Grand River Dam Authority

(A Component Unit of the State of Oklahoma)

Basic Financial Statements as of and for the Years Ended December 31, 2012 and 2011, and Independent Auditors' Report

GRAND RIVER DAM AUTHORITY
(A Component Unit of the State of Oklahoma)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Grand River Dam Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Grand River Dam Authority (the "Authority"), a component unit of the State of Oklahoma, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority at December 31, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters — Management's Discussion and Analysis and Schedule of Funding Progress

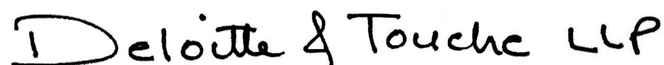
Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 3–12 and the schedule of funding progress on page 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated March 31, 2013, 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* in considering the Authority's internal control over financial reporting and compliance.

Emphasis of Matter — New Accounting Pronouncements

As discussed in Note 1 to the basic financial statements, the Authority adopted GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB No. 63, *Financial Reporting for Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. Our opinion is not modified with respect to these matters.



March 31, 2013

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, 2012, in comparison with the prior years 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 Position; the Statements of Revenues, Expenses, and Changes in Net Position; the Statements of Cash Flows; and Notes to Financial Statements.

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

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

The Statements of Net Position 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 Position 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, because we focus on working together with our customers to meet mutual needs. 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. Public power business activities drive the financial results as discussed in the following paragraphs.

Net Position

The Net Position increased by $53.6 million or by 11% in 2012 after increasing $57.6 million or by 14% in 2011, which reflects a continued return to projected sales levels following a downturn in the economy during 2009. The increases in Net Position have been relatively stable as a result of the execution of long-term customer contracts and rate schedules. During 2011, Total Assets decreased by $22.5 million or by 1.5% as Net Utility Plant decreased for the first time in years. A combination of events put transmission project engineering, and ultimately physical construction, behind schedule. As a result, depreciation for 2011 exceeded the cost of capital additions as many projects remained in the engineering or procurement phase. In 2012, physical construction on multiple projects and the associated capital additions exceeded depreciation by $12.7 million or by 2% of Net Utility Plant. More detailed information about changes in Net Utility Plant is also presented in the Note 4 to Financial Statements, Utility Plant.

Current Assets decreased by $66.5 million or by 20.7% during 2012 after increasing $42.3 million or by 15.2% during 2011. Other Receivables from KAMO Power, GRDA's joint owner of Coal-fired Unit 2 and another from Chouteau Fuels, GRDA's refined coal partner amounted to more than $20 million of the $23.3 million increase in Other Receivables. Both balances were collected soon after year-end. Additionally, Current Investments decreased by $95.1 in 2012 and increased by $27.5 million in 2011. In both 2012 and 2011, most of the capital additions were ultimately paid from Construction Funds, so a significant portion of the excess of revenues collected over operating expenses was deposited and invested. Other significant increases in current assets came from a $1.5 million increase in 2012 and a $6.9 million increase in 2011 in materials and supplies inventories, primarily as transformers, and other line and substation equipment awaited installation on construction projects. Under-recovered fuel costs also increased $2.2 million in 2012 and $7.2 million in 2011 as the pricing of coal in the fuel stock inventory increased because freight costs rose. The higher delivered fuel costs contributed to the $5.8 million increase in 2012 and the $3.2 million increase in 2011 to the fuel stock inventory. Finally, prepaid assets increased by $4.7 million in 2012 after decreasing by $1.6 million in 2011 due to long-term service agreement payments for upcoming work at the Redbud combined-cycle gas plant. Details about capital additions are discussed later in the Capital Assets section.

Restricted Investments increased $34.9 million or by 8.8% in 2012 and decreased by $45.9 million or by 10.3% in 2011. 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 2012 and 2011 decreases 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 $1.5 million per year until the 2002B debt matures on June 1, 2014.

FINANCIAL HIGHLIGHTS - DECEMBER 31, 2012, 2011 AND 2010

	2012	2011	2010
CONDENSED SCHEDULE OF NET POSITION			
Assets:			
Current assets	**$ 254,307,961**	$ 320,765,890	$ 278,502,458
Net utility plant	**795,320,230**	782,641,048	801,422,915
Restricted investments	**433,875,248**	398,963,309	444,945,573
Other noncurrent assets	**24,539,176**	24,187,627	24,228,271
Total assets	**1,508,042,615**	1,526,557,874	1,549,099,217
Liabilities:			
Current liabilities	**142,613,484**	125,764,760	118,474,852
Noncurrent liabilities	**837,445,824**	926,444,492	1,013,865,944
Total liabilities	**980,059,308**	1,052,209,252	1,132,340,796
Net Position:			
Net investment in capital assets	**268,686,590**	197,481,485	188,760,234
Restricted for:			
Debt service	**56,886,806**	61,324,015	66,485,014
Other special purposes	**749,975**	637,178	513,456
Unrestricted	**201,659,936**	214,905,944	160,999,717
Total net position	**$ 527,983,307**	$ 474,348,622	$ 416,758,421
CONDENSED SCHEDULE OF CHANGES IN NET POSITION			
Operating Revenues:			
Sales of power	**$ 401,449,292**	$ 388,834,078	$ 374,524,747
Other operating revenues	**9,573,441**	5,652,493	7,476,042
Total operating revenues	**411,022,733**	394,486,571	382,000,789
Non-Operating Revenues:			
Investment income	**12,120,926**	12,337,646	10,712,439
Net increase (decrease) in fair value of investments	**(3,948,188)**	8,883,253	173,550
Income from non-utility operations	**1,471,833**	1,350,011	4,072,921
Deferral of costs to be recovered from future revenues	**1,560,409**	1,483,770	1,410,896
OEM grant revenues	**1,385,482**	8,786	44,447
Total non-operating revenues	**12,590,462**	24,063,466	16,414,253
Total revenues	**423,613,195**	418,550,037	398,415,042
Operating Expenses:			
Fuel	**(151,413,641)**	(160,222,167)	(151,322,794)
Depreciation	**(48,204,063)**	(50,869,539)	(44,101,788)
Maintenance	**(33,722,761)**	(26,809,111)	(33,720,522)
Operations	**(30,099,571)**	(27,823,333)	(23,480,280)
Purchased power - net	**(29,831,445)**	(14,585,117)	(11,154,488)
Administrative and general	**(27,120,506)**	(25,040,649)	(23,946,136)
Total operating expenses	**(320,391,987)**	(305,349,916)	(287,726,008)
Non-Operating Expenses:			
Interest expense	**(49,034,263)**	(54,957,804)	(46,953,286)
Amortization of debt discount and expense	**(1,807,909)**	(2,236,584)	(2,211,997)
Amortization of bond premium	**1,255,649**	1,584,468	1,693,573
Total non-operating expenses	**(49,586,523)**	(55,609,920)	(47,471,710)
Total expenses	**(369,978,510)**	(360,959,836)	(335,197,718)
Net increase in net position	**$ 53,634,685**	$ 57,590,201	$ 63,217,324

Current Liabilities increased $16.8 million in 2012 after increasing only $1.8 million in 2011. The primary difference resulted from a $12.9 million increase in accounts payable and accrued liabilities, related to purchases of refined coal, and payments related to the increased number of construction projects and the coal-fired fall maintenance outage. The remainder of the increase came from a $4.3 million increase in the current portion of bonds payable.

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 payable increases were offset by sizeable principal payments on the outstanding debt. GRDA paid $86.8 million in bond redemptions in 2012 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.

