

State of Oklahoma



WATER RESOURCES BOARD
the water agency

**STATE LOAN PROGRAM REVENUE BONDS
SERIES 1997**

**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
STATE LOAN PROGRAM REVENUE BONDS – SERIES 1997
ANNUAL FINANCIAL REPORT
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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 State Loan Program Revenue Bonds - Series 1997 (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 Oklahoma Water Resources Board State Loan Program Revenue Bonds - Series 1997 as of June 30, 2012 and 2011, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 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.

Arledge & Associates, P.C.

Edmond, Oklahoma
October 12, 2012

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT’S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Oklahoma Water Resources Board State Loan Program Revenue Bonds – Series 1997 (the "Program") financial performance provides an overview of the financial activities for the fiscal years ended June 30, 2012 and June 30, 2011. Please read it in conjunction with the financial statements, which begin on page 10. The Oklahoma Water Resources Board (the "Board") administers the Series 1997 Bond Program.

Financial Highlights

- Total Assets decreased 19.3% from \$6,024,348 to \$4,864,443 between FY 2011 and FY 2012. Total Assets decreased 39.5% from \$9,964,546 to \$6,024,348 between FY 2010 and FY 2011.
- Total Net Assets increased from \$270,341 to \$275,838 between FY 2011 and FY 2012. Total Net Assets increased from \$269,353 to \$270,341 between FY 2010 and FY 2011.
- Total Liabilities decreased 20.3% from \$5,754,007 to \$4,588,605 between FY 2011 and FY 2012. Total Liabilities decreased 40.7% from \$9,695,193 to \$5,754,007 between FY 2010 and FY 2011.
- Other accrued liabilities decreased over 32% in FY 2012 and increased over 10.23% in FY 2011. Administrative fees assessed but not used during past fiscal years are "banked" for future administrative costs. During FY 2012 and 2011, the Board earned \$13,200 and \$13,700, respectively, from the Series 1997 Bond Program for administrative services provided.

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.

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.

(Unaudited. See accompanying auditor’s report.)

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- Supplemental Information – Grouped Financial Statements of all Program Bond Issues for the year ended June 30, 2012
 - Statements of Net Assets
 - Statements of Revenues, Expenses and Changes in Net Assets
 - Statements of Cash Flows

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 Assets 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
Revenue Bonds - Series 1997
Net Assets**

	Business-Type Activities		
	June 30,		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current assets	\$ 3,684,752	\$ 787,837	\$ 1,123,714
Non-current assets	1,179,691	5,236,511	8,840,832
Total assets	4,864,443	6,024,348	9,964,546
Current liabilities	3,688,413	793,030	1,123,430
Non-current liabilities	900,192	4,960,977	8,571,763
Total liabilities	4,588,605	5,754,007	9,695,193
Net assets			
Unrestricted	275,838	270,341	269,353
Total net assets	\$ 275,838	\$ 270,341	\$ 269,353

(Unaudited. See accompanying auditor’s report.)

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**Oklahoma Water Resources Board
Revenue Bonds - Series 1997
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	\$ 211,323	\$ 301,470	\$ 468,318
Investment interest income	28	97	54
Total revenues	<u>211,351</u>	<u>301,567</u>	<u>468,372</u>
Expenses			
Trustee fees	1,000	1,027	1,255
Administration expenses	13,160	13,679	18,522
Interest expense	183,548	277,260	437,289
Amortization of debt issuance cost	5,770	5,771	5,770
Standby bond purchase agreement fees	1,566	1,832	1,952
Remarketing fees	810	1,010	1,045
Total expenses	<u>205,854</u>	<u>300,579</u>	<u>465,833</u>
Increase (decrease) in net assets	5,497	988	2,539
Total net assets - beginning	270,341	269,353	266,814
Total net assets - ending	<u>\$ 275,838</u>	<u>\$ 270,341</u>	<u>\$ 269,353</u>

(Unaudited. See accompanying auditor's report.)

