Grand River Dam Authority

(A Component Unit of the State of Oklahoma)

Basic Financial Statements as of and for the Years Ended December 31, 2011 and 2010, and Independent Auditors' Report

GRAND RIVER DAM AUTHORITY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Grand River Dam Authority:

We have audited the accompanying basic financial statements of the Grand River Dam Authority (the "Authority"), a component unit of the State of Oklahoma, listed in the table of contents as of and for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Authority'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 included in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, such financial statements present fairly, in all material respects, the financial position of the Authority at December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 2–11 and the schedule of funding progress on page 44 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 30, 2012, on our consideration of the Authority'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 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.

Deloitte & Touche LLP

March 30, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS - Unaudited

The following discussion and analysis of the Grand River Dam Authority's ("GRDA" or the "Authority") financial performance provides an overview of the Authority's financial activities for the year ended December 31, 2011, in comparison with the prior year financial results. Please read it in conjunction with the financial statements, which follow this section.

USING THIS FINANCIAL REPORT

This annual financial report consists of a series of financial statements and reflects the self-supporting, proprietary activities of the Authority funded primarily by the sale of electrical power and energy.

The state of Oklahoma reports the business-type activities of the Authority as a discretely presented major component unit.

The basic financial statements presented in this report consist of the Statements of Net Assets; the Statements of Revenues, Expenses, and Changes in Net Assets; the Statements of Cash Flows; and Notes to Financial Statements.

STATEMENTS OF NET ASSETS; STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS; STATEMENTS OF CASH FLOWS; AND NOTES TO FINANCIAL STATEMENTS

The Authority's Statements of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets provide an indication of the Authority's financial health.

The Statements of Net Assets include all of the Authority's assets and liabilities, using the accrual basis of accounting as well as an indication of which assets can be utilized for general purposes and which are restricted as a result of bond covenants or for other purposes.

The Statements of Revenues, Expenses, and Changes in Net Assets report all of the Authority's revenues and expenses during the time periods indicated.

The Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources such as investment income or bond proceeds and other cash uses such as cash payments for repayment of bonds and capital additions.

The Notes to Financial Statements provide additional explanation and details about the financial information.

FINANCIAL HIGHLIGHTS

GRDA is in a sound financial position, mainly because the focus has become how GRDA and customers can and do work together to best meet future needs. After a few years of solidifying the financial results through increased capacity and energy charges, execution of long-term, strengthened contracts with wholesale customers, more diverse and adequate generation, and plans for a more robust transmission system, the 2010 and early 2011 financial results were favorable enough that a base rate decrease was approved effective July 1, 2011.

However, just as the 2010 audit results were being released, Spring 2011 presented new uncertainties and potential exposures. After leading GRDA since 2004, the Chief Executive Officer/Director of Investments announced his retirement; the Governor of Oklahoma requested a performance audit be conducted to look at several issues relating to GRDA's mission and governance; a federal audit by the Office of the Inspector General of a prior-year Federal Emergency Management Agency (FEMA) claim had been announced; and an investigation by the Federal Energy Regulatory Commission (FERC) was nearing completion. While a great deal of manpower was utilized and information was exchanged relating to these non-routine special projects, 2011 ended on a strong note providing evidence of GRDA's resilience and ability to mitigate and manage real or perceived risks. Joining GRDA in December, after a lengthy search by the Board of Directors, was the new CEO/Director of Investments; the Oklahoma State Auditor and Inspector made recommendations that were favorably received by the Board of Directors and resulted in a renewed commitment to a "Culture of Compliance;" less than $5,000 was questioned relating to the FEMA claim; and the FERC investigation was settled for $350,000 along with a plan for future compliance. During 2011, GRDA also weathered record snowfalls and record low temperatures, as well as drought conditions and record high summer temperatures. GRDA's physical structures also withstood moderately strong earthquakes and tornados. Local tourism and the economy endured an outbreak of blue green algae on Grand Lake.

GRDA's new CEO recently referred to an old Chinese proverb in assessing the challenges GRDA faces, "May you live in interesting times." While that is currently true and each of these potential contingencies could have had substantial negative repercussions, GRDA faced some tough internal and external assessments, responded in a positive manner and is beginning 2012 on a firm foundation.

Although GRDA is a conservation and reclamation district for the state of Oklahoma, almost all of the operating revenues and expenses relate to the generation, transmission, and distribution of electricity. Those public power business activities drive the financial results as discussed in the following paragraphs. In 2010, the financial impacts of a rate increase, in combination with sales rebounding from the recession to more anticipated levels, were reflected in the Statements of Changes in Net Assets. Revenues from sales of power increased 20.9% in 2010. Revenues from sales of power remained strong in 2011, increasing by 3.8%, even with a base rate decrease of approximately 2% effective in July. Unfortunately, the increased revenues were mostly attributable to higher fuel costs recovered through a power cost adjustment surcharge. The increased sales and fuel expenses are also reflected in the Statements of Changes in Net Assets. Additionally, in December 2010, GRDA completed a $239.3 million bond issue. The financial impacts of the bond issue and corresponding increases in construction deposits with the trustee were noticeably reflected in the Statement of Net Assets in 2010. The bond proceeds are being utilized to construct capital additions, rebuild and make improvements to the electric power and energy system, and to pay a portion of the interest accruing on the 2010 bonds through December 2012.

FINANCIAL HIGHLIGHTS - DECEMBER 31, 2011, 2010 AND 2009

	2011	2010	2009
CONDENSED SCHEDULE OF NET ASSETS			
Assets:			
Current assets	**$ 320,765,890**	$ 278,502,458	$ 320,324,339
Net utility plant	**782,641,048**	801,422,915	778,489,258
Restricted investments	**398,963,309**	444,945,573	244,179,432
Other noncurrent assets	**24,187,627**	24,228,271	22,589,056
Total assets	**1,526,557,874**	1,549,099,217	1,365,582,085
Liabilities:			
Current liabilities	**125,764,760**	118,474,852	152,199,370
Noncurrent liabilities	**926,444,492**	1,013,865,944	859,841,618
Total liabilities	**1,052,209,252**	1,132,340,796	1,012,040,988
Net Assets:			
Invested in capital assets - net	**197,481,485**	188,760,234	154,704,963
Restricted for:			
Debt service	**61,324,015**	66,485,014	59,544,174
Other special purposes	**637,178**	513,456	394,469
Unrestricted	**214,905,944**	160,999,717	138,897,491
Total net assets	**$ 474,348,622**	$ 416,758,421	$ 353,541,097
CONDENSED SCHEDULE OF CHANGES IN NET ASSETS			
Operating Revenues:			
Sales of power	**$ 388,834,078**	$ 374,524,747	$ 309,678,303
Other operating revenues	**5,652,493**	7,476,042	7,990,674
Total operating revenues	**394,486,571**	382,000,789	317,668,977
Non-Operating Revenues:			
Interest income	**12,337,646**	10,712,439	14,819,878
Net increase (decrease) in fair value of investments	**8,883,253**	173,550	(2,012,928)
FEMA grant revenues	**8,786**	44,447	-
Income from non-utility operations	**1,350,011**	4,072,921	4,793,766
Deferral of costs to be recovered from future revenues	**1,483,770**	1,410,896	1,341,601
Total non-operating revenues	**24,063,466**	16,414,253	18,942,317
Total revenues	**418,550,037**	398,415,042	336,611,294
Operating Expenses:			
Fuel	**(160,222,167)**	(151,322,794)	(130,956,467)
Depreciation	**(50,869,539)**	(44,101,788)	(48,595,784)
Operations	**(27,823,333)**	(23,480,280)	(28,885,899)
Maintenance	**(26,809,111)**	(33,720,522)	(27,581,156)
Administrative and general	**(25,040,649)**	(23,946,136)	(19,745,003)
Purchased power - net	**(14,585,117)**	(11,154,488)	(7,589,678)
Total operating expenses	**(305,349,916)**	(287,726,008)	(263,353,987)
Non-Operating Expenses:			
Interest expense	**(54,957,804)**	(46,953,286)	(52,111,791)
Amortization of debt discount and expense	**(2,236,584)**	(2,211,997)	(2,383,970)
Amortization of bond premium	**1,584,468**	1,693,573	1,716,627
Total non-operating expenses	**(55,609,920)**	(47,471,710)	(52,779,134)
Total expenses	**(360,959,836)**	(335,197,718)	(316,133,121)
Net increase in net assets	**$ 57,590,201**	$ 63,217,324	$ 20,478,173

Net Assets

Net Assets increased by $57.6 million or by 13.8% in 2011 after increasing $63.2 million or by 17.9% in 2010, which reflects a return to projected sales levels following a downturn in the economy during 2009. The increases in Net Assets have been relatively stable since the execution of long-term customer contracts and rate schedules, except for the impact of the economic slowdown which negatively impacted 2009 results. Total Assets increased by $183.5 million or by 13.4% in 2010 as a direct result of the 2010 bond proceeds being deposited in the Construction Accounts. Additionally, the 2010 increases in Net Utility Plant reflect the utilization of additional 2008 bond proceeds on construction projects. Alternatively, in 2011 Total Assets decreased by $22.5 million or by 1.5% as Net Utility Plant decreased for the first time in the past few years. A combination of events put engineering of transmission projects, and ultimately physical construction, behind schedule. A department that was already stretched with the volume of design projects, experienced death, military duty, and the retirement of GRDA's CEO which delayed the progress of some work. As a result, depreciation for 2011 exceeded the cost of capital additions as many projects remained in the engineering or procurement phase. Physical construction on multiple projects and the associated capital additions are anticipated to exceed depreciation in 2012. More detailed information about changes in Net Utility Plant is also presented in the Note 4 to Financial Statements, Utility Plant.

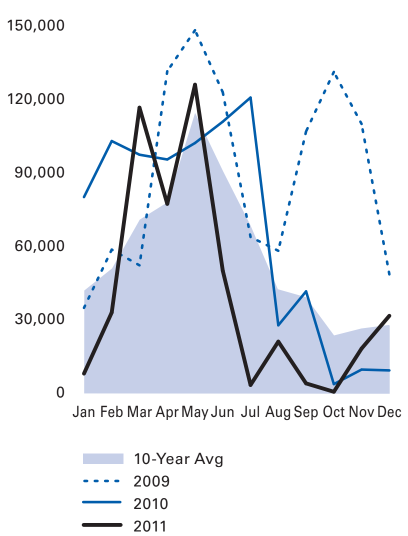
Current Assets increased by $42.3 million or by 15.2% during 2011 offset by a $41.8 million decrease or by 13.1% during 2010. Of the 2010 decrease in Current Assets, $40.1 million was related to the decrease in construction funds that were spent on capital improvements. Increases in cash and under-recovered fuel costs were partially offset by a $7.3 million decrease in fuel inventories and a $1.7 million decrease in materials and supplies. In 2011, because most of the capital additions were ultimately paid from Construction Funds, a significant portion of the excess of revenues collected over operating expenses was deposited and invested. Other significant increases in current assets came primarily from a $6.9 million increase in materials and supplies inventories, primarily as turbine blades, transformers, and other line and substation equipment with long order times were received and waiting for installation on construction projects. Under-recovered fuel costs also increased $7.2 million, and the pricing of coal in the fuel stock inventory increased during the year as freight costs rose. Details about capital additions are discussed later in the Capital Assets section.

Restricted Investments decreased $45.9 million or by 10.3% in 2011 after increasing $200.8 million or by 82.2% in 2010. During 2010, the construction fund increased $216.8 million from the issuance of the 2010A&B Bonds in December 2010. This increase was offset from a decrease in the 2008 construction account that was spent on capital improvements. The 2011 decrease related to expenditures from both the 2008 and 2010 construction accounts. Additional information about the Restricted Investments is presented in Note 2 to the Financial Statements, Deposits and Investments. Restricted Assets are discussed later in more detail in the Significant Assets and Debt Administration section. Other Noncurrent Assets include Costs to be Recovered from Future Revenues and will continue to increase at approximately $1.4 million per year until the 2002B debt matures on June 1, 2014.

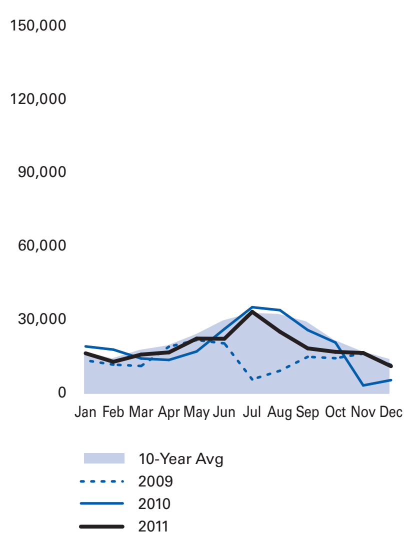
Current Liabilities decreased $26.4 million in the two-year period from 2009 until 2011. While the components relating to accounts payable, accrued liabilities and accrued interest payable varied little during the time period, decreases in the current portion of bonds payable and a shift from over-recovered fuel costs to under-recovered fuel costs were the drivers for the decrease in Current Liabilities. When GRDA issued the 2008 debt, $19 million of the bonds were issued as taxable debt awaiting a ruling from the Internal Revenue Service. It was anticipated that the taxable debt would be rolled over into long-term debt when it matured in June 2010. However, GRDA had sufficient cash to redeem the bonds when they matured. As a result, the 2008B bonds were reflected as Current Assets in 2009, and an over-recovered fuel cost liability of $14.5 million was included in Current Liabilities in 2009, but not in 2010 or 2011.

Whenever funding has been needed for capital projects, GRDA has issued revenue bonds. The Noncurrent Liabilities consist of the long-term obligations of bonds outstanding. Bonds payable increased by $239.3 million in December 2010 when additional revenue bonds were issued to finance electric system improvements. The bonds

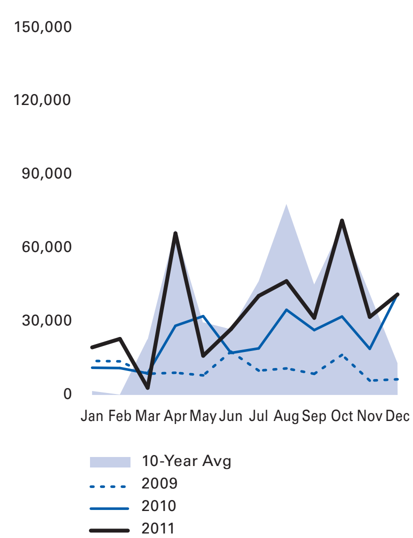
Pensacola Dam and Robert S. Kerr Dam Generation (MWh)