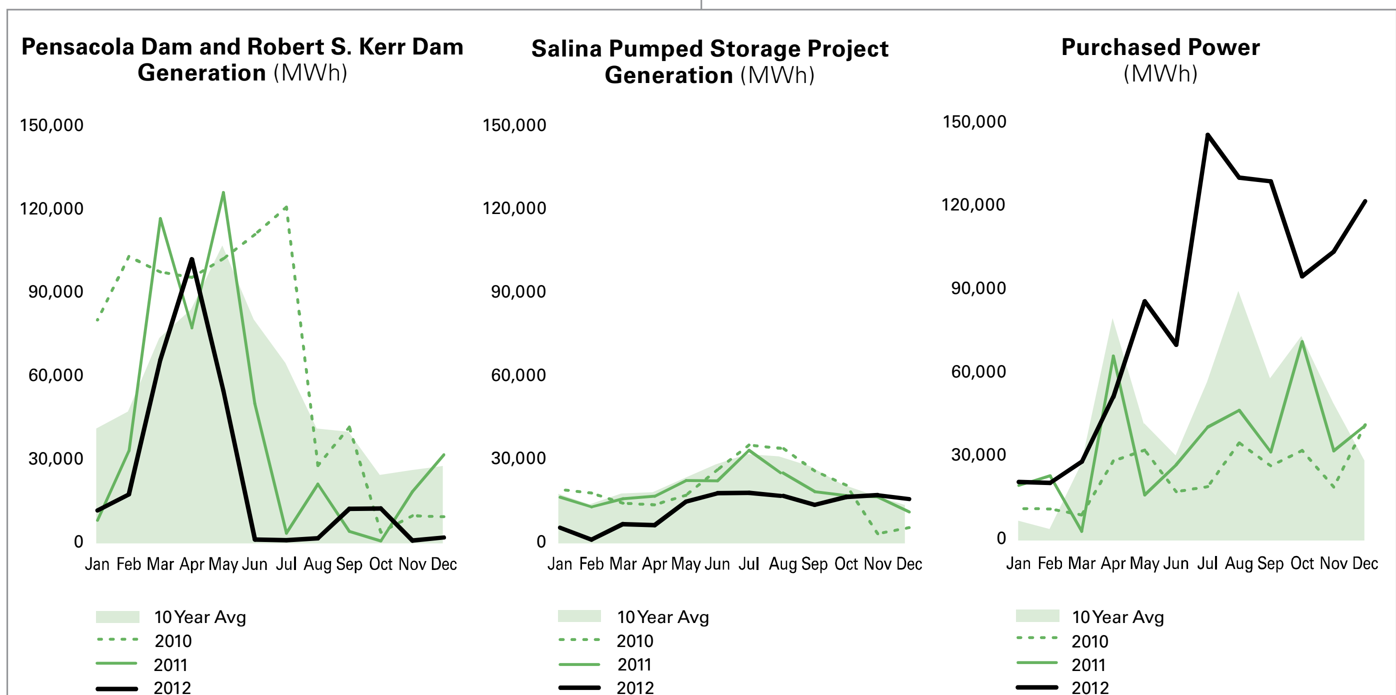
Unrestricted Net Position—the part of net position used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal agreements has fluctuated but increased by $76 million or by 54.8% during 2010 and 2011. In 2012 however, the unrestricted Net Position decreased $13.2 million directly as a result of current revenues and the associated cash and investments funding capital improvements. The majority was held as unrestricted and board-designated cash and investments. Additionally, Net Investment in Capital Assets increased by $71.2 million or by 36.1% after a combined increase of only $42.8 million or by 27.7% during 2010 and 2011. The primary drivers for the change were the sizable debt principal payments that were made, offset by annual depreciation provisions. Net Position Restricted for Debt Service changed in proportion to the principal portion of sinking fund payments for repayment of long-term debt in both 2011 and 2012.

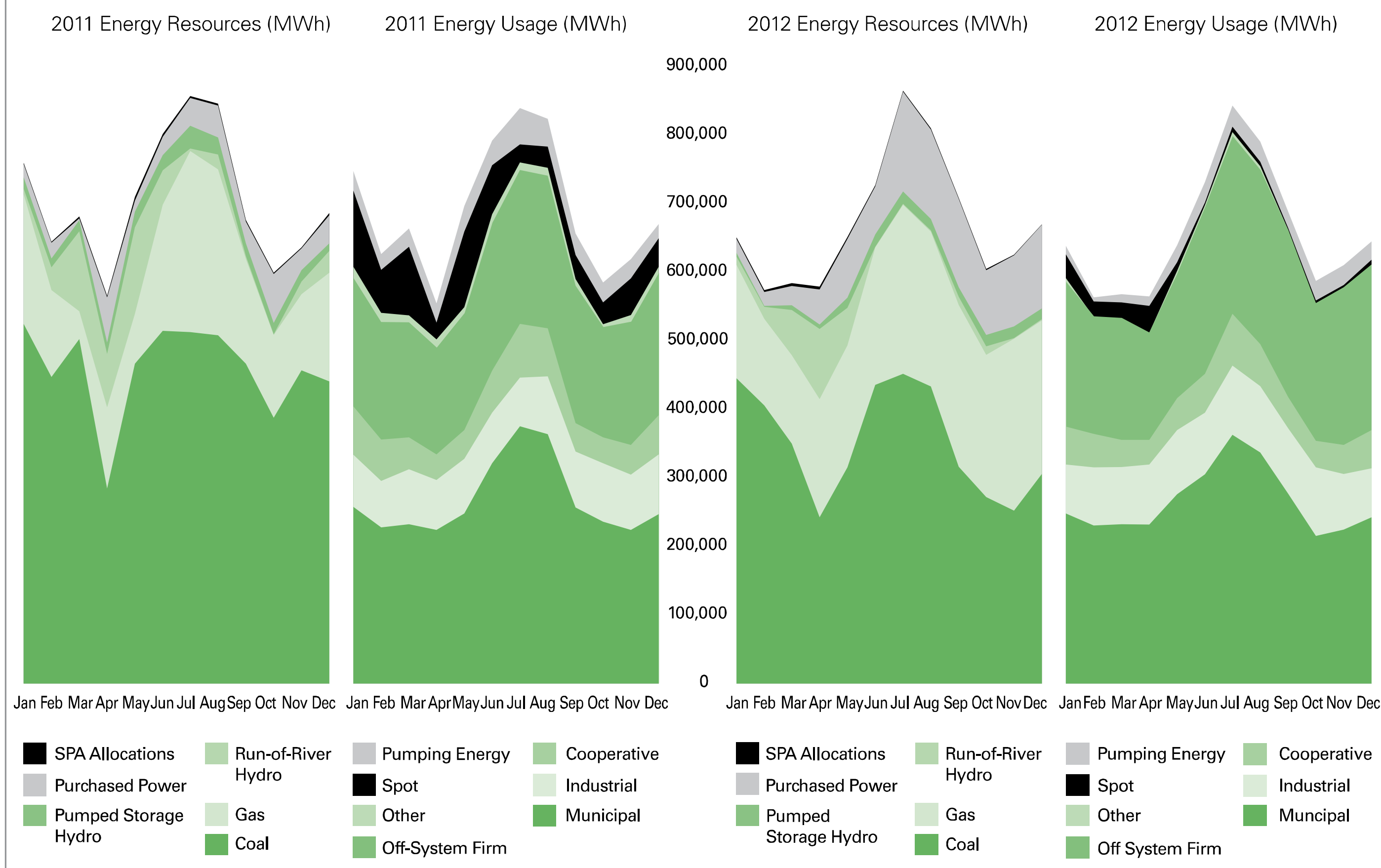
Operating Results

From inception, GRDA has generated with renewable energy as evidenced by the run-of-river generation 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. The hydro generation was restricted even further in 2012 as the drought continued, and temperatures set even higher records.

Since the fall 2008 purchase of the Redbud combined-cycle gas plant, the role of the Salina Pumped Storage Project (SPSP) has shifted more toward reliability and less for economic dispatching. That was certainly true in 2012 when natural gas prices fell dramatically compared to recent years. Throughout 2012, it was often cheaper for GRDA to purchase energy from the market than to pump at night and generate across the peak periods. The graph labeled "Salina Pumped Storage Project Generation" reflects the trends in pumped-storage hydro generation as the Authority has relied more on the Redbud Power Plant. Still, for three years in a row, Oklahoma set some historic weather records and GRDA relied on SPSP's strength of being capable of supplying reliable generation. Frequently, GRDA utilized both SPSP and Redbud to meet customers' load requirements. The SPSP role of reliability was repeated in 2011 and in 2012, as the extreme weather broke the records set in 2010.

