State of Oklahoma



# STATE LOAN PROGRAM REVENUE BONDS SERIES 1995

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

As of and for the Years Ended June 30, 2012 and 2011

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Internal Control over Financial Reporting and Compliance



#### INDEPENDENT AUDITOR'S REPORT

To the Members of the Oklahoma Water Resources Board

We have audited the accompanying statements of net assets of the Oklahoma Water Resources Board State Loan Program Revenue Bonds - Series 1995 (the "Program") as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oklahoma Water Resources Board State Loan Program Revenue Bonds - Series 1995 as of June 30, 2012 and 2011, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 12, 2012, on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and

comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Sulsand Ausciali, F.C.
Edmond, Oklahoma
October 12, 2012

# OKLAHOMA WATER RESOURCES BOARD STATE LOAN PROGRAM REVENUE BONDS – SERIES 1995 ANNUAL FINANCIAL REPORT As of and for the Years Ended June 30, 2012 and 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and for the Years Ended June 30, 2012 and 2011

#### MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Oklahoma Water Resources Board State Loan Program Revenue Bonds – Series 1995 (the "Program") financial performance provides an overview of the financial activities for the fiscal years ended June 30, 2012 and June 30, 2011. Please read it in conjunction with the financial statements, which begin on page 10. The Oklahoma Water Resources Board (the "Board") administers the Series 1995 Bond Program.

#### Financial Highlights

- Total Assets decreased 53.0% from \$10,275,840 to \$4,829,296 between FY 2011 and FY 2012. Total Assets decreased 6.0% from \$10,927,363 to \$10,275,840 between FY 2010 and FY 2011.
- Total Net Assets increased from \$754,446 to \$763,752 between FY 2011 and FY 2012. Total Net Assets increased from \$740,986 to \$754,446 between FY 2010 and FY 2011.
- Total Liabilities decreased 57.3% from \$9,521,394 to \$4,065,544 between FY 2011 and FY 2012.
   Total Liabilities decreased 6.5% from \$10,186,377 to \$9,521,394 between FY 2010 and FY 2011.
- Other accrued liabilities decreased over 27% in FY 2012 and increased over 41% in FY 2011.
   Administrative fees assessed but not used during past fiscal years are "banked" for future administrative costs.

#### Using This Annual Report

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

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

- Management's Discussion and Analysis that provides useful analysis that facilitates a better understanding of the Program's financial condition and changes therein.
- Basic Financial Statements
  - o Statements of Net Assets
  - o Statements of Revenues, Expenses and Changes in Net Assets
  - o 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.
- Supplemental Information Grouped Financial Statements of all Program Bond Issues for the year ended June 30, 2012
  - Statements of Net Assets

(Unaudited. See accompanying auditor's report.)

As of and for the Years Ended June 30, 2012 and 2011

- o Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows

#### A Financial Analysis of the Program

Total net assets

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

# Oklahoma Water Resources Board Revenue Bonds - Series 1995 Net Assets

Business-Type

754,446

740,986

			JP-		
_			Activities		
			June 30,		
	2012		2011		2010
\$	444,595	\$	805,139	\$	768,611
	4,384,701		9,470,701		10,158,752
	4,829,296		10,275,840		10,927,363
	455,801		797,413		748,159
	3,609,743		8,723,981		9,438,218
89.	4,065,544		9,521,394		10,186,377
-				1	
	763,752		754,446		740,986
	\$	\$ 444,595 4,384,701 4,829,296 455,801 3,609,743 4,065,544	\$ 444,595 4,384,701 4,829,296 455,801 3,609,743 4,065,544	June 30,       2012     2011       \$ 444,595     \$ 805,139       4,384,701     9,470,701       4,829,296     10,275,840       455,801     797,413       3,609,743     8,723,981       4,065,544     9,521,394	June 30,       2012     2011       \$ 444,595     \$ 805,139     \$ 4,384,701       4,829,296     9,470,701       455,801     797,413       3,609,743     8,723,981       4,065,544     9,521,394