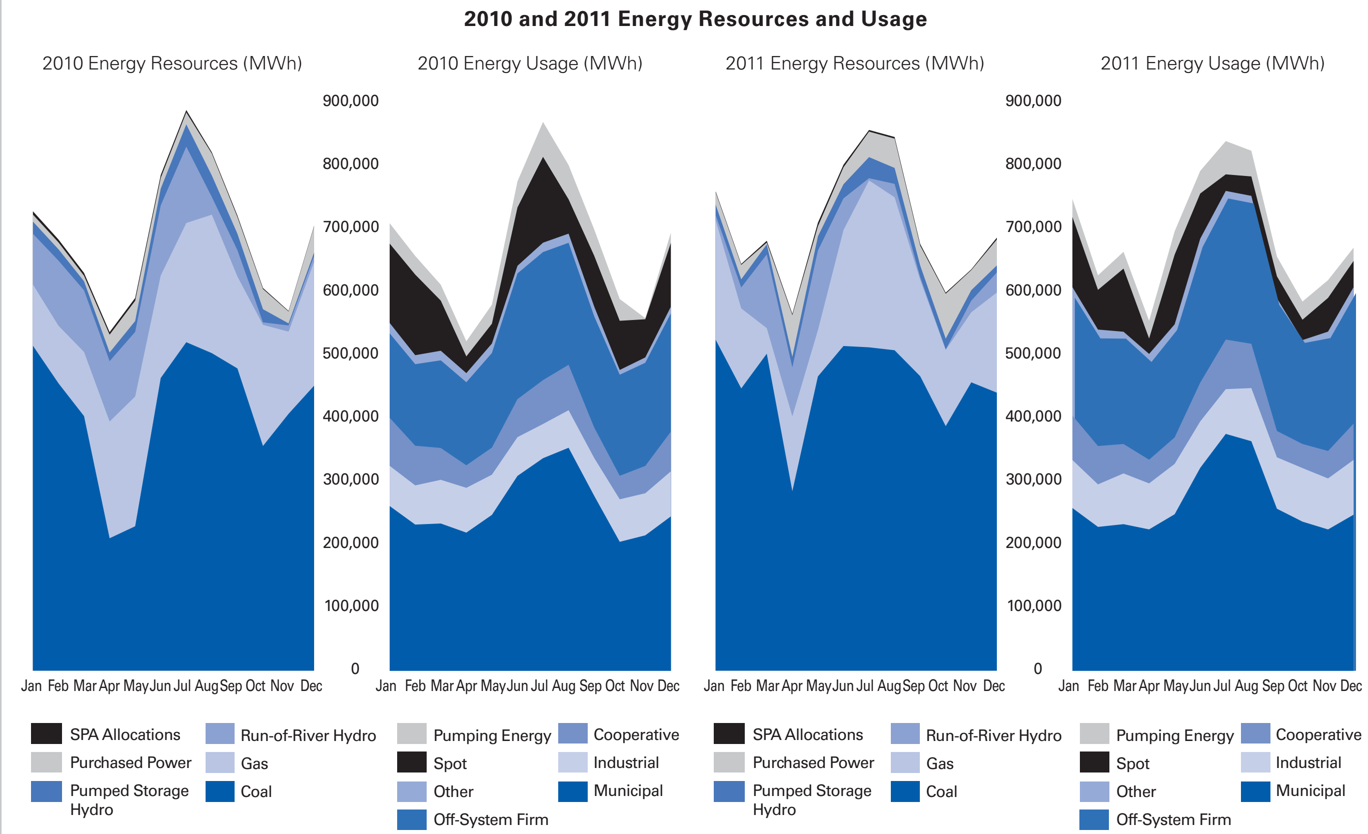


Salina Pumped Storage Project Generation (MWh)



Purchased Power
(MWh)





payable increases were offset by sizeable principal payments on the outstanding debt. GRDA paid $95.5 million in bond redemptions in 2010 and $81.7 million in 2011. Additional details about bonds outstanding and amortization of bond-related expenses are presented in the Note 6 to Financial Statements, Bonds Payable.

Unrestricted Net Assets—the part of net assets used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal agreements has fluctuated but increased by $76 million or by 54.8% during the past two-year period. The majority was held as unrestricted and board-designated cash and investments. Additionally, Net Assets Invested in Capital Assets, Net of Related Debt increased by $42.8 million or by 27.7% over the same two-year period. The primary drivers for the change were the sizable debt principal payments that were made, offset by annual depreciation provisions. Net Assets Restricted for Debt Service changed in proportion to the principal portion of sinking fund payments for repayment of long-term debt in both 2010 and 2011.

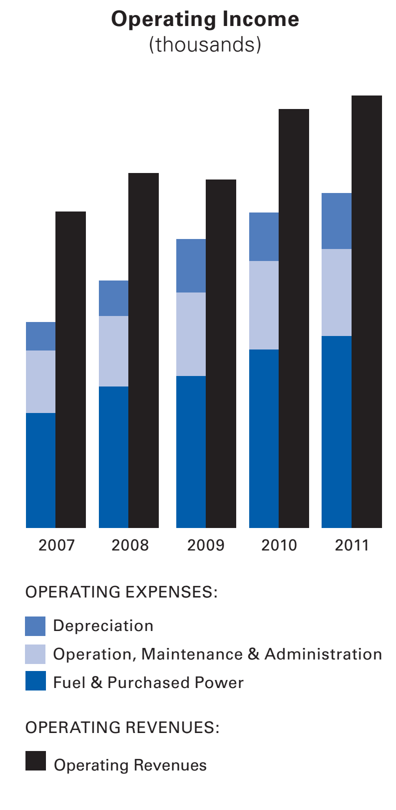
Operating Results

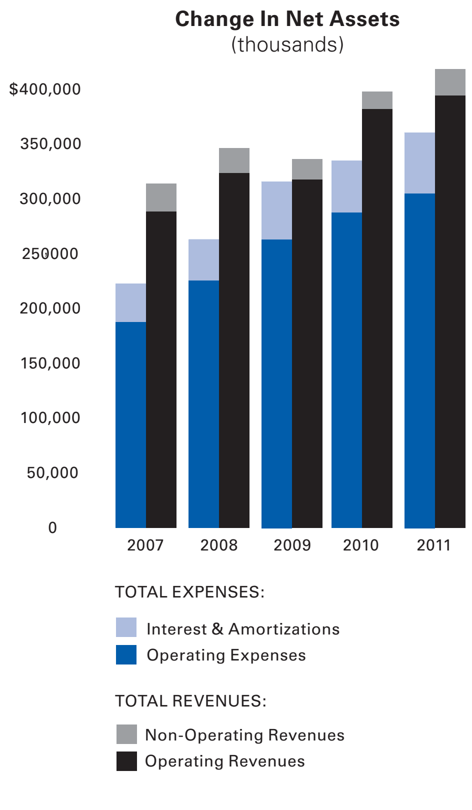
From inception, GRDA has generated with renewable energy. Although run-of-river generation did not set any new records, the 2009 generation approached previous high generation levels, providing virtually free energy, as reflected in the graph titled "Pensacola Dam and Robert S. Kerr Dam Generation." While not as high as the preceding years, 2010 generation levels were still higher than what is considered the historical norm. The drought conditions experienced across the summer and fall months clearly reflect why 2011 ended with below-average generation.

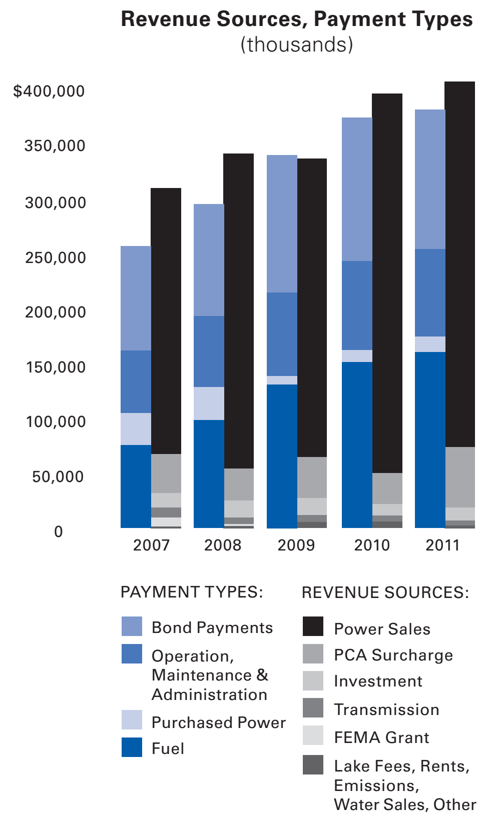
After the fall 2008 purchase of the Redbud combined-cycle gas plant, the role of the Salina Pumped Storage Project (SPSP) shifted more toward reliability and less for economic dispatching. The graph labeled "Salina Pumped Storage Project Generation" reflects the decrease in generation throughout 2009, as the Authority relied more on the Redbud Power Plant for peaking and intermediate needs. GRDA relied on SPSP's strength of being capable of supplying reliable generation during 2010, as Oklahoma weather set some historic records. At times, GRDA utilized both SPSP and Redbud to meet customers' load requirements. The SPSP role of reliability was repeated in 2011, as the extreme weather broke the records set in 2010.

The "Purchased Power" graph also reflects a decrease in purchases throughout 2009 and 2010 as GRDA began to generate with Redbud. As the graph reflects, historical purchases for the most part were to supplement generation during the routine spring and fall outages at the Coal-Fired Complex and across the peak summer load period. In 2011, purchased power reflected more normal usage patterns as energy is purchased to meet customer demands. With the below-normal run-of-river generation in the summer and latter part of 2011, energy was purchased to meet the summer peak and the planned maintenance outage on Unit 2 at the Coal-Fired Complex which occurs each fall. The graph also represents the normal spike in purchases in the spring when the planned maintenance outage on Unit 1 is scheduled. Since Unit 1 is wholly owned by GRDA, it takes more energy to cover the loss of generation during the spring outages.

The graphs titled "2010 and 2011 Energy Resources and Usage" indicate the extent that GRDA relies on thermal generation and gas generation to meet the customer's load needs no matter what season of the year. Importantly, the Redbud Power Plant has provided the reliable generation it was anticipated to supply when the plant was purchased in the fall of 2008. The availability of adequate generation, along with a reliable transmission system and firm







customer contracts, drive the operating and financial results. The graphs of Energy Usage also reflect another key shift in the source of revenues. With the extraordinary 2011 summer temperatures, almost all of the generation was dispatched to customers under contract across the peak months. Very little energy was available for spot market sales. The graphs provide a visual representation that the partnerships commemorated through long-term wholesale contracts not only provide GRDA with a revenue certainty, but also provide evidence GRDA has committed the economical and diversified resources to benefit those same partners before selling into the marketplace.

OPERATING INCOME

Operating Income decreased by $5.1 million or by 5.5% in 2011 after increasing by $40.0 million or by 73.6% in 2010. Operating Revenues increased by $12.5 million or 3.3% in 2011 after increasing $64.3 million or 20.3% in 2010. The 2010 increases in Operating Income and Operating Revenues were driven by a combination of electricity rate increases and sales levels that started to rebound after the decrease in late 2008 and early 2009 as a result of the recession. As previously mentioned, a temporary rate increase was implemented effective January 1, 2010, because of 2009 sales levels being lower than projected as a result of the economic pressures. A portion of the temporary increase implemented in 2010 was eliminated effective July 1, 2011.

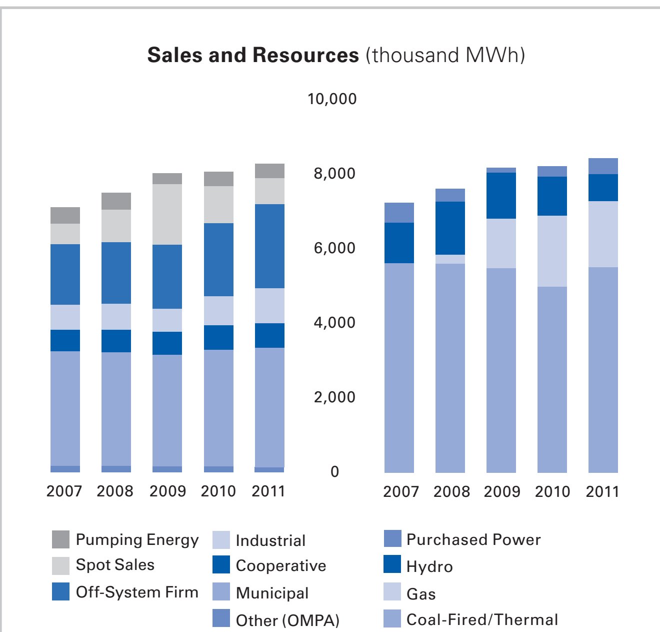
The 2011 increase in Operating Revenues were driven primarily as a result of increased industrial and off-system firm sales combined with an increase in the power cost adjustment surcharge. However, Operating Expenses increased $5.1 million more than Operating Revenues increased in 2011. Operating Expenses increased by $17.6 million in 2011 and $24.4 million in 2010. Fuel costs remained the big expense driver. Fuel costs accounted for $8.9 million of the current year increase in Operating Expenses and for $20.4 million of the increase in 2010. Depreciation expense was the other significant driver of the increase in Operating Expense and accounted for another $6.8 million in 2011, although it decreased by $4.5 million in 2010. Since the Redbud combined-cycle gas plant was purchased in late 2008, associated operating expenses jumped in 2009, and purchased power levels dropped significantly. However, the plant was fully operational in each of the three years represented in the Financial Highlights.

The graph labeled "Operating Income" indicates both operating revenues and operating expenses, and the difference in the column height reflects operating income. Operating Revenues are combined with other Non-Operating Revenues, primarily interest and investment income to pay the Authority's expenses. As can be seen in the "Change in Net Assets" graph to the right of the "Operating Income" graph, revenues have consistently exceeded expenses. Although the difference was not as large in 2009, it increased in 2010 following the increases in both electric rates and sales. GRDA was able to maintain a healthy increase in Net Assets in 2011, even though a portion of the 2010 temporary rate increase was eliminated in July. The third graph, labeled "Revenue Sources, Payment Types," shows the extent to which Sales of Power, which includes the revenue sources labeled "Power Sales" and the "PCA Surcharge," provide the majority of money to repay GRDA's debt and cover operating costs.

While the first two graphs reflect the income statement amounts, the third graph includes the debt payments, principal and interest recovered through the Authority's rates. GRDA's rate structure is based on a cost-of-service approach of which debt service, fuel and purchased power, and other operating expenses are the principal components. The difference in the column heights of the third graph reflects the source of funds, other than bond proceeds reinvested in the system. During 2009, GRDA had intended to supplement the revenues collected with $35.4 million in "other available funds" by utilizing excess Reserve and Contingency Funds to make debt principal payments. However, GRDA only used $22 million during 2009. The remaining $13.4 million Reserve and Contingency excess was utilized during 2010. No excess bond reserves were utilized to make principal payments during 2011. The sources and uses of funds is further shown in a table calculating Debt Service coverage included in the statistical section of the Authority's Comprehensive Annual Financial Report each year.

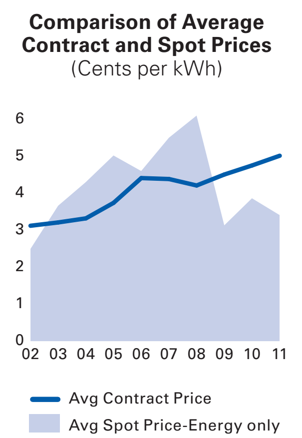
Operating Revenues

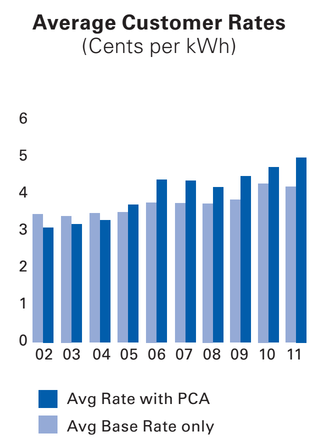
In 2010, Total Operating Revenues and Sales of Power both increased by just over 20%. In 2011, Total Operating Revenues increased another 3%, and Sales of Power increased almost 4%. As mentioned previously, the revenue increases were the result of a combination of improving sales and economic conditions plus the 2010 increase in the electricity rates. In 2010, contract sales increased in all customer categories except "other" which is the portion OMPA schedules under their coal-fired Unit 2 output contract; in 2011, sales increased in all customer contract categories except for the cooperative and "other" sales. The trend in customer sales by category can be seen in the graph titled "Sales and Resources." The graph also compares GRDA's customer sales mix and generation resources over the past five years. Importantly, just as GRDA has better diversified the generation portfolio, the diversity in long-term, wholesale deliveries has also increased. The additional off-system sales of the last few years reflect expanded relationships with Western Farmers Electric Cooperative and Oklahoma Municipal Power Authority. As a result, GRDA either directly or indirectly powers portions of 75 of Oklahoma's 77 counties.



GRDA's electricity rate structure has three main components: a demand charge, an energy charge, and a Power Cost Adjustment (PCA). The PCA recovers any corresponding increases in fuel or purchased power. GRDA's power cost adjustment mechanism with customers is calculated on a rolling 12-month basis and is normally revised twice a year. Sales of Power include any PCA surcharge as the "true-up" adjustment passes through the cost of the generating fuel and purchased power. All contract sales are subject to the PCA except for the Unit 2 output contract with OMPA, which is cost based, and any spot-market, short-term sales. The revenues also reflect an accrual of any over or under-collected fuel cost. GRDA collected surcharges for the PCA of $55.3 million and $28.4 million during 2011 and 2010, respectively. Sales of Power included an accrual of $7.2 million and $20.7 million of Under-Recovered Fuel Costs during 2011 and 2010, respectively.

