

State of Oklahoma



WATER RESOURCES BOARD
the water agency

**OKLAHOMA CLEAN WATER STATE REVOLVING
FUND LOAN ACCOUNT PROGRAM**

**ANNUAL FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011
AND INDEPENDENT AUDITOR'S REPORTS**

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

TABLE OF CONTENTS

	Page
Independent Auditor's Report on Financial Statements	3-4
Management's Discussion and Analysis	5-9
The Basic Financial Statements:	
Statements of Net Assets	11
Statements of Revenues, Expenses, and Changes in Net Assets	12
Statements of Cash Flows	13
Footnotes to Statements	14-22



INDEPENDENT AUDITOR'S REPORT

To the Members of the
Oklahoma Water Resources Board

We have audited the accompanying statements of net assets of the Oklahoma Water Resources Board/Oklahoma Clean Water State Revolving Fund Loan Account Program (the "Program") as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Program as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2012, on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Aledge & Associates, P.C.

Edmond, Oklahoma
September 20, 2012

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

MANAGEMENT'S DISCUSSION AND ANALYSIS

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Oklahoma Clean Water State Revolving Loan Fund Account Program's (the "Program") financial performance provides an overview of the Program's financial activities for the fiscal years ended June 30, 2012 and 2011. Please read it in conjunction with the Program's financial statements, which begin on page 10. The Oklahoma Water Resources Board (the "Board") administers the Program.

Program Highlights

- During FY 2012, eleven (11) construction loan commitments totaling approximately \$55.19 million were made to protect, maintain and improve waters of the State towards the "fishable/swimmable" goals of the Clean Water Act.
- The Program recognized seven (7) of the eleven (11) projects as incorporating "green" components equaling approximately \$2.92 million.
- The Program completed construction during the year on eighteen (18) projects totaling approximately \$30.9 million.
- The Program made binding commitments for seven (7) new construction loans, totaling approximately \$42.9 million, in wastewater construction for communities discharging to priority stream segments identified as threatened or impaired on the Impaired Waterbodies List (Section 303(d)) of Oklahoma's Integrated Water Quality Assessment Report.
- Nine (9) of eleven (11) projects funded were proposed to assist Oklahoma communities to attain compliance with the enforceable permit requirements of the Clean Water Act in place to protect the water quality of receiving streams and lakes.

Financial Highlights

- The Program experienced an increase in the number of outstanding loans in FY 2012. At June 30, 2012 there were 195 outstanding loans with a principal balance of \$396,110,792. At June 30, 2011 the Program had 187 loans with a balance of \$328,333,447.
- Ending Program net assets increased from \$283,644,523 to \$304,828,753 between FY 2011 and FY 2012 of which \$42,512,086 is restricted for debt service. Ending Program net assets increased from \$257,576,198 to \$283,644,523 between FY 2010 and FY 2011 of which \$43,065,369 is restricted for debt service.

Using This Annual Report

This annual report is presented in a format that substantially meets the presentation requirements of the Governmental Accounting Standards Board (GASB) in accordance with generally accepted accounting principles. The Program is accounted for and presented similar to a special-purpose government engaged solely in business-type activities.

(Unaudited. See accompanying auditor's report.)

OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011

The financial statements for the Program are presented after the Management’s Discussion and Analysis in this annual report and then followed by the footnotes in this order:

- Management’s Discussion and Analysis – that provides useful analysis that facilitates a better understanding of the Program’s financial condition and changes therein.
- Basic Financial Statements
 - Statements of Net Assets
 - Statements of Revenues, Expenses and Changes in Net Assets
 - Statements of Cash Flows
- Footnotes - that elaborate on the accounting principles used in the preparation of the financial statements and further explain financial statement elements.

A Financial Analysis of the Program

One of the most frequently asked questions about the Program’s finances is, “Has the overall financial condition improved, declined or remained steady over the past year?” The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Activities report information about the Program as a whole and about its activities in a way that helps answer this question. The following tables present a condensed comparative presentation of net assets and changes therein.

Oklahoma Water Resources Board
CWSRF Loan Account Program
Net Assets

	Business-Type Activities		
	June 30		
	2012	2011	2010
Current assets	\$ 66,730,105	\$ 120,181,477	\$ 70,276,905
Non-current assets	423,180,343	359,698,637	294,297,835
Total assets	489,910,448	479,880,114	364,574,740
Current liabilities	12,798,125	12,414,539	6,853,439
Non-current liabilities	172,283,570	183,821,052	100,145,103
Total liabilities	185,081,695	196,235,591	106,998,542
Net assets			
Restricted	42,512,086	43,065,369	45,627,620
Unrestricted	262,316,667	240,579,154	211,948,578
Total net assets	\$ 304,828,753	\$ 283,644,523	\$ 257,576,198

With the addition of new loans, as discussed on page 6, our loans receivable amount increased as would be expected. The increase in non-current liabilities in fiscal year 2011 is directly attributable to the issuance of \$85,000,000 in revenue bonds. The decrease in non-current liabilities in fiscal year 2012 is directly attributable to the payment of long-term debt.

