

State of Oklahoma



WATER RESOURCES BOARD
the water agency

**STATE LOAN PROGRAM REVENUE BONDS
SERIES 2001**

**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 2001
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 the Basic Financial Statements	14-19
Supplemental Information	
Independent Auditor’s Report on Additional Information	21
Grouped Statements of Net Assets	22
Grouped Statements of Revenues, Expenses, and Changes in Net Assets	23
Grouped Statements of Cash Flows	24
Internal Control over Financial Reporting and Compliance	25-27
Independent Auditor’s Report on Internal Control and Compliance	



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 2001 (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 2001 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.

Wedge Associates, P.C.

Edmond, Oklahoma

October 12, 2012

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2001
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

MANAGEMENT'S DISCUSSION AND ANALYSIS

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2001
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 Water Resources Board State Loan Program Revenue Bonds – Series 2001 (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 2001 Bond Program.

Financial Highlights

- Total Assets decreased 8% from \$39,950,111 to \$36,702,209 between FY 2011 and FY 2012. Total Assets decreased 6% from \$42,316,845 to \$39,950,111 between FY 2010 and FY 2011.
- Total Net Assets increased from \$753,591 to \$813,344 between FY 2011 and FY 2012. Total Net Assets increased from \$732,278 to \$753,591 between FY 2010 and FY 2011.
- Total Liabilities decreased from \$39,196,520 to \$35,888,865 between FY 2011 and FY 2012. Total bond redemptions in FY 2012 were \$3,245,000. Total Liabilities decreased from \$41,584,567 to \$39,196,520 between FY 2010 and FY 2011. Total bond redemptions FY 2011 were \$2,250,000.
- Administrative fees assessed but not used during past fiscal years are "banked" for future administrative costs. During FY 2012 and 2011, the Board collected \$112,000 and \$200,000 and respectively, from the Series 2001 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.)

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2001
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

- 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 2001
Net Assets**

	Business-Type Activities		
	June 30,		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current assets	\$ 10,347,756	\$ 3,169,641	\$ 3,355,208
Non-current assets	26,354,453	36,780,470	38,961,637
Total assets	36,702,209	39,950,111	42,316,845
Current liabilities	10,050,839	3,091,552	3,147,658
Non-current liabilities	25,838,026	36,104,968	38,436,909
Total liabilities	35,888,865	39,196,520	41,584,567
Net assets			
Unrestricted	813,344	753,591	732,278
Total net assets	\$ 813,344	\$ 753,591	\$ 732,278

(Unaudited. See accompanying auditor’s report.)

OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2001
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011

Oklahoma Water Resources Board
Revenue Bonds - Series 2001
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	\$ 1,457,491	\$ 1,509,444	\$ 1,611,347
Investment interest income	152	178	272
Total revenues	<u>1,457,643</u>	<u>1,509,622</u>	<u>1,611,619</u>
Expenses			
Trustee fees	4,442	4,756	5,030
Administration expenses	73,183	75,277	79,241
Interest expense	1,299,844	1,384,604	1,476,711
Amortization of debt issuance cost	6,117	6,117	6,117
Standby bond purchase agreement fees	8,549	9,352	10,001
Remarketing fees	5,755	8,203	5,247
Total expenses	<u>1,397,890</u>	<u>1,488,309</u>	<u>1,582,347</u>
Increase (decrease) in net assets	59,753	21,313	29,272
Total net assets - beginning	753,591	732,278	703,006
Total net assets - ending	<u>\$ 813,344</u>	<u>\$ 753,591</u>	<u>\$ 732,278</u>

Long-Term Debt

At June 30, 2012, the Program had \$35,085,000 in long-term debt outstanding which represents a \$3,245,000 or 8.5% decrease from the prior year. At June 30, 2011, total long-term debt decreased by \$2,250,000 or 5.5%. 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 October 1, 2032, at fixed interest rates	\$29,775,000	\$31,500,000	\$33,175,000
Serial and term bonds due September 1, 2012 to October 1, 2033, at variable rates subject to mandatory sinking fund redemption	8,555,000	9,080,000	9,830,000
Less: debt principal repayments	<u>(3,245,000)</u>	<u>(2,250,000)</u>	<u>(2,425,000)</u>
Ending Balances	<u>\$ 35,085,000</u>	<u>\$ 38,330,000</u>	<u>\$ 40,580,000</u>
Amounts due in one year	\$9,180,000	\$2,155,000	\$2,070,000

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

(Unaudited. See accompanying auditor's report.)

