the Act. OWRB provided \$5,160,884 in principal forgiveness to Borrowers in FY 12 compared to \$6,337,720 in FY 11. In FY 12 OWRB received no administrative fee compared to \$273,022 in FY 11 related to the program. In addition, the Program received \$19,984,237 in net Federal Capitalization Grants in FY 2012 compared to \$23,324,159 in FY 2011.

(Unaudited. See accompanying auditor's report.)

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

The OWRB is authorized by the EPA to transfer up to 33% of the Drinking Water Federal Capitalization Grants from the Fund. During 2012, management elected to transfer \$3,000,000 to the Drinking Water State Revolving Fund Loan program, but did not elect this option in 2011. These transfers are included in Transfers to other programs.

Long- Term Debt

At year-end, the Program had \$169,720,000 in long-term debt outstanding, net of unamortized premium, which represents a \$10,075,000 or 5.6% decrease from June 30, 2011 to June 30, 2012. Debt increased \$79,360,000, or 179%, from 2010 to 2011. The Program's changes in long-term debt by type of debt are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Beginning balances:			
2004 Serial bonds due April 1, 2013 to April 1, 2026, interest at 3.50% to 5.25%	\$ 94,795,000	\$ 100,435,000	\$ 105,900,000
2011 Serial bonds due April 1, 2013 to April 1, 2031, interest at 3.0% to 5.0%	85,000,000	85,000,000	\$ -
Unamortized premium	14,101,052	14,518,095	5,669,186
	<u>\$ 193,896,052</u>	<u>\$ 199,953,095</u>	<u>\$ 111,569,186</u>
Less: debt principal repayments	(10,075,000)	(5,640,000)	(5,465,000)
Less: current amortization of premium	(777,482)	(417,043)	(319,083)
Ending balances	<u>\$ 183,043,570</u>	<u>\$ 193,896,052</u>	<u>\$ 105,785,103</u>
Amounts due in one year	10,760,000	10,075,000	5,640,000

See Note 6 to the financial statements for more detailed information on the Program's long-term debt and changes therein.

Economic Factors and Next Year's Outlook

As a result of the widespread need for wastewater financing and efforts by the OWRB to implement a "lower than market rate" loan program, we continue to receive an overwhelming response from communities across the state requesting their projects be added to the five-year CWSRF Project Priority List. To date, communities have made requests for twelve (12) construction and refinancing projects in FY 2013 totaling over \$122.77 million. An additional \$144.36 million in projects has been requested through 2017.

Contacting the Program's Financial Management

This financial report is designed to provide the Board's accountability of the Program. If you have questions about this report or need additional financial information, contact the Financial Assistance Division of the Oklahoma Water Resources Board at 3800 N. Classen Blvd, Oklahoma City, OK 73118.

(Unaudited. See accompanying auditor's report.)

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

BASIC FINANCIAL STATEMENTS

OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011

Statements of Net Assets – June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$28,325,238	\$32,303,230
Investments	11,370,758	64,654,822
Loans receivable	23,989,260	20,650,120
Due from other programs	266,837	266,837
Interest receivable:		
Loans receivable	2,507,564	2,008,757
Other interest receivable	270,448	297,711
	<u>66,730,105</u>	<u>120,181,477</u>
Total current assets		
Noncurrent Assets:		
Loans receivable, net of current portion and allowance for uncollectible loans of \$319,726 in 2012 and \$57,794 in 2011	372,121,532	307,683,327
Restricted Investments	42,512,086	43,065,369
Investments	7,508,670	7,850,018
Debt issuance cost, net of accumulated amortization of \$274,836 and \$212,968 in 2012 and 2011, respectively.	1,038,055	1,099,923
	<u>423,180,343</u>	<u>359,698,637</u>
Total noncurrent assets		
	<u>489,910,448</u>	<u>479,880,114</u>
Total assets		
LIABILITIES:		
Current Liabilities:		
Accrued interest payable	2,028,675	1,949,264
Current maturities of long-term debt	10,760,000	10,075,000
Other accrued liabilities	5,731	81,936
Due to other programs	3,719	308,339
Total current liabilities	<u>12,798,125</u>	<u>12,414,539</u>
Noncurrent liabilities:		
Long-term debt, less current maturities and plus unamortized premium	172,283,570	183,821,052
	<u>172,283,570</u>	<u>183,821,052</u>
Total noncurrent liabilities		
Total liabilities	<u>185,081,695</u>	<u>196,235,591</u>
NET ASSETS:		
Restricted for debt service	42,512,086	43,065,369
Unrestricted	262,316,667	240,579,154
Total net assets	<u>\$304,828,753</u>	<u>\$283,644,523</u>

See accompanying notes to the basic financial statements.

OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011

Statements of Revenues, Expenses and Changes in Net Assets – Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES:		
Loan program income (net of bad debt expense of \$261,932 in 2012 and bad debt recovery of \$2,959 in 2011)	\$7,728,248	\$5,900,679
ARRA administration revenue	-	273,022
Total operating revenues	<u>7,728,248</u>	<u>6,173,701</u>
OPERATING EXPENSES:		
Trustee fees	23,434	15,955
Administration expenses	32,993	846,532
Interest expense	7,724,254	5,162,409
Amortization of debt issuance cost	61,868	37,523
Total operating expenses	<u>7,842,549</u>	<u>6,062,419</u>
OPERATING INCOME (LOSS)	(114,301)	111,282
NON-OPERATING REVENUES (EXPENSES):		
Federal grants and contracts	25,145,121	29,661,879
Federal grant principal forgiveness	(5,160,884)	(6,435,220)
Interest Income:		
Invested cash balances	853,090	657,209
Short-term investments	159,455	25,684
Long-term investments	2,209,109	2,528,481
Gain/(Loss) on Investments	<u>1,042,370</u>	<u>(493,806)</u>
Total non-operating revenues	<u>24,248,261</u>	<u>25,944,227</u>
Net income before transfers	24,133,960	26,055,509
Transfers in - Clean Water Revolving Fund Loan Administrative Fund	50,270	12,816
Transfers out - Drinking Fund Revolving Fund Loan Program	<u>(3,000,000)</u>	<u>-</u>
Change in net assets	21,184,230	26,068,325
Total net assets - beginning	283,644,523	257,576,198
Total net assets - ending	<u>\$304,828,753</u>	<u>\$283,644,523</u>

See accompanying notes to the basic financial statements.

OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011

Statements of Cash Flows – Years Ended June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Collections of interest on loans to local governmental units	\$6,967,509	55,354,928
Federal grant income	-	273,022
Payments to other suppliers	(132,632)	(783,927)
Payments to other programs	-	308,339
Payments from other programs	(304,620)	260,307
Interest paid on debt	(8,422,325)	(4,840,250)
Net Cash Provided by (Used in) Operating Activities	<u>(1,892,068)</u>	<u>572,419</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in - Clean Water Revolving Fund Loan Administrative Fund	50,270	12,816
Transfers out - Drinking Fund Revolving Fund Loan Program	(3,000,000)	
Federal grant receipts	25,145,121	23,226,659
Bond issue proceeds	-	85,000,000
Bond issue cost	-	(619,235)
Premium on bonds issued	-	9,167,991
Principal paid on bonds notes	(10,075,000)	(5,640,000)
Net Cash Provided by Noncapital Financing Activities	<u>12,120,391</u>	<u>111,148,231</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans to local governmental units	(94,575,809)	(107,296,664)
Collections of principal on loans to local governmental units	21,375,648	18,228,983
Collections of principal on loans to local governmental units from federal grant proceeds	5,160,884	6,435,220
Interest on invested cash balances	865,960	709,562
Interest on short-term investments	159,907	25,266
Interest on long-term investments	3,265,419	2,065,666
Purchase (sale) of long-term investments	894,631	15,345,560
Sale (purchase) of short-term investments	48,647,045	(52,836,490)
Net Cash Provided by (Used in) Investing Activities	<u>(14,206,315)</u>	<u>(117,322,897)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(3,977,992)	(5,602,247)
Balances - beginning of the year	<u>32,303,230</u>	<u>37,905,477</u>
Balances - end of the year	<u>\$28,325,238</u>	<u>\$32,303,230</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	(\$114,301)	\$1,1282
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Amortization of debt issuance costs and note issuance discounts (premiums)	(715,614)	(379,519)
Allowance for uncollectible loans	(261,932)	(2,959)
Change in assets and liabilities:		
Decrease (Increase) in due from other programs		260,307
Decrease (Increase) in interest receivable	(498,807)	(542,792)
Increase (Decrease) in other current liabilities	(76,205)	78,560
Increase (Decrease) in accrued interest payable	79,411	739,201
Increase (Decrease) in due to other funds	(304,620)	308,339
Net Cash Provided by (Used in) Operating Activities	<u>(\$1,892,068)</u>	<u>\$572,419</u>

See accompanying notes to the basic financial statements.

