

State of Oklahoma



WATER RESOURCES BOARD
the water agency

**STATE LOAN PROGRAM REVENUE BONDS
SERIES 1989**

**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 1989
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 1989 (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 1989 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 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 1989
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 1989
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 1989 Program’s (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 1989 Bond Program.

Financial Highlights

- Total Assets decreased 6.6% from \$4,055,281 to \$3,786,931 between FY 2011 and FY 2012. Total Assets increased 70.7% from \$2,375,597 to \$4,055,281 between FY 2010 and FY 2011.
- Ending Net Assets decreased .2% from \$3,616,871 to \$3,610,400 between FY 2011 and FY 2012. Ending Net Assets increased 137.5% from \$1,522,797 to \$3,616,871 between FY 2010 and FY 2011.
- Total Liabilities decreased 59.7% from \$438,410 to \$176,531 between FY 2011 and FY 2012. Total Liabilities decreased 48.6% from \$852,800 to \$438,410 between FY 2010 and FY 2011.
- Other accrued liabilities increased 2.4% and 5.4% in FY 2012 and 2011, respectively. Administrative fees assessed but not used during the FY are “banked” for future administrative costs.

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 1989
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 1989
Net Assets**

	Business-Type Activities		
	June 30,		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current assets	\$ 110,750	\$ 356,913	\$ 499,542
Noncurrent assets	3,676,181	3,698,368	1,876,055
Total assets	<u>3,786,931</u>	<u>4,055,281</u>	<u>2,375,597</u>
Current liabilities	47,202	282,663	440,635
Non-current liabilities	129,329	155,747	412,165
Total liabilities	<u>176,531</u>	<u>438,410</u>	<u>852,800</u>
Net assets			
Restricted	3,490,508	3,490,508	1,411,008
Unrestricted	119,892	126,363	111,789
Total net assets	<u>\$ 3,610,400</u>	<u>\$ 3,616,871</u>	<u>\$ 1,522,797</u>

Decrease in total assets and total liabilities are due to the receipt of payments of notes receivable and the related pay off of bonds payable.

(Unaudited. See accompanying auditor’s report.)

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 1989
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

**Oklahoma Water Resources Board
Revenue Bonds - Series 1989
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	\$ 15,140	\$ 34,214	\$ 59,840
Investment interest income	144,843	123,863	58,731
Total revenues	<u>159,983</u>	<u>158,077</u>	<u>118,571</u>
Expenses			
Trustee fees	1,000	1,000	1,000
Administration expenses	309	673	903
Interest expense	18,121	37,426	62,594
Amortization of debt issuance cost	2,187	2,187	2,187
Total expenses	<u>21,617</u>	<u>41,286</u>	<u>66,684</u>
Net Income before transfers	138,366	116,791	51,887
Transfers from other programs	-	2,079,500	-
Transfers to other programs	(144,837)	(102,217)	(58,714)
Change in net assets	<u>(6,471)</u>	<u>2,094,074</u>	<u>(6,827)</u>
Total net assets - beginning	3,616,871	1,522,797	1,529,624
Total net assets - ending	<u>\$ 3,610,400</u>	<u>\$ 3,616,871</u>	<u>\$ 1,522,797</u>

(Unaudited. See accompanying auditor's report.)

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 1989
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

Long-Term Debt

At June 30, 2012, the Program had \$185,000 in bonds payable outstanding which represents a \$260,000 or 58% decrease from the prior year. From FY 2010 to FY 2011, total bonds payable decreased 48%. The Program's changes in 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, 2019, interest at 6.30%	\$ 445,000	\$ 855,000	\$ 1,085,000
Less: debt principal repayments	(260,000)	(410,000)	(230,000)
Ending balances	<u>\$ 185,000</u>	<u>\$ 445,000</u>	<u>\$ 855,000</u>
Amounts due in one year	\$ 30,000	\$ 260,000	\$ 410,000

See Note 7 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 1989 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 1989 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 1989
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 1989
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	\$ 50,358	\$ 55,732
Current portion of notes receivable	20,000	255,000
Interest receivable:		
Notes receivable	4,082	9,870
Other	36,310	36,311
 Total current assets	 <u>110,750</u>	 <u>356,913</u>
Noncurrent Assets:		
Restricted Investment	3,490,508	3,490,508
Notes receivable net of current portion	170,000	190,000
Bond issuance cost, net of accumulated amortization of \$67,598 and \$65,411 in 2012 and 2011, respectively	15,673	17,860
 Total noncurrent assets	 <u>3,676,181</u>	 <u>3,698,368</u>
 Total assets	 <u>3,786,931</u>	 <u>4,055,281</u>
 LIABILITIES:		
Current Liabilities:		
Accrued interest payable	3,885	9,655
Current maturities of long-term debt	30,000	260,000
Other accrued liabilities	13,317	13,008
 Total current liabilities	 <u>47,202</u>	 <u>282,663</u>
Noncurrent liabilities:		
Long-term debt, less current maturities and unamortized discount of \$25,671 and \$29,253 in 2012 and 2011, respectively	129,329	155,747
 Total noncurrent liabilities	 <u>129,329</u>	 <u>155,747</u>
 Total liabilities	 <u>176,531</u>	 <u>438,410</u>
 NET ASSETS:		
Restricted for debt service	3,490,508	3,490,508
Unrestricted	119,892	126,363
 Total net assets	 <u>\$ 3,610,400</u>	 <u>\$ 3,616,871</u>