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2001
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

Economic Factors and Next Year's Outlook

Due to the nature of the Series 2001 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 2001 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.)

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2001
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

BASIC FINANCIAL STATEMENTS

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2001
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	\$3,095,811	\$675,233
Current portions of notes receivable	6,811,650	2,155,050
Interest receivable:		
Notes receivable	275,270	339,353
Other	25	5
 Total current assets	 <u>10,182,756</u>	 <u>3,169,641</u>
Noncurrent Assets:		
Notes receivable net of current portion	26,385,650	36,640,550
Bond issuance cost, net of accumulated amortization of \$143,794 and \$137,677 in 2012 and 2011, respectively	133,803	139,920
 Total noncurrent assets	 <u>26,519,453</u>	 <u>36,780,470</u>
 Total assets	 <u>36,702,209</u>	 <u>39,950,111</u>
 LIABILITIES:		
Current Liabilities:		
Accrued interest payable	316,567	340,592
Current maturities of long-term debt	9,180,000	2,155,000
Other accrued liabilities	554,272	595,960
 Total current liabilities	 <u>10,050,839</u>	 <u>3,091,552</u>
Noncurrent liabilities:		
Long-term debt, less current maturities and unamortized discount of \$66,974 and \$70,032 in 2012 and 2011, respectively	25,838,026	36,104,968
 Total noncurrent liabilities	 <u>25,838,026</u>	 <u>36,104,968</u>
 Total liabilities	 <u>35,888,865</u>	 <u>39,196,520</u>
 NET ASSETS:		
Unrestricted	813,344	753,591
 Total net assets	 <u>\$813,344</u>	 <u>\$753,591</u>

See accompanying notes to the basic financial statements.

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2001
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	\$1,457,491	\$1,509,444
Total operating revenues	<u>1,457,491</u>	<u>1,509,444</u>
Operating Expenses:		
Trustee fees	4,442	4,756
Administration fees	73,183	75,277
Interest expense	1,299,844	1,384,604
Amortization of bond issuance cost	6,117	6,117
Standby bond purchase agreement fees	8,549	9,352
Remarketing fees	5,755	8,203
Total operating expenses	<u>1,397,890</u>	<u>1,488,309</u>
Operating income	59,601	21,135
Non-Operating Revenues:		
Other interest income	152	178
Total non-operating revenues	<u>152</u>	<u>178</u>
Change in net assets	59,753	21,313
Total net assets - beginning	753,591	732,278
Total net assets - ending	<u><u>\$813,344</u></u>	<u><u>\$753,591</u></u>

See accompanying notes to the basic financial statements.

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2001
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

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Collections of interest on loans to local governmental units	\$1,521,574	\$1,524,992
Payments to other suppliers	(133,617)	(223,193)
Interest paid on debt	(1,320,811)	(1,397,046)
Net Cash Provided by (Used in) Operating Activities	<u>67,146</u>	<u>(95,247)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Repayments of long-term debt	(3,245,000)	(2,250,000)
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(3,245,000)</u>	<u>(2,250,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Collections of principal on loans to local governmental units	5,598,300	2,090,900
Interest income	132	182
Net Cash Provided by Investing Activities	<u>5,598,432</u>	<u>2,091,082</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,420,578	(254,165)
Balances - beginning of the year	<u>675,233</u>	<u>929,398</u>
Balances - end of the year	<u>\$3,095,811</u>	<u>\$675,233</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income	\$59,601	\$21,135
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Amortization of bond issuance costs and bond issuance discounts	9,175	9,176
Change in assets and liabilities:		
Decrease (Increase) in interest receivable	64,083	15,548
Increase (Decrease) in accrued interest payable	(24,025)	(15,501)
Increase (Decrease) in other accrued liabilities	(41,688)	(125,605)
Net Cash Provided by (Used in) Operating Activities	<u>\$67,146</u>	<u>(\$95,247)</u>

See accompanying notes to the basic financial statements.