(Unaudited. See accompanying auditor’s report.)

OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011

Oklahoma Water Resources Board
CWSRF Loan Account Program
Revenues, Expenses, and Changes in Net Assets

	Business-Type		
	Activities		
	Years Ended June 30,		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenues			
Loan program income, net	\$ 7,728,248	\$ 5,900,679	\$ 4,585,504
Federal grants	-	273,022	993,462
Investment interest income	4,264,024	2,717,568	4,567,736
Total revenues	<u>11,992,272</u>	<u>8,891,269</u>	<u>10,146,702</u>
Expenses			
Trustee fees	23,434	15,955	13,691
Administration expenses	32,993	846,532	510,922
Interest expense	7,724,254	5,162,409	4,644,130
Amortization of debt issuance cost	61,868	37,523	30,906
Total expenses	<u>7,842,549</u>	<u>6,062,419</u>	<u>5,199,649</u>
 Net Income before transfers	 4,149,723	 2,828,850	 4,947,053
 Federal grants	 25,145,121	 29,661,879	 20,918,490
Federal grant principal forgiveness	(5,160,884)	(6,435,220)	(19,768,625)
Transfers from other programs	50,270	12,816	29,407
Transfers to other programs	(3,000,000)	-	(8,679,660)
Increase (decrease) in net assets	<u>21,184,230</u>	<u>26,068,325</u>	<u>(2,553,335)</u>
 Total net assets - beginning	 283,644,523	 257,576,198	 260,129,533
 Total net assets - ending	 <u>\$ 304,828,753</u>	 <u>\$ 283,644,523</u>	 <u>\$ 257,576,198</u>

The decrease in Federal Grant Revenue in 2012 is attributable to the ending of grant funds related to the American Reinvestment Recovery Act. The Program received funds to provide for additional subsidization to Oklahoma Borrowers for projects which met the intent of the Act. OWRB provided \$5,160,884 in principal forgiveness to Borrowers in FY 12 compared to \$6,337,720 in FY 11. In FY 12 OWRB received no administrative fee compared to \$273,022 in FY 11 related to the program. In addition, the Program received \$19,984,237 in net Federal Capitalization Grants in FY 2012 compared to \$23,324,159 in FY 2011.

(Unaudited. See accompanying auditor's report.)

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

The OWRB is authorized by the EPA to transfer up to 33% of the Drinking Water Federal Capitalization Grants from the Fund. During 2012, management elected to transfer \$3,000,000 to the Drinking Water State Revolving Fund Loan program, but did not elect this option in 2011. These transfers are included in Transfers to other programs.

Long- Term Debt

At year-end, the Program had \$169,720,000 in long-term debt outstanding, net of unamortized premium, which represents a \$10,075,000 or 5.6% decrease from June 30, 2011 to June 30, 2012. Debt increased \$79,360,000, or 179%, from 2010 to 2011. The Program's changes in long-term debt by type of debt are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Beginning balances:			
2004 Serial bonds due April 1, 2013 to April 1, 2026, interest at 3.50% to 5.25%	\$ 94,795,000	\$ 100,435,000	\$ 105,900,000
2011 Serial bonds due April 1, 2013 to April 1, 2031, interest at 3.0% to 5.0%	85,000,000	85,000,000	\$ -
Unamortized premium	14,101,052	14,518,095	5,669,186
	<u>\$ 193,896,052</u>	<u>\$ 199,953,095</u>	<u>\$ 111,569,186</u>
Less: debt principal repayments	(10,075,000)	(5,640,000)	(5,465,000)
Less: current amortization of premium	(777,482)	(417,043)	(319,083)
Ending balances	<u>\$ 183,043,570</u>	<u>\$ 193,896,052</u>	<u>\$ 105,785,103</u>
Amounts due in one year	10,760,000	10,075,000	5,640,000

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

Economic Factors and Next Year's Outlook

As a result of the widespread need for wastewater financing and efforts by the OWRB to implement a "lower than market rate" loan program, we continue to receive an overwhelming response from communities across the state requesting their projects be added to the five-year CWSRF Project Priority List. To date, communities have made requests for twelve (12) construction and refinancing projects in FY 2013 totaling over \$122.77 million. An additional \$144.36 million in projects has been requested through 2017.