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Long-Term Debt

At year-end, the Program had \$4,495,000 in long-term debt outstanding which represents a \$1,115,000 or 19.9% decrease from the prior year. At June 30, 2011, total long-term debt outstanding decreased by \$3,895,000 or 41%. 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:			
Serial and term bonds due September 1, 2012 to September 1, 2018, at fixed interest rates	\$ 3,980,000	\$ 7,740,000	\$ 9,320,000
Serial and term bonds due September 1, 2012 to September 1, 2025, at variable rates subject to mandatory sinking fund redemption	1,630,000	1,765,000	1,860,000
Less: debt principal repayments	<u>(1,115,000)</u>	<u>(3,895,000)</u>	<u>(1,675,000)</u>
Ending Balances	<u>\$ 4,495,000</u>	<u>\$ 5,610,000</u>	<u>\$ 9,505,000</u>
Amounts due in one year	<u>\$ 3,535,000</u>	<u>\$ 585,000</u>	<u>\$ 865,000</u>

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

Due to the nature of the Series 1997 Bond Program, the Board expects a decrease in net assets and liabilities as the loans continue to make principal repayments and bonds are redeemed. As the net assets and liabilities decrease, so will the revenues and operating expenses. However, the Board expects to have sufficient income to sustain the Series 1997 Bond Program throughout the life of the bonds.

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.)

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BASIC FINANCIAL STATEMENTS

**OKLAHOMA WATER RESOURCES BOARD
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Statements of Net Assets – June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$76,001	\$129,692
Current portion of notes receivable	3,539,800	588,550
Interest receivable:		
Notes receivable	68,950	69,594
Other	1	1
	<u>3,684,752</u>	<u>787,837</u>
Total current assets		
Noncurrent Assets:		
Notes receivable net of current portion	1,097,800	5,148,850
Bond issuance cost, net of accumulated amortization of \$86,522 and \$80,752 in 2012 and 2011, respectively	81,891	87,661
	<u>1,179,691</u>	<u>5,236,511</u>
Total noncurrent assets		
	<u>4,864,443</u>	<u>6,024,348</u>
Total assets		
LIABILITIES:		
Current Liabilities:		
Accrued interest payable	58,133	66,410
Current maturities of long-term debt	3,535,000	585,000
Other accrued liabilities	95,280	141,620
	<u>3,688,413</u>	<u>793,030</u>
Total current liabilities		
Noncurrent liabilities:		
Long-term debt, less current maturities and unamortized discount of \$59,808, and \$64,023 in 2012 and 2011, respectively	900,192	4,960,977
	<u>900,192</u>	<u>4,960,977</u>
Total noncurrent liabilities		
	<u>4,588,605</u>	<u>5,754,007</u>
Total liabilities		
NET ASSETS:		
Unrestricted	275,838	270,341
	<u>\$275,838</u>	<u>\$270,341</u>
Total net assets		

See accompanying notes to the basic financial statements.

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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	\$211,323	\$301,470
Total operating revenues	<u>211,323</u>	<u>301,470</u>
Operating Expenses:		
Trustee fees	1,000	1,027
Administration fees	13,160	13,679
Interest expense	183,548	277,260
Amortization of bond issuance cost	5,770	5,771
Standby bond purchase agreement fees	1,566	1,832
Remarketing fees	810	1,010
Total operating expenses	<u>205,854</u>	<u>300,579</u>
Operating income	5,469	891
Non-Operating Revenues:		
Interest income	28	97
Total non-operating revenues	<u>28</u>	<u>97</u>
Change in net assets	5,497	988
Total net assets - beginning	270,341	269,353
Total net assets - ending	<u><u>\$275,838</u></u>	<u><u>\$270,341</u></u>

See accompanying notes to the basic financial statements.

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

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Collections of interest on loans to local governments	\$211,967	\$366,879
Payments to other suppliers	(62,876)	(4,399)
Interest paid on debt	(187,610)	(336,595)
	<u>(38,519)</u>	<u>25,885</u>
Net Cash Provided by (Used in) Operating Activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Repayments of Long-term Debt	(1,115,000)	(3,895,000)
	<u>(1,115,000)</u>	<u>(3,895,000)</u>
Net Cash Provided by (Used in) Noncapital Financing Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Collections of principal on loans to local governmental units	1,099,800	3,866,150
Interest income	28	97
	<u>1,099,828</u>	<u>3,866,247</u>
Net Cash Provided by Investing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	(53,691)	(2,868)
Balances - beginning of the year	<u>129,692</u>	<u>132,560</u>
Balances - end of the year	<u>\$76,001</u>	<u>\$129,692</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income	\$5,469	\$891
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Amortization of bond issuance costs and bond issuance discounts	9,985	9,985
Change in assets and liabilities:		
Decrease (Increase) in interest receivable	644	65,409
Increase (Decrease) in accrued interest payable	(8,277)	(63,549)
Increase (Decrease) in other accrued liabilities	(46,340)	13,149
Net Cash Provided by (used in) Operating Activities	<u>(\$38,519)</u>	<u>\$25,885</u>

See accompanying notes to the basic financial statements.