The "Purchased Power" graph also reflects recent trends in purchased power. As GRDA began to generate with Redbud, purchased power decreased from historic averages. 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 was purchased to meet customer demands. With the below-normal run-of-river generation in the summer and latter part of 2012, energy was purchased to meet the summer peak and the planned maintenance outage on Unit 2 at the Coal-Fired Complex which occurs





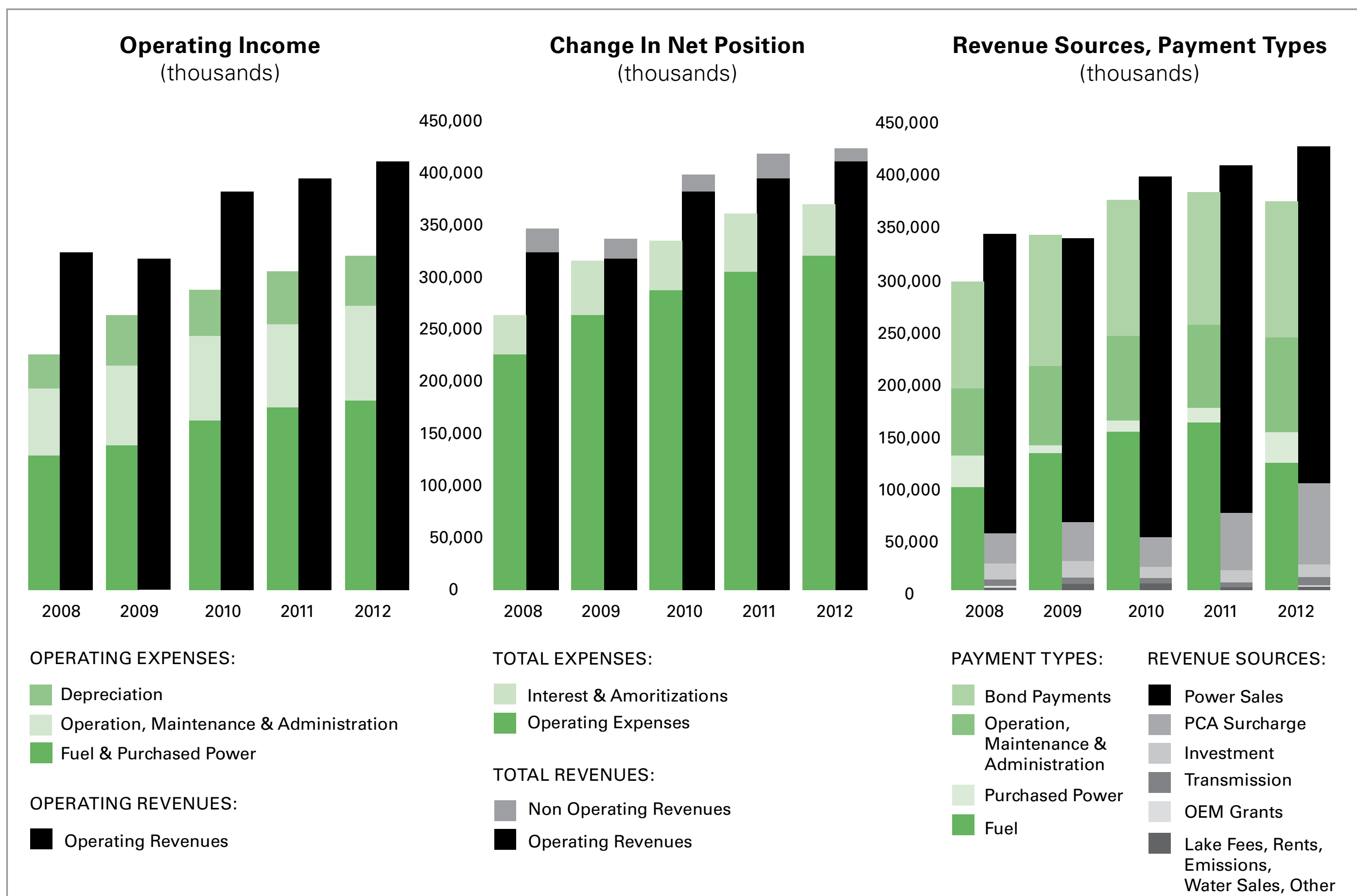
each fall. The graph also represents the normal spike in purchases in the spring when the planned maintenance outage on Unit 1 is scheduled. Since Unit 1 is wholly owned by GRDA, it takes more energy to cover the loss of generation during the spring outages. A new trend emerged in 2012 that lasted throughout most of the year. Since the Redbud plant purchase, GRDA relied on the plant for peaking and intermediate needs, but with gas prices so low in 2012, GRDA utilized Redbud for base-load generation. Furthermore, much of the market generation relied on gas generation resources, so market prices were lower than they have been in several years. A combination of events during 2012 led to higher than average purchased power: a planned major outage on the Coal Fired Plant's Unit 2; low gas and market pricing; droughts limiting hydro production; and record heat which spurred increased consumer consumption.

The graphs titled "2011 and 2012 Energy Resources and Usage" indicate the extent that GRDA relies on thermal generation and gas generation to meet the customers' 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 illustrate 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. In 2012, the summer temperatures remained unseasonably hot virtually eliminating any spot sales, and requiring purchased power to meet customer loads. The graphs depict a visual representation that the partnerships memorialized by long-term wholesale contracts not only provide GRDA with a revenue certainty, but also demonstrate that GRDA has committed the economical and diversified resources to benefit those same partners.

OPERATING INCOME

Operating Income increased by $1.5 million or by 1.7% in 2012 after decreasing by $5.1 million or by 5.5% in 2011. Operating Revenues increased by $16.5 million or 4.2% in 2012 after increasing $12.5 million or 3.3% in 2011. Both the 2011 and 2012 increases in Operating Revenues were driven primarily by higher industrial and off-system firm sales combined with an increase in the power cost adjustment surcharge. Additionally, in 2012, Other Operating revenues increased $3.9 million or by 69.4% mainly because base transmission plant costs were recovered through the administration of the transmission tariffs by the Southwest Power Pool.

However, Operating Expenses increased $5.1 million more than Operating Revenues increased in 2011. Operating Expenses increased by $17.6 million in 2011. Fuel costs remained the big expense driver. Fuel costs accounted for $8.9 million of the 2011 year increase in Operating Expenses. Depreciation expense was the other significant driver of the increase in Operating Expense and accounted for another $6.8 million in 2011. In 2012, the most significant change in operating expenses related to purchased power. As previously mentioned, the record heat increased customers' load requirements and low natural gas prices made it cheaper



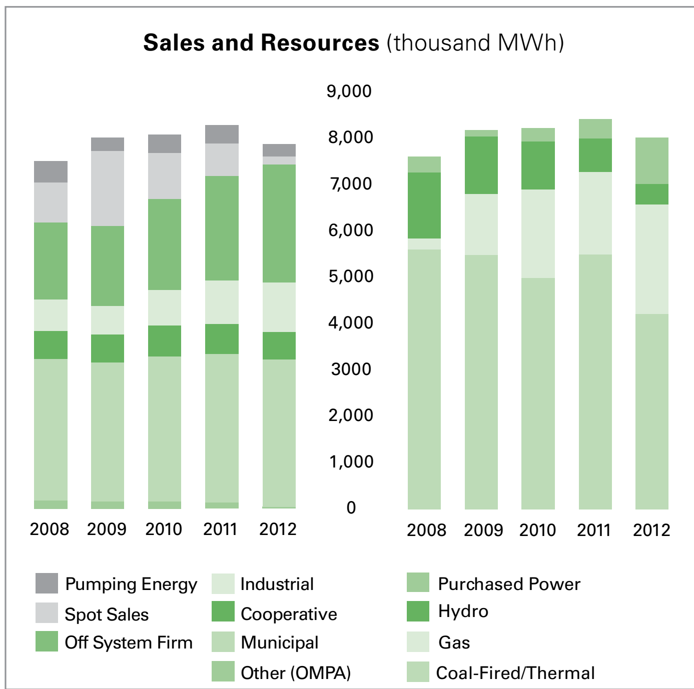
to purchase gas generation from the market at times rather than generate energy at the coal-fired complex. As a result, purchased power increased in 2012 by $15.2 million or by 104.5%. Offsetting the purchased power was a decrease in fuel costs as the gas utilized in the Redbud combined cycle plant cost less, and the coal generation was reduced for economic reasons and for the extended, planned fall maintenance outage. The lower gas prices impacted GRDA's generation dispatch mix throughout most of 2012, but since year-end, gas prices have risen slightly, and coal generation is currently more economical than the combined cycle gas generation.

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 Position" 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 Position in 2011, even though a portion of the 2010 temporary rate increase was eliminated in July. Although 2012 was anticipated to be a tough year financially because of the major, planned coal-fired plant outage combined with the last calendar year of higher debt payments, contracted sales continued to grow, and the financial results continued on the positive trend. 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.