763,752

As of and for the Years Ended June 30, 2012 and 2011

# Oklahoma Water Resources Board Revenue Bonds - Series 1995 Revenues, Expenses, and Changes in Net Assets

# **Business-Type**

			A	ctivities		
	· ·		Years F	Ended June 30	,	
		2012		2011		2010
Revenues						
Loan program income	\$	130,561	\$	183,770	\$	230,083
Investment interest income		94		24		38
Total revenues	_	130,655		183,794		230,121
Expenses						
Trustee fees		861		1,187		1,279
Administration expenses		37,250		40,433		37,002
Interest expense		63,259		106,861		147,332
Amortization of debt issuance cost		7,550		7,551		7,550
Standby bond purchase agreement fees		8,636		9,662		10,488
Remarketing fees		3,793		4,640		4,718
Total expenses		121,349		170,334		208,369
Increase in net assets		9,306		13,460		21,752
Total net assets - beginning		754,446		740,986		719,234
Total net assets - ending	\$	763,752	\$	754,446	\$	740,986

(Unaudited. See accompanying auditor's report.)

As of and for the Years Ended June 30, 2012 and 2011

#### Long-Term Debt

At year-end, the Program had \$4,040,000 in long-term debt outstanding which represents a \$5,410,000 or 57.2% decrease from the prior year. At June 30, 2011, the long-term debt outstanding decreased by \$705,000 or 6.9%. The Program's changes in long-term debt by type of debt are as follows:

	2012	2011	2010
Beginning Balance:			
Serial and term bonds due September 1, 2012 to			
September 1, 2016, at fixed interest rates	\$ 790,000	\$ 905,000	\$ 1,005,000
Serial and term bonds due September 1, 2012 to			
September 1, 2022, at variable rates subject to			
mandatory sinking fund redemption	8,660,000	9,250,000	10,315,000
Less: debt principal repayments	(5,410,000)	(705,000)	(1,165,000)
Ending Balances	\$ 4,040,000	\$ 9,450,000	\$ 10,155,000
Amount due in one year	\$ 360,000	\$ 650,000	\$ 635,000

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**

Due to the nature of the Series 1995 Bond Program, the Board expects a decrease in net assets and liabilities as the loans continue to make principal repayments and bonds are redeemed. As the net assets and liabilities decrease, so will the revenues and operating expenses. However, the Board expects to have sufficient income to sustain the Series 1995 Bond Program throughout the life of the bonds.

#### Contacting the Program's Financial Management

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

(Unaudited. See accompanying auditor's report.)

# OKLAHOMA WATER RESOURCES BOARD STATE LOAN PROGRAM REVENUE BONDS – SERIES 1995 ANNUAL FINANCIAL REPORT As of and for the Years Ended June 30, 2012 and 2011

# BASIC FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2012 and 2011

# Statements of Net Assets - June 30, 2012 and 2011

+ COTTO	2012	2011
ASSETS:		
Current Assets:	\$75.453	\$120.265
Cash and cash equivalents	\$75,453	\$130,365 650,500
Current portion of notes receivable Interest receivable:	364,600	030,300
Notes receivable	4.541	24 272
	4,541	24,273
Other	1	1
Total current assets	444,595	805,139
Noncurrent Assets:		
Notes receivable net of current portion	4,292,650	9,371,100
Bond issuance cost, net of accumulated amortization of		
\$126,099 and \$118,549 in 2012 and 2011, respectively	92,051	99,601
Total noncurrent assets	4,384,701	9,470, <b>701</b>
Total assets	4,829,296	10,275,840
LIABILITIES: Current Liabilities: Accrued interest payable Current maturities of long-term debt Other accrued liabilities	1,178 360,000 94,623	17,321 650,000 130,092
Total current liabilities	455,801	797,413
Noncurrent liabilities: Long-term debt, less current maturities and unamortized discount of \$70,257 and \$76,019 in 2012 and 2011, respectively	3,609,743	8,723,981
discount of \$70,237 and \$70,019 in 2012 and 2011, respectively	3,009,743	0,723,901
Total noncurrent liabilities	3,609,743	8,723,981
Total liabilities	4,065,544	9,521,394
NET ASSETS:		
Unrestricted	763,752	754,446

See accompanying notes to the basic financial statements.