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2001
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 (the "Board") State Loan Program Revenue Bonds - Series 2001 (the "Program") commenced operations in September 2001. The Program was established 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 required that all local loans be originated by September 11, 2004. 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.

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2001
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

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 33 years.

Bond Issue Discount

The Program's bonds were initially sold at a discount of \$136,400. The bond discount is being amortized over the remaining life of the bonds. Amortization expense of \$3,058 and \$3,059 was recorded in 2012 and 2011, respectively, and is included in interest expense in the accompanying statement 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 of \$3,095,811 and \$675,233 at June 30, 2012 and 2011, respectively, was on deposit with the Program's trustee. The deposits are invested in the *Federated Treasury Obligations* mutual fund.

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:

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2001
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

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	\$ 3,095,811
Total			<u>\$ 3,095,811</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 \$3,095,811 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	\$ 675,233
Total			<u>\$ 675,233</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 had the following concentration of credit risk: 100% or \$675,233 was invested in *Federated Treasury Obligations Fund*.

3. Notes Receivable

Notes receivable of \$33,197,300 and \$38,795,600 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

OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2001
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011

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 2033; however, the local

3. Notes Receivable, (continued)

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 March 31 and September 30.
- Pursuant to the bond indenture, the Program was required to purchase an \$11,000,000 surety bond prior to the bond issuance. The cost of the surety bond was \$132,000 and is included in capitalized bond issuance costs.

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. This rebate is payable at the end of each five years during the term of the issue. The Program has no arbitrage liability at June 30, 2012.

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2001
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

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 October 1, 2032, at fixed interest rates	\$ 29,775,000	\$ 31,500,000
Serial and term bonds due September 1, 2012 to October 1, 2033, at variable rates subject to mandatory sinking fund redemption	8,555,000	9,080,000
Less: debt principal repayments	<u>(3,245,000)</u>	<u>(2,250,000)</u>
Ending Balances	<u>\$ 35,085,000</u>	<u>\$ 38,330,000</u>
Amounts due in one year	\$9,180,000	\$2,155,000

Certain bonds bear interest at a variable rate, initially set at 2.53% 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. The previously converted bonds bear interest at fixed rates ranging from 3.30% to 5.125%. There were no fixed rate conversions in 2012 and 2011. Beginning in FY 2009, variable interest rates are reset quarterly on April 1st, July 1st, October 1st, and January 1st, by the Program's remarketing agent. At June 30, 2012, the Program had \$7,100,000 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:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$9,180,000	\$1,032,911	\$10,212,911
2014	1,685,000	827,690	2,512,690
2015	1,835,000	766,997	2,601,997
2016	2,006,000	701,829	2,707,829
2017	2,095,000	631,845	2,726,845
2018-2022	10,815,000	1,893,455	12,708,455
2023-2027	4,120,000	649,196	4,769,196
2028-2032	3,349,000	164,780	3,513,780
 Total	 <u>\$35,085,000</u>	 <u>\$6,668,703</u>	 <u>\$41,753,703</u>

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2001
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

6. Long-term Debt, (continued)

Interest on the bonds is payable semiannually for fixed rate bonds and quarterly for variable rate bonds. While the bonds bear interest at an adjustable, variable rate, the 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 2001 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 2001
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 2001 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.


Edmond, Oklahoma
October 17, 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