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Footnotes to the Basic Financial Statements:

1. Summary of Significant Accounting Policies

Reporting Entity

The Oklahoma Water Resources Board (the "Board") State Loan Program Revenue Bonds - Series 1997 (the "Program") commenced operations in July 1997 by the Board to provide monies to implement its state-wide financial assistance program to make loans to local governmental units in the State of Oklahoma to be utilized to provide for the acquisition, development and utilization of storage and control facilities for water and sewage systems. Provisions of the bond indenture require that all local loans be originated by July 2, 2000. No new loans will be originated after that date without amendments to the bond indenture. Any portion of the bond proceeds may be used to redeem bonds at the option of the Board as specified by the bond indenture.

Administrative, accounting, and other technical support services are provided by employees of the Board. Payroll and other costs incurred by the Board on behalf of the Program are not billed by the Board, but are recovered from the administration fees paid by the Program (see Note 4).

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.

Pursuant to its bond indenture, the Program is required to maintain various separate accounts for principal payments, interest payments and various other purposes. To assist in fulfilling these responsibilities, the Board has engaged BancFirst to act as trustee and maintain appropriate fiduciary records. All activities and monies in the various accounts required by the bond indenture are considered to be applicable to the conduct of the Program's ongoing operations. Accordingly, all such activities and monies are combined for purposes of preparing the Program's financial statements.

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

Bond Issuance Cost

Bond issuance costs are amortized using the straight-line method over the life of the bonds, which is 30 years.

Bond Issue Discount

The Program's bonds were initially sold at a discount of \$123,000. The bond discount is being amortized over the remaining life of the bonds. Amortization expense of \$4,215 and \$4,214 was recorded in 2012 and 2011, respectively, and is included in interest expense in the accompanying statements of revenues, expenses and changes in net assets.

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.

Operating Revenues and Expenses

The Program considers income earned on outstanding loans receivable to be operating revenue. Similarly, the Program considers expenses incurred in administering the loan program, such as trustee fees, administration expenses, interest expense, and the amortization of bond issuance costs, to be operating expenses.

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 and cash equivalents of \$76,001 and \$129,692 at June 30, 2012 and 2011 respectively, were on deposit with the Program's trustee.

Investment Interest Rate Risk – the bond indenture provides that initial bond proceeds be invested in an investment agreement that provides for an interest rate return equal to the interest due on the bonds for the initial loan period, 3 years.

Investment Credit Risk – the bond indenture provides for restrictions on the investment choices of the Program as follows:

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

- 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.

At June 30, 2012, 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>
Federated Treasury Obligations Fund	16 days	AAAm	\$ 76,001
Total Investments			<u>\$ 76,001</u>

Concentration of Investment Credit Risk – the bond indenture places no limit on the amount the Program may invest in any one issuer. The Program has the following concentration of credit risk: 100% or \$76,001 is invested in *Federated Treasury Obligations Fund*.

At June 30, 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>
Federated Treasury Obligations Fund	15 days	AAAm	\$ 129,692
Total Investments			<u>\$ 129,692</u>

Concentration of Investment Credit Risk – the bond indenture places no limit on the amount the Program may invest in any one issuer. The Program has the following concentration of credit risk: 100% or \$129,692 is invested in *Federated Treasury Obligations Fund*.

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3. Notes Receivable

Notes receivable of \$4,637,600 and \$5,737,400 at June 30, 2012 and 2011, respectively, represents loans made by the Program to local governmental entities for the purposes of acquisition, development, and utilization of storage and control facilities for water and sewage systems. Payments on the notes are due in semiannual installments for fixed rate notes and quarterly for variable rate notes with various maturity dates through 2026; however, the local entities have the option to pay the notes earlier than the scheduled maturities. The current portion of notes receivable contains scheduled maturities and any prepayments made subsequent to year-end through September 30, 2012. The notes are collateralized by various revenue sources including, but not limited to user charges and sales taxes of the borrowers and mortgages on the water and/or sewer systems.