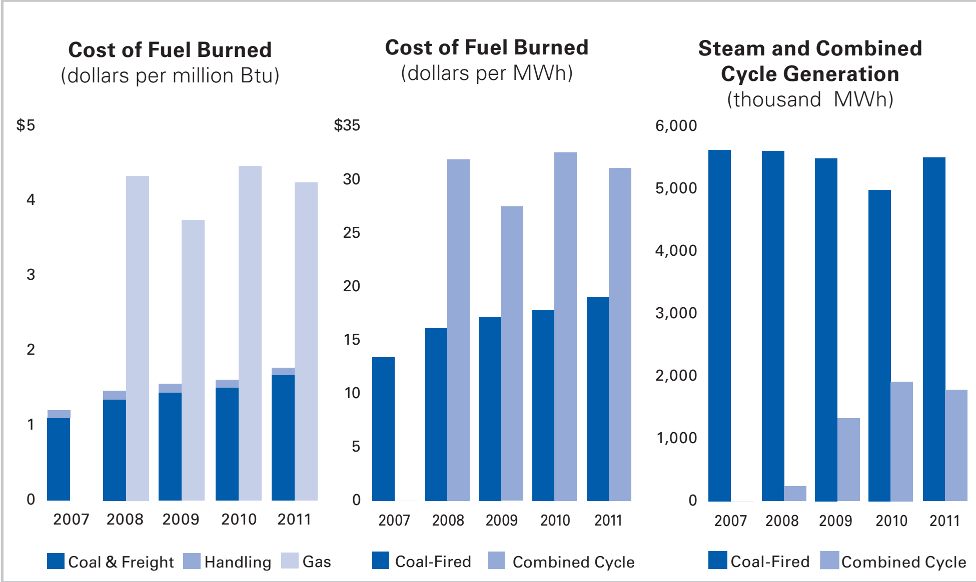
Fortunately, since only a small portion of forecast spot sales are included in budgeting and financial forecasting, GRDA relies little on revenues from spot sales. In the past few years, spot market sales tended to reflect the pricing of gas generation costs. Because the price of natural gas has been relatively low, the spot sales margins remained low during 2010 and 2011. Additionally, the calendar year 2011 represented a good example of the risk associated with reliance on spot sales projections. Extreme weather conditions caused most of the generation resources to be dispatched to customers under contract. Excess generation was priced competitively enough to sell into the marketplace, while relatively little generation was available for spot sales.





Even with the collection of fuel surcharges, GRDA contract rates remain competitive within the region. The graph comparing GRDA's historic average contract prices to GRDA's average spot prices for any excess energy sold at market prices provides an indication of the competitiveness of the Authority's rates and the advantage that abundant hydro generation provides. Although the comparison is favorable to market pricing because the spot pricing only reflects the cost of energy purchased, while the contract price reflects the price of full service including capacity, energy and in some cases, transmission, it does reflect the overall electricity pricing trends. Average rates in 2010 were higher because of the rate increase. When the increase was implemented, the Board intended for it to be temporary until the financial results improved. In 2011, the Board of Directors voted for a 2% reduction in capacity and energy billing components, but the decrease was offset by higher fuel costs being recovered through the PCA. The graph of average customer rates reflects that GRDA's average rates, including the PCA, were competitive at approximately 5 cents per kWh.

Operating Expenses



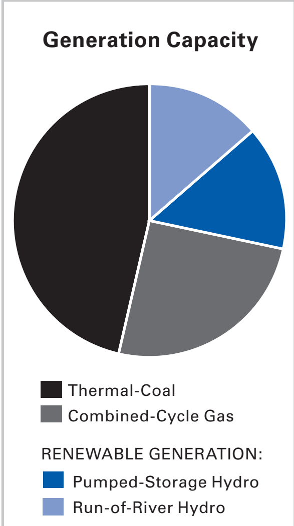
Operating Expenses increased by $17.6 million and by $24.4 million in 2011 and 2010, respectively. As mentioned earlier, fuel was the primary increase in operating expenses over the past two years. Coal and freight are the largest operating expenses at the Coal-Fired Complex. As the graph indicates, the rising cost of coal and freight has increased the average cost of fuel burned. While it had little financial impact in 2011 on GRDA's rising coal cost, GRDA embarked on a "refined coal" project which might save customers as much as $4 million annually on the cost of coal burned at the Coal-Fired Complex. Equally as important, the additives added to the fuel during the refined coal process reduce emissions, providing the potential to reduce future environmental costs as well. Fuel costs increased by $8.9 million in 2011 and by $20.4 million in 2010 as a result of both an increase in the delivered price of coal, as well as two full years of generation and gas consumption for the Redbud Power Plant. Fuel expenses included $55.5 million and $62.4 million of gas burned at the Redbud Power Plant during 2011 and 2010, respectively. The graph reflects the cost-per-million Btu of coal and gas as well as a comparison of the annual generation at the coal and gas plants. The middle graph depicting cost of fuel per MWh from each fuel source provides an indication of the extent that rising fuel costs impact the overall rate structure. Currently, fuel costs account for approximately half of GRDA's total average electricity price. Additionally, purchased power increased $3.5 million in 2011, primarily as a result of record temperatures and below-average hydro generation.

Other than fuel, another significant component of Operating Expenses is maintenance. Every six years, the Coal-Fired Complex has a planned, major maintenance outage. Maintenance expenses were relatively flat between 2009 and 2011, but a major outage was scheduled at the Coal-Fired Complex during 2010, so maintenance expenses were at least $5 million higher than the other two years. The outage for Unit 1, which GRDA owns 100%, occurred in the spring of 2010. The Unit 2 major maintenance outage, which GRDA owns jointly with KAMO Power, is scheduled for 2012. Generally, purchased power will also be slightly higher in years such as 2010 when GRDA has a coal-fired plant down for a major, more-extended outage. Finally, administrative and general expenses continue to rise gradually higher. North American Electric Reliability Corporation (NERC) and FERC compliance efforts continue to be a huge and costly priority. Many of the compliance initiatives, such as network security and communications are considered "General Plant" improvements and fall under the administrative and general expense category. Other increases to administrative and general costs related to the settlement of claims, insurance deductibles, employee insurance premiums and post-retirement benefit increases.

SIGNIFICANT ASSETS AND DEBT ADMINISTRATION

Capital Assets

As part of the commitment to customers to maintain reliability of service, GRDA has made a priority of rebuilding and maintaining generation and transmission assets. The diversity of the generation portfolio, which includes renewable hydro generation, is paramount to the operational flexibility to dispatch the generation in the most economical and reliable manner. As shown in the Utility Plant Note 4 to Financial Statements, the majority of Net Utility Plant consists of an economical mixture of renewable hydroelectric, thermal and natural gas generation resources and a transmission system for the delivery of power and energy. The pie chart reflects the fuel sources of GRDA's generation capacity. GRDA supplements the capital generation assets with capacity purchases from municipal customers Coffeyville and Cushing, which own generation. The concept is to enhance generation and transmission reliability by having access to emergency generation should the need arise. Additionally, the Authority is negotiating the purchase of 48 MWs of wind generation.



In 2009, the upgrades to Kerr Dam were the most significant capital additions. The work was suspended during much of the past year awaiting approval by FERC, which was obtained in January 2012, and the work is resuming. Other major additions in 2009 and 2010 related to the purchase of aluminum railcars, which were part of the agreement of the rail contract extension. As previously mentioned, 2010 was a year for a major maintenance outage on the Coal-Fired Complex Unit 1. During the major outage, the generator excitation controls were restored while superheater tube panels and speed control equipment were upgraded. Significant lines and substations continue to be added or upgraded in order to handle the loads of new and growing customers, especially during 2010 and 2011. A substation connecting to the 345-kV line in eastern Oklahoma was the most significant capital addition in 2011. Numerous projects were a result of increasing requirements of NERC and FERC, particularly general plant projects utilized in the transmission of electricity. Significant general plant projects include such projects as microwave rebuilds, voice systems replacements, SCADA and network security upgrades and network infrastructure improvements, as well as the replacement of other equipment. The capital portion of long-term service agreements increase Redbud capital additions annually. The payment source for the majority of the capital additions has come from the construction accounts funded by the 2008 and 2010 bond issues.

Restricted Assets

The Authority's bond resolutions require reserve funds be set aside. The General Bond Resolution No. 5107 requires the Bond Service Reserve account be equal to the "Maximum Aggregate Bond Service." Upon issuance of the 2010 bonds, the Debt Service Reserve requirement was calculated to be $136.0 million. At the end of 2011, the requirement was $133.8 million, and the account included an excess of $9.6 million. As discussed further in the Note 2 to Financial Statements, any excess balance in the Debt Service Reserve is reflected as a restricted asset because bond proceeds were used to initially fund the account and carry associated restrictions on how the funds can be used. Excess debt service reserve funds have been utilized to make future principal payments, as was the case when $4.0 million of the excess was applied to the February 2012 sinking fund principal payment.

Additional amounts are restricted for the bond service sinking fund payments made to the trustee for annual principal and semiannual interest payments. Sinking fund payments are made to the trustee to better manage cash flows, although the General Bond Resolution No. 5107 does not require the amounts be set aside monthly.

The Authority currently has two construction accounts. The 2008 construction account balance is attributable to unexpended proceeds from the 2008 bond issue. At the end of 2011, $79.1 million remained in 2008 construction account for generation, transmission and other projects. Additionally, $178.8 million of the $216.8 million deposit from 2010 bond proceeds remained in the 2010 construction account. Disbursements for the construction projects are initially paid from revenue funds. Requests for reimbursements are then submitted to the trustee, and monies are transferred from the construction project accounts to operating and revenue accounts.

The final restricted accounts for special purposes relate to wildlife mitigation pursuant to hydro licensing requirements. Each of the restrictions is discussed in further detail in the Note 2 to Financial Statements, Deposits and Investments. Additionally, the Authority has very conservative investment requirements which protect against investment losses, although the yields earned on eligible investments reflect the reduced risk. The priority of the investment policies is to protect the deposits rather than earn speculative income.

Regulatory Assets

The Authority follows Statement of Financial Accounting Standards (SFAS) No. 71, as codified in Accounting Standards Codification 980 via GASB 62, in regulatory reporting which requires utilities to match costs in the same period the revenues are collected. The regulatory asset consists of the deferred interest costs related to the 2002B capital appreciation bond issue. The balance in Costs to Be Recovered from Future Revenues includes the cumulative deferral of interest expense net of any interest income earned on the 2002B Construction Fund Investments. The amount deferred in 2011 was $1.5 million, and the 2010 deferral was $1.4 million. The deferred asset totaled $9.4 million at the end of 2011. The deferred asset will continue to increase annually until revenues are collected to pay the 2002B principal and cumulative interest at maturity on June 1, 2014. The 2002B Accrued Interest Payable is reflected in the financial statements as a Non-Current Liability. For more detail, see the Note 5 to Financial Statements, Costs to be Recovered from Future Revenues.

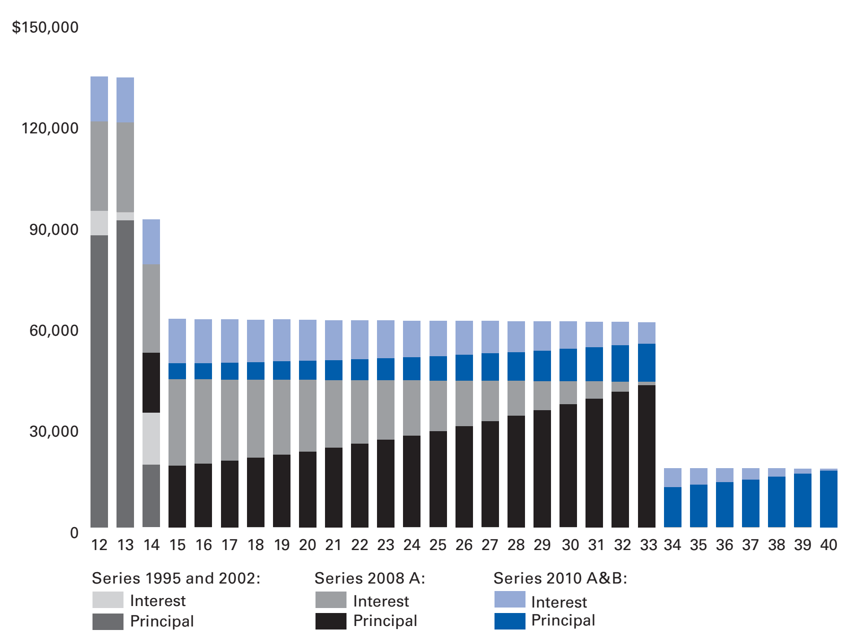
Long-Term Debt

The repayment of GRDA's outstanding bonds continued to impact the change in net assets in a positive manner by increasing the ratio of utility plant to debt. The trustee paid bondholders, on behalf of the Authority, principal payments of $81.7 million, $95.5 million and $72.5 million on June 1, 2011, 2010 and 2009, respectively.

As indicated in the Note 6 to Financial Statements, Bonds Payable, GRDA makes monthly sinking fund payments to the bond trustee, which are reflected as Current Investments "restricted for bond service." The bondholders are then paid annual principal payments on June 1 and semiannual interest payments on December 1 and June 1 of each year.

All of the debt issued prior to 2002 will mature by June 1, 2013. The principal and interest totaling approximately $34 million on the 2002B capital appreciation bonds will be repaid on June 1, 2014. The 2008 debt service was wrapped around the previously existing debt in order to minimize the impact of the additional debt service. Only interest will be paid on the 2008 tax-exempt bonds until 2014. Principal redemptions for the 2008 bonds will phase in as the older debt matures and continue through 2033. GRDA requested a private letter ruling from the Internal Revenue Service and had issued 2008 taxable debt short-term with a June 1, 2010 maturity. The taxable debt was intended to be refinanced as either taxable or tax-exempt bonds. However, GRDA was able to make sufficient bond sinking fund payments from revenues and redeemed the $19 million when the taxable bonds matured on June 1, 2010. Additionally, the 2010

Future Debt Service Depicting Principal and Interest (thousands)



bonds were wrapped around the outstanding debt. A portion of the interest costs will be capitalized until December 2012 to reduce the impact of the debt service on customer rates. The 2010 bonds were issued to mature beginning in 2015 through 2040. The graph labeled "Future Debt Service Depicting Principal and Interest" provides an indication of how much principal and interest are due each year until all currently outstanding bonds mature in 2040. The graph distinguishes between the older debt, the 2008 issue and the 2010 issue. The most important aspect of the graph is it visually represents the magnitude of the declining future debt service requirements.

The 1995 and 2002 bonds outstanding are not subject to redemption prior to the maturity of the bonds. The 2008A tax-exempt bonds maturing on and after June 1, 2019, are subject to early redemption on or after June 1, 2018. The 2010A tax-exempt bonds maturing on and after June 1, 2021, are subject to early redemption on or after June 1, 2020. The 2010B taxable bonds are subject to redemption at any time subject to a "Make-Whole Redemption" clause. In conjunction with the bonds, the Authority has made certain covenants and must file continuing disclosures with bond repositories. Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch Ratings initially gave the 1995, 2002, and the 2008 issues ratings of Aaa, AAA and AAA, respectively, since municipal bond insurance policies were purchased as the bonds were issued.

Ambac Indemnity Corporation, now Ambac Assurance Corp., insures the Authority's $91.7 million outstanding 1995 bonds with maturities in June 2013. FSA, now Assured Guaranty Municipal, insures GRDA's $86.2 million 2002 Series A maturing in June 2012 and $18.6 million Series B bonds maturing in June 2014. Finally, Berkshire Hathaway Assurance Corporation insures the 2008 tax-exempt bonds maturing June 2014 through June 2033. None of the municipal bond insurers currently carry AAA ratings. As of the date of these financial statements, Moody's Investors Service (Moody's) rates Berskhire Hathaway Aa1 with a stable outlook, and Assured Guaranty Municipal Aa3, but on review for a downgrade. Standard and Poor's (S&P) rates Berkshire Hathaway AA+ with a negative outlook and Assured Guaranty Municipal AA- with a stable outlook. Fitch Ratings no longer rates any of the insurers of GRDA bonds, and neither Moody's or S&P rate Ambac any more.