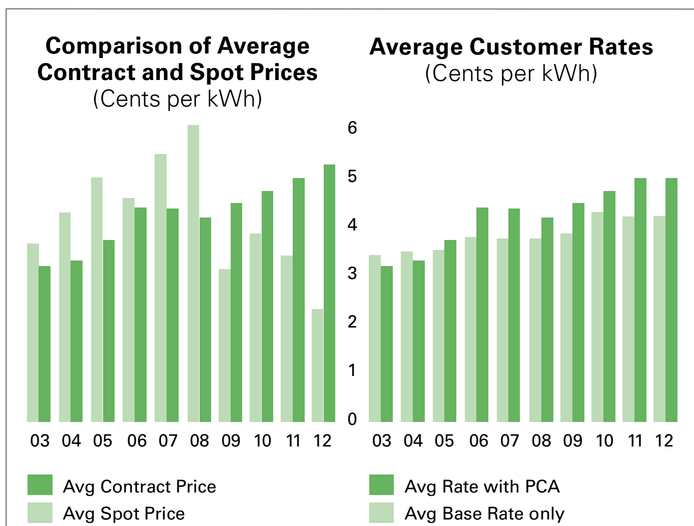
While the first two graphs reflect the income statement amounts, the third graph includes the debt payments, principal and interest recovered through the Authority's rates. GRDA's rate structure is based on a cost-of-service approach of which debt service, fuel and purchased power, and other operating 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. The sources and uses of funds, which is not included in the basic financial statements, 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 2011 and 2012, Total Operating Revenues and Sales of Power both increased between 3 and 4% respectively. 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. The customer sales increases continue to be led by growth in the industrial and off-system firm customer categories. 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, long-term, wholesale deliveries have 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. Historically the PCA has been revised twice a year, although GRDA's board has approved moving towards a monthly recalculation to reduce the volatility to customers and to allow for a more timely recovery of fuel and purchased power costs. 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 $77.9 million and $55.3 million during 2012 and 2011, respectively. Sales of Power included an accrual of $2.2 million and $7.2 million of Under-Recovered Fuel Costs during 2012 and 2011, respectively.

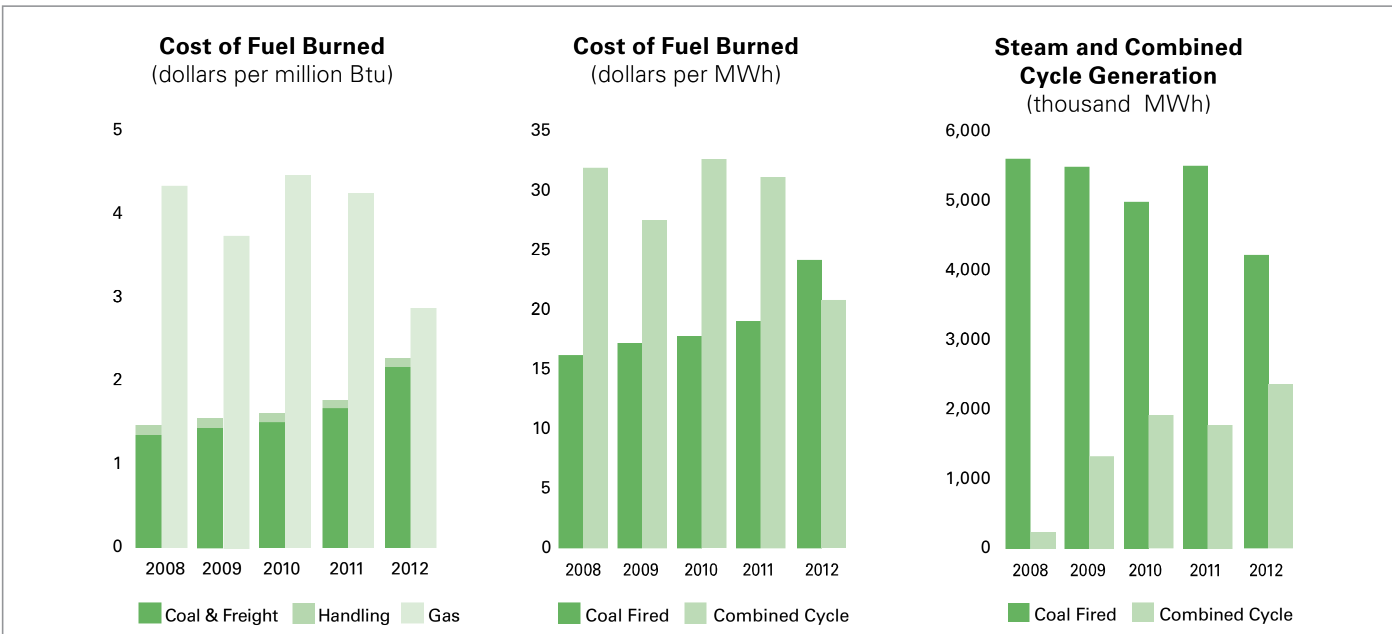


Fortunately, since only a small portion of forecast spot sales are included in budgeting and financial forecasting, GRDA relies little on revenues from spot sales. In the past few years, spot market sales tended to reflect the pricing of gas generation costs. Because the price of natural gas has been relatively low, the spot sales margins remained low during 2011 and 2012. Additionally, the calendar year 2011 and 2012 represented good examples 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. Relatively little generation was available for spot sales in either year, and in fact, energy purchases were required to supplement existing generation to meet customers' 2012 load needs.

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 illustrates the competitiveness of the Authority's rates and the advantage that abundant hydro generation provides. GRDA rates compare favorably to market pricing because the spot pricing only reflects the cost of energy purchased, while GRDA's contract price reflects the price of full service including capacity, energy and in some cases, transmission, the comparison does reflect the overall electricity pricing trends. When a 2010 base rate 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. In December 2012, the Board of Directors approved a preliminary budget that included reduced debt service requirements and an associated rate reduction to return base rates to pre-2010 levels effective July 1, 2013.

OPERATING EXPENSES

Operating Expenses increased by $15.0 million and by $17.6 million in 2012 and 2011, respectively. While the primary increase in operating expenses over the recent past has been in fuel costs, as previously mentioned, the primary increase in 2012 related to purchased power. Still, 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 in December 2011, which is currently projected to save customers approximately $1 million annually on the cost of coal burned at the Coal-Fired Complex. Equally as important, the refined coal process has reduced emissions, and provided the potential to reduce future environmental costs as well. Fuel costs decreased by $8.8 million in 2012, after increasing by $8.9 million in 2011. Rail transportation costs continued to drive up the cost of delivered coal at the same time that the cost of natural gas fell. As a result, the Redbud combined cycle plant and purchased power were utilized as the coal-fired generation was reduced. 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 $15.2 million in 2012 and $3.5 million in 2011, primarily as a result of record temperatures and below-average hydro generation.



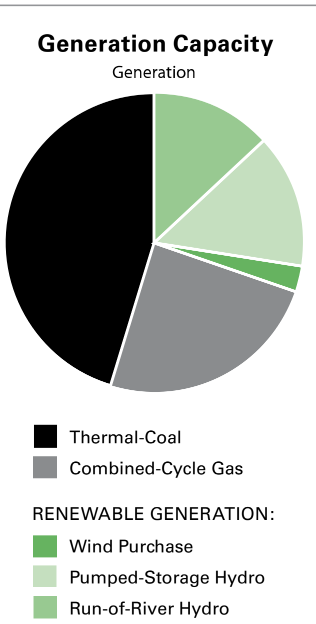
Other than fuel and purchased power costs, another significant component of Operating Expenses is maintenance. Every six years, the Coal-Fired Complex has a planned, major maintenance outage. A major outage was scheduled at the Coal-Fired Complex during both 2010 and 2012, so maintenance expenses were at least $5 million higher than in other years. The outage for Unit 1, of which GRDA owns 100%, occurred in the spring of 2010. The Unit 2 major maintenance outage, which GRDA owns jointly with KAMO Power occurred in the fall of 2012. Generally, purchased power will also be slightly higher in years such as 2010 and 2012 when GRDA has a coal-fired unit down for a major, more-extended outage. Finally, administrative and general expenses continue to gradually rise. 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 category. Other increases to administrative and general costs related to the settlement of claims, insurance deductibles, employee insurance premiums and post-retirement benefits.