See accompanying notes to the basic financial statements.

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 1989
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	\$ 15,140	\$ 34,214
Total operating revenues	<u>15,140</u>	<u>34,214</u>
Operating Expenses:		
Trustee fees	1,000	1,000
Administration fees	309	673
Interest expense	18,121	37,426
Amortization of bond issuance cost	2,187	2,187
Total operating expenses	<u>21,617</u>	<u>41,286</u>
Operating income (loss)	(6,477)	(7,072)
Non-Operating Revenues:		
Interest income	144,843	123,863
Total non-operating revenues	<u>144,843</u>	<u>123,863</u>
Net income before transfers	138,366	116,791
Transfers In - Series 1992 Debt Reserve	-	2,079,500
Transfers out - Oklahoma Water Resources Board	<u>(144,837)</u>	<u>(102,217)</u>
Change in net assets	(6,471)	2,094,074
Total net assets - beginning	3,616,871	1,522,797
Total net assets - ending	<u>\$ 3,610,400</u>	<u>\$ 3,616,871</u>

See accompanying notes to the basic financial statements.

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 1989
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 governments	\$ 20,928	\$ 43,421
Payments to other suppliers	(1,000)	(1,001)
Interest paid on debt	(20,309)	(42,488)
	<u>(381)</u>	<u>(68)</u>
Net Cash Provided by (Used in) Operating Activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out - Oklahoma Water Resources Board	(144,837)	(102,217)
Repayments of Long-term Debt	(260,000)	(410,000)
	<u>(404,837)</u>	<u>(512,217)</u>
Net Cash Provided by (Used in) Noncapital Financing Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Collections of principal on loans to local governmental units	255,000	410,000
Interest income	144,844	102,231
	<u>399,844</u>	<u>512,231</u>
Net Cash Provided by Investing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	(5,374)	(54)
Balances - beginning of the year	<u>55,732</u>	<u>55,786</u>
Balances - end of the year	<u>\$ 50,358</u>	<u>\$ 55,732</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ (6,477)	\$ (7,072)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Amortization of bond issuance costs and bond issuance discounts	5,769	5,769
Change in assets and liabilities:		
Decrease (Increase) in interest receivable	5,788	9,207
Increase (Decrease) in accrued interest payable	(5,770)	(8,644)
Increase (Decrease) in other accrued liabilities	309	672
	<u>309</u>	<u>672</u>
Net Cash Provided by (Used In) Operating Activities	<u>\$ (381)</u>	<u>\$ (68)</u>

See accompanying notes to the basic financial statements.

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 1989
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 1989 (the "Program") was established in September 1989 and commenced operations in November 1989. 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 November 1, 1992. No new loans were 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. Except for funds received from the Board's Statewide Water Development Revolving Fund (the "Revolving Fund") at the inception of the Program, of which certain amounts are restricted for use as a debt service reserve, \$3,490,508 at June 30, 2012 and 2011, respectively, (see Note 5), 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 1989
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 30 years.

Bond Issue Discount

The Program's bonds were initially sold at a discount of \$287,000. The bond discount is being amortized over the remaining life of the bonds. Amortization expense of \$3,582 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 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. Total unrestricted cash and cash equivalents at June 30, 2012 and 2011 were \$50,358 and \$55,732, respectively.

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 \$50,358 and \$55,732 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:

- a. Obligations of the United States Government, its agencies and instrumentalities.

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 1989
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

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

- 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	\$ 50,358
AEGON Institutional Markets	Matures 1/7/2013	AA- Sec Note 5	<u>\$ 3,490,508</u>
Total			<u>\$ 3,540,866</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: 98.4% is invested in a guaranteed investment agreement with AEGON Institutional Markets.

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	16 days	AAAm	\$ 55,732
AEGON Institutional Markets	Matures 1/7/2013	AA- See Note 5	<u>\$ 3,490,508</u>
Total			<u>\$ 3,546,240</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: 98.4% was invested in a guaranteed investment agreement with AEGON Institutional Markets.

OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 1989
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011

3. Notes Receivable

Notes receivable of \$190,000 and \$445,000 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 with various maturity dates through 2019, including interest at various fixed rates; 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 Funding and Fees

As discussed in Note 1, the Board has established the Revolving Fund, held by the Treasurer of the State of Oklahoma, the principal of which is to be used by the Board to support various approved projects. Interest income from the Revolving Fund is deposited into a Water Resources Grant Account, which is utilized by the Board to make grants in emergency situations in amounts up to \$100,000 per local entity for approved purposes. At the inception of the Program, \$2,917,500 was received from the Revolving Fund as a restricted Debt Service Reserve Fund. The investment income from the Debt Service Reserve Fund is to be transferred to the Water Resources Grant Account at the discretion of the Program, except that the Program has agreed to utilize such investment income from the Debt Service Reserve Fund to prevent a default in the payment of principal and interest on the bonds. Pursuant to this provision, \$144,837 and \$102,217 were transferred to the Water Resources Grant Account during the years ended June 30, 2012 and 2011, respectively. Any portion of the Debt Service Reserve Fund that is not expended to cover defaults on principal and interest will be returned to the Revolving Fund at the termination of the Program. The bond indenture agreement provides for various fees to be paid in connection with the administration of the Program. These fees include the following:

- During the year, an annual program administration fee of 0.1328% of notes receivable outstanding during the period was charged to operations. These fees are payable to the Oklahoma Water Resources Board for providing clerical, management and administrative services.
- During the year, a trustee fee of 0.0122% of bonds outstanding with a minimum \$500 fee was charged to operations. Fees are calculated twice a year using the balance of bonds outstanding at February 28 and August 31.

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 1989
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

5. Restricted Investments

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

	<u>2012</u>	<u>2011</u>
Guaranteed investment with AEGON Institutional Markets pursuant to an investment agreement, 4.161% maturing January 7, 2013 (restricted for debt service)	\$ 3,490,508	\$ 3,490,508
Total Restricted Investment	<u>\$ 3,490,508</u>	<u>\$ 3,490,508</u>

The use of the investment is restricted to service debt in the event of default.

The agreement with AEGON Institutional Markets ("AEGON") is uninsured and noncollateralized so long as AEGON maintains certain specified credit ratings. If these credit ratings are not maintained, AEGON 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 AEGON at June 30, 2012 was AA-. The investment is carried at cost, which approximates fair value.

6. 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. Management of the Program believes that any arbitrage liability, which exists at June 30, 2012, is immaterial.

7. 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, 2019, interest at 6.30%	\$ 445,000	\$ 855,000
Less: debt principal repayments	(260,000)	(410,000)
Ending balances	<u>\$ 185,000</u>	<u>\$ 445,000</u>
Amounts due in one year	\$ 30,000	\$ 260,000

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 1989
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

7. Long-term Debt (cont'd)

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	\$30,000	\$10,710	\$40,710
2014	20,000	9,135	29,135
2015	20,000	7,875	27,875
2016	20,000	6,615	26,615
2017	25,000	5,198	30,198
2018-2020	70,000	5,985	75,985
Total	<u>\$185,000</u>	<u>\$45,518</u>	<u>\$230,518</u>

These bonds may be redeemed at the option of the Board, in whole or in part, on such dates and for such prices, plus accrued interest as are set forth in the bond indenture.

The 1989 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, of which \$3,490,508 is reflected in the accompanying statements of net assets. The remaining debt service reserves are reflected in the Board bond programs 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 1989
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 1989 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 All Program Bond Issues For the Year Ended June 30, 2012