Contacting the Program's Financial Management

This financial report is designed to provide the Board's accountability of the Program. If you have questions about this report or need additional financial information, contact the Financial Assistance Division of the Oklahoma Water Resources Board at 3800 N. Classen Blvd, Oklahoma City, OK 73118.

(Unaudited. See accompanying auditor's report.)

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

BASIC FINANCIAL STATEMENTS

OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011

Statements of Net Assets – June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$28,325,238	\$32,303,230
Investments	11,370,758	64,654,822
Loans receivable	23,989,260	20,650,120
Due from other programs	266,837	266,837
Interest receivable:		
Loans receivable	2,507,564	2,008,757
Other interest receivable	270,448	297,711
 Total current assets	 <u>66,730,105</u>	 <u>120,181,477</u>
Noncurrent Assets:		
Loans receivable, net of current portion and allowance for uncollectible loans of \$319,726 in 2012 and \$57,794 in 2011	372,121,532	307,683,327
Restricted Investments	42,512,086	43,065,369
Investments	7,508,670	7,850,018
Debt issuance cost, net of accumulated amortization of \$274,836 and \$212,968 in 2012 and 2011, respectively.	1,038,055	1,099,923
 Total noncurrent assets	 <u>423,180,343</u>	 <u>359,698,637</u>
 Total assets	 <u>489,910,448</u>	 <u>479,880,114</u>
 LIABILITIES:		
Current Liabilities:		
Accrued interest payable	2,028,675	1,949,264
Current maturities of long-term debt	10,760,000	10,075,000
Other accrued liabilities	5,731	81,936
Due to other programs	3,719	308,339
Total current liabilities	<u>12,798,125</u>	<u>12,414,539</u>
Noncurrent liabilities:		
Long-term debt, less current maturities and plus unamortized premium	172,283,570	183,821,052
 Total noncurrent liabilities	 <u>172,283,570</u>	 <u>183,821,052</u>
 Total liabilities	 <u>185,081,695</u>	 <u>196,235,591</u>
 NET ASSETS:		
Restricted for debt service	42,512,086	43,065,369
Unrestricted	262,316,667	240,579,154
 Total net assets	 <u>\$304,828,753</u>	 <u>\$283,644,523</u>

See accompanying notes to the basic financial statements.

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

Statements of Revenues, Expenses and Changes in Net Assets – Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES:		
Loan program income (net of bad debt expense of \$261,932 in 2012 and bad debt recovery of \$2,959 in 2011)	\$7,728,248	\$5,900,679
ARRA administration revenue	-	273,022
Total operating revenues	<u>7,728,248</u>	<u>6,173,701</u>
OPERATING EXPENSES:		
Trustee fees	23,434	15,955
Administration expenses	32,993	846,532
Interest expense	7,724,254	5,162,409
Amortization of debt issuance cost	61,868	37,523
Total operating expenses	<u>7,842,549</u>	<u>6,062,419</u>
OPERATING INCOME (LOSS)	(114,301)	111,282
NON-OPERATING REVENUES (EXPENSES):		
Federal grants and contracts	25,145,121	29,661,879
Federal grant principal forgiveness	(5,160,884)	(6,435,220)
Interest Income:		
Invested cash balances	853,090	657,209
Short-term investments	159,455	25,684
Long-term investments	2,209,109	2,528,481
Gain/(Loss) on Investments	<u>1,042,370</u>	<u>(493,806)</u>
Total non-operating revenues	<u>24,248,261</u>	<u>25,944,227</u>
Net income before transfers	24,133,960	26,055,509
Transfers in - Clean Water Revolving Fund Loan Administrative Fund	50,270	12,816
Transfers out - Drinking Fund Revolving Fund Loan Program	<u>(3,000,000)</u>	<u>-</u>
Change in net assets	21,184,230	26,068,325
Total net assets - beginning	283,644,523	257,576,198
Total net assets - ending	<u>\$304,828,753</u>	<u>\$283,644,523</u>

See accompanying notes to the basic financial statements.

OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011

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

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Collections of interest on loans to local governmental units	\$6,967,509	\$5,354,928
Federal grant income	-	273,022
Payments to other suppliers	(132,632)	(783,927)
Payments to other programs	-	308,339
Payments from other programs	(304,620)	260,307
Interest paid on debt	(8,422,325)	(4,840,250)
Net Cash Provided by (Used in) Operating Activities	<u>(1,892,068)</u>	<u>572,419</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in - Clean Water Revolving Fund Loan Administrative Fund	50,270	12,816
Transfers out - Drinking Fund Revolving Fund Loan Program	(3,000,000)	-
Federal grant receipts	25,145,121	23,226,659
Bond issue proceeds	-	85,000,000
Bond issue cost	-	(619,235)
Premium on bonds issued	-	9,167,991
Principal paid on bonds/notes	(10,075,000)	(5,640,000)
Net Cash Provided by Noncapital Financing Activities	<u>12,120,391</u>	<u>111,148,231</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans to local governmental units	(94,575,809)	(107,296,664)
Collections of principal on loans to local governmental units	21,375,648	18,228,983
Collections of principal on loans to local governmental units from federal grant proceeds	5,160,884	6,435,220
Interest on invested cash balances	865,960	709,562
Interest on short-term investments	159,907	25,266
Interest on long-term investments	3,265,419	2,065,666
Purchase (sale) of long-term investments	894,631	15,345,560
Sale (purchase) of short-term investments	48,647,045	(52,836,490)
Net Cash Provided by (Used in) Investing Activities	<u>(14,206,315)</u>	<u>(117,322,897)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(3,977,992)	(5,602,247)
Balances - beginning of the year	<u>32,303,230</u>	<u>37,905,477</u>
Balances - end of the year	<u>\$28,325,238</u>	<u>\$32,303,230</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	(\$114,301)	\$11,282
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Amortization of debt issuance costs and note issuance discounts (premiums)	(715,614)	(379,519)
Allowance for uncollectible loans	(261,932)	(2,959)
Change in assets and liabilities:		
Decrease (Increase) in due from other programs	-	260,307
Decrease (Increase) in interest receivable	(498,807)	(542,792)
Increase (Decrease) in other current liabilities	(76,205)	78,560
Increase (Decrease) in accrued interest payable	79,411	739,201
Increase (Decrease) in due to other funds	(304,620)	308,339
Net Cash Provided by (Used in) Operating Activities	<u>(51,892,068)</u>	<u>\$572,419</u>

See accompanying notes to the basic financial statements.

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

Footnotes to the Basic Financial Statements:

1. Summary of Significant Accounting Policies

Reporting Entity

The Oklahoma Water Resources Board/Oklahoma Wastewater Facility Construction Revolving Loan Account Program (the "Program") was created pursuant to the 1987 Amendments (P.L. 100-4) to the "Clean Water Act" (P.L. 92-500) to provide a perpetual fund for financing the construction of wastewater treatment facilities for municipalities and other public entities. The Program funds loans with Federal grants, State matching funds, principal repayments, bond proceeds, and interest received on loans and invested cash balances. State matching funds are provided through State appropriations or through the issuance of notes payable.

Administrative costs of the Oklahoma Water Resources Board ("OWRB") allocated to the Program may be reimbursed by the Program, limited to 4% of total cumulative Federal contributions or through fees assessed to each participating borrower at the rate of one-half of one percent per annum of the amount of each borrower's loan balance outstanding, and loan application fees. The fees paid by the participating borrowers are remitted directly to OWRB and, therefore, are not included in the accompanying financial statements.

The significant accounting principles and practices followed by the Program are presented below:

Basis of Accounting and Measurement Focus

The Program is accounted for and presented similar to a special-purpose government engaged solely in business type activities.

The Program uses the accrual basis of accounting whereby expenses are recognized when the liability is incurred and revenues are recognized when earned.

The Program uses the economic resources measurement focus where all assets, liabilities, net assets, revenues, expenses and transfers relating to the Program and net income and capital maintenance are measured.

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB"). Under the guidelines of GASB Statement 20, the Program has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

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

Loans Receivable and Allowance for Uncollectible Loans

Loans receivable are stated at the amount of unpaid principal reduced by an allowance for uncollectible loans. The allowance for uncollectible loans is established through a provision for bad debts that is charged to expense. Loans receivable are charged against the allowance for uncollectible loans when management believes that the collectability of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans receivable that may become uncollectible, based on evaluations of the collectability of loans receivable. The evaluations take into consideration such factors as the borrowers' debt coverage ratio, review of specific problem loans receivable and current economic conditions that may affect the borrowers' ability to pay. Accrual of interest is discontinued on a loan receivable when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful.