Since 2008, GRDA has had ratings of A from Fitch Ratings and Standard and Poor's and has had a rating of A2 from Moody's. Each agency assigned a stable outlook and reported relatively consistent assessments, reflecting an indication of the strong and stable credit. All three of the agencies reaffirmed GRDA's ratings prior to the 2010 bond issue. Fundamental to the credit strength is the increasing diversification of power supply; an improving economy; strengthened power sales contracts with a stable customer base; a willingness to set appropriate rates; a declining debt profile; actively-engaged directors, institutionalized governance practices; and ongoing risk assessments that include various environmental alternatives which in combination enable GRDA to appropriately respond to any perceived risks or negative market developments. The rating agencies continue to monitor GRDA's underlying credit.

CHANGE IN FINANCIAL POSITION

While a fundamental strength of GRDA has always been the ability to provide low-cost, reliable electricity, the real foundation is its relationship with customers, many of which have been public power partners with GRDA for almost 70 years. Not to be overlooked are key actions taken to prepare for the future of GRDA and its customers. GRDA focused on its public power mission and renewed long-term relationships with customers. Whether on the main street of a municipal customer community that GRDA employees call home, or in the warehouse of an industrial customer located just down the road from the Coal-Fired Complex and Transmission Headquarters, the Authority's relationships with customers are about being a good neighbor. With that as a background, GRDA's future economic outlook is always linked to customer growth. A successful $239.3 million bond issue in December 2010 to finance electric system improvements through 2012 was a direct result of the improved financial position.

Long-term revenue projections also became more stable as a result of the all-requirements contracts with municipal customers, most of which run through June 2042. Because the loads were starting to show signs of the downturn in the economy in late 2008, the Authority, together with its customers, revised the load and financial forecasts. That financial work resulted in GRDA's Board of Directors passing a rate increase effective January 1, 2010, with an average increase of 11.95%. Additionally, expanded relationships with Oklahoma Municipal Power Authority and Western Farmers Electric Cooperative provided increased firm sales and added diversification. Consistent with other off-system firm sales, the contracts provide certain take-or-pay provisions. Together, GRDA and the customers continued to update load forecasts, and in 2010 and 2011, sales met revised forecast levels. As the improvement from sales and revenues continued, the Board of Directors voted to return the benefits to customers in the form of a slight 2% base rate decrease

GRDA CREDIT RATING IMPROVEMENTS: 2005-2011

Rating Agency	Prior to 2005	2005-2006	2007	2008-2011
Standard & Poor's	BBB+ Negative Credit Watch	BBB+ Stable	A- Positive	A Stable
Moody's Investors	A2 Negative	No Action	A2 Stable	A2 Stable
Fitch Ratings	A- Stable	A- Positive	No Action	A Stable

BBB+ Negative Credit Watch: Adequate capacity to meet financial commitments, but more subject to adverse economic conditions and moderate credit risk. Obligations are considered medium grade and, as such, may possess certain speculate characteristics. Negative Credit Watch indicated a heightened probability for a potential downgrade over a relatively short period.

A Stable: Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances. Obligations are considered upper-medium grade and are subject to low credit risk. Stable outlook indicates no significant upward or downward pressures at the time of the rating.

in July 2011, with additional, more significant decreases in 2013. The improving economy, in combination with the actions the directors took on contracts and rates, were the prime drivers for the improved results and provided the incremental resources to maintain stable financial ratios in 2010 and 2011. As a result, Total Net Assets have increased $120 million or by 34% over the past two years.

GRDA has also strengthened the foundation beneath the improved financial position. At the same time GRDA was improving the revenue stream and working to control risks, the Authority was also securing the internal infrastructure. While risks with large financial impacts were prioritized and tackled first, risks such as the revenue stream, flooding mitigation, fuel supply, optimizing adequacy of generation supply with contracted customer loads, and reliable transmission, compliance and safety were also at the forefront. Behind the improved financial position are numerous policies and procedures adopted over the past five years. Employee training is ongoing. The result is a more sustainable utility that is less reliant on day-to-day priorities and more goal driven with an overall focus. As a result of the business and organization priorities and processes throughout 2010 and 2011, GRDA was able to successfully dispatch the generation so as to serve the customers' loads in the optimal manner. Those procedural fundamentals, combined with the leadership provided by an engaged Board of Directors, contributed to GRDA's ability to respond and mitigate the 2011 contingencies referred to earlier.

ECONOMIC OUTLOOK

GRDA's outlook continues to be favorable, yet significant risks remain. A key fact that should not be overlooked is GRDA's debt profile. GRDA's forecasted debt service, the largest component of the capacity portion of the rates, is currently scheduled to be half the current debt service level after debt issued in and prior to 2002 matures by June 1, 2014. That known decrease provides future flexibility to either reduce capacity rates substantially, or it provides the debt capacity margin to finance future electric system needs, or some combination of both. Also contributing to a favorable outlook are the current negotiations with industrial customers. More than a few are currently working with GRDA to renew contracts to cover moderately sized plant expansions. The municipal and cooperative all-requirement loads have returned to pre-recession levels, and the off-system wholesale contracts continue to provide a take-or-pay revenue stream. Furthermore, a long established relationship exists between GRDA and public power partners. In 2010, GRDA celebrated 75 years of providing power to a developing state and remains well positioned to aid Oklahoma's economy in the future.

GRDA is approaching a crossroad where decisions about the optimal generation path to take will have to be made. While one of the units at GRDA's Coal-Fired Complex already has a scrubber, there are increasing environmental and regulatory risks for any coal-fired generation. Future costs are anticipated to be substantial, although not all the future requirements have been prescribed or finalized by the regulatory authorities. Additionally, ongoing technological, compliance, and regulatory requirements require constant monitoring and investment in not only capital, but also personnel to remain in compliance. GRDA's hydro facilities are also operated under FERC licenses and have a multitude of environmental, safety and even recreational facets. GRDA recently received approval to complete additional upgrades to the Kerr Dam during the next two years. The directors have approved the recommencement of that work. Additionally, the directors have approved parameters for GRDA's first power purchase agreement for wind generation. This wind output, contract with an expected commercial operation date in early 2013, will expand GRDA's commitment to clean, renewable energy. The flexibility provided by a diverse generation mix has never been as important to GRDA as it will be in the upcoming years.

In fact, the generation options have come into play in 2012. In January 2012, the railroad tariffs for coal deliveries increased significantly. Alternatively, natural gas fuel costs have continued to decrease over the past two years. As a result, the incremental cost of gas generation at the Redbud plant was less than the fuel cost at the coal plant. The flexibility of the generation portfolio has allowed GRDA to shift more generation to Redbud and reduce the generation at the Coal-Fired Complex. Regardless, customers will benefit from the increased usage of the gas generation as long as the natural gas prices remain low. The coal generation will continue to be dispatched for several reasons, including the need to meet minimum contractual provisions for coal, freight and refined coal. Most importantly, the coal generation is needed to cover customer load requirements.

For the last several years, according to Electric System Planning Reports published by the Oklahoma Corporation Commission, GRDA has had a cost advantage because of the hydroelectric and coal generation mix over other Oklahoma utilities heavy with natural gas generation. With gas prices in 2012 dropping as low or lower than $2 per million Btu, several of GRDA's wholesale customers are experiencing competitive rate pressures. Because current Oklahoma law does not provide for retail switching of electricity providers, and because GRDA has already announced capacity and energy rates will decrease effective July 1, 2013, every expectation remains that GRDA and its partners will remain competitive. GRDA's cost of generation is low enough to be economically dispatched in the current environment of low natural gas prices which helps keep customer rates low. More importantly, GRDA's overall generation mixture is a better pricing hedge for customers if natural gas prices return to higher levels in the future. As a result, management believes GRDA is in a good economic position.

GRDA's goals are to respond to the upcoming demands and regulations and be a good steward of Oklahoma's resources with the most cost-effective, long-term solutions in order to continue to provide reliable service and electricity to Oklahoma customers for decades to come. GRDA's compliance department manages ever-changing FERC and NERC regulations and has regular, direct access to the CEO and Board of Directors. Additionally, the finance department again reports directly to the CEO and also has direct Board access. The Board of Directors is actively engaged through a revised committee structure; directors review and revise policies and promote a top-down dedication to serve Oklahoma in a way that demonstrates the value added by employees in fulfilling GRDA's mission.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This report is intended to provide our customers, bondholders, citizens of the state of Oklahoma, and other interested parties with a general overview of GRDA's financial position, results of operations, and to demonstrate accountability for the revenues GRDA receives.

Questions about this report or requests for additional financial information should be directed to the Authority at:

Grand River Dam Authority
PO Box 409, 226 West Dwain Willis Avenue
Vinita, Oklahoma 74301-0409

GRAND RIVER DAM AUTHORITY

STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS:		
Current assets:		
Cash and cash equivalents — general operating account	$ 19,399,755	$ 22,752,566
Investments	184,981,721	157,432,677
Accounts receivable — net	37,253,796	36,931,490
Accrued interest receivable	2,843,481	752,273
Fuel stock	16,722,088	13,566,511
Materials and supplies	43,389,813	36,538,942
Under recovered fuel costs	13,401,774	6,199,203
Prepaid assets	2,773,462	4,328,796
Total current assets	320,765,890	278,502,458
Noncurrent assets:		
Restricted investments	398,963,309	444,945,573
Other receivables	454,582	572,428
Net utility plant — at original cost less depreciation	782,641,048	801,422,915
Other noncurrent assets:		
Costs to be recovered from future revenues	9,407,865	7,924,095
Unamortized debt issuance costs	14,292,166	15,698,734
Nonutility property — at original cost	33,014	33,014
Total other noncurrent assets	23,733,045	23,655,843
Total noncurrent assets	1,205,791,984	1,270,596,759
Total assets	1,526,557,874	1,549,099,217
LIABILITIES:		
Current liabilities:		
Accounts payable and accrued liabilities	34,898,682	33,055,611
Accrued interest payable	4,101,078	3,754,241
Bonds payable — current portion	86,765,000	81,665,000
Total current liabilities	125,764,760	118,474,852
Noncurrent liabilities:		
Bonds payable — net	911,841,014	997,997,959
Unamortized proceeds on debt service forward purchase agreements		2,895,997
Other noncurrent liabilities	3,029,198	2,880,472
Accrued interest payable	11,574,280	10,091,516
Total noncurrent liabilities	926,444,492	1,013,865,944
Total liabilities	1,052,209,252	1,132,340,796
NET ASSETS:		
Invested in capital assets — net of related debt	197,481,485	188,760,234
Restricted for:		
Debt service	61,324,015	66,485,014
Other special purposes	637,178	513,456
Unrestricted	214,905,944	160,999,717
TOTAL NET ASSETS	$ 474,348,622	$ 416,758,421

See notes to financial statements.

GRAND RIVER DAM AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
OPERATING REVENUES:		
Sales of power	$388,834,078	$374,524,747
Other operating revenues	5,652,493	7,476,042
Total operating revenues	394,486,571	382,000,789
OPERATING EXPENSES:		
Fuel	(160,222,167)	(151,322,794)
Depreciation	(50,869,539)	(44,101,788)
Operations	(27,823,333)	(23,480,280)
Maintenance	(26,809,111)	(33,720,522)
Administrative and general	(25,040,649)	(23,946,136)
Purchased power — net	(14,585,117)	(11,154,488)
Total operating expenses	(305,349,916)	(287,726,008)
OPERATING INCOME	89,136,655	94,274,781
NONOPERATING REVENUES AND (EXPENSES):		
Interest income	12,337,646	10,712,439
Net increase (decrease) in the fair value of investments	8,883,253	173,550
FEMA grant revenue — operating	8,786	3,363
Income from nonutility operations	1,350,011	4,072,921
Interest expense	(54,957,804)	(46,953,285)
Deferral of costs to be recovered from future revenues	1,483,770	1,410,896
Amortization of debt discount and financing costs	(2,236,584)	(2,211,997)
Amortization of bond premium	1,584,468	1,693,572
Total nonoperating expenses	(31,546,454)	(31,098,541)
CAPITAL CONTRIBUTIONS — FEMA grant revenue — capital		41,084
NET INCREASE IN NET ASSETS	57,590,201	63,217,324
NET ASSETS — Beginning of year	416,758,421	353,541,097
NET ASSETS — End of year	$474,348,622	$416,758,421

See notes to financial statements.

GRAND RIVER DAM AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Received from user charges	$428,052,553	$392,745,795
Received from FEMA — operating revenues	8,786	3,363
Payments to employees for services	(29,657,110)	(29,085,981)
Payments to suppliers for goods and services	(268,548,196)	(222,906,799)
Net cash provided by operating activities	129,856,033	140,756,378
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Additions to utility plant	(32,722,834)	(75,449,883)
Payments for retirements of utility plant	(1,722,228)	(3,004,952)
Received from FEMA — capital revenues		41,084
Proceeds from bond issue		239,315,000
Bond discount		(4,913,532)
Bond issuance costs		(1,816,264)
Repayment of principal	(81,665,000)	(95,495,000)
Interest paid	(51,765,695)	(43,581,016)
Net cash provided by (used in) capital and related financing activities	(167,875,757)	15,095,437
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	8,779,851	10,300,758
Purchases of securities	(85,437,001)	(286,565,269)
Proceeds from sales and maturities of securities	111,324,063	125,959,543
Net cash provided by (used in) investing activities	34,666,913	(150,304,968)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,352,811)	5,546,847
CASH AND CASH EQUIVALENTS — Beginning of year	22,752,566	17,205,719
CASH AND CASH EQUIVALENTS — End of year	$ 19,399,755	$ 22,752,566
NONCASH ITEMS FROM CAPITAL AND RELATED FINANCING ACTIVITIES — Noncash purchases of utility plant included in accounts payable	$ 2,357,390	$ 11,419,389
NONCASH ITEMS FROM INVESTING ACTIVITIES:		
Unrealized gain (loss) on investments	$ 8,883,253	$ 173,550
Amortization of premiums and discounts	$ 1,438,955	$ 110,737
Amortization of debt service forward purchase agreements	$ 2,895,997	$ 1,198,457
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 89,136,655	$ 94,274,781
Noncash items included in net operating income:		
Income from nonutility operations	1,358,797	4,076,284
Depreciation	50,869,539	44,101,788
Changes in assets and liabilities:		
Receivables:		
Customers	(1,363,077)	1,893,143
Other	1,158,616	553,085
Fuel stock	(3,155,578)	7,310,385
Materials and supplies	(6,850,871)	1,735,726
Other	1,299,143	1,201,127
Accounts payable and accrued liabilities	4,200,461	6,065,481
Over (under) recovered fuel costs	(7,202,571)	(20,680,299)
Other noncurrent liabilities	404,919	224,877
NET CASH PROVIDED BY OPERATING ACTIVITIES	$129,856,033	$140,756,378

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business — The Grand River Dam Authority (the "Authority" or "GRDA") was created as a nonappropriated agency by the State of Oklahoma in 1935 as a conservation and reclamation district. The Authority has the power to control, store, preserve, and distribute the waters of the Grand River and its tributaries for any useful purpose and to develop and generate water power, electric power, and electric energy within the boundaries of the Authority and to buy, sell, resell, interchange, and distribute electric power and energy. The Grand River lies entirely within Oklahoma, but its drainage basin also extends over the states of Arkansas, Kansas, and Missouri. As part of the Authority's licensing agreements, the Authority also has lake area responsibilities. The costs of those activities are funded primarily through electricity sales to rural cooperative, municipal, industrial and off-system customers located in Oklahoma, Kansas, Missouri, and Arkansas. The Authority's financial statements are included in the State of Oklahoma Comprehensive Annual Financial Report as a discrete proprietary component unit.