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. GRDA has enhanced generation and transmission reliability by having access to emergency generation should the need arise. Additionally, the Authority added 48 MWs of wind generation through a power purchase agreement which produced the first output in November 2012.

In January 2012, GRDA received approval from FERC to resume upgrading the generators at Kerr Dam. Additional lines and substations continue to be added or upgraded in order to handle the loads of new and growing customers, especially during 2011 and 2012. A substation connecting to the 345-kV line in eastern Oklahoma was the most significant capital addition in 2011. Other significant capital projects in 2012 included the installation of low NOx burners, replacement of turbine blades, super-heater tube panels and air preheater baskets during the Unit 2 outage. GRDA also acquired an aluminum train set and mobile substation. 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.



Long-term service agreement payments continue to increase Redbud capital additions annually. Since the gas plant has been utilized more, the milestone maintenance points have been triggered. 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. At the end of 2012, the requirement was $133.5 million, and the account included an excess of $8.3 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. GRDA has budgeted an additional $17.8 million to be utilized in 2013 to pay for capital additions.

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 2012 and 2011 respectively, $62.4 and $79.1 million remained in the 2008 construction account for generation, transmission and other projects. Additionally, in 2012 and 2011 respectively, $170.2 and $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, GRDA 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

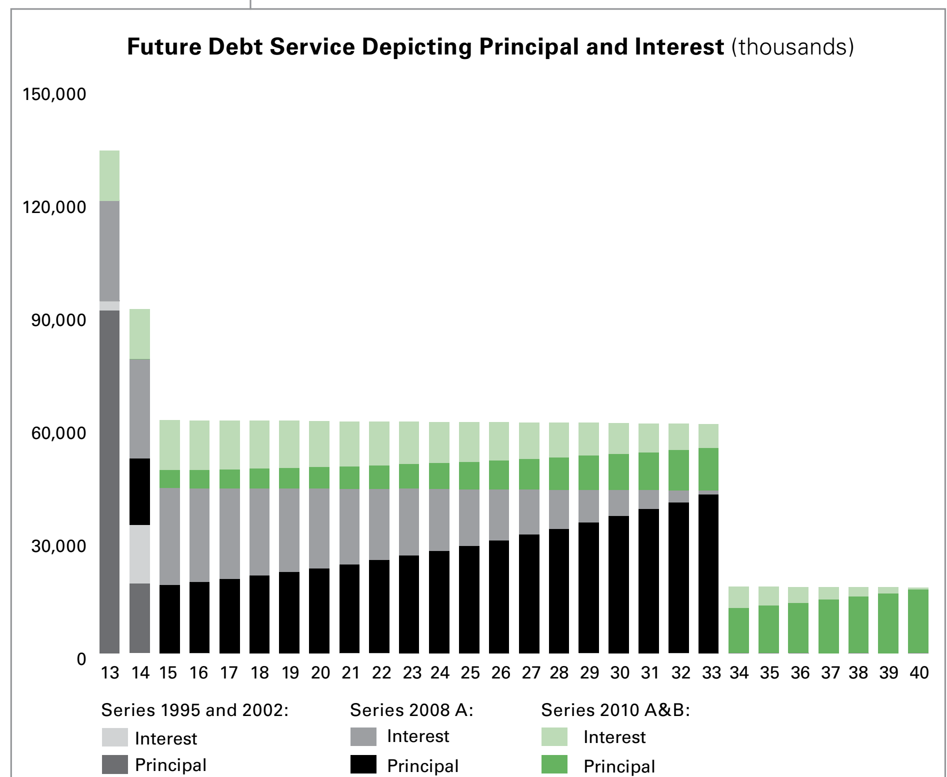
The Authority follows accounting of regulated operations in accordance with GASB 62, which requires utilities to match costs in the same period the revenues are collected. The regulatory asset consists of the deferred interest costs related to the 2002B capital appreciation bond issue. The balance in 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 2012 was $1.6 million, and the 2011 deferral was $1.5 million. The deferred asset totaled $11.0 million at the end of 2012. 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 positively impact the change in net position by increasing the ratio of utility plant to debt. The trustee paid bondholders, on behalf of the Authority, principal payments of $86.8 million, $81.7 million and $95.5 million on June 1, 2012, 2011 and 2010, 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 bonds were wrapped around the outstanding debt. A portion of the interest costs was capitalized through 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 $18.6 million 2002 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 A2 with a stable outlook. 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 nor S&P currently rate Ambac.

In March 2013, Moody's added a positive outlook to GRDA's A2 rating. Since 2008, GRDA has had ratings of A from Fitch Ratings and Standard and Poor'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. Fitch recently reaffirmed GRDA's A rating and stable outlook in November 2012. 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.

GRDA CREDIT RATINGS

Rating Agency	2012-2013
Standard & Poor's	A Stable
Moody's Investors	A2 Positive
Fitch Ratings	A Stable

A Rating: 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.

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. GRDA is investing a great deal of capital rebuilding and upgrading the generation and transmission system to meet customers' needs well into the future. With that as a background, GRDA's future economic outlook is always linked to customer growth.

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. Additionally, expanded relationships with Oklahoma Municipal Power Authority and Western Farmers Electric Cooperative 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 continue to update load forecasts, and more importantly, sales continue to meet forecast levels. In 2010, a temporary rate increase was implemented to offset the downturn in the economy. As the improvement from sales and revenues became evident, the Board of Directors voted to return the benefits to customers in the form of a slight 2% base rate decrease in July 2011. The 2013 preliminary budget passed in December 2012 included more significant decreases effective 2013. GRDA is able to implement these rate decreases and maintain healthy financial ratios because of a significant decline in upcoming debt service requirements. The improving economy, along with the actions the directors took on contracts and rates, was the prime driver for the improved results and provided the incremental resources to maintain stable financial ratios in 2011 and 2012. As a result, Total Net Position has increased $111 million or by 26.7% 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 contingencies and make key decisions for the future.

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 reduce capacity rates substantially, or to provide 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 has reached a crossroad where decisions about the optimal generation path to take must be made. Although GRDA's coal-fired units are equipped with equipment to reduce emissions, increasing environmental and regulatory risks require tough decisions for owners and operators of 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. Preliminary analysis supports upgrading CFC Unit 2 and running Unit 1 as long as possible with only low NOx burners and other minimal upgrades. Studies are underway to construct a combined-cycle gas plant to shift generation from Unit 1 to meet environmental requirements. Additionally, ongoing technological, compliance, and regulatory requirements require constant monitoring and investment in both assests and 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 received approval to complete additional upgrades to the Kerr Dam during 2012 and 2013. Additionally, the directors approved parameters for GRDA's first power purchase agreement for wind generation. This wind output became commercial at the end of 2012 and expands 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.

The generation options have come into play. 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. In fact, gas prices have risen slightly in 2013, so coal has a slight economic edge over gas generation as of this report date. 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. Since gas prices in 2012 dropped as low or lower than $2 per million Btu, several of GRDA's wholesale customers experienced 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 reports directly to the CEO and also has direct Board access. GRDA underwent a performance audit in 2012 and is pursuing recommendations so GRDA can remain as efficient as possible. The audit recognized the value of GRDA employees and one of the key recommendations addressed the need for retention and succession planning. As a result, GRDA has started development of a strategic workforce management plan.

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
(A Component Unit of the State of Oklahoma)

STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS:		
Current assets:		
Cash and cash equivalents — general operating account	$ 11,471,247	$ 19,399,755
Investments	89,898,324	184,981,721
Accounts receivable — net	60,543,539	37,253,796
Accrued interest receivable	2,047,013	2,843,481
Fuel stock	22,478,846	16,722,088
Materials and supplies	44,843,063	43,389,813
Under recovered fuel costs	15,594,886	13,401,774
Prepaid assets	7,431,043	2,773,462
Total current assets	254,307,961	320,765,890
Noncurrent assets:		
Investments	433,875,248	398,963,309
Other receivables	470,659	454,582
Net utility plant:		
Non-depreciable — at original cost	65,695,544	91,219,563
Depreciable — at original cost less depreciation	729,624,686	691,421,485
Other noncurrent assets:		
Costs to be recovered from future revenues	10,968,274	9,407,865
Unamortized debt issuance costs	13,067,229	14,292,166
Nonutility property — at original cost	33,014	33,014
Total other noncurrent assets	24,068,517	23,733,045
Total noncurrent assets	1,253,734,654	1,205,791,984
Total assets	1,508,042,615	1,526,557,874
LIABILITIES:		
Current liabilities:		
Accounts payable and accrued liabilities	47,764,178	34,898,682
Accrued interest payable	3,739,306	4,101,078
Bonds payable — current portion	91,110,000	86,765,000
Total current liabilities	142,613,484	125,764,760
Noncurrent liabilities:		
Bonds payable — net	820,851,660	911,841,014
Other noncurrent liabilities	3,459,477	3,029,198
Accrued interest payable	13,134,687	11,574,280
Total noncurrent liabilities	837,445,824	926,444,492
Total liabilities	980,059,308	1,052,209,252
NET POSITION:		
Net investment in capital assets	268,686,590	197,481,485
Restricted for:		
Debt service	56,886,806	61,324,015
Other special purposes	749,975	637,178
Unrestricted	201,659,936	214,905,944
TOTAL NET POSITION	$ 527,983,307	$ 474,348,622

See notes to financial statements.