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

Footnotes to the Basic Financial Statements:

1. Summary of Significant Accounting Policies

Reporting Entity

The Oklahoma Water Resources Board/Oklahoma Wastewater Facility Construction Revolving Loan Account Program (the "Program") was created pursuant to the 1987 Amendments (P.L. 100-4) to the "Clean Water Act" (P.L. 92-500) to provide a perpetual fund for financing the construction of wastewater treatment facilities for municipalities and other public entities. The Program funds loans with Federal grants, State matching funds, principal repayments, bond proceeds, and interest received on loans and invested cash balances. State matching funds are provided through State appropriations or through the issuance of notes payable.

Administrative costs of the Oklahoma Water Resources Board ("OWRB") allocated to the Program may be reimbursed by the Program, limited to 4% of total cumulative Federal contributions or through fees assessed to each participating borrower at the rate of one-half of one percent per annum of the amount of each borrower's loan balance outstanding, and loan application fees. The fees paid by the participating borrowers are remitted directly to OWRB and, therefore, are not included in the accompanying financial statements.

The significant accounting principles and practices followed by the Program are presented below:

Basis of Accounting and Measurement Focus

The Program is accounted for and presented similar to a special-purpose government engaged solely in business type activities.

The Program uses the accrual basis of accounting whereby expenses are recognized when the liability is incurred and revenues are recognized when earned.

The Program uses the economic resources measurement focus where all assets, liabilities, net assets, revenues, expenses and transfers relating to the Program and net income and capital maintenance are measured.

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB"). Under the guidelines of GASB Statement 20, the Program has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

1. Summary of Significant Accounting Policies (cont'd)

Loans Receivable and Allowance for Uncollectible Loans

Loans receivable are stated at the amount of unpaid principal reduced by an allowance for uncollectible loans. The allowance for uncollectible loans is established through a provision for bad debts that is charged to expense. Loans receivable are charged against the allowance for uncollectible loans when management believes that the collectability of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans receivable that may become uncollectible, based on evaluations of the collectability of loans receivable. The evaluations take into consideration such factors as the borrowers' debt coverage ratio, review of specific problem loans receivable and current economic conditions that may affect the borrowers' ability to pay. Accrual of interest is discontinued on a loan receivable when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful.

Federal Letter of Credit Payments Receivable

Funding from Federal grants, which have been approved, is provided through a Federal letter of credit. Timing of deposits is specified by the terms of the grant. The Program draws on the available funds as necessary to fund loans. Letter of Credit Payment Receivables are recorded only when the required State match has been met and actual requests for loan draws have been received by the Program. When these events have occurred, the Program records the receivable and federal revenue for the amount of the loan request.

Federal Grant Income

Federal grant income represents contributions from the Environmental Protection Agency ("EPA") of the U.S. Federal Government. In the unlikely circumstance of termination of the Program, all Federal and State contributions are refundable to the respective governments upon liquidation of the Program's assets.

During FY 2012 and 2011, the program received federal grant income under the American Recovery and Reinvestment Act. Proceeds under this program were used to forgive principal for Borrowers meeting the requirements of the Act. For FY 2012 and 2011, \$1,897,545 and \$6,337,720, respectively, was provided for principal forgiveness under the program.

Debt Issuance Costs

Debt issuance costs are included in other non-current assets and are amortized using the straight-line method over the life of the Program bonds payable, which is 23 years for the 2004 bonds and 21 years for the 2011 bonds.

OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011

1. Summary of Significant Accounting Policies (cont'd)

Bond Issue Premium

The Program's State Revolving Fund Revenue Bonds, Series 2004 were initially sold at a premium of \$7,161,445. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$319,082 was recorded in 2012 and 2011 and is included in interest expense in the accompanying statements of revenues, expenses, and changes in net assets.

The Program's State Revolving Fund Revenue Bonds, Series 2011 were initially sold at a premium of \$9,167,991. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$458,400 and \$97,959 was recorded in 2012 and 2011 and is included in interest expense in the accompanying statements of revenues, expenses, and changes in net assets.

Cash and Cash Equivalents

The Program considers all highly liquid debt instruments purchased with an original maturity of three months or less and money market funds to be cash equivalents.