Basis of Accounting — The Authority is licensed to operate under the Federal Power Act, which requires the use of the uniform system of accounts, prescribed for public utilities and licensees. The Authority is a cost of service organization and establishes its rates to provide revenues sufficient to pay all expenses necessary for the operation and maintenance of the system, all payments, transfers, and deposits related to outstanding debt, and all other charges or obligations imposed by law or contract.

Basis of Presentation — The Authority's basic financial statements conform to the provisions of standards issued by the Governmental Accounting Standards Board (GASB). GASB establishes standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components — invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in Capital Asset — Net of Related Debt — This component of net assets consists of capital assets, net of accumulated depreciation, costs to be recovered from future revenues, and unamortized debt expense reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted — This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets — This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets — net of related debt."

The financial statements of the Authority are prepared under the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The Authority has elected to apply all applicable GASB pronouncements as well as all Financial Accounting Standards Board (FASB) pronouncements, as codified in Accounting Standards Codification (ASC), unless those pronouncements conflict with GASB pronouncements.

Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Cash and Cash Equivalents — Cash and cash equivalents include unrestricted cash in banks, unrestricted money market funds, and unrestricted certificates of deposit with original maturities of three months or less. Balances are presented on a net basis to the extent such balances are subject to the right of offset.

Investments — Investments principally comprise U.S. government securities, U.S. government agencies, State of Oklahoma agency bonds, bank TARP bonds unconditionally guaranteed by the United States of America, money market funds, and certificates of deposit. The Authority reports investments at fair value. Fair value is determined using quoted market prices.

Fuel Stock — Coal fuel stock is carried at average cost and includes the costs of coal, freight, and labor. These amounts are charged to expense as the fuel is consumed. Gas fuel stock, if any, is carried at average cost and includes the costs of gas, transportation, and gas management fees.

In December 2011, the Authority began a fuel emissions protection project with Chouteau Fuels Company, LLC which is a subsidiary of DTE Energy Company, which requires the sale of coal fuel stock to the counterparty which chemically treats the coal fuel stock and then sells it back to the Authority at a reduced price for consumption and enhanced environmental protection. There were no significant transactions during 2011

Materials and Supplies — Materials and supplies are valued using the average cost and specific identification methods.

Under/Over Recovered Fuel Costs — The Authority's rate structure as approved by the Board of Directors provides for the Authority to make adjustments in revenue collections from municipal, industrial, cooperative and off-system firm customers to recover variations between estimated and actual fuel costs incurred by the Authority. This adjustment, referred to as the Power Cost Adjustment (PCA), is generally calculated twice each year. The Authority's base rate is calculated using 13 mills as an estimated PCA. The cumulative difference between the actual fuel costs and the 13 mill base PCA rate is reflected as either an asset ("under recovery") or liability ("over recovery") in the Authority's accompanying Statements of Net Assets, because such amounts will either be collected from or refunded to customers of the Authority in subsequent periods.

Joint Participant — Among the Authority's assets is Coal-Fired Complex Unit 2 (which is 62% owned by the Authority and 38% owned by KAMO Power (KAMO). The Authority and KAMO also jointly own an integrated transmission system. Additionally, The Authority jointly owns the Redbud combined-cycle gas plant with Oklahoma Gas and Electric (OG&E) and Oklahoma Municipal Power Authority (OMPA). The Redbud Power Plant is operated by OG&E, with OG&E, the Authority, and OMPA owning 51%, 36%, and 13% respectively. These financial statements and notes to financial statements include the transactions for the Authority's ownership of these assets.

Joint Ownership — On October 1, 2008, the Authority purchased certain assets and assumed certain liabilities in the Redbud combined-cycle gas plant near Luther, Oklahoma. The Authority's undivided interest in the assets and liabilities of the facility is 36%, while OG&E's interest is 51% and OMPA's interest is 13%.

The Authority can schedule up to its ownership share, 36%, of the available power output of the plant. The output from Redbud is combined with the output from the Authority's other resources, such as coal and hydroelectric generation. Revenues from the sale of total system generation resources are included in sales of power as shown on the statements of revenues, expenses, and changes in net assets.

The Authority has entered into short-term natural gas supply contracts to purchase and provide its share of fuel supply for the Redbud plant and the statements of revenues, expenses, and changes in net assets include $55,461,351 and $62,433,378 related to natural gas fuel expenses included in fuel operating expenses for 2011 and 2010, respectively.

OG&E operates the Redbud facility under an operating agreement with the Authority and OMPA and allocates certain costs and expenses attributable to Redbud, to the Authority, and to OMPA in accordance with their undivided ownership interests (36% and 13%, respectively). The Authority's statements of revenues, expenses, and changes in net assets include the following related to those allocations: $4,655,921 and $5,842,490 in Maintenance, $1,032,390 and $1,282,598 in Operation, and $2,334,485 and $2,158,628 in Administrative and general line items of the Operating expenses section for 2011 and 2010, respectively.

The Redbud facility has long-term service agreements with a large industrial manufacturer for the maintenance of the gas and steam turbines and the related long-term purchase commitments totaling approximately $65 million and $65 million for 2011 and 2010, respectively, these amounts have been included in the contractual commitments in Note 9.

Utility Plant and Depreciation — The cost of utility plant includes direct material, direct labor and indirect costs such as engineering, supervision, insurance, and interest expense (net of applicable interest income) capitalized during construction. The Authority follows the Federal Energy Regulatory Commission (FERC) electric plant instruction guidelines in defining capital assets. Generally, assets which have a cost of $500 or more at the date of acquisition and have an expected useful life of one year or more, and are not consumable, are capitalized. The cost of maintenance and repairs to property is expensed. Consistent with the Redbud plant operator's treatment, certain costs of the long-term service agreements payments are capitalized. Gain or loss is recognized on retirements and dispositions that management believes to be unusual in nature.

Depreciation is computed on the cost of utility plant by the composite method over the following estimated useful lives and annual depreciation percentages:

Coal-fired plants	34 years	2.90%
Redbud combined-cycle plant	3–32 years	33.33%–3.13
Hydraulic production plants	87 years	1.15
Transmission system	30 years	3.33
Other properties and production plant	5–30 years	20.00%–3.33

Long-Lived Assets — The Authority reviews long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of its assets might not be recoverable. Management of the Authority has determined that no impairment adjustments required recognition in 2011 or 2010.

Costs to be Recovered from Future Revenues — Certain items included in operating costs are recovered by the Authority through rates set by the Board of Directors. The Authority, as a self-regulated utility, is subject to the requirements of SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation,* as codified in ASC 980 *Regulated Operations*. ASC 980 provides that certain costs that would otherwise be charged to expense can be deferred as regulatory assets, based on the expected recovery from customers in future rates. Historically, recognition of these costs was deferred to the extent that such costs were later included in rates charged by the Authority in future years.

In 2004, the Authority determined that it should defer interest costs related to the 2002B capital appreciation bond issue and expense these costs in 2014, when the related bonds mature. The Authority believes it will fully recover the deferred interest expense, net of any interest income earned on unexpended related construction funds, during 2013 and 2014 as revenues are collected to pay the accrued interest and principal on June 1, 2014. At December 31, 2011 and 2010, the Authority had approximately $9.4 million and $7.9 million, respectively, of costs to be recovered from future revenues.

Management continuously monitors the future recoverability of regulatory assets, and when, in management’s judgment, any future recovery becomes impaired, the amount of the regulatory asset will be reduced or written off, as appropriate.

Bonds Payable — Effective June 1, 2009, the Authority is operating under General Bond Resolution No. 5107 (“Resolution No. 5107”), which provides for the issuance of revenue bonds and defines eligible investment securities. Resolution No. 5107 replaces General Bond Resolution No. 4800.

Unamortized Debt Discount or Premium and Expense — Debt discount or premium and expense are amortized using the bonds outstanding method over the periods of the applicable issues.

Unamortized Gains and Losses on Advance Refunding of Long-Term Debt — Recognition of gains and losses realized on advance refunding of long-term debt is deferred and amortized over the shorter of the life of the new bonds or the related refunding issues using the bonds outstanding method.

Operating and Nonoperating Revenues and Expenses — Operating revenues include the sales of power and other operating revenues such as rents from electric property, consisting primarily of revenues from transmission and ancillary services. Other operating revenues also include sales of water and any sulfur dioxide emissions credits conversions. Operating expenses include costs to operate and maintain the Authority’s generation and transmission assets including fuel, purchased power, depreciation and related administrative and general expenses. Nonoperating revenues include interest income, FEMA grant revenue-operating (noncapital), net increase in the fair value of investments, deferral of costs to be recovered from future revenues, and income from nonutility operations. Nonoperating expenses include interest expense, amortization of costs to be recovered from future revenues and amortization of bond-related expenses.

Purchased Power — Purchased power includes the cost of electricity purchased for resale and settlements for exchange of electricity and imbalance market transactions.

Income Taxes — The Authority is a governmental agency organized under the laws of the State of Oklahoma and is not subject to federal or state income taxes.

Recently Issued Accounting Standards — The following accounting standards have been recently issued and have been or will be adopted as applicable by the Authority in future years:

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. This statement was effective for the Authority in 2011 and did not have an impact on the Authority's financial statements.

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This Statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. Consistent with this change to the employer-reporting requirements, this Statement also amends a Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, requirement that a defined benefit OPEB plan obtain an actuarial valuation. The amendment permits the requirement to be satisfied for an agent multiple-employer OPEB plan by reporting an aggregation of results of actuarial valuations of the individual-employer OPEB plans or measurements resulting from use of the alternative measurement method for individual-employer OPEB plans that are eligible. This statement will be effective for the Authority in 2012, and management is currently evaluating the impact of this pronouncement on the Authority's financial statements.

GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. This Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. This statement was effective for the Authority in 2010 and did not have a material impact on the Authority's financial statements.

GASB Statement No. 59, Financial Instruments Omnibus. This Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This statement was effective for the Authority in 2011 and did not have a material impact on the Authority's financial statements.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. This statement will be effective for the Authority in 2012, and management is currently evaluating the impact of this pronouncement on the Authority's financial statements.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. This Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. This statement will be effective for the Authority in 2013, and management is currently evaluating the impact of this pronouncement on the Authority's financial statements.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which do not conflict with or on contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations

2. Accounting Principles Board Opinions

3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee Accounting Procedure.

This statement will be effective for the Authority in 2012, and management is currently evaluating the impact of this pronouncement on the Authority's financial statements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. This statement will be effective for the Authority in 2012, and management is currently evaluating the impact of this pronouncement on the Authority's financial statements.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53.* The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. This statement will be effective for the Authority in 2012, and management is currently evaluating the impact of this pronouncement on the Authority's financial statements.

2. DEPOSITS AND INVESTMENTS

The Authority's Resolution No. 5107, provides for the issuance of revenue bonds and defines eligible investment securities as investments allowed pursuant to the Authority's investment policy. The Authority's Board Policy 5-2 defines the following categories of investments (1) bonds or other obligations which are direct obligations of the United States of America, (2) bonds or other specifically named obligations which are indirectly guaranteed by the United States of America, (3) direct and general obligations of any state which are rated in the two highest major categories of Moody's, Standard & Poor's (S&P), or Fitch, (4) certificates of deposit issued by a savings and loan association or a bank and trust company which are collateralized by the securities described in (1) and (2) or which are fully insured by the Federal Deposit Insurance Corporation (FDIC), (5) repurchase agreements with banks or government bond dealers which are secured by securities described in (1) and (2), (6) investment agreements with companies or banks whose senior debt obligations are rated no lower than the second highest category of Moody's,, S&P, or Fitch, (7) short-term obligations of any state or political subdivision which are rated in the highest short-term category by Moody's or S&P, and (8) any cash swap or similar arrangement of the Bond Fund Trustee, the investments of which are limited to securities described in (1) and (2).

The Authority carries its investments at fair value. The Authority and trustees monitor collateral pledged to secure deposits in financial institutions for compliance with rules and regulations promulgated by the Oklahoma State Treasurer.

Interest-Rate Risk — Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The Authority has no formal policy to address exposure to fair value losses resulting from changes in interest rates. However, Resolution No. 5107 requires that investments not mature later than such times as the funds shall be necessary to provide monies when needed for payments to be made from the Debt Service Account, and in the case of the Debt Service Reserve Account, unless otherwise provided in a Supplemental Resolution, not later than ten (10) years from the date of investment. Board Policy 5-2 provides that general fund investments shall not mature later than five (5) years from the date of investment. The Authority attempts to hold the investments to maturity which minimizes the exposure to rising interest rates.

As of December 31, 2011 and 2010, the Authority had the following investments (classified as either cash equivalents, investments or restricted investments on the statements of net assets) and corresponding maturities:

	2011				
		Investment Maturities (In Years)			
Investment Type	**Fair Value**	**Less Than 1**	**1–5**	**6–10**	**More Than 10**
U.S. gov't/agency securities	$ 498,313,204	$ 192,789,598	$ 235,931,238	$ 65,420,444	$ 4,171,924
Certificates of deposits	5,105,177	5,105,177			
Money market funds	80,339,868	80,339,868			
State of Oklahoma agency bonds	16,695,000	16,695,000			
Cash deposits — net	2,891,536	2,891,536			
Total investments	$ 603,344,785	$ 297,821,179	$ 235,931,238	$ 65,420,444	$ 4,171,924

	2010				
		Investment Maturities (In Years)			
Investment Type	**Fair Value**	**Less Than 1**	**1–5**	**6–10**	**More Than 10**
U.S. gov't/agency securities	$ 282,182,367	$ 206,710,281	$ 59,278,875	$ 15,149,961	$ 1,043,250
Certificates of deposits	7,234,769	7,234,769			
Money market funds	315,002,026	315,002,026			
State of Oklahoma agency bonds	17,620,000	17,620,000			
Cash deposits — net	3,091,654	3,091,654			
Total investments	$ 625,130,816	$ 549,658,730	$ 59,278,875	$ 15,149,961	$ 1,043,250

As of December 31, 2011 and 2010, the Authority had the following U.S. government/agency investments and maturities:

	2011				
		Investment Maturities (In Years)			
	Fair Value	**Less Than 1**	**1–5**	**6–10**	**More Than 10**
General operations	$ 81,169,015	$ 4,604,695	$ 37,246,261	$ 39,318,059	$ -
Board designated	35,000,000		35,000,000		
Construction	232,445,841	162,310,468	62,612,468	7,522,905	
Bond service reserve	139,750,144	15,926,230	101,072,510	18,579,480	4,171,924
Debt service sinking funds	9,948,204	9,948,204			
Total U.S. gov't/agency securities	$ 498,313,204	$ 192,789,597	$ 235,931,239	$ 65,420,444	$ 4,171,924

	2010				
		Investment Maturities (In Years)			
	Fair Value	**Less Than 1**	**1–5**	**6–10**	**More Than 10**
General operations	$ 39,768,842	$ 11,785,506	$ 11,790,125	$ 15,149,961	$ 1,043,250
Board designated	32,500,000		32,500,000		
Construction	74,980,775	74,980,775			
Bond service reserve	134,932,750	119,944,000	14,988,750		
Total U.S. gov't/agency securities	$ 282,182,367	$ 206,710,281	$ 59,278,875	$ 15,149,961	$ 1,043,250

Credit Risk — Credit risk is the risk that the insurer or other counterparty to an investment will not fulfill his obligation. Mortgage backed securities (MBS) are not rated because the agencies that issue such securities did not apply to any of the nationally recognized statistical rating organizations (NRSRO) such as Moody's Investors Service ("Moody's") and Standard & Poor's (S&P) for ratings on their MBS. However, the agencies carry AAA/AA+ ratings from Moody's and S&P for their debentures, and the MBS which carry their label (e.g. Federal National Mortgage Association — "FNR"; Federal Home Loan Bank — "FHR") are direct obligations of the agencies. With the exception of Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"), which are government-sponsored quasi-governmental agencies (which also received U.S. government backing during 2008), the agencies have the backing of the U.S. Government; therefore, the AAA/AA+/AAA rating by Moody's, Standard & Poor's, and Fitch is implied. MBS issued by the Government National Mortgage Association, with the label GNR, carry the explicit full faith and credit of the U.S. Government. Securities issued by the Federal Farm Credit Bank ("FFCB") are rated Aaa/AA+/AAA by Moody's, Standard & Poor's, and Fitch credit rating agencies. Fannie Mae and Freddie Mac are rated Aaa/AA+/AAA by Moody's, Standard & Poor's, and Fitch credit rating agencies. The MBS are senior in the credit structure to the debentures for the FNMA and FHLMC. The bank TARP bonds are bonds issued under the U.S. Treasury Department Loan Guarantee Program (TLGP) and they do not have a rating. Bonds issued under the TLGP carry the backing of the FDIC which itself carries the full faith and credit of the U.S. Government, therefore, the AAA/AA+/AAA rating by Moody's, Standard & Poor's, and Fitch is implied.. The State of Oklahoma bonds are Oklahoma Water Resource Board bonds and have an AA rating. The certificates of deposit are held by various banks and are subject to the FDIC guarantees up to $250,000. The Money Market Funds are held by a bank and are collateralized at over 100% of the cash market value with U.S. Treasury and U.S. Agency securities. Board Policy 5-2 provides that investments be backed by the U.S. government, collateralized, fully insured by the FDIC, or be rated no lower than the second highest category of Moody's , S&P, or Fitch.