GRAND RIVER DAM AUTHORITY
(A Component Unit of the State of Oklahoma)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
OPERATING REVENUES:		
Sales of power	$ 401,449,292	$ 388,834,078
Other operating revenues	9,573,441	5,652,493
Total operating revenues	411,022,733	394,486,571
OPERATING EXPENSES:		
Fuel	(151,413,641)	(160,222,167)
Depreciation	(48,204,063)	(50,869,539)
Maintenance	(33,722,761)	(26,809,111)
Operations	(30,099,571)	(27,823,333)
Purchased power — net	(29,831,445)	(14,585,117)
Administrative and general	(27,120,506)	(25,040,649)
Total operating expenses	(320,391,987)	(305,349,916)
OPERATING INCOME	90,630,746	89,136,655
NONOPERATING REVENUES AND (EXPENSES):		
Investment income	12,120,926	12,337,646
Net increase (decrease) in the fair value of investments	(3,948,188)	8,883,253
OEM grant revenue — operating	522,081	8,786
Income from nonutility operations	1,471,833	1,350,011
Interest expense	(49,034,263)	(54,957,804)
Deferral of costs to be recovered from future revenues	1,560,409	1,483,770
Amortization of debt discount and financing costs	(1,807,909)	(2,236,584)
Amortization of bond premium	1,255,649	1,584,468
Total nonoperating expenses	(37,859,462)	(31,546,454)
CAPITAL CONTRIBUTIONS — OEM grant revenue — capital	863,401	
NET INCREASE IN NET POSITION	53,634,685	57,590,201
NET POSITION — Beginning of year	474,348,622	416,758,421
NET POSITION — End of year	$ 527,983,307	$ 474,348,622

See notes to financial statements.

GRAND RIVER DAM AUTHORITY
(A Component Unit of the State of Oklahoma)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Received from user charges	$ 437,510,245	$ 428,052,553
Received from refined coal partner	144,618,070	
Received from OEM — operating grant revenues	522,081	8,786
Payments to employees for services	(31,025,056)	(29,657,110)
Payments to suppliers for goods and services	(300,364,113)	(268,548,196)
Payments to refined coal partner	(131,963,826)	
Net cash provided by operating activities	119,297,401	129,856,033
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Additions to utility plant	(64,756,265)	(32,722,834)
Payments for retirements of utility plant		(1,722,228)
Received from sales of retirements of utility plant	4,659,848	
Received from OEM — capital grant revenue	863,401	
Repayment of principal	(86,765,000)	(81,665,000)
Interest paid	(47,042,305)	(51,765,695)
Net cash used in capital and related financing activities	(193,040,321)	(167,875,757)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	12,272,411	8,779,851
Purchases of securities	(38,651,679)	(85,437,001)
Proceeds from sales and maturities of securities	92,193,680	111,324,063
Net cash provided by investing activities	65,814,412	34,666,913
NET DECREASE IN CASH AND CASH EQUIVALENTS	(7,928,508)	(3,352,811)
CASH AND CASH EQUIVALENTS — Beginning of year	19,399,755	22,752,566
CASH AND CASH EQUIVALENTS — End of year	$ 11,471,247	$ 19,399,755
NONCASH ITEMS FROM CAPITAL AND RELATED FINANCING ACTIVITIES — Noncash purchases of utility plant included in accounts payable	$ 786,827	$ 2,357,390
NONCASH ITEMS FROM INVESTING ACTIVITIES:		
Unrealized gain (loss) on investments	$ (3,948,188)	$ 8,883,253
Amortization of premiums and discounts	$ 2,681,269	$ 1,438,955
Amortization of debt service forward purchase agreements	$ -	$ 2,895,997
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 90,630,746	$ 89,136,655
Noncash items included in net operating income:		
Income from nonutility operations	5,320,167	1,358,797
Depreciation	48,204,063	50,869,539
Changes in assets and liabilities:		
Receivables:		
Customers	(2,951,167)	(1,363,077)
Other	(20,354,653)	1,158,616
Fuel stock	(5,756,758)	(3,155,578)
Materials and supplies	(1,453,250)	(6,850,871)
Other	(4,631,108)	1,299,143
Accounts payable and accrued liabilities	12,078,669	4,200,461
Over (under) recovered fuel costs	(2,193,112)	(7,202,571)
Other noncurrent liabilities	403,804	404,919
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 119,297,401	$ 129,856,033

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 statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows. It requires the classification of net position into three components — net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net investment in Capital Assets — This component of net position 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 net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted — This component of net position consists of constraints placed on net position 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 Position — This component of net position consists of net positions that do not meet the definition of "restricted" or "net investment in capital assets."

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.

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, U.S. government sponsored enterprises, State of Oklahoma agency bonds, bank Troubled Asset Relief Program (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 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.

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 Position, 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 position.

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 position include $49,208,937 and $55,461,351 related to natural gas fuel expenses included in fuel operating expenses for 2012 and 2011, 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 position include the following related to those allocations: $4,243,557 and $4,655,921 in Maintenance, $955,326 and $1,032,390 in Operation, and $2,789,122 and $2,334,485 in Administrative and general line items of the Operating expenses section for 2012 and 2011, 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 for GRDA's portion totaled approximately $59.6 million and $65 million for 2012 and 2011, 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 service utility of the capital assets has a significant unexpected decline . Management of the Authority has determined that no impairment adjustments required recognition in 2012 or 2011.

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, 2012 and 2011, the Authority had approximately $11 million and $9.4 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 — Gains and losses realized on advance refunding of long-term debt are 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, sulfur dioxide emissions credits conversions and renewable energy certificates. 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 investment income, State of Oklahoma Department of Emergency Management (OEM) 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.

Adoption of New Accounting Standards — During the year, the Authority adopted the following accounting standards:

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. This statement did not have an 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 did not have an impact 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 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.

As a result of adopting this statement the Authority only applies GASB standards. In addition, certain disclosures related to fair value of financial instruments as required by FASB ASC 825 are no longer disclosed.

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. As a result of the adoption of this statement, the Authority's net assets are now classified as net position.

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 did not have an impact on the Authority's financial statements.

Recently Issued Accounting Standards — The following accounting standards will be adopted as applicable in future periods:

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. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this Statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognize, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. 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. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. 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. 67. *Financial Reporting for Pension Plans – an amendment to GASB Statement No. 25.* The objective of the Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement will be effective for the Authority in 2014, and management is currently evaluating the impact of this pronouncement on the Authority's financial statements.

GASB Statement No. 68. *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27.* The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement will be effective for the Authority in 2015, and management is currently evaluating the impact of this pronouncement on the Authority's financial statements.