4. Program Fees

The bond indenture agreement provides for various fees to be paid in connection with the administration of the Program. These fees include the following:

- Standby purchase agreement fees are to be paid to a bank, which has guaranteed to purchase outstanding bonds that cannot otherwise be sold.
- During the year, an annual program administration fee of 0.1328% of fixed rate notes receivable outstanding during the period was charged to operations. An annual program administration fee of 0.4000% of variable rate notes receivable outstanding was charged to operations for the year. These fees are payable to the Oklahoma Water Resources Board for providing clerical, management and administrative services.
- Remarketing fees are payable to an investment banker for services related to determining the interest rate adjustment and attempting to remarket bonds when necessary.
- During the year, a trustee fee of 0.0122% of bonds outstanding was charged to operations. Fees are calculated twice a year using the balance of bonds outstanding at February 28 and August 31.
- Pursuant to the bond indenture, the Program was required to purchase a \$5,000,000 surety bond prior to the bond issuance. The cost of the surety bond was \$70,000 and is included in capitalized bond issuance costs.

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5. Arbitrage Rebate Due Federal Government

In order for the interest on the Program's bonds to be tax exempt, the Program must comply with certain provisions of the Internal Revenue Code, as amended. One provision requires that 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. The rebate is payable at the end of each five years during the term of the issue. The Program has no further arbitrage liability at June 30, 2012.

6. Long-term Debt

Long-term debt at June 30, 2012 and 2011 consists of the following:

	<u>2012</u>	<u>2011</u>
Beginning Balances:		
Serial and term bonds due September 1, 2012 to September 1, 2018, at fixed interest rates	\$ 3,980,000	\$ 7,740,000
Serial and term bonds due September 1, 2012 to September 1, 2025, at variable rates subject to mandatory sinking fund redemption	1,630,000	1,765,000
Less: debt principal repayments	(1,115,000)	(3,895,000)
Ending Balances	<u>\$ 4,495,000</u>	<u>\$ 5,610,000</u>
Amounts due in one year	\$ 3,535,000	\$ 585,000

Certain bonds bear interest at a variable rate, initially set at 3.7% and periodically adjusted pursuant to the provisions of the bond indenture, to a maximum rate of 12% per year. The interest rate on the bonds was .35% at June 30, 2012. At the option of the Board and subject to applicable provisions of the bond indenture, which require, among other things that all bonds be successfully remarketed, the variable interest rate may be converted to a term rate that would stay fixed until maturity of the bonds. These bonds bear interest at fixed rates ranging from 4.95% to 5.15%. Variable interest rates are reset quarterly on March 1st, June 1st, September 1st, and December 1st, by the Program's remarketing agent. At June 30, 2012, the Program had \$1,005,000 in variable rate bonds outstanding.

Future debt service payments required by the serial and term bonds as of June 30, 2012, were developed using the loan repayment amortization schedules maintained in the IFS system for variable rate bonds and scheduled maturities for fixed rate bonds. Future debt service payments required by the Program's serial and term bonds as of June 30, 2012 are as follows:

Fiscal Year	Principal	Interest	Total
2013	\$ 3,535,000	\$ 90,278	\$ 3,625,278
2014	50,000	3,360	53,360
2015	55,000	3,185	58,185
2016	60,000	2,993	62,993
2017	65,000	2,783	67,783
2018-2022	425,000	2,555	427,555
2023-2026	305,000	1,068	306,068
Total	<u>\$ 4,495,000</u>	<u>\$ 106,222</u>	<u>\$ 4,601,222</u>

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Interest on the bonds is payable semiannually for fixed rate bonds and quarterly for variable rate bonds. While the variable bonds bear interest at an adjustable rate, the variable bonds are to be repurchased at each such interest payment date at a price equal to the unpaid principal amount, unless such repurchase is waived in writing by the bond holder. The bonds are also subject to mandatory tender upon conversion to a term interest rate.

In addition to their normal scheduled maturity dates as shown above, the bonds may be redeemed at the option of the Board, in whole or in part, on any interest payment date prior to conversion to a term interest rate, for their principal amount plus accrued interest to the date of redemption.

Following any conversion to a term rate, 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.