As of December 31, 2011 and 2010, the Authority's investments had the following ratings:

	2011			
	Investment Rating — Moody's/S&P/Fitch			
Investment Rating Moody's/S&P/Fitch	**Aaa/AA+/AAA**	**Aa/AA/AA**	**Credit Risk Not Applicable**	**Total**
Money markets	$ -	$ -	$80,339,868	$ 80,339,868
Certificates of deposits			5,105,177	5,105,177
US gov't securities	166,269,872			166,269,872
US gov't agencies/US gov't sponsored enterprises	332,043,332			332,043,332
State of Oklahoma Agency bonds		16,695,000		16,695,000
Cash deposits — net			2,891,536	2,891,536
	$498,313,204	$16,695,000	$88,336,581	$603,344,785

	2010			
	Investment Rating — Moody's/S&P/Fitch			
Investment Rating Moody's/S&P/Fitch	**Aaa/AAA/AAA**	**Aa/AA/AA**	**Credit Risk Not Applicable**	**Total**
Money markets	$ -	$ -	$315,002,026	$315,002,026
Certificates of deposits			7,234,769	7,234,769
US gov't securities	33,094,447			33,094,447
US gov't agencies/US gov't sponsored enterprises	249,087,920			249,087,920
State of Oklahoma Agency bonds		17,620,000		17,620,000
Cash deposits — net			3,091,654	3,091,654
	$282,182,367	$17,620,000	$325,328,449	$625,130,816

As of December 31, 2011 and 2010, the Authority had the following portfolio of investments with credit exposure by investment type as a percentage of total investments:

	2011	2010
U.S. government securities	27.6 %	5.3 %
U.S. government agencies/U.S. government sponsored enterprises:		
FFCB	0.9	0.0
FHLB	9.8	7.8
GNMA	0.8	0.2
FHLMC	17.4	27.5
FNMA	21.2	4.2
Other	0.0	0.2
Money market funds	13.8	50.9
Certificate of deposits	0.8	1.1
State of Oklahoma agency bonds	2.8	2.8
Bank TARP bonds	4.9	0.0

Custodial Credit Risk — For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment for collateral securities that are in the possession of an outside party. All money to be held by the Authority under Resolution No. 5107 is required to be deposited in one or more depositories in the name of the Authority. All money deposited under the provisions of Resolution No. 5107 with the Bond Fund Trustee and the Construction Fund Trustee is required to be held in trust and applied only in accordance with the provisions of Resolution No. 5107; money held by the Authority and deposited in any depository is required to be held and secured in the manner provided by Oklahoma law.

Carrying Values — Cash and cash equivalents and current and noncurrent investments at December 31, 2011 and 2010, follows:

	2011		
	Current	Noncurrent	Total
Cash and cash equivalents — cash deposits — net	$ 19,399,755	$	$ 19,399,755
Investments:			
General operating account	116,169,015		116,169,015
Certificates of deposits — original maturity greater than 3 months	4,494,122		4,494,122
Restricted for bond service	61,324,015		61,324,015
Restricted for construction	8,750,592	249,140,841	257,891,433
Restricted for bond service reserve		143,429,267	143,429,267
Restricted for other special purposes	637,178		637,178
Total investments	191,374,922	392,570,108	583,945,030
Total cash and investments	$210,774,677	$392,570,108	$603,344,785

	2010		
	Current	**Noncurrent**	**Total**
Cash and cash equivalents — cash deposits — net	$ 22,752,566	$ -	$ 22,752,566
Investments:			
General operating account	72,268,842		72,268,842
Certificates of deposits — original maturity greater than 3 months	6,745,976		6,745,976
Restricted for bond service	66,485,014		66,485,014
Restricted for construction	11,419,389	305,804,580	317,223,969
Restricted for bond service reserve		139,140,993	139,140,993
Restricted for other special purposes	513,456		513,456
Total investments	157,432,677	444,945,573	602,378,250
Total cash and investments	$180,185,243	$444,945,573	$625,130,816

Restricted noncurrent investment funds in the bond service reserve account, and certain funds in the construction account are included in restricted investments in noncurrent assets on the Statement of Net Assets. Restricted current investment funds in the bond service account and certain deposits in the construction account are included in Investments — unrestricted and restricted in current assets on the Statement of Net Assets. Restricted investments (noncurrent and current) are not available for general operations. The balance in the restricted for bond service reserve account includes $133,807,299 restricted for bond service reserve per Bond Resolution No. 5107, the $9,621,968 excess is restricted because it was originally part of tax exempt bonds and will be used for future debt principal payments which is an acceptable use of tax exempt proceeds per the tax codes

Cash and investments at December 31, 2011, include the following:

	General Operations	Board Designated	Bond Service (Restricted)	Construction (Restricted)	Bond Service Reserve (Restricted)	Other Special Purposes (Restricted)	Total
Cash deposits — net	$ 2,891,536	$ -	$ -	$ -	$ -	$611,055	$ 3,502,591
Money market funds	16,508,219		51,375,811	8,750,591	3,679,123	26,123	80,339,867
U.S. government securities, agencies and sponsored enterprises	81,169,016	35,000,000	9,948,204	232,445,841	139,750,144		498,313,205
State of Oklahoma agency bonds				16,695,000			16,695,000
Certificates of deposits — maturity > 3 months	4,494,122						4,494,122
Total cash and investments	$105,062,893	$35,000,000	$61,324,015	$257,891,432	$143,429,267	$637,178	$603,344,785

Cash and investments at December 31, 2010, include the following:

	General Operations	Board Designated	Bond Service (Restricted)	Construction (Restricted)	Bond Service Reserve (Restricted)	Other Special Purposes (Restricted)	Total
Cash deposits — net	$ 3,091,654	$ -	$ -	$ -	$ -	$488,793	$ 3,580,447
Money market funds	19,660,912		66,485,014	224,623,194	4,208,243	24,663	315,002,026
U.S. government securities, agencies and sponsored enterprises	39,768,842	32,500,000		74,980,775	134,932,750		282,182,367
State of Oklahoma agency bonds				17,620,000			17,620,000
Certificates of deposits — maturity > 3 months	6,745,976						6,745,976
Total cash and investments	$69,267,384	$32,500,000	$66,485,014	$317,223,969	$139,140,993	$513,456	$625,130,816

The restricted balances are the minimum amounts required to be maintained.

Additional information relating to cash and investment restrictions follows:

Bond Service — On April 19, 1994, the Authority entered into a debt service forward purchase agreement with Lehman Brothers Special Financing, Inc. (“Lehman”). Under this agreement, the Authority received an advance payment of $22,925,000 in an exchange that granted Lehman the right to receive interest income earned on a GIA earning 7% until it matured on December 1, 2003, and the right to invest remaining sinking fund payments required by the applicable bond indenture through June 1, 2013. Lehman did not exercise its right to invest the sinking fund payments after August 2008. Under the agreement, the Authority had the right to invest the sinking fund deposits overnight and retain any earnings until Lehman presented an investment security. Beginning in September 2008, the Authority’s trustee placed the sinking fund payments in a money market fund and retained the funds until the principal and interest payments are due to the bond holders according to the agreement. The Authority recorded the $22,925,000 advance payment received in 1994 as a deferred credit and is amortizing the amount to income over the life of the agreement. In February 2009, the company formerly known as Lehman Brothers Commercial Bank changed its name to Woodlands Commercial Bank. As of December 30, 2011, Woodlands Commercial Bank ceased doing business and the remaining deferred credit balance of approximately $1.7 million was recognized.

On December 31, the bond service fund in the accompanying balance sheet reflects the minimum restricted amount sufficient to pay seven months of principal and one month of interest due the following June 1.

Construction — A 2008 construction fund was established in September 2008 with the proceeds from the Revenue Bonds, Series 2008A and 2008B. Initial disbursements were for the purchase of a 36% interest in the 1230 MW gas-fired, combined-cycle power generation facility located in Luther, Oklahoma (see Note 1). Additional costs to be funded from the remaining balance include capital additions, repairs, and improvements to the Authority’s coal-fired generation complex, transmission system, hydroelectric generating facilities and ecosystems.

A 2010 construction fund was established in December 2010 with the proceeds from the Revenue Bonds, Series 2010A and 2010B. The proceeds from the 2010 Bonds will be used to fund certain System Costs consisting of capital additions, repairs and improvements to the Authority’s coal-fired generation complex, transmission system, hydroelectric generating facilities, ecosystems and the gas-fired, combined-cycle generation facility.

Bond Service Reserve —The restricted amount in the accompanying balance sheet reflects the maximum aggregate debt service for all bonds outstanding. The balance in the restricted for bond service reserve account includes $133,807,299 restricted for bond service reserve per Bond Resolution No. 5107, the $9,621,968 excess is restricted because it was originally part of tax exempt bonds and will be used for future debt principal payments which is an acceptable use of tax exempt proceeds per the tax codes.

Restricted for Other Special Purposes — Because of agreements with FERC, the Authority has restricted money for two purposes. The first restriction is for the fish and wildlife mitigation fund, established in June 2003 as required by FERC. The Authority funded an initial deposit of $260,000 in 2003, and is required to make $100,000 annual contributions (adjusted for inflation) each year the Pensacola Dam license is in effect. Generally, the purpose of this fund is to support projects to protect and enhance fish and wildlife resources at the direction of various groups external to the Authority. Expenditures of approximately $0 and $0 were made from the fund in 2011 and 2010, respectively. The second restriction is for the nature conservancy fund, established in May 2008 as required by FERC. The

Authority funded an initial deposit of $27,000 in 2008. The Authority is required to replenish the fund to $27,000 on the first working day in January of each year. Generally, the purpose of this fund is to maintain bat caves protection on Grand Lake. Expenditures of approximately $877 and $2,337 were made from the fund in 2011 and 2010, respectively.

In addition to these restricted funds are two special funds (designated by the Authority's Board of Directors in December 2004) which are unrestricted:

The Special Reserve and Contingency Fund I — This designated though unrestricted fund was established in December 2004 to reserve $2.5 million annually for future use, if needed, for extraordinary maintenance, operational, and environmental expense. Total funding of $20 million from available unrestricted funds was board designated as of December 31, 2011.

The Special Reserve and Contingency Fund II — This designated though unrestricted fund was established in December 2004 to reserve $2 million annually for future use, if needed, related to unforeseen risk, including, but not limited to, unscheduled outages, unexpected purchased power expense, and other extraordinary expense not covered by insurance proceeds. An initial amount of $11 million was formally designated in 2004, which combined with the $2 million designated in 2005 and the $2 million designated in 2006 from available funds totaled $15 million as of December 31, 2011.

For purposes of computing gross realized gains and gross realized losses, cost is determined by specific identification. The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on any investments that had been held for more than the current year may have been recognized as an increase or decrease in the fair value of investments reported in prior years.

Proceeds, gross realized gains and gross realized losses on sales of investment securities for the years ended December 31, 2011 and 2010, were as follows:

	2011	**2010**
Proceeds	$471,663,743	$39,110,666
Gross realized gains	222,371	302,038
Gross realized losses	(37,064)	(33,635)

Gross realized gains and losses are included in income from nonutility operations in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets.

3. RECEIVABLES

Accounts receivable is comprised at December 31, 2011 and 2010, of the following amounts:

	2011	**2010**
Customers (less allowance for doubtful accounts of $50,000)	$31,326,065	$29,962,988
Other	5,927,731	6,968,502
Total	$37,253,796	$36,931,490

In general, other accounts receivable include KAMO Power's participation as a co-owner of Authority's Coal fired plant Unit No. 2, reimbursable work for other entities, the current portion of receivables for aid of construction, and dock billings.

At December 31, 2011 and 2010, the Authority had other noncurrent receivables for aid in construction, scheduled for collection through 2012, of $0 and $137,542, respectively, and noncurrent receivables for closure and post-closure costs related to the ash landfill at the Coal Fired Complex of $454,582 and $434,886, respectively.

4. UTILITY PLANT

A summary of changes in utility plant for the years ended December 31, 2011 and 2010, follows:

	2011			
	Balance December 31, 2010	Additions	Retirements/ Transfers	Balance December 31, 2011
Capital assets — nondepreciable:				
Land	$ 33,516,190	$ 770,891	$ -	$ 34,287,081
Construction work in progress	102,086,154	(45,153,672)		56,932,482
Total capital assets — nondepreciable	135,602,344	(44,382,781)	-	91,219,563
Capital assets — depreciable:				
Coal-fired plant Unit No. 1 (reduced by cost of common facilities applicable to joint ownership of Unit No. 2 (Note 1))	332,105,718	1,090,354	(1,702,433)	331,493,639
Coal-fired plant Unit No. 2 (Note 1)	322,214,227	74,003	(3,590,393)	318,697,837
Redbud combined-cycle plant	356,128,179	777,939	(317,394)	356,588,724
Hydraulic production plants	93,527,924	43,380,221	(6,181,427)	130,726,718
Transmission system	217,357,798	8,701,496	(3,432,129)	222,627,165
Other properties and production plant	71,180,753	22,937,979	(1,404,776)	92,713,956
	1,392,514,599	76,961,992	(16,628,552)	1,452,848,039
Less accumulated depreciation:				
Coal-fired plant Unit No. 1	(236,224,305)	(9,676,348)	1,786,749	(244,113,904)
Coal-fired plant Unit No. 2	(217,962,512)	(9,170,433)	970,310	(226,162,635)
Redbud combined-cycle plant	(70,873,159)	(13,702,323)	342,139	(84,233,343)
Hydraulic production plants	(31,904,055)	(1,667,984)	3,351,146	(30,220,893)
Transmission system	(127,363,430)	(6,817,577)	3,494,593	(130,686,414)
Other properties and production plant	(42,366,567)	(5,109,298)	1,466,500	(46,009,365)
	(726,694,028)	(46,143,963)	11,411,437	(761,426,554)
Total capital assets — depreciable	665,820,571	30,818,029	(5,217,115)	691,421,485
Net utility plant	$ 801,422,915	$ (13,564,752)	$ (5,217,115)	$ 782,641,048

	2010			
	Balance December 31, 2009	Additions	Retirements	Balance December 31, 2010
Capital assets — nondepreciable:				
Land	$ 33,278,726	$ 237,464	$ -	$ 33,516,190
Construction work in progress	86,338,825	15,747,329		102,086,154
Total capital assets — nondepreciable	119,617,551	15,984,793	-	135,602,344
Capital assets — depreciable:				
Coal-fired plant Unit No. 1 (reduced by cost of common facilities applicable to joint ownership of Unit No. 2 (Note 1))	322,568,193	13,956,884	(4,419,359)	332,105,718
Coal-fired plant Unit No. 2 (Note 1)	317,406,630	4,807,818	(221)	322,214,227
Redbud combined-cycle plant	356,576,006	6,845,953	(7,293,780)	356,128,179
Hydraulic production plants	92,696,046	867,619	(35,741)	93,527,924
Transmission system	216,531,773	6,332,932	(5,506,907)	217,357,798
Other properties and production plant	53,562,410	18,148,087	(529,744)	71,180,753
	1,359,341,058	50,959,293	(17,785,752)	1,392,514,599
Less accumulated depreciation:				
Coal-fired plant Unit No. 1	(230,427,723)	(9,550,586)	3,754,004	(236,224,305)
Coal-fired plant Unit No. 2	(208,514,461)	(9,309,732)	(138,319)	(217,962,512)
Redbud combined-cycle plant	(64,336,675)	(14,038,696)	7,502,212	(70,873,159)
Hydraulic production plants	(33,903,243)	(1,653,273)	3,652,461	(31,904,055)
Transmission system	(123,565,644)	(6,409,813)	2,612,027	(127,363,430)
Other properties and production plant	(39,721,605)	(3,139,689)	494,727	(42,366,567)
	(700,469,351)	(44,101,789)	17,877,112	(726,694,028)
Total capital assets — depreciable	658,871,707	6,857,504	91,360	665,820,571
Net utility plant	$ 778,489,258	$22,842,297	$ 91,360	$ 801,422,915

The change in construction work in progress during 2011 and 2010, is presented on a net basis to avoid a duplication of additions and retirements in the preceding tables. The Authority had depreciation and amortization expense of $50,869,539 and $44,101,788 for 2011 and 2010, respectively. For 2010, the increase in accumulated depreciation exceeds the decrease in capital assets for certain classes due to the treatment of removal costs per the uniform system of accounts required by the Authority's license to operate under the Federal Power Act.