Federal Letter of Credit Payments Receivable

Funding from Federal grants, which have been approved, is provided through a Federal letter of credit. Timing of deposits is specified by the terms of the grant. The Program draws on the available funds as necessary to fund loans. Letter of Credit Payment Receivables are recorded only when the required State match has been met and actual requests for loan draws have been received by the Program. When these events have occurred, the Program records the receivable and federal revenue for the amount of the loan request.

Federal Grant Income

Federal grant income represents contributions from the Environmental Protection Agency ("EPA") of the U.S. Federal Government. In the unlikely circumstance of termination of the Program, all Federal and State contributions are refundable to the respective governments upon liquidation of the Program's assets.

During FY 2012 and 2011, the program received federal grant income under the American Recovery and Reinvestment Act. Proceeds under this program were used to forgive principal for Borrowers meeting the requirements of the Act. For FY 2012 and 2011, \$1,897,545 and \$6,337,720, respectively, was provided for principal forgiveness under the program.

Debt Issuance Costs

Debt issuance costs are included in other non-current assets and are amortized using the straight-line method over the life of the Program bonds payable, which is 23 years for the 2004 bonds and 21 years for the 2011 bonds.

OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011

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

Bond Issue Premium

The Program's State Revolving Fund Revenue Bonds, Series 2004 were initially sold at a premium of \$7,161,445. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$319,082 was recorded in 2012 and 2011 and is included in interest expense in the accompanying statements of revenues, expenses, and changes in net assets.

The Program's State Revolving Fund Revenue Bonds, Series 2011 were initially sold at a premium of \$9,167,991. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$458,400 and \$97,959 was recorded in 2012 and 2011 and is included in interest expense in the accompanying statements of revenues, expenses, and changes in net assets.

Cash and Cash Equivalents

The Program considers all highly liquid debt instruments purchased with an original maturity of three months or less and money market funds to be cash equivalents.

Investments

Included in the total is \$42,512,086, which has been deposited into a Debt Service Reserve fund, pursuant to the bond indenture (See Note 5).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Cash Deposits and Investment Risk

Cash of \$28,322,000 and \$32,302,823 at June 30, 2012 and 2011 respectively, was on deposit in the State Treasurer's office's internal investment pool – *OK Invest*. In addition to the \$28,322,000 and \$32,302,823, there is a cash balance of \$3,238 and \$407 on deposit with BancFirst at the end of June 30, 2012 and 2011. Short-term investments of \$11,370,758 and \$59,704,341 at June 30, 2012 and 2011, respectively, were on deposit with the Program's trustee. The deposits are invested in the *Federated Treasury Obligations* mutual fund.

Investment Interest Rate Risk – the Program does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates as it relates to funds not directly associated with bond issue proceeds.

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

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

Investment Credit Risk-Non Debt Proceeds – for non-debt proceeds, the Program has no investment policy that limits its investment choices other than the limitation of state law imposed on the State Treasurer as follows:

- a. U.S. Treasury Bills, Notes and Bonds and U.S. Government Agency Securities with certain ratings and maturity limitations.
- b. Collateralized or insured certificates of deposit and other evidences of deposit issued by a bank, savings bank, savings and loan association or credit union located in the state.
- c. With certain ratings and maturity limitations, negotiable certificates of deposit, bankers acceptances and commercial paper.
- d. Obligations of state and local governments, including obligations of Oklahoma state public trusts, with certain ratings and maturity limitations.
- e. Collateralized repurchase agreements tri-party repurchase agreements.
- f. Money market mutual funds and short term bond funds regulated by the SEC and in which investments consist of obligations of the U.S. Government and its agencies and instrumentalities and repurchase agreements collateralized by obligations of the U.S. Government and its agencies and instrumentalities.

The State Treasurer has determined that current holdings in OK Invest should be limited to obligations of the United States government, its agencies and instrumentalities, tri-party repurchase agreements collateralized at 102% with the collateral held by a third party in the name of the Oklahoma State Treasurer and money market mutual funds which either directly or indirectly invest in U.S. Treasury and/or Agency securities and repurchase agreements related to such securities. OK Invest is not insured or guaranteed by the State of Oklahoma, the Federal Deposit Insurance Corporation or any other government agency.

Investment Credit Risk - Debt Proceeds – for debt proceeds, the bond indenture provides for restrictions on the investment choices of the Program as follows:

- a. Obligations of the United States Government, its agencies and instrumentalities.
- b. Collateralized or insured certificates of deposit and other evidences of deposit at banks, savings banks, savings and loan associations or credit unions located in the State of Oklahoma.
- c. Money market funds regulated by the Securities and Exchange Commission and which investments consist of those items specified in (a) and (b) above.
- d. Investment agreements with entities maintaining a rating in the top two categories by a nationally recognized municipal bond rating agency.