The 1997 Bonds share in an aggregate debt service reserve along with all the other Board bond programs. At June 30, 2012, the aggregate debt service reserves totaled \$17,766,508. The debt service reserves are reflected in the Board bond programs Series 1989 and 1994A.

On May 10, 2011, the Board approved a resolution authorizing an amendment to the General Bond Resolution creating a General Debt Service Reserve Fund for the purpose of further securing the Board's State Loan Program Bonds. The Reserve has been funded with State appropriated gross production tax revenues in the amount of \$4,509,081 as of June 30, 2012 and is held by the Board's trustee bank.

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 1997
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

SUPPLEMENTAL INFORMATION



INDEPENDENT AUDITOR'S REPORT
ON ADDITIONAL INFORMATION

To the Members of the
Oklahoma Water Resources Board

Our report on our audit of the financial statements of the Oklahoma Water Resources Board State Loan Program Revenue Bonds – Series 1997 for June 30, 2012 appears on page three. The audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Grouped Statements of Net Assets, Statements of Revenues, Expenses, and Changes in Net Assets, and Statements of Cash Flows are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements of each bond issue and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements of each bond issue as a whole.

A handwritten signature in cursive script that reads 'Arledge & Associates, P.C.'.

Edmond, Oklahoma
October 12, 2012

OKLAHOMA WATER RESOURCES BOARD STATE LOAN PROGRAM REVENUE BONDS

SUPPLEMENTAL INFORMATION GROUPED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS For the Year Ended June 30, 2012

	1993 Series	1994 Series	1995 Series	1996 Series	1997 Series	1998 Series	1999 Series	2001 Series	2003 Series	2004 Series	2005 Series	2006 Series	2007 Series	2008 Series	2009 Series	2010 Series	2011 Series	2012 Series	Total (All non-refunding)	
REVENUES																				
Operating revenues	\$ 15,140	\$ 114,463	\$ 213,323	\$ 302,804	\$ 448,491	\$ 629,121	\$ 216,215	\$ 259,662	\$ 376,818	\$ 460,938	\$ 1,084,274	\$ 1,246,462	\$ 1,084,274	\$ 642,965	\$ 533,869	\$ 1,084,274	\$ 642,965	\$ 241,655	\$ 782,742	
Loss on program income																				
EXPENSES																				
Operating Expenses																				
Finance fees	1,000	1,000	1,205	4,842	7,510	3,311	1,000	5,697	12,540	12,540	3,683	1,912	3,683	2,434	1,845	1,845	1,145	1,145	38,515	
Administration fees	309	27,868	13,160	41,556	73,137	57,137	7,221	7,775	47,030	11,825	16,346	38,688	16,346	18,786	18,006	18,786	25,644	25,644	470,292	
Interest expense	18,121	48,851	63,259	181,548	1,298,844	710,916	208,479	246,652	1,897,560	353,026	1,047,090	1,254,129	1,047,090	623,766	513,984	513,984	217,292	217,292	887,292	
Amortization of bond issuance cost	2,118	12,906	5,776	1,315	6,117	1,462	9,616	6,915											5,838	
Statewide bond purchase agreement fees		5,475	1,866	9,185	8,419	16,711														51,817
Renewing fees		4,048	400	1,665	5,754	5,766														21,775
Total operating expenses	21,547	101,543	171,349	205,886	1,377,847	694,522	226,627	251,742	2,042,282	362,391	1,877,288	1,346,735	1,877,288	642,986	533,855	533,855	241,911	241,911	657,291	
Operating revenue (loss)	(6,407)	12,920	42,074	96,918	351,674	10,599	(10,412)	(92,080)	(332)	1,147	(2,514)	(2,514)	(2,514)	(2,514)	(2,514)	(2,514)	(2,514)	(2,514)	(2,514)	
NON-OPERATING REVENUES (EXPENSES)																				
Gain (loss) on sale of investments	3,529	26,889	64	28	152	9	16	14	48	15	17	17	17	2	2	2	2	2	1,579	
Other interest income																				17,534
Gain (loss) on sale of state																				
Nonoperating revenues	3,529	26,889	64	28	152	9	16	14	48	15	17	17	17	2	2	2	2	2	1,579	
Income (loss) before transfers	19,166	43,338	5,497	(20,148)	69,253	10,608	(10,196)	(2,067)	(272)	10,732	(246)	(246)	(246)	(246)	(246)	(246)	(246)	(246)	(246)	
Transfers (to) from Oklahoma Water Resources Board	(14,817)																			(14,817)
Change in net assets	(6,471)	43,338	5,497	(20,148)	69,253	10,608	(10,196)	(2,067)	(272)	10,732	(246)	(246)	(246)	(246)	(246)	(246)	(246)	(246)	(246)	
NET ASSETS																				
Beginning of year	\$ 3,068,871	\$ 3,653,771	\$ 2,703,341	\$ 2,024,669	\$ 953,593	\$ 16,013	\$ 82,522	\$ 28,336	\$ 32,322	\$ 207,629	\$ 6,074	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	
End of year	\$ 3,062,400	\$ 3,510,433	\$ 2,708,838	\$ 1,803,521	\$ 1,022,846	\$ 26,711	\$ 72,326	\$ 26,269	\$ 32,050	\$ 218,361	\$ 5,828	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	