	1980 Series	1984 Series	1985 Series	1991 Series	1999 Series	2003 Series	2003A Series	2003B Series	2003C Series	2003D Series	2007 Series	2009 Series	2010 Series	2011 Series	2011A Series	2011B Series	2011C Series	2012 Series	2012A Series	Total
REVENUES																				
Operating revenues	\$ 15,140	\$ 114,463	\$ 130,961	\$ 211,823	\$ 302,862	\$ 1,457,491	\$ 620,121	\$ 216,735	\$ 289,662	\$ 2,039,668	\$ 3,769,818	\$ 96,058	\$ 1,246,462	\$ 1,984,274	\$ 642,065	\$ 533,263	\$ 241,655	\$ 241,655	\$ 6,899,949	
Total operating revenues	15,140	114,463	130,961	211,823	302,862	1,457,491	620,121	216,735	289,662	2,039,668	3,769,818	96,058	1,246,462	1,984,274	642,065	533,263	241,655	241,655	6,899,949	
EXPENSES																				
Operating Expenses																				
Interest fees	1,000	1,000	861	1,000	1,205	4,442	2,510	1,311	1,000	5,697	1,290	1,290	3,912	3,683	2,434	1,845	1,145	1,145	15,945	
Management fees	799	27,008	37,290	131,061	41,556	77,183	52,137	7,221	7,775	57,030	11,875	3,513	18,084	36,345	18,796	10,406	25,644	25,644	470,242	
Interest expense	18,121	48,853	63,259	193,538	266,106	1,299,844	410,936	208,779	246,052	1,977,461	3,530,226	92,559	1,304,129	1,057,880	621,566	411,884	217,202	217,202	8,872,202	
Amortization of bond issuance costs	2,187	12,866	1,590	5,770	6,315	6,117	1,462	3,616	6,545										55,816	
Statewide bond purchase agreement fees		4,176	8,636	1,565	9,206	8,440	8,711												21,417	
Renewal fees		4,648	3,233	8,100	1,665	5,765	3,766													27,535
Total operating expenses	21,017	131,443	121,349	215,844	322,922	1,307,590	679,522	255,927	261,242	2,040,587	3,621,311	7,707	1,246,726	1,987,228	642,860	533,813	241,699	241,699	9,577,261	
Operating income (loss)	(5,877)	(17,980)	9,612	9,979	(20,060)	150,901	(10,401)	(139,192)	(71,580)	(21,919)	(85,493)	(1,254)	(221)	(2,254)	(633)	34	(2,444)	(2,444)	62,688	
NONOPERATING REVENUES (EXPENSES)																				
(Credit provision) for arbitrage rebate																				
Other interest income	144,863	26,089	94	28	20	152	90	16	13	48	15	2	17	5	2	2	291	291	1,579	
Grant production tax from state																				
Net nonoperating revenues	144,863	26,089	94	28	20	152	90	16	13	48	15	2	17	5	2	2	291	291	1,579	
Income (loss) before transfers	138,986	43,108	9,706	9,979	(20,040)	151,053	(10,491)	(123,176)	(71,567)	(21,871)	(85,478)	(1,252)	(204)	(2,252)	(631)	34	(2,044)	(2,044)	29,267	
Transfers (to) from Oklahoma Water Resources Board	(144,832)																			
Change in net assets	(6,471)	10,965	9,706	5,497	(20,140)	89,751	10,698	(10,196)	(42,877)	(271)	(85,478)	(1,252)	(204)	(2,252)	(631)	34	(2,044)	(2,044)	61,563	
NET ASSETS																				
Net assets, beginning of year	1,616,871	15,683,723	754,440	270,341	218,469	753,592	16,013	8,222	28,319	12,322	2,76,229	208	940	8,224	(13)				71,697,785	
Net assets (deficit), end of year	\$ 1,610,400	\$ 15,694,688	\$ 763,752	\$ 275,838	\$ 188,329	\$ 843,344	\$ 26,711	\$ 72,526	\$ 26,272	\$ 12,051	\$ 218,361	\$ (976)	\$ 694	\$ 5,825	\$ (522)	\$ 34	\$ (2,044)	\$ (2,044)	\$ 21,710,346	

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

OKLAHOMA WATER RESOURCES BOARD STATE LOAN PROGRAM REVENUE BOND
 SUPPLEMENTAL INFORMATION
 ANNUAL STATEMENTS OF CASH FLOWS
 For the Year Ended June 30, 2012

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total	1994-2012	
CASH FLOWS FROM OPERATING ACTIVITIES	15,284	12,087	15,284	21,087	15,284	15,284	15,284	15,284	15,284	15,284	15,284	15,284	15,284	15,284	15,284	15,284	15,284	15,284	15,284	15,284	15,284	15,284
Net income (decrease) in cash and cash equivalents	(1,200)	(2,500)	(3,000)	(4,000)	(3,500)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)
Net cash provided (used) by operating activities	14,084	9,587	12,284	17,087	11,784	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284
CASH FLOWS FROM INVESTING ACTIVITIES	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Net income (decrease) in cash and cash equivalents	(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)	(1,000)	(1,000)	(1,000)	(1,000)
Net cash provided (used) by investing activities	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000
CASH FLOWS FROM FINANCING ACTIVITIES	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Net income (decrease) in cash and cash equivalents	(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)	(1,000)	(1,000)	(1,000)	(1,000)
Net cash provided (used) by financing activities	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000
Net cash provided (used) by operating activities	14,084	9,587	12,284	17,087	11,784	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284
Net cash provided (used) by investing activities	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000
Net cash provided (used) by financing activities	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000
Net cash provided (used) by operating activities	14,084	9,587	12,284	17,087	11,784	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284	11,284
Net cash provided (used) by investing activities	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000
Net cash provided (used) by financing activities	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000

See each item's bond issue and its terms for additional information and related disclosures.

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 1989
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 1989 (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.

Arledge & Associates, P.C.

Edmond, Oklahoma
October 12, 2012