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

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

At June 30, 2012 and 2011, the Program's investments in obligations not directly guaranteed by the U.S. Government and investments in money market mutual funds were rated as follows:

<u>Type</u>	<u>Maturities</u>	<u>Credit Rating</u>	<u>Carrying Value</u>	
			<u>2012</u>	<u>2011</u>
OK Invest (State Treasurer)	Less than 2 years	Not rated.	\$ 28,322,000	\$ 32,302,416
Federated Treasury Obligations Fund	16 days	AAAm	11,370,758	59,704,341
City of Lawton Municipal Bond Reserve Fund	10/1/2028	Not rated.	7,508,670	7,306,300
Revenue Fund	4/1/2027	AAAm	40,403,171	43,065,369
Total	4/1/2027	AAAm	<u>2,108,915</u>	<u>5,494,606</u>
			<u>\$ 89,713,514</u>	<u>\$ 147,873,032</u>

Concentration of Investment Credit Risk – neither the Program nor the bond indenture place any limit on the amount the Program may invest in any one issuer. The Program has the following concentration of credit risk at June 30, 2012: 47.39% or \$42,512,086 is invested in a guaranteed investment agreement with Transamerica Occidental Life Insurance Company, 12.67% or \$11,370,758 is invested in Federated Treasury money market funds, and 31.57% or \$28,322,000 is invested in OK Invest.

At June 30, 2011, the Program has the following concentration of credit risk at June 30, 2011: 32.8% or \$48,559,975 is invested in a guaranteed investment agreement with Transamerica Occidental Life Insurance Company, 40.4% or \$59,704,341 is invested in Federated Treasury money market funds, and 21.8% or \$32,302,823 is invested in OK Invest.

3. Federal Letter of Credit Payments Receivable

A schedule of activity in the Federal letter of credit payments receivable account, as reflected in the accompanying statements of net assets, for the years ended June 30, 2012 and 2011, is as follows:

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

3. Federal Letter of Credit Payments Receivable (cont'd)

Balance, June 30, 2010		-
Federal revenue recognized		29,934,901
Federal funds withdrawn		<u>(29,934,901)</u>
Balance, June 30, 2011	\$	-
Federal revenue recognized		25,145,121
Federal funds withdrawn		<u>(25,145,121)</u>
Balance, June 30, 2012	\$	<u>-</u>

Of the Federal letter of credit payments withdrawn during the fiscal year ended June 30, 2012, \$19,984,237 was used to provide loans to borrowers, \$5,160,884 was used for debt forgiveness and no funds were used for administrative expenses. During FY-2012 \$80,573 of the 4% administration fee available to the Program was used to pay for administration costs of the Program. As of June 30, 2012, the Program has EPA grant funding available for its use totaling \$2,601,727.

Of the Federal letter of credit payments withdrawn during the fiscal year ended June 30, 2011, \$23,226,659 was used to provide loans to borrowers, \$6,435,220 was used for debt forgiveness and \$273,022 was used for administrative expenses. During FY-2011 \$236,939 of the 4% administration fee available to the Program was used to pay for administration costs of the Program. As of June 30, 2011, the Program has EPA grant funding available for its use totaling \$15,816,747.

4. Loans Receivable

The Program originates direct loans with communities utilizing several sources of funds including existing loan principal repayments, interest earnings, federal grants and bond funds. These loans are collateralized by various revenue sources including, but not limited to, user charges and sales taxes of the borrowers. These loans are made at 60% of the current market interest rate. At June 30, 2012 and 2011, there were \$354,547,841 and \$281,250,433, respectively, in loans outstanding. As of June 30, 2012, the Program had unexpended commitments to borrowers for additional loan funds in the amount of \$111,356,582.

Prior to FY-2007, the Board originated interim construction loans that would upon completion provide the borrowers the opportunity to refinance 40% of their outstanding interim loan balance on a long-term basis without interest. Such loans were collateralized by various revenue sources including, but not limited to, user charges and sales taxes of the borrowers. To avail themselves of this opportunity, the borrowers obtained funding for the remaining 60% of the outstanding loan from sources outside the Program. This is no longer an option for the Program. At June 30, 2012 and 2011, there were \$41,562,951 and \$47,083,014, respectively, in long-term interest-free loans outstanding.