See each individual bond issue audit report for additional information and related disclosures

THE ALMONA WATER RESOURCES BOARD STATE LOANS PROGRAM BUDGET REPORT

SUPPLEMENTAL INFORMATION GROUPED STATEMENTS OF CASH FLOWS

For the Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

	2012 Actual	2011 Actual	2010 Actual	2009 Actual	2008 Actual	2007 Actual	2006 Actual	2005 Actual	2004 Actual	2003 Actual	2002 Actual	2001 Actual	2000 Actual	1999 Actual	1998 Actual	1997 Actual	Total
Cash provided (used) by operating activities	1,144,817	(1,221,171)	1,200,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	11,150,000
Net cash provided (used) by operating activities	1,144,817	(1,221,171)	1,200,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	11,150,000

CASH FLOWS FROM INVESTING ACTIVITIES

	2012 Actual	2011 Actual	2010 Actual	2009 Actual	2008 Actual	2007 Actual	2006 Actual	2005 Actual	2004 Actual	2003 Actual	2002 Actual	2001 Actual	2000 Actual	1999 Actual	1998 Actual	1997 Actual	Total
Net cash provided (used) by investing activities	1,144,817	(1,221,171)	1,200,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	11,150,000
Net cash provided (used) by investing activities	1,144,817	(1,221,171)	1,200,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	11,150,000

CASH FLOWS FROM FINANCING ACTIVITIES

	2012 Actual	2011 Actual	2010 Actual	2009 Actual	2008 Actual	2007 Actual	2006 Actual	2005 Actual	2004 Actual	2003 Actual	2002 Actual	2001 Actual	2000 Actual	1999 Actual	1998 Actual	1997 Actual	Total
Net cash provided (used) by financing activities	1,144,817	(1,221,171)	1,200,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	11,150,000
Net cash provided (used) by financing activities	1,144,817	(1,221,171)	1,200,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	11,150,000

RECONCILIATION OF OPERATING (LOSS) (GAIN) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

	2012 Actual	2011 Actual	2010 Actual	2009 Actual	2008 Actual	2007 Actual	2006 Actual	2005 Actual	2004 Actual	2003 Actual	2002 Actual	2001 Actual	2000 Actual	1999 Actual	1998 Actual	1997 Actual	Total
Operating (loss) (gain)	1,144,817	(1,221,171)	1,200,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	11,150,000
Adjustments to reconcile operating (loss) (gain) to net cash provided (used) by operating activities:																	
Increase in receivables	1,144,817	(1,221,171)	1,200,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	11,150,000
Decrease in liabilities																	
Depreciation and amortization																	
Gain on sale of assets																	
Loss on sale of assets																	
Change in deferred tax assets																	
Change in deferred tax liabilities																	
Change in other non-current assets and liabilities																	
Net cash provided (used) by operating activities	1,144,817	(1,221,171)	1,200,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	1,115,000	11,150,000

See each financial statement below and its report for additional information and related disclosures.

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 1997
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE



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 Members of the
Oklahoma Water Resources Board

We have audited the financial statements of the Oklahoma Water Resources Board State Loan Program Revenue Bonds - Series 1997 (the "Program") as of and for the year ended June 30, 2012, and have issued our report thereon dated October 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 Program's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the audit committee, management, and the members of the Oklahoma Water Resources Board and is not intended to be and should not be used by anyone other than these specified parties.

Adage & Associates, P.C.
Edmond, Oklahoma
October 12, 2012