The Authority had contractual commitments at December 31, 2011, of approximately $59,155,000 for equipment and construction contracts. Major projects include the Markham Ferry Hydroelectric Plant Upgrade for approximately $29,295,000, upgrades at the Coal Fired Complex for approximately $14,259,000, the construction of Transmission Lines and Substations for approximately $10,514,000, Network Protection Upgrades for approximately $1,596,000, upgrades of the SCADA equipment for approximately $1,290,000, and the Salina Relicensing for $301,000.

5. COST TO BE RECOVERED FROM FUTURE REVENUES

At December 31, 2011, the deferred regulatory asset consists of interest deferrals on the 2002B capital appreciation bonds maturing in 2014. A rollforward of costs to be recovered from future revenues follows:

	2011	2010
Beginning balance	$7,924,095	$6,513,199
Deferral of 2002B interest	1,483,770	1,410,896
Ending balance	$9,407,865	$7,924,095

6. BONDS PAYABLE

A summary of changes in bonds payable for the years ended December 31, 2011 and 2010, follows:

	2011			
	December 31, 2010	Bonds Issued	Retirements	December 31, 2011
Revenue Bonds, Refunding Series 1995:				
6.25% maturing in 2011	$ 81,665,000	$ -	$(81,665,000)	$ -
5.5% maturing in 2013	91,715,000			91,715,000
Total Series 1995	173,380,000	-	(81,665,000)	91,715,000
Revenue Bonds, 2002 Series A & B:				
5% Refunding Series 2002A — maturing in 2012	86,160,000			86,160,000
5.1% Capital Appreciation Bonds Series 2002B — maturing in 2014	18,636,340			18,636,340
Total Series 2002 A & B	104,796,340	-	-	104,796,340
Revenue Bonds, 2008 Series A & B:				
3.2% to 5% Series 2008A — maturing in 2014 through 2028	364,490,000			364,490,000
4.8% to 5% Series 2008A — maturing 2033	191,930,000			191,930,000
4% Series 2008B (fully taxable) — maturing 2010				-
Total Series 2008 A & B	556,420,000	-	-	556,420,000
Revenue Bonds, 2010 Series A & B:				
3% to 5.25% Series 2010A — maturing in 2015 through 2040	162,185,000			162,185,000
3.71% to 7.155% Series 2010B (fully taxable) — maturing 2015 through 2040	77,130,000			77,130,000
Total Series 2010 A & B	239,315,000	-	-	239,315,000
Total bonds payable	1,073,911,340	$ -	$(81,665,000)	992,246,340
Less current portion	(81,665,000)			(86,765,000)
Long-term portion	992,246,340			905,481,340
Add (deduct):				
Unamortized debt premium	14,027,793	$ -	$ (1,584,467)	12,443,326
Unamortized debt discount	(5,899,791)		829,291	(5,070,500)
Unamortized loss on advance refunding	(2,376,383)		1,363,231	(1,013,152)
Long-term bonds payable	$ 997,997,959			$ 911,841,014

	2010			
	December 31, 2009	Bonds Issued	Retirements	December 31, 2010
Revenue Bonds, Refunding Series 1993 — 5.5% maturing through 2010	$ 76,515,000	$ -	$(76,515,000)	$ -
Revenue Bonds, Refunding Series 1995:				
6.25% maturing in 2011	81,690,000		(25,000)	81,665,000
5.5% maturing in 2013	91,715,000			91,715,000
Total Series 1995	173,405,000	-	(25,000)	173,380,000
Revenue Bonds, 2002 Series A & B:				
5% Refunding Series 2002A — maturing in 2012	86,160,000			86,160,000
5.1% Capital Appreciation Bonds Series 2002B — maturing in 2014	18,636,340			18,636,340
Total Series 2002 A & B	104,796,340	-	-	104,796,340
Revenue Bonds, 2008 Series A & B:				
3.2% to 5% Series 2008A — maturing in 2014 through 2028	364,490,000			364,490,000
4.8% to 5% Series 2008A — maturing 2033	191,930,000			191,930,000
4% Series 2008B (fully taxable) — maturing 2010	18,955,000		(18,955,000)	-
Total Series 2008 A & B	575,375,000	-	(18,955,000)	556,420,000
Revenue Bonds, 2010 Series A & B:				
3% to 5.25% Series 2010A — maturing in 2015 through 2040		162,185,000		162,185,000
3.71% to 7.155% Series 2010B (fully taxable) — maturing 2015 through 2040		77,130,000		77,130,000
Total Series 2010 A & B	-	239,315,000	-	239,315,000
Total bonds payable	930,091,340	$239,315,000	$(95,495,000)	1,073,911,340
Less current portion	(95,470,000)			(81,665,000)
Long-term portion	834,621,340			992,246,340
Add (deduct):				
Unamortized debt premium	15,721,365	$ -	$ (1,693,572)	14,027,793
Unamortized debt discount	(1,757,120)	(4,913,532)	770,861	(5,899,791)
Unamortized loss on advance refunding	(4,421,264)		2,044,881	(2,376,383)
Long-term bonds payable	$ 844,164,321			$ 997,997,959

Oklahoma state statutes have authorized the Authority to issue revenue bonds from time to time with the aggregate outstanding indebtedness not to exceed $1,410,000,000.

In December 2010, the Authority issued $239,315,000 of 2010 Series A and Series B Revenue Bonds to fund capital additions, repairs and improvements to the System, to fund a portion of the interest accruing on the 2010 Bonds to December 1, 2012, and to pay certain costs of issuance of the 2010 Bonds.

In September 2008, the Authority issued $575,375,000 of 2008 Series A and Series B Revenue Bonds for the purchase of a 36% interest in the 1230MW gas-fired, combined-cycle Redbud Power Plant (see Note 1), to fund capital additions, repairs and improvements to the System, to make deposits into the Bonds Service Reserve Account and the Reserve and Contingency Accounts and to pay certain costs of issuance for the 2008 Bonds.

In 2002, the Authority issued $104,966,340 Revenue Bonds for the acquisition, construction, and equipment purchases related to approved Authority Projects and to refund the remaining outstanding 1987 revenue bonds. This consisted of $86,330,000 Revenue Bonds, Refunding Series 2002A (the "2002A Bonds") to refund $86,160,000 remaining of the 1987 Bonds. The 2002A refunding bonds were issued at a $4.5 million premium. The Authority recorded an initial accounting loss of approximately $371,000 in connection with this advance refunding, which was recorded as a deferred contra-liability and is being amortized to expense over the life of the new bonds. The difference between the present values of the old and new debt service payments was $2.0 million. The Authority realized all of the aggregate bond savings by decreasing the June 1, 2002, debt service payment. Additionally, the Authority also issued $18,636,340 Capital Appreciation Bonds, Revenue Bonds 2002B (the "2002B Bonds") for the acquisition, construction and equipment of Authority projects. As previously noted in Note 5, the Authority defers interest on the 2002B capital appreciation bonds until the bonds mature on June 1, 2014, at which time the deferred regulatory asset will be expensed.

In 1995, the Authority issued $173,405,000 Revenue Bonds, Refunding Series 1995 (the "1995 Bonds") to advance refund $171,755,000 of the outstanding 1987 Bonds. The Authority recorded an initial accounting loss of approximately $17.0 million in connection with this advance refunding, which was recorded as a deferred contra-liability and is being amortized to expense over the life of the new bonds which matches the maturity of the old bonds.

In 1993, the Authority issued $764,585,000 Revenue Bonds, Refunding Series 1993 (the "1993 Bonds") to advance refund $681,190,000 of the outstanding 1987 Bonds. The Authority recorded an initial accounting loss of approximately $113.7 million in connection with this advance refunding, which was recorded as a deferred contra-liability and is being amortized to expense over the life of the new bonds which matches the maturity of the old bonds. The 1993 Bonds matured on June 1, 2010.

Monies from the 2002A, 1995 and 1993 refunding bonds were placed in escrow for the payment of principal and interest on all the defeased bonds and were invested in obligations of the United States of America, which were deposited in irrevocable trusts with recourse against the trustee if funds are not available to pay principal, interest and any redemption premium on a timely basis. Since the revenue bonds that are defeased are no longer direct liabilities of the Authority, they are not reflected on the accompanying Statements of Net Assets.

Defeased bonds of $28,970,000 were outstanding at December 31, 2011 and 2010.

The scheduled maturities of bonds payable at December 31, 2011, are as follows and reflect the scheduled payments to be remitted by the trustee to the bondholders:

Years Ending December 31	Annual Principal	Semiannual Interest	Calendar Year Total
2012	$ 86,765,000	$ 24,606,466	
		22,435,833	$ 133,807,299
2013	91,110,000	22,435,833	
		19,930,309	133,476,142
2014	36,306,340	35,403,969	
		19,633,540	91,343,849
2015	22,965,000	19,633,541	
		19,218,024	61,816,565
2016	23,795,000	19,218,024	
		18,729,422	61,742,446
2017–2021	135,600,000	172,449,724	308,049,724
2022–2026	171,340,000	135,482,135	306,822,135
2027–2031	219,610,000	85,929,011	305,539,011
2032–2036	142,555,000	31,853,774	174,408,774
2037–2040	62,200,000	7,641,714	69,841,714
	$ 992,246,340	$ 654,601,319	$ 1,646,847,659

Under Resolution No. 4800, the Authority made equal monthly sinking fund installments to the trustee from June through May of each year to meet the June 1 annual principal payment and June 1 and December 1 semiannual interest payments. Pursuant to General Bond Resolution No. 4800 and the Seventh Supplemental Resolution No. 5107, Berkshire Hathaway Assurance Corporation as the insurer along with the Underwriters of the 2008 Bonds consented to the amended and restated General Bond Resolution No. 5107 authorized by the Eighth Supplemental Resolution adopted by the Board of Directors on August 8, 2008. The criteria for the amended General Bond Resolution to become effective was met after the June 1, 2009, bond principal payments are made and will be applicable to all outstanding bonds. Sinking Fund payments will no longer be required under the amended resolution and the annual debt coverage requirement will be equal to the calendar year totals stated above.

The following is a schedule of the debt service sinking fund payments for each year ending December 31:

Years Ending December 31	
2012	$ 129,920,933
2013	110,116,054
2014	74,485,639
2015	62,231,478
2016	62,235,595
2017–2021	311,158,595
2022–2026	311,155,459
2027–2031	311,153,373
2032–2036	152,386,525
2037–2040	61,230,834
Total	$ 1,586,074,485

To secure the bonds, the Authority has pledged all revenues of the Authority. Resolution No. 4800, No. 5107 and supplemental bond resolutions specify multiple covenants made by the Authority to the Bond Fund Trustee and bondholders. Among the more significant requirements, the Authority has covenanted to charge adequate rates, operate and maintain the facilities and make any necessary repairs, renewals, replacements and improvements. System properties are not to be encumbered or sold or disposed of and additional parity bonds are not to be issued unless certain conditions are met. As of December 31, 2011, the Authority was in compliance with bond covenants.

In general, federal tax laws require the Authority to rebate to the U.S. Treasury any profit from investments that yield a higher rate than the tax-exempt revenue bond proceeds. The Authority has an accrued liability balance for arbitrage rebate of $0 at December 31, 2011 and 2010, respectively, which is included in accounts payable in the accompanying Statements of Net Assets. Increases in this obligation are recorded against interest income.

7. RETIREMENT PLANS, POSTRETIREMENT, AND OTHER EMPLOYEE BENEFITS

The Authority participated in five retirement plans during 2011 and 2010. The plans currently available to Authority personnel include three defined benefit plans and one defined contribution plan. A summary of significant data for each of the retirement plans and discussion of postemployment and other employee benefits follows:

Oklahoma Public Employees Retirement Plan:

Plan Description — The Authority contributes to the Oklahoma Public Employees Retirement Plan (the “OPERS Plan”), a cost-sharing multiple-employer public employee defined benefit retirement plan administered by the Oklahoma Public Employees Retirement System (OPERS), a component unit of the State of Oklahoma (the “State”). The OPERS Plan provides retirement, disability and death benefits to its members and beneficiaries, primarily state, county, and local agency employees. The benefits provided are established and may be amended by the legislature of the State. Title 74 of the Oklahoma Statutes, Sections 901 through 943, as amended, assigns the authority for management and operation of the OPERS Plan to the Board of Trustees of the OPERS.

OPERS issues a publicly available annual financial report that includes financial statements and required supplementary information for OPERS. That annual report may be obtained on-line at www.opers.ok.gov, by writing to OPERS, PO Box 53007, Oklahoma City, OK 73152-3007, or by calling 1-800-733-9008.

Funding Policy — OPERS members and the Authority are required to contribute to the OPERS Plan at a rate set by statute. Contribution rates are established and may be amended by the legislature of the State. Each member participates based on gross salary earned (excluding overtime). As state employees, the Authority employees contribute 3.5% on salary. The Authority contributed 15.5%, 15.5%, and 14.5% on all salary for the fiscal years ended June 30, 2011, 2010 and 2009, respectively. Effective July 1, 2011 the contribution rate increased to 16.5% and will remain at that level.

OPERS members have the option to elect to increase the benefit computation factor for all future service from 2.0% to 2.5%. The election is irrevocable, binding for all future employment under OPERS, and applies only to full years of service. Those who make the election pay the standard contribution rate plus an additional contribution rate, 2.91% which is actuarially determined. The election is available for all state, county, and local government employees, except for elected officials and hazardous duty members.

The Authority made 100% of the required contributions of $5,071,801, $4,824,457, and $4,537,244, for the years ended December 31 2011, 2010, and 2009, respectively. These contributions equal the Authority's annual OPERS pension cost for the respective years.

Oklahoma Law Enforcement Retirement Plan:

Plan Description — Legislation passed during 2003 mandated that any lake patrolmen and dispatchers hired after August 29, 2003, shall participate as members of the Oklahoma Law Enforcement Retirement Plan (the "OLERS Plan"), a cost-sharing multiple-employer public employee defined benefit retirement plan administered by the Oklahoma Law Enforcement Retirement System (OLERS), a component unit of the State. The OLERS Plan provides retirement, disability, and death benefits to its members and beneficiaries, primarily state employees providing law enforcement. The benefits provided are established and may be amended by the legislature of the State. Three of the Authority's patrolmen elected to transfer from the OPERS Plan to the OLERS plan under Title 47 Section 2-315 which provided that Authority lake patrolmen and dispatchers as of June 30, 2003, could make an irrevocable written election by January 1, 2004, to either pay the difference between the amount transferred between the plans or receive eligible prorated service credit as defined in statute. Title 47 of the Oklahoma Statutes, Sections 2-300 through 2-303, as amended, assigns the authority for management and operation of the OLERS Plan to the OLERS Board.