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

4. Loans Receivable (cont'd)

A schedule of activity of loans receivable for the years ended June 30, 2012 and 2011, is as follows:

Net Balance, June 30, 2010	\$ 245,698,027
Loan disbursements	107,296,664
Principal repayments	<u>(24,664,203)</u>
	328,330,488
Change in allowance for uncollectible loans	<u>2,959</u>
Net Balance, June 30, 2011	\$ 328,333,447
Loan disbursements	94,575,809
Principal repayments	<u>(26,536,532)</u>
	396,372,724
Change in allowance for uncollectible loans	<u>(261,932)</u>
Net Balance, June 30, 2012	<u>\$ 396,110,792</u>

5. Restricted Investments

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

	<u>2012</u>	<u>2011</u>
Guaranteed investment with Transamerica Occidental Life Insurance Co. pursuant to an investment agreement, 4.61% maturing April 1, 2027 (restricted for debt service)	<u>42,512,086</u>	<u>43,065,369</u>
Total restricted investments	<u>\$ 42,512,086</u>	<u>\$ 43,065,369</u>

The agreement with Transamerica Occidental Life Insurance Co./Transamerica Life Insurance and Annuity Co. ("Transamerica"), are uninsured and non-collateralized so long as Transamerica maintains certain specified credit ratings. If these credit ratings are not maintained, Transamerica is required to collateralize the investment agreement sufficient to maintain an S & P or Moody's rating of "AA-" or "Aa3", respectively, on the contract. The S & P credit rating for Transamerica at June 30, 2012 was AA-. The investment is carried at cost, which approximates fair value.

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011**

6. Long-Term Debt

Bonds Payable

On October 26, 2004, the Program issued State Revolving Fund Revenue Bonds, Series 2004 in the amount of \$121,075,000. These bonds were issued to provide low interest cost financing for Oklahoma Local governmental entities for acquiring, constructing, or improving their wastewater treatment systems and to enable the Program to meet the State matching requirements in order to obtain Federal grants. The bonds represent a portion of the overall \$204,480,000 Revolving Fund Revenue Bonds, Series 2004 (Master Trust) issued by the Oklahoma Water Resources Board. The balance of the bonds and related debt issue costs, bond premium, etc. were allocated proportionately to the Drinking Water State Revolving Fund Loan Program for similar purposes related to its drinking water treatment facilities projects.

On April 13, 2011, the Program issued State Revolving Fund Revenue Bonds, Series 2011A in the amount of \$85,000,000. These bonds were issued to provide low interest cost financing for Oklahoma Local governmental entities for acquiring, constructing, or improving their wastewater treatment systems and to enable the Program to meet the State matching requirements in order to obtain Federal grants.

Future debt service payments required by the Program's outstanding bonds as of June 30, 2012 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$10,760,000	\$8,114,700	\$18,874,700
2014	11,115,000	7,684,976	18,799,976
2015	11,625,000	7,182,088	18,807,088
2016	12,025,000	6,601,937	18,626,937
2017	12,520,000	6,053,378	18,573,378
2018-2022	57,370,000	21,206,028	78,576,028
2023-2027	43,025,000	8,536,101	51,561,101
2028-2031	<u>11,280,000</u>	<u>1,251,000</u>	<u>12,531,000</u>
Total	<u>\$169,720,000</u>	<u>\$66,630,208</u>	<u>\$236,350,208</u>

In addition to their normal scheduled maturity dates as shown above, the bonds may also be redeemed at the option of the Board, in whole or in part, at such dates and for such prices, plus accrued interest as are set forth in the bond indenture.

In order for the interest on the Program's Series 2004 and 2011 bonds to be tax-exempt, the Board must comply with certain provisions of the Internal Revenue Code, as amended. One provision requires that the arbitrage earnings (defined as the excess of the amount earned on all nonpurpose investments over the amount which would have been earned if the nonpurpose investments were invested at a rate equal to the bond yield) be rebated to the Internal Revenue Service. This rebate is payable at the end of each five years during the term of the issue. Management of the Program believes that any arbitrage liability, which exists at June 30, 2012, is immaterial.

OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2012 and 2011

6. Long-Term Debt (cont'd)

Pursuant to the 2004 Master Trust Agreement, the Clean Water State Revolving Fund Loan Program bonds share in an aggregate debt service reserve with the Drinking Water State Revolving Fund Loan Program bonds. At June 30, 2012, the aggregate debt service reserves totaled \$67,675,687 of which \$40,403,171 is reflected in the accompanying statements of net assets.