	2011 Assets	2011 Liabilities	2011 Net Assets	2012 Assets	2012 Liabilities	2012 Net Assets	2013 Assets	2013 Liabilities	2013 Net Assets	Total Change
REVENUES										
Loan program income	\$ 15,140	\$ 114,463	\$ 139,603	\$ 145,842	\$ 1,457,492	\$ 1,311,650	\$ 1,392,908	\$ 1,392,908	\$ 1,392,908	\$ 1,253,305
Total operating revenues	15,140	114,463	139,603	145,842	1,457,492	1,311,650	1,392,908	1,392,908	1,392,908	1,253,305
EXPENSES										
Operating expenses	1,000	1,000	2,000	4,442	2,510	1,310	5,697	5,697	5,697	3,697
Interest fees	2,865	37,250	40,115	71,105	43,117	11,254	57,030	57,030	57,030	16,315
Amortization fees	909	63,249	64,158	1,299,844	1,109,036	208,788	1,377,566	1,377,566	1,377,566	1,047,400
Interest expense	18,121	48,851	66,972	13,946	5,777	3,169	6,617	6,617	6,617	1,047,400
Investment (loss) income	2,137	5,879	8,016	9,148	36,711	45,859	36,711	36,711	36,711	36,711
State bond purchase agreement fees	4,446	1,000	5,446	5,446	5,446	5,446	5,446	5,446	5,446	5,446
Remaining fees	1,000	1,000	2,000	4,442	2,510	1,310	5,697	5,697	5,697	3,697
Total operating expenses	12,522	122,922	135,400	137,809	667,522	226,922	2,042,387	2,042,387	2,042,387	1,904,887
Operating income (loss)	(6,477)	(108,459)	(95,797)	8,042	(790,030)	(95,272)	(1,649,479)	(1,649,479)	(1,649,479)	(1,764,582)
NONOPERATING REVENUES (EXPENSES)										
Grant provision for arbitrage rebate	3,429									3,429
Other interest income	26,889			152	99	16	48	48	48	291
Gifts production pay from state										
Net non operating revenues	30,318			152	99	16	48	48	48	291
Income (loss) before transfers	18,841	(108,459)	(89,618)	8,194	(790,030)	(95,256)	(1,649,431)	(1,649,431)	(1,649,431)	(1,764,291)
Transfers (to) from Oklahoma Water Resources Board	(6,477)	1,197	5,280	59,745	10,928	(13,190)	(2,714)	(2,714)	(2,714)	1,197
Change in net assets	12,364	(107,262)	(102,898)	59,745	(779,102)	(108,446)	(1,652,145)	(1,652,145)	(1,652,145)	(1,765,488)
NET ASSETS										
Net assets, beginning of year	\$ 15,140	\$ 114,463	\$ 139,603	\$ 145,842	\$ 1,457,492	\$ 1,311,650	\$ 1,392,908	\$ 1,392,908	\$ 1,392,908	\$ 1,253,305
Net assets (deficit), end of year	\$ 27,504	\$ 7,201	\$ 20,303	\$ 205,587	\$ 678,390	\$ 573,354	\$ 740,763	\$ 740,763	\$ 740,763	\$ 527,817

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

OKLAHOMA WATER RESOURCES BOARD STATE LDN
PROGRAM REVENUE REPORT

GENERAL INFORMATION
FISCAL YEAR: 2013-2014
FOR THE YEAR ENDING JUNE 30, 2014

	1998 Series	1999 Series	2000 Series	2001 Series	2002 Series	2003 Series	2004 Series	2005 Series	2006 Series	2007 Series	2008 Series	2009 Series	2010 Series	2011 Series	2012 Series	2013 Series	2014 Series	2015 Series
CASH FLOW FROM OPERATING ACTIVITIES																		
Income from operations	2,078	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Income from other sources	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Income from other sources	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Net cash provided (used) by operating activities	1,078	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CASH FLOW FROM INVESTING ACTIVITIES																		
Acquisition of property, plant, and equipment	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Acquisition of investments	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Acquisition of investments	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Net cash provided (used) by investing activities	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
CASH FLOW FROM FINANCING ACTIVITIES																		
Proceeds from the sale of debt securities	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Proceeds from the sale of debt securities	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Proceeds from the sale of debt securities	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Net cash provided (used) by financing activities	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Net Change in Cash and Cash Equivalents	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Change in Cash and Cash Equivalents	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Change in Cash and Cash Equivalents	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Supplemental Information																		
Supplemental Information																		
Supplemental Information																		

See cash flow statement for additional information and related disclosures.

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2001
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 2001 (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.

Audget Associates, P.C.

Edmond, Oklahoma

October 12, 2012