GASB Statement No. 69. *Governmental Combinations and Disposals of Government Operations.* This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The distinction between government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. This statement requires the use of carrying values to measure the assets and liabilities in a government merger. Government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This statement will be effective for the Authority in 2014, 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. The Authority's 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, 2012 and 2011, the Authority had the following cash and investments (classified as either cash equivalents, investments or restricted investments on the statements of net position) and corresponding maturities:

	2012				
		Investment Maturities (In Years)			
Investment Type	**Fair Value**	**Less Than 1**	**1–5**	**6–10**	**More Than 10**
U.S. gov't agencies and U.S. gov't sponsored enterprises	$ 431,025,766	$ 236,618,463	$ 145,392,413	$ 49,014,890	$ -
Certificates of deposits	5,014,905	5,014,905			
Money market funds	83,506,134	83,506,134			
State of Oklahoma agency bonds	13,230,000	13,230,000			
Cash deposits — net	2,468,014	2,468,014			
Total	$ 535,244,819	$ 340,837,516	$ 145,392,413	$ 49,014,890	$ -

	2011				
		Investment Maturities (In Years)			
Investment Type	**Fair Value**	**Less Than 1**	**1–5**	**6–10**	**More Than 10**
U.S. gov't agencies and U.S. gov't sponsored enterprises	$ 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	$ 603,344,785	$ 297,821,179	$ 235,931,238	$ 65,420,444	$ 4,171,924

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) which 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 and the Government Sponsored Enterprises (GSE) 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. The Authority's 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, 2012 and 2011, the Authority's investments had the following ratings:

	2012			
	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	$ -	$ -	$83,506,134	$ 83,506,134
Certificates of deposits			5,014,905	5,014,905
US gov't securities	217,727,547			217,727,547
U.S. gov't agencies and U.S. gov't sponsored enterprises	213,298,219			213,298,219
State of Oklahoma Agency bonds		13,230,000		13,230,000
Cash deposits — net			2,468,014	2,468,014
	$431,025,766	$13,230,000	$90,989,053	$535,244,819

	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
U.S. gov't agencies and U.S. 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

As of December 31, 2012 and 2011, the Authority had the following portfolio of investments with credit exposure by investment type as a percentage of total investments:

	2012	**2011**
U.S. government securities	40.7 %	27.6 %
U.S. government agencies and U.S. government sponsored enterprises:		
FFCB		0.9
FHLB	11.4	9.8
GNMA	14.6	0.8
FHLMC	13.2	17.4
FNMA	0.6	21.2
Money market funds	15.6	13.3
Certificate of deposits	0.9	0.8
State of Oklahoma agency bonds	2.5	2.8
Bank TARP bonds		4.9
Cash deposits - net	0.5	0.5

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.

Restricted noncurrent investment funds in the bond service reserve account, and certain funds in the construction account are included in investments in noncurrent assets on the Statement of Net Position. Restricted current investment funds in the bond service account and certain deposits in the construction account are included in Investments in current assets on the Statement of Net Position. Restricted investments (noncurrent and current) are not available for general operations.

Carrying Values — Cash and cash equivalents and current and noncurrent investments at December 31, 2012 and 2011, follows:

	2012						
	General Operations	Board Designated	Bond Service (Restricted)	Construction (Restricted)	Bond Service Reserve (Restricted)	Other Special Purposes (Restricted)	Total
Current:							
Cash deposits — net	$ 2,468,014	$ -	$ -	$ -	$ -	$735,886	$ 3,203,900
Money market funds - cash and investments	9,003,233		1,092,386	786,827	17,883,495	14,089	28,780,030
U.S. government securities, agencies and sponsored enterprises	9,312,202		55,794,420				65,106,622
Certificates of deposits — maturity > 3 months	4,279,019						4,279,019
Total current	25,062,468	-	56,886,806	786,827	17,883,495	749,975	101,369,571
Non-current:							
U.S. government securities, agencies and sponsored enterprises	40,618,366	37,500,000		200,853,894	86,946,885		365,919,145
State of Oklahoma agency bonds				13,230,000			13,230,000
Money market funds				17,746,346	36,979,757		54,726,103
Total non-current	40,618,366	37,500,000	-	231,830,240	123,926,642	-	433,875,248
Total cash and investments	$65,680,834	$37,500,000	$56,886,806	$232,617,067	$141,810,137	$749,975	$535,244,819

	2011						
	General Operations	Board Designated	Bond Service (Restricted)	Construction (Restricted)	Bond Service Reserve (Restricted)	Other Special Purposes (Restricted)	Total
Current:							
Cash deposits — net	$ 2,891,536	$ -	$ -	$ -	$ -	$611,055	$ 3,502,591
Money market funds - cash and investments	16,508,219		51,375,811	2,357,390		26,123	70,267,543
U.S. government securities, agencies and sponsored enterprises	81,169,016	35,000,000	9,948,204				126,117,220
Certificates of deposits — maturity > 3 months	4,494,122						4,494,122
Total current	105,062,893	35,000,000	61,324,015	2,357,390	-	637,178	204,381,476
Non-current:							
U.S. government securities, agencies and sponsored enterprises				232,145,841	139,750,144		371,895,985
State of Oklahoma agency bonds				16,995,000			16,995,000
Money market funds				6,393,201	3,679,123		10,072,324
Total non-current	-	-	-	255,534,042	143,429,267	-	398,963,309
Total cash and investments	$ 105,062,893	$35,000,000	$61,324,015	$ 257,891,432	$ 143,429,267	$637,178	$ 603,344,785

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 Guaranteed Investment Agreement 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. The Authority recorded the $22,925,000 advance payment received in 1994 as a deferred credit and it has been fully amortized.

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 $133,476,142 restricted for bond service reserve per Bond Resolution No. 5107, the $8,333,995 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. No expenditures were made from the fund in 2012 and 2011, 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 $12,911 and $877 were made from the fund in 2012 and 2011, 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 $22.5 million from available unrestricted funds was board designated as of December 31, 2012.

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, 2012.

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.

Gross realized gains and gross realized losses on sales of investment securities for the years ended December 31, 2012 and 2011, were as follows:

	2012	2011
Gross realized gains	$ 3,358,849	$ 222,371
Gross realized losses	(32,769)	(37,064)

Gross realized gains and losses are included in investment income in the accompanying Statements of Revenues, Expenses, and Changes in Net Position.

3. RECEIVABLES

Accounts receivable is comprised at December 31, 2012 and 2011, of the following amounts:

	2012	2011
Customers	$ 34,404,044	$ 31,376,065
less allowance for doubtful accounts	(125,000)	(50,000)
Other	26,264,495	5,927,731
Total	$ 60,543,539	$ 37,253,796

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

At December 31, 2012 and 2011, the Authority had noncurrent receivables for closure and post-closure costs related to the ash landfill at the Coal Fired Complex of $470,659 and $454,582, respectively.

4. UTILITY PLANT

A summary of changes in utility plant for the years ended December 31, 2012 and 2011, follows:

	2012			
	Balance December 31, 2011	Additions/ Transfers	Retirements	Balance December 31, 2012
Capital assets — nondepreciable:				
Land	$ 34,287,081	$ 1,636,317	$ -	$ 35,923,398
Construction work in progress	56,932,482	(27,160,336)		29,772,146
Total capital assets — nondepreciable	91,219,563	(25,524,019)	-	65,695,544
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))	331,493,639	11,834,066	(3,046,548)	340,281,157
Coal-fired plant Unit No. 2 (Note 1)	318,697,837	12,673,962	(2,379,956)	328,991,843
Redbud combined-cycle plant	356,588,724	2,291,579	(3,971,753)	354,908,550
Hydraulic production plants	130,726,718	(5,813,646)	(616,161)	124,296,911
Transmission system	222,627,165	49,929,543	(1,429,949)	271,126,759
Other properties and production plant	92,713,956	19,247,605	(2,304,371)	109,657,190
	1,452,848,039	90,163,109	(13,748,738)	1,529,262,410
Less accumulated depreciation:				
Coal-fired plant Unit No. 1	(244,113,904)	(9,997,466)	1,517,366	(252,594,004)
Coal-fired plant Unit No. 2	(226,162,635)	(9,230,767)	1,444,383	(233,949,019)
Redbud combined-cycle plant	(84,233,343)	(13,727,689)	3,533,745	(94,427,287)
Hydraulic production plants	(30,220,893)	(1,155,097)	331,557	(31,044,433)
Transmission system	(130,686,414)	(7,188,703)	812,692	(137,062,425)
Other properties and production plant	(46,009,365)	(6,383,496)	1,832,305	(50,560,556)
	(761,426,554)	(47,683,218)	9,472,048	(799,637,724)
Total capital assets — depreciable	691,421,485	42,479,891	(4,276,690)	729,624,686
Net utility plant	$ 782,641,048	$ 16,955,872	$ (4,276,690)	$ 795,320,230

	2011			
	Balance December 31, 2010	Additions/ Transfers	Retirements	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

The change in construction work in progress during 2012 and 2011, 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 $48,204,063 and $50,869,539 for 2012 and 2011, respectively.