Long-term debt outstanding at June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Beginning balances:		
2004 Serial bonds due April 1, 2013 to April 1, 2026, interest at 3.50% to 5.25%	\$ 94,795,000	\$ 100,435,000
2011 Serial bonds due April 1, 2013 to April 1, 2031, interest at 3.0% to 5.0%	85,000,000	85,000,000
 Unamortized premium	 14,101,052	 14,518,095
	<u>\$ 193,896,052</u>	<u>\$ 199,953,095</u>
Less: debt principal repayments	(10,075,000)	(5,640,000)
Less: current amortization of premium	(777,482)	(417,043)
Ending balances	<u>\$ 183,043,570</u>	<u>\$ 193,896,052</u>
Amounts due in one year	10,760,000	10,075,000

7. Binding Commitments

During the year ended June 30, 2012, the OWRB voted to approve funding of various borrower loan applications through the Program. These binding commitments will be funded by the Program provided that a loan agreement and promissory note are executed within one year from the date of original approval unless an extension is granted by the OWRB. Loan applications approved by the OWRB for which a loan agreement and promissory note have not been executed totaled \$5,795,000 at June 30, 2012.

8. Reclassifications

Certain prior year amounts have been reclassified for comparative purposes to conform to the current year presentation. Loans Receivable previously reported as "Small Community" and "Long-term" loans receivable in the statement of net assets have been combined and are now presented as "Loans Receivable" and "Loans Receivable, net of current portion and allowance for uncollectible loans".

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER
STATE REVOLVING FUND
LOAN ACCOUNT PROGRAM**

**SINGLE AUDIT REPORTS
AND SUPPLEMENTARY SCHEDULES**

JUNE 30, 2012

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM**

TABLE OF CONTENTS

PAGE

SINGLE AUDIT REPORTS AND SUPPLEMENTARY SCHEDULES:

**Reports related to financial statements of the reporting entity
Required by GAO Government Auditing Standards:**

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	1
--	---

Reports related to Federal Assistance Programs Required by OMB Circular A-133:

Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance	3
Schedule of Expenditures of Federal Awards	5
Schedule of Findings and Questioned Costs	6



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

To the Members of the
Oklahoma Water Resources Board
Oklahoma Clean Water State Revolving Fund Loan Account Program

We have audited the financial statements of The Oklahoma Water Resources Board/Oklahoma Clean Water State Revolving Fund Loan Account Program (the "Program") as of and for the year ended June 30, 2012, and have issued our report thereon dated September 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Program's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

Aledge & Associates, P.C.

Edmond, Oklahoma
September 20, 2012



REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Members of the
Oklahoma Water Resources Board
Oklahoma Clean Water State Revolving Fund Loan Account Program

Compliance

We have audited the Oklahoma Water Resources Board/Oklahoma Clean Water State Revolving Fund Loan Account Program's (the "Program") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Program's major federal program for the year ended June 30, 2012. The Program's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Program's management. Our responsibility is to express an opinion on the Program's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Program's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Program's compliance with those requirements.

In our opinion, the Program complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Program is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Program's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over

compliance. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Program, as of and for the year ended June 30, 2012, and have issued our report thereon September 20, 2012 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

Arlidge & Associates, P.C.

Edmond, Oklahoma
September 20, 2012

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Expenditures</u>	<u>Operating Expenditures</u>	<u>Loans Funded Subaward Amount</u>	<u>Loan Forgiveness Subaward Amount</u>
Environmental Protection Agency					
Capitalization Grants for Clean					
Water State Revolving Funds	66.458	\$ 23,247,576	-	19,984,237	3,263,339
ARRA Capitalization Grants for Clean					
Water State Revolving Funds	66.458	\$ 1,897,545	-	-	1,897,545
Total Federal Expenditures		\$ 25,145,121	-	19,984,237	5,160,884

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Oklahoma Clean Water State Revolving Fund Loan Account Program and is presented on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012**

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
 Material weakness(es) identified? _____ yes X no
 Significant deficiency(ies) identified
 not considered to be material weakness(es)? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? _____ yes X no
 Significant deficiency(ies) identified
 not considered to be material weakness(es)? _____ yes X none reported

Type of auditor's report issued on compliance
 for major programs: Unqualified

Any audit findings disclosed that are required
 to be reported in accordance with
 Circular A-133, Section .510(a)? _____ yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.458	ARRA Capitalization Grants for Clean Water State Revolving Funds
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish
 between Type A and Type B programs: \$ 754,354

Auditee qualified as low-risk auditee? X yes _____ no

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012**

SECTION II – FINANCIAL STATEMENT FINDINGS

Compliance Findings

There are no findings requiring reporting under this section.

Internal Control Findings

There are no findings requiring reporting under this section.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Compliance Findings

There are no findings requiring reporting under this section.

Internal Control Findings

There are no findings requiring reporting under this section.