The System issues a publicly available annual financial report that includes financial statements and required supplementary information for OLERS. That annual report may be obtained on line at www.olers.state.ok.us, by writing to OLERS, 421 NW 13th St, Suite 100, Oklahoma City, OK 73103 or by calling 1-877-213-0856.

Funding Policy — System members and the Authority are required to contribute to the OLERS Plan at a rate set by statute. These are established and may be amended by the legislature of the State. Each member participates based on gross salary earned (excluding overtime). The Authority's patrolmen and dispatchers participating in the OLERS Plan contribute 8.0%, and the Authority contributes 10% of total base salary.

Participation in the OLERS plan was effective January 1, 2004. The Authority made 100% of the required contributions of $38,427, $28,181, and $21,756, for the years ended December 31, 2011, 2010, and 2009, respectively. These contributions equal the Authority's annual OLERS pension cost for the respective years.

Oklahoma State Employees Deferred Compensation Plan:

Plan Description — Employees of the Authority may also participate in the Oklahoma State Employees Deferred Compensation Plan (the "State Plan"), a voluntary deferred compensation plan administered by OPERS. The State Plan is a defined contribution plan available to all Authority employees, which permits participants to defer receipt of a portion of their salary until future years as authorized by Section 457 of the Internal Revenue Code and in accordance with the provisions of Chapter 45 of Title 74, Oklahoma Statutes. The State Plan is established and may be amended by the legislature of the State. Title 74 of the Oklahoma Statutes, Sections 901 through 943, as amended, assigns the authority for management and operation of the State Plan to the Board of Trustees of the OPERS. The minimum amount allowable to be deferred under the State Plan is $25 per month. Under state law, each employee is eligible to receive a $25 monthly matching contribution from the Authority to be deposited in a 401(a) retirement account. Employee contributions to the Plan totaled $488,002, $528,201, and $514,824, for the years ended December 31, 2011, 2010, and 2009, respectively. The Authority paid matching contributions and administrative fees of $133,698, $134,610, and $137,832, for the years ended December 31, 2011, 2010, and 2009, respectively.

GRDA Employees Retirement Plan:

Plan Description — Employees of the Authority were also eligible to participate in the GRDA Employees Retirement Plan (the "GRDA Plan"), a voluntary deferred compensation plan administered by Nationwide Retirement Solutions and provided for under Section 457 of the Internal Revenue Code. The GRDA Plan was a defined contribution plan available to all Authority employees, which allowed participants to defer receipt of a portion of their salary until future years. The Authority did not make any matching contributions to this plan. Employee contributions to the GRDA Plan totaled $362,899, $420,897, and $424,475, for the years ended December 31, 2011, 2010, and 2009, respectively. At the March 21, 2012 board meeting, the Authority's board of directors voted to cease deferrals for the "GRDA Plan" as of April 30, 2012, and to terminate the plan as of May 31, 2012.

Contributions by individual employees to either or both the State Plan and GRDA Plan in aggregate may not exceed 25% of adjusted gross salary or $16,500 for the year 2011, whichever is less, except under a "catch-up" provision that allows participants who are within three years of attaining the normal retirement age of 65 to contribute up to twice the "annual contribution limit." For these participants, the maximum amount allowed is actually the lesser of twice the annual limit or the annual limit plus the total amount of underutilized contributions from prior years. An additional provision allows for employees over the age of 50 to defer an additional $5,500 during the plan year. Employees are not allowed to participate in both the "over 50" provision and the "catch-up" provision during the same plan year. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

GRDA Postemployment Healthcare Plan:

Plan Description — GRDA Postemployment Healthcare Plan is a single-employer defined benefit healthcare plan administered by the Authority. GRDA Postemployment Healthcare Plan provides medical and dental insurance benefits to eligible retirees. Beginning in 2003, revisions to Title 82, Section 864.1 of the Oklahoma Statutes authorized the Authority to pay up to $60 per month of eligible employee-only health insurance premiums for each Authority retiree. Legislation passed in 2005 removed the $60 limitation. At the December 2005 board meeting, the Authority's directors authorized the Authority to increase the amount to a defined benefit allowance of $105 per month for eligible retiree premiums, effective January 1, 2006. At the November 2007 board meeting, the Authority's directors authorized the Authority to increase the amount to $200 per month for eligible retiree premiums, effective January 1, 2008. This increase resulted in increases in the Annual Required Contribution and the Actuarial Accrued Liability after January 1, 2008 as reflected below and in the Required Supplementary Information section.

Funding Policy — The contributions of plan members and the Authority are established and may be amended by the Board of Directors within the limits of Oklahoma statutes. The contribution is based on estimated pay-as-you-go financing requirements. For the year ended December 31, 2011, 2010, and 2009, the Authority contributed $421,915, $368,814, and $337,991 respectively to the plan which consisted entirely of current premiums and included no additional contribution to prefund benefits.

Annual OPEB Cost and Net OPEB Obligation — The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority net OPEB obligation to GRDA Postemployment Healthcare Plan (included in Other noncurrent liabilities on the Statement of Net Assets):

	2011	2010	2009
Annual required contribution	$ 767,180	$ 767,180	$ 659,696
Interest on net OPEB obligation	29,766	29,766	7,527
Adjustment to annual required contribution	(25,481)	(25,481)	(5,973)
Annual OPEB cost (expense)	771,465	771,465	661,250
Contributions made	(421,915)	(368,814)	(337,991)
Increase in net OPEB obligation	349,550	402,651	323,259
Net OPEB obligation — beginning of year	1,253,113	850,462	527,203
Net OPEB obligation — end of year	$1,602,663	$1,253,113	$ 850,462

The authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for December 31, 2011, and the two preceding years were as follows:

Year-End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2009	$661,250	51.11 %	$ 850,462
December 31, 2010	771,465	47.81	1,253,113
December 31, 2011	771,465	54.69	1,602,663

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress immediately following the notes to the financial statements and presented as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumption — Projections of benefits for financial reporting purposes are based on the benefits provided under the terms of the substantive plan (the plan as understood by the employer and the plan members) at the time of each valuation and the historical pattern of sharing the benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the most recent actuarial valuation, as of January 1, 2010 the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.25% inflation rate assumption, a 3.5% discount rate, which is approximately based on the employer's own long-term rate of return on investments, a 4.25% projected annual payroll increase and no increase to the post-retirement benefit. Healthcare cost are assumed to increase by 10.5% in 2010, 9.5% in 2011, 8.5% in 2012, 7.5% in 2013, 6.5% in 2014, 6.0% in 2015, 5.5% in 2016 and 5% in 2017 and thereafter. The unfunded actuarial accrued liability is being amortized over the maximum permissible amortization period of thirty years as a level percentage of payroll on a closed basis. The remaining amortization period at December 31, 2011, was 25 years.

Funded Status and Funding Progress — As of January 1, 2010, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was $11,839,457, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $11,839,457. The covered payroll (annual payroll of active employees covered by the plan) was $31,092,799, and the ratio of the UAAL to the covered payroll was 38.08%.

Other Employee Benefits — The Authority has accrued a liability for annual and compensated leave, and related payroll taxes, of $3,813,937 and $3,741,676 at December 31, 2011 and 2010, respectively, which is included in accounts payable and accrued liabilities in the accompanying financial statements.

8. OTHER RELATED-PARTY TRANSACTIONS

The primary organizations considered related parties are those municipal, industrial, electric cooperative and other governmental organizations or lake area organizations that have representatives serving on the Authority's Board of Directors. The primary transactions in the ordinary course of business with these related parties, except for various transactions with KAMO (see Note 1) which are described elsewhere in the notes to financial statements, include sales of electrical power and transmission and memberships in related trade associations, or organizations or tourism and economic development activities associated with the management of the lakes, including commercial and private dock permit fees. OG&E operates the Redbud facility under an operating agreement with the Authority and OMPA and allocates certain costs and expenses attributable to Redbud to the Authority and OMPA in accordance with their undivided ownership interests – see Acquisition of Net Assets in the Redbud Facility in Note 1 for further discussion.

9. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Authority makes and receives commitments for purchases of coal and other materials and supplies inventory. In addition, in the normal course of business the Authority enters into agreements which commit the Authority to provide varying amounts of electric power to its customers. Management of the Authority does not believe the honoring of these commitments will have any material adverse effect on the Authority.

The Authority had contractual commitments at December 31, 2011, for long-term coal and freight purchases through 2020 under contracts with estimated minimum obligations. The minimum obligations below are based on the Authority's contract rates and represents management's best estimate of future expenditures under long-term arrangements.

Years Ending December 31	Amount
2012	$ 144,900,000
2013	152,560,000
2014	156,280,000
2015	160,160,000
2016	164,160,000
2017	168,320,000
2018	172,640,000
2019	177,080,000
2020	181,720,000
Total	$ 1,477,820,000

The Authority had contractual commitments as of December 31, 2011, for railcar operating leases with minimum obligations of approximately $3.1 million through the year 2014.

The Authority had contractual commitments as of December 31, 2011, for the Redbud facility of approximately $65 million through the year 2028. These long-term service agreements are with a large industrial manufacturer for the maintenance of the gas and steam turbines

The Authority is a defendant in a lawsuit ("Allman") brought by approximately 50 landowners claiming a constitutional taking and damages to real and personal property due to flooding beginning in the 1990s. Three "test cases" are currently on appeal in the Oklahoma Court of Civil Appeals. Potential exposure related to this case, if any, cannot be predicted by management of the Authority.

The Authority is a defendant in a class action arising from 2007 flood events. There are approximately 400 potential class members. Plaintiffs are not currently prosecuting this case aggressively pending the outcome of the appeals in the Allman matter described in the preceding paragraph. Potential exposure related to this case, if any, cannot be predicted by management of the Authority.

The Authority, like many other utilities, has been investigated by FERC, based on allegations that the Authority has failed to comply with some federally-mandated bulk power reliability requirements imposed on all electric utilities. The matter was settled in 2011. The Authority has remediated most of the individual violations, and is in the process of completing remediation on the remaining violations. The total fine assessed is $350,000 and FERC has required the Authority to spend $2 million towards remediation. The Authority has taken and will continue to take all steps necessary to ensure compliance with all federal standards and to operate a safe and reliable electric system.

10. FLYASH LANDFILL CLOSURE AND POSTCLOSURE COSTS

The Authority maintains a flyash landfill in Chouteau, Oklahoma. The Authority accounts for this flyash landfill in accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs* (Statement No. 18).

State Regulations will require the Authority to place a final cover on the flyash site when it discontinues its depositing of flyash and to perform certain maintenance and monitoring functions at the site for eight years after closure. Although closure costs occur as the landfill is used, and in a manner consistent with the closure plan, postclosure costs will be paid near or after the date of discontinuance of use of the landfill. Statement No. 18 requires proprietary funds to report a portion of these costs as an operating expense in each period based on capacity and utilization. The amount recorded as a liability for the closure and postclosure costs at December 31, 2011 and 2010, was $1,262,486 and $1,207,118, respectively, which represents 82% and 80% of the total estimated closure and postclosure costs. There was an increase in the liability from 2010 to 2011 of $55,368. The Authority will recognize the remaining estimated cost of closure and postclosure care of approximately $281,000 as the remaining estimated capacity is filled. These estimated closure amounts are based on what it would cost to perform all closure and post closure care in 2011. Actual costs are subject to change resulting from inflation, deflation, technology, or changes in applicable laws or regulations.

This flyash landfill has a total capacity of 7,449,987 cubic yards in which 3,969,692 cubic yards have been used through December 31, 2011. The remaining useful life at December 31, 2011, was approximately 60 years.

11. RISK MANAGEMENT

The Authority is exposed to a variety of losses and has purchased commercial insurance to cover these risks, subject to various coverage limits and exclusions. Resolution No. 5107 requires that, in each case where it is obtainable and at a reasonable rate and terms, facilities be insured, liability insurance be maintained, and officers and employees be bonded.

In general, property coverage, aircraft, auto, equipment, watercraft, flooding, earthquake, hazardous material cleanup, expediting, director, and officer liability, etc. is purchased through the State of Oklahoma. Workers' compensation insurance is also purchased from CompSource Oklahoma, the State's insurance fund. Additional coverage is purchased from private carriers for general, excess public, and umbrella liability, bonding, and contractors' equipment. The Authority added endorsements for certified "acts of terrorism" as defined in the Federal Terrorism Risk Insurance Act of 2002 to the general liability and excess public liability policies. Settled claims resulting from the identified risks, except for the flooding litigation discussed in Note 9, have not exceeded commercial insurance coverage in any of the past three years.

In addition, the Authority is subject to generation supply and market price risks, which are continually evaluated as to level of risk and how to best mitigate exposure to loss. Concentration of revenues from a single external customer also increases credit and market concentration risks. The Authority had no customers in 2011 and one customer in 2010 that accounted for 10% or more of the Authority's operating revenues for the year. In 2010, sales to Northeast Electric Cooperative totaled approximately $35.6 million.

12. FAIR VALUE INFORMATION

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No. 107, *Disclosures about Fair Value of Financial Instruments,* as codified in ASC 825, *Financial Instruments*. The estimated fair value amounts have been determined by the Authority, using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Authority could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Cash and Cash Equivalents, Accounts Receivable and Accounts Payable and Accrued Liabilities — The carrying amounts of these items are a reasonable estimate of their fair value.

Investments — Investments are carried at fair value in the accompanying Statements of Net Assets based on quoted market prices for the investments.

Long-Term Debt — The fair value of long-term debt is approximately $1,097 million and $1,082 million at December 31, 2011 and 2010, respectively, based on interest rates that are currently available to the Authority for issuance of debt with similar terms and remaining maturities. All bonds issued prior to 2008 and the federally taxable 2008B bonds are not redeemable prior to their stated maturities. The 2008A series bonds maturing on and after June 1, 2019, are subject to redemption prior to the maturity at the option of the Authority on or after June 1, 2018. The 2010A Bonds maturing on and after June 1, 2021 are subject to redemption prior to maturity at the option of the Authority on or after June 1, 2020 at any time in any order of maturity determined by the Authority. The 2010B Bonds are subject to redemption prior to their respective stated maturities at any time at the option of the Authority.

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2011 and 2010. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

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REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

GRAND RIVER DAM AUTHORITY

ACTUARIAL INFORMATION — OTHER POSTEMPLOYMENT BENEFITS PLAN — SCHEDULE OF FUNDING PROGRESS (UNAUDITED)

Actuarial Valuation Date	Actuarial Values of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2007	$ -	$ 4,280,606	$ 4,280,606	- %	$ 33,000,000	12.97 %
January 1, 2008	$ -	$ 8,234,641	$ 8,234,641	- %	$ 33,000,000	24.95 %
January 1, 2010	$ -	$ 11,839,457	$ 11,839,457	- %	$ 31,092,799	38.08 %

Funded Status and Funding Progress — As of January 1, 2010, the most recent actuarial valuation date, the plan was 0% funded. The projected unit credit actuarial cost method was used for the schedule of funding progress. Covered payroll (annual payroll of active employees covered by the plan) was estimated prior to 2010. The discount rate was lowered to 3.5% for the actuarial valuation dated January 1, 2010. See Note 7 to Financial Statements, Retirement Plans, Postretirement, and Other Employee Benefits, for additional information about GRDA's Postemployment Healthcare Plan.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors of
Grand River Dam Authority

We have audited the basic financial statements of the Grand River Dam Authority (the "Authority"), a component unit of the State of Oklahoma, as of and for the year ended December 31, 2011, and have issued our report thereon dated March 30, 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 of America.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority'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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph in this section and was not designed to identify all deficiencies in the 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 Authority's basic 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 and the Board of Directors of the Authority, federal and state awarding agencies, and management of the Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte & Touche LLP

March 30, 2012