Investments

Included in the total is \$42,512,086, which has been deposited into a Debt Service Reserve fund, pursuant to the bond indenture (See Note 5).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Cash Deposits and Investment Risk

Cash of \$28,322,000 and \$32,302,823 at June 30, 2012 and 2011 respectively, was on deposit in the State Treasurer's office's internal investment pool – *OK Invest*. In addition to the \$28,322,000 and \$32,302,823, there is a cash balance of \$3,238 and \$407 on deposit with BancFirst at the end of June 30, 2012 and 2011. Short-term investments of \$11,370,758 and \$59,704,341 at June 30, 2012 and 2011, respectively, were on deposit with the Program's trustee. The deposits are invested in the *Federated Treasury Obligations* mutual fund.

Investment Interest Rate Risk – the Program does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates as it relates to funds not directly associated with bond issue proceeds.

OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011

2. Cash Deposits and Investment Risk (cont'd)

Investment Credit Risk-Non Debt Proceeds – for non-debt proceeds, the Program has no investment policy that limits its investment choices other than the limitation of state law imposed on the State Treasurer as follows:

- a. U.S. Treasury Bills, Notes and Bonds and U.S. Government Agency Securities with certain ratings and maturity limitations.
- b. Collateralized or insured certificates of deposit and other evidences of deposit issued by a bank, savings bank, savings and loan association or credit union located in the state.
- c. With certain ratings and maturity limitations, negotiable certificates of deposit, bankers acceptances and commercial paper.
- d. Obligations of state and local governments, including obligations of Oklahoma state public trusts, with certain ratings and maturity limitations.
- e. Collateralized repurchase agreements tri-party repurchase agreements.
- f. Money market mutual funds and short term bond funds regulated by the SEC and in which investments consist of obligations of the U.S. Government and its agencies and instrumentalities and repurchase agreements collateralized by obligations of the U.S. Government and its agencies and instrumentalities.

The State Treasurer has determined that current holdings in OK Invest should be limited to obligations of the United States government, its agencies and instrumentalities, tri-party repurchase agreements collateralized at 102% with the collateral held by a third party in the name of the Oklahoma State Treasurer and money market mutual funds which either directly or indirectly invest in U.S. Treasury and/or Agency securities and repurchase agreements related to such securities. OK Invest is not insured or guaranteed by the State of Oklahoma, the Federal Deposit Insurance Corporation or any other government agency.

Investment Credit Risk - Debt Proceeds – for debt proceeds, the bond indenture provides for restrictions on the investment choices of the Program as follows:

- a. Obligations of the United States Government, its agencies and instrumentalities.
- b. Collateralized or insured certificates of deposit and other evidences of deposit at banks, savings banks, savings and loan associations or credit unions located in the State of Oklahoma.
- c. Money market funds regulated by the Securities and Exchange Commission and which investments consist of those items specified in (a) and (b) above.
- d. Investment agreements with entities maintaining a rating in the top two categories by a nationally recognized municipal bond rating agency.

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

2. Cash Deposits and Investment Risk (cont'd)

At June 30, 2012 and 2011, the Program's investments in obligations not directly guaranteed by the U.S. Government and investments in money market mutual funds were rated as follows:

<u>Type</u>	<u>Maturities</u>	<u>Credit Rating</u>	<u>Carrying Value</u>	
			<u>2012</u>	<u>2011</u>
OK Invest (State Treasurer)	Less than 2 years	Not rated.	\$ 28,322,000	\$ 32,302,416
Federated Treasury Obligations Fund	16 days	AAAm	11,370,758	59,704,341
City of Lawton Municipal Bond Reserve Fund	10/1/2028	Not rated.	7,508,670	7,306,300
Revenue Fund	4/1/2027	AAAm	40,403,171	43,065,369
Total	4/1/2027	AAAm	<u>2,108,915</u>	<u>5,494,606</u>
			<u>\$ 89,713,514</u>	<u>\$ 147,873,032</u>

Concentration of Investment Credit Risk – neither the Program nor the bond indenture place any limit on the amount the Program may invest in any one issuer. The Program has the following concentration of credit risk at June 30, 2012: 47.39% or \$42,512,086 is invested in a guaranteed investment agreement with Transamerica Occidental Life Insurance Company, 12.67% or \$11,370,758 is invested in Federated Treasury money market funds, and 31.57% or \$28,322,000 is invested in OK Invest.