The Authority had contractual commitments at December 31, 2012, of approximately $43,390,000 for equipment and construction contracts. Major projects include the Markham Ferry Hydroelectric Plant Upgrade for approximately $23,954,000, upgrades at the Coal Fired Complex for approximately $9,011,000, the construction of Transmission Lines and Substations for approximately $4,619,000, Network Protection Upgrades for approximately $1,647,000, upgrades of the SCADA equipment for approximately $1,290,000, and the Salina Exciters for $371,000.

5. COST TO BE RECOVERED FROM FUTURE REVENUES

At December 31, 2012 and 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:

	2012	2011
Beginning balance	$ 9,407,865	$ 7,924,095
Deferral of 2002B interest	1,560,409	1,483,770
Ending balance	$ 10,968,274	$ 9,407,865

6. BONDS PAYABLE

A summary of changes in bonds payable for the years ended December 31, 2012 and 2011, follows:

	2012			
	December 31, 2011	Bonds Issued	Retirements	December 31, 2012
Revenue Bonds, Refunding Series 1995:				
5.5% maturing in 2013	$ 91,715,000	$ -	$ (605,000)	$ 91,110,000
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		(86,160,000)	18,636,340
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
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	992,246,340	$ -	$ (86,765,000)	905,481,340
Less current portion	(86,765,000)			(91,110,000)
Long-term portion	905,481,340			814,371,340
Add (deduct):				
Unamortized debt premium	12,443,326	$ -	$ (1,255,648)	11,187,678
Unamortized debt discount	(5,070,500)		582,971	(4,487,529)
Unamortized loss on advance refunding	(1,013,152)		793,323	(219,829)
Long-term bonds payable	$ 911,841,014	$ -	$ 120,646	$ 820,851,660

	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	$ -	$ 608,055	$ 911,841,014

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.

Monies from the 2002A and 1995 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 Position.

Defeased bonds of $28,970,000 were outstanding at December 31, 2012 and 2011.

The scheduled maturities of bonds payable at December 31, 2012, are as follows and reflect the scheduled payments to be remitted by the trustee to the bondholders:

Years Ending December 31	Due to Bond Holders			Due to Trustee
	Annual Principal	Semiannual Interest	Calendar Year Bond Payments	Sinking Fund Payments
2013	$ 91,110,000	$ 22,435,833		$ 110,116,054
		19,930,309	$ 133,476,142	
2014	36,306,340	35,403,969		74,485,639
		19,633,540	91,343,849	
2015	22,965,000	19,633,541		62,231,478
		19,218,024	61,816,565	
2016	23,795,000	19,218,024		62,235,595
		18,729,422	61,742,446	
2017	24,780,000	18,729,423		62,237,124
		18,147,947	61,657,370	
2018–2022	141,820,000	166,020,904	307,840,904	311,150,563
2023–2027	180,005,000	126,587,987	306,592,987	311,157,720
2028–2032	230,840,000	74,392,152	305,232,152	311,152,479
2033–2037	105,895,000	25,100,919	130,995,919	108,078,525
2038–2040	47,965,000	4,377,026	52,342,026	43,308,374
	$ 905,481,340	$ 607,559,020	$ 1,513,040,360	$ 1,456,153,551

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 are no longer required under the amended resolution and the annual debt coverage requirement will be equal to the calendar year totals stated above.

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, 2012, 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 no accrued liability balance for arbitrage rebate at December 31, 2012 and 2011, respectively.

7. RETIREMENT PLANS, POSTRETIREMENT, AND OTHER EMPLOYEE BENEFITS

The Authority participated in five retirement plans during 2012 and 2011. 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 16.5%, 15.5%, and 15.5% on all salary for the fiscal years ended June 30, 2012, 2011, and 2010, 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 $5,301,390, $5,071,801, and $4,824,457 for the years ended December 31 2012, 2011, and 2010, 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 $41,900, $38,427, and $28,181 for the years ended December 31, 2012, 2011, and 2010, 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 $765,072, $488,002, and $528,201 for the years ended December 31, 2012, 2011, and 2010, respectively. The Authority paid matching contributions and administrative fees of $142,858, $133,698, and $134,610 for the years ended December 31, 2012, 2011, and 2010, 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 $119,107, $362,899, and $420,897 for the years ended December 31, 2012, 2011, and 2010, 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 $17,000 for the year 2012, 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 years ended December 31, 2012, 2011, and

2010, the Authority contributed $442,741, $421,915, and $368,814 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 Position):

	2012	2011	2010
Annual required contribution	$ 795,031	$ 767,180	$ 767,180
Interest on net OPEB obligation	56,093	29,766	29,766
Adjustment to annual required contribution	(49,773)	(25,481)	(25,481)
Annual OPEB cost (expense)	801,351	771,465	771,465
Contributions made	(442,741)	(421,915)	(368,814)
Increase in net OPEB obligation	358,610	349,550	402,651
Net OPEB obligation — beginning of year	1,602,663	1,253,113	850,462
Net OPEB obligation — end of year	$ 1,961,273	$ 1,602,663	$ 1,253,113

The authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for December 31, 2012, and the two preceding years were as follows:

Year-End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2010	$ 771,465	47.81 %	$ 1,253,113
December 31, 2011	771,465	54.69	1,602,663
December 31, 2012	801,351	55.25	1,961,273

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, 2012, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% 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% projected annual payroll increase and no increase to the post-retirement benefit. The unfunded actuarial accrued liability is being amortized over the maximum permissible amortization period of thirty years as a level percentage of payroll on an open basis. The remaining amortization period at December 31, 2012, was 24 years.

Funded Status and Funding Progress — As of January 1, 2012, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was $12,898,195, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $12,898,195. The covered payroll (annual payroll of active employees covered by the plan) was $31,769,303, and the ratio of the UAAL to the covered payroll was 40.6%.

Other Employee Benefits — The Authority has accrued a liability for annual and compensated leave, and related payroll taxes, of $3,988,716 and $3,813,937 at December 31, 2012 and 2011, respectively, which is included in accounts payable and accrued liabilities in the accompanying financial statements.

	Accrued Annual Leave		
	2012	**2011**	**2010**
Beginning balance	$ 3,769,111	$ 3,684,148	$ 3,677,880
Increases	2,761,418	2,708,001	2,728,885
Decreases	(2,595,019)	(2,623,038)	(2,722,617)
End of year balance	$ 3,935,510	$ 3,769,111	$ 3,684,148

	Compensated Leave		
	2012	**2011**	**2010**
Beginning balance	$ 44,826	$ 57,528	$ 64,201
Increases	546,055	645,576	446,858
Decreases	(537,674)	(658,278)	(453,531)
End of year balance	$ 53,207	$ 44,826	$ 57,528

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, 2012, 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
2013	$ 107,290,000
2014	133,507,000
2015	133,484,000
2016	136,782,000
2017	164,960,000
2018	169,120,000
2019	173,440,000
2020	177,920,000
Total	$1,196,503,000

The Authority had a contractual commitment as of December 31, 2012, for a railcar operating lease with minimum obligations of $972,000 for 2013 and $972,000 for 2014.

The Authority had contractual commitments as of December 31, 2012, for the Redbud facility of approximately $59.6 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.

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 in Other noncurrent liabilities at December 31, 2012 and 2011, was $1,307,681 and $1,262,486, respectively, which represents 83% and 82% of the total estimated closure and postclosure costs. There was an increase in the liability from 2011 to 2012 of $45,195. The Authority will recognize the remaining estimated cost of closure and postclosure care of approximately $263,000 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 2012. 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 4,044,339 cubic yards have been used through December 31, 2012. The remaining useful life at December 31, 2012, was approximately 43 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 excess liability 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 one customer in 2012 and no customers in 2011 that accounted for 10% or more of the Authority's operating revenues for the year. In 2012, sales to Western Farmers Electric Cooperative totaled approximately $43.8 million.

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REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

GRAND RIVER DAM AUTHORITY
(A Component Unit of the State of Oklahoma)

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 %
January 1, 2012	$ -	$ 12,898,195	$ 12,898,195	- %	$ 31,769,303	40.60 %

Funded Status and Funding Progress — As of January 1, 2012, 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 and January 1, 2012. 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 accompanying 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, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents, and have issued our report thereon dated March 31, 2013. 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

In planning and performing our audit of the Authority's basic financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

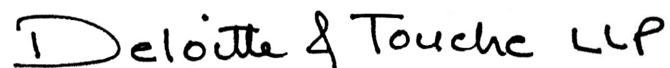
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



March 31, 2013