At June 30, 2011, the Program has the following concentration of credit risk at June 30, 2011: 32.8% or \$48,559,975 is invested in a guaranteed investment agreement with Transamerica Occidental Life Insurance Company, 40.4% or \$59,704,341 is invested in Federated Treasury money market funds, and 21.8% or \$32,302,823 is invested in OK Invest.

3. Federal Letter of Credit Payments Receivable

A schedule of activity in the Federal letter of credit payments receivable account, as reflected in the accompanying statements of net assets, for the years ended June 30, 2012 and 2011, is as follows:

OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011

3. Federal Letter of Credit Payments Receivable (cont'd)

Balance, June 30, 2010		-
Federal revenue recognized		29,934,901
Federal funds withdrawn		<u>(29,934,901)</u>
Balance, June 30, 2011	\$	-
Federal revenue recognized		25,145,121
Federal funds withdrawn		<u>(25,145,121)</u>
Balance, June 30, 2012	\$	<u>-</u>

Of the Federal letter of credit payments withdrawn during the fiscal year ended June 30, 2012, \$19,984,237 was used to provide loans to borrowers, \$5,160,884 was used for debt forgiveness and no funds were used for administrative expenses. During FY-2012 \$80,573 of the 4% administration fee available to the Program was used to pay for administration costs of the Program. As of June 30, 2012, the Program has EPA grant funding available for its use totaling \$2,601,727.

Of the Federal letter of credit payments withdrawn during the fiscal year ended June 30, 2011, \$23,226,659 was used to provide loans to borrowers, \$6,435,220 was used for debt forgiveness and \$273,022 was used for administrative expenses. During FY-2011 \$236,939 of the 4% administration fee available to the Program was used to pay for administration costs of the Program. As of June 30, 2011, the Program has EPA grant funding available for its use totaling \$15,816,747.

4. Loans Receivable

The Program originates direct loans with communities utilizing several sources of funds including existing loan principal repayments, interest earnings, federal grants and bond funds. These loans are collateralized by various revenue sources including, but not limited to, user charges and sales taxes of the borrowers. These loans are made at 60% of the current market interest rate. At June 30, 2012 and 2011, there were \$354,547,841 and \$281,250,433, respectively, in loans outstanding. As of June 30, 2012, the Program had unexpended commitments to borrowers for additional loan funds in the amount of \$111,356,582.

Prior to FY-2007, the Board originated interim construction loans that would upon completion provide the borrowers the opportunity to refinance 40% of their outstanding interim loan balance on a long-term basis without interest. Such loans were collateralized by various revenue sources including, but not limited to, user charges and sales taxes of the borrowers. To avail themselves of this opportunity, the borrowers obtained funding for the remaining 60% of the outstanding loan from sources outside the Program. This is no longer an option for the Program. At June 30, 2012 and 2011, there were \$41,562,951 and \$47,083,014, respectively, in long-term interest-free loans outstanding.

OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011

4. Loans Receivable (cont'd)

A schedule of activity of loans receivable for the years ended June 30, 2012 and 2011, is as follows:

Net Balance, June 30, 2010	\$ 245,698,027
Loan disbursements	107,296,664
Principal repayments	<u>(24,664,203)</u>
	328,330,488
Change in allowance for uncollectible loans	<u>2,959</u>
Net Balance, June 30, 2011	\$ 328,333,447
Loan disbursements	94,575,809
Principal repayments	<u>(26,536,532)</u>
	396,372,724
Change in allowance for uncollectible loans	<u>(261,932)</u>
Net Balance, June 30, 2012	<u><u>\$ 396,110,792</u></u>

5. Restricted Investments

A description of the restricted investments held at June 30, 2012 and 2011, is as follows:

	<u>2012</u>	<u>2011</u>
Guaranteed investment with Transamerica Occidental Life Insurance Co. pursuant to an investment agreement, 4.61% maturing April 1, 2027 (restricted for debt service)	<u>42,512,086</u>	<u>43,065,369</u>
Total restricted investments	<u><u>\$ 42,512,086</u></u>	<u><u>\$ 43,065,369</u></u>

The agreement with Transamerica Occidental Life Insurance Co./Transamerica Life Insurance and Annuity Co. ("Transamerica"), are uninsured and non-collateralized so long as Transamerica maintains certain specified credit ratings. If these credit ratings are not maintained, Transamerica is required to collateralize the investment agreement sufficient to maintain an S & P or Moody's rating of "AA-" or "Aa3", respectively, on the contract. The S & P credit rating for Transamerica at June 30, 2012 was AA-. The investment is carried at cost, which approximates fair value.

OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011

6. Long-Term Debt

Bonds Payable

On October 26, 2004, the Program issued State Revolving Fund Revenue Bonds, Series 2004 in the amount of \$121,075,000. These bonds were issued to provide low interest cost financing for Oklahoma Local governmental entities for acquiring, constructing, or improving their wastewater treatment systems and to enable the Program to meet the State matching requirements in order to obtain Federal grants. The bonds represent a portion of the overall \$204,480,000 Revolving Fund Revenue Bonds, Series 2004 (Master Trust) issued by the Oklahoma Water Resources Board. The balance of the bonds and related debt issue costs, bond premium, etc. were allocated proportionately to the Drinking Water State Revolving Fund Loan Program for similar purposes related to its drinking water treatment facilities projects.

On April 13, 2011, the Program issued State Revolving Fund Revenue Bonds, Series 2011A in the amount of \$85,000,000. These bonds were issued to provide low interest cost financing for Oklahoma Local governmental entities for acquiring, constructing, or improving their wastewater treatment systems and to enable the Program to meet the State matching requirements in order to obtain Federal grants.

Future debt service payments required by the Program's outstanding bonds as of June 30, 2012 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$10,760,000	\$8,114,700	\$18,874,700
2014	11,115,000	7,684,976	18,799,976
2015	11,625,000	7,182,088	18,807,088
2016	12,025,000	6,601,937	18,626,937
2017	12,520,000	6,053,378	18,573,378
2018-2022	57,370,000	21,206,028	78,576,028
2023-2027	43,025,000	8,536,101	51,561,101
2028-2031	11,280,000	1,251,000	12,531,000
Total	<u>\$169,720,000</u>	<u>\$66,630,208</u>	<u>\$236,350,208</u>

In addition to their normal scheduled maturity dates as shown above, the bonds may also be redeemed at the option of the Board, in whole or in part, at such dates and for such prices, plus accrued interest as are set forth in the bond indenture.

In order for the interest on the Program's Series 2004 and 2011 bonds to be tax-exempt, the Board must comply with certain provisions of the Internal Revenue Code, as amended. One provision requires that the arbitrage earnings (defined as the excess of the amount earned on all nonpurpose investments over the amount which would have been earned if the nonpurpose investments were invested at a rate equal to the bond yield) be rebated to the Internal Revenue Service. This rebate is payable at the end of each five years during the term of the issue. Management of the Program believes that any arbitrage liability, which exists at June 30, 2012, is immaterial.

OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011

6. Long-Term Debt (cont'd)

Pursuant to the 2004 Master Trust Agreement, the Clean Water State Revolving Fund Loan Program bonds share in an aggregate debt service reserve with the Drinking Water State Revolving Fund Loan Program bonds. At June 30, 2012, the aggregate debt service reserves totaled \$67,675,687 of which \$40,403,171 is reflected in the accompanying statements of net assets.

Long-term debt outstanding at June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Beginning balances:		
2004 Serial bonds due April 1, 2013 to April 1, 2026, interest at 3.50% to 5.25%	\$ 94,795,000	\$ 100,435,000
2011 Serial bonds due April 1, 2013 to April 1, 2031, interest at 3.0% to 5.0%	85,000,000	85,000,000
Unamortized premium	14,101,052	14,518,095
	<u>\$ 193,896,052</u>	<u>\$ 199,953,095</u>
Less: debt principal repayments	(10,075,000)	(5,640,000)
Less: current amortization of premium	(777,482)	(417,043)
Ending balances	<u>\$ 183,043,570</u>	<u>\$ 193,896,052</u>
Amounts due in one year	10,760,000	10,075,000

7. Binding Commitments

During the year ended June 30, 2012, the OWRB voted to approve funding of various borrower loan applications through the Program. These binding commitments will be funded by the Program provided that a loan agreement and promissory note are executed within one year from the date of original approval unless an extension is granted by the OWRB. Loan applications approved by the OWRB for which a loan agreement and promissory note have not been executed totaled \$5,795,000 at June 30, 2012.

8. Reclassifications

Certain prior year amounts have been reclassified for comparative purposes to conform to the current year presentation. Loans Receivable previously reported as "Small Community" and "Long-term" loans receivable in the statement of net assets have been combined and are now presented as "Loans Receivable" and "Loans Receivable, net of current portion and allowance for uncollectible loans".