# OKLAHOMA WATER RESOURCES BOARD STATE LOAN PROGRAM REVENUE BONDS – SERIES 1995 ANNUAL FINANCIAL REPORT As of and for the Years Ended June 30, 2012 and 2011

\$763,752

\$754,446

#### Statements of Revenues, Expenses, and Changes in Net Assets - Years Ended June 30, 2012 and 2011 2012 2011 **Operating Revenues:** Loan program income 130,561 183,770 Total operating revenues 130,561 183,770 **Operating Expenses:** Trustee fees 861 1,187 Administration fees 37,250 40,433 Interest expense 63,259 106,861 Amortization of bond issuance cost 7,551 7,550 Standby bond purchase agreement fees 9,662 8,636 Remarketing fees 3,793 4,640 121,349 170,334 Total operating expenses Operating income 9,212 13,436 Non-Operating Revenues: Interest income 94 24 Total non-operating revenues 94 24 Change in net assets 9,306 13,460 Total net assets - beginning 740,986 754,446

See accompanying notes to the basic financial statements.

Total net assets - ending

As of and for the Years Ended June 30, 2012 and 2011

Statements of Cash Flows - Years Ended June 30, 2012 and 2011				
		2012		2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Collections of interest on loans to local governments	\$	150,293	\$	187,725
Payments to other suppliers		(86,009)		(18,020)
Interest paid on debt		(73,640)		(104,746)
Net Cash Provided by (Used in) Operating Activities		(9,356)		64,959
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Repayments of Long-term Debt	(	(5,410,000)		(705,000)
Net Cash Provided by (Used in) Noncapital Financing Activities		(5,410,000)		(705,000)
CASH FLOWS FROM INVESTING ACTIVITIES				
Collections of principal on loans to local governmental units		5,364,350		639,850
Interest income		94		24
Net Cash Provided by Investing Activities		5,364,444		639,874
Net Increase (Decrease) in Cash and Cash Equivalents		(54,912)		(167)
Balances - beginning of the year		130,365	_	130,532
Balances - end of the year		\$75,453	_	\$130,365
Reconciliation of operating income to net cash provided				
by operating activities:				
Operating income		\$9,212		\$13,436
Adjustments to reconcile operating income to net cash provided				
(used) by operating activities:				
Amortization of bond issuance costs and bond issuance discounts		13,312		13,314
Change in assets and liabilities:				
Decrease (Increase) in interest receivable		19,732		3,955
Increase (Decrease) in accrued interest payable		(16,143)		(3,648)
Increase (Decrease) in other accrued liabilities	_	(35,469)	_	37,902
Net Cash Provided by (Used in) Operating Activities		(\$9,356)		\$64,959

See accompanying notes to the basic financial statements.

As of and for the Years Ended June 30, 2012 and 2011

#### Footnotes to the Basic Financial Statements:

#### 1. Summary of Significant Accounting Policies

#### Reporting Entity

The Oklahoma Water Resources Board (the "Board") State Loan Program Revenue Bonds -Series 1995 (the "Program") commenced operations in October 1995. The Program was established by the Board to provide monies to implement its state-wide financial assistance program to make loans to local governmental units in the State of Oklahoma to be utilized to provide for the acquisition, development and utilization of storage and control facilities for water and sewage systems. Provisions of the bond indenture require that all local loans be originated by October 18, 1998. No new loans will be originated after that date without amendments to the bond indenture. Any portion of the bond proceeds may be used to redeem bonds at the option of the Board as specified by the bond indenture.

Administrative, accounting, and other technical support services are provided by employees of the Board. Payroll and other costs incurred by the Board on behalf of the Program are not billed by the Board, but are recovered from the administration fees paid by the Program (see Note 4).

#### Basis of Accounting and Measurement Focus

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

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

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

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

Pursuant to its bond indenture, the Program is required to maintain various separate accounts for principal payments, interest payments and various other purposes. To assist in fulfilling these responsibilities, the Board has engaged BancFirst to act as trustee and maintain appropriate fiduciary records. All activities and monies in the various accounts required by the bond indenture are considered to be applicable to the conduct of the Program's ongoing operations. Accordingly, all such activities and monies are combined for purposes of preparing the Program's financial statements.

As of and for the Years Ended June 30, 2012 and 2011

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

#### Bond Issuance Cost

Bond issuance costs are amortized using the straight-line method over the life of the bonds, which is 30 years.

#### Bond Issue Discount

The Program's bonds were initially sold at a discount of \$166,500. The bond discount is being amortized over the remaining life of the bonds. Amortization expense of \$5,762 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 Equivalents

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

#### Operating Revenues and Expenses

The Program considers income earned on outstanding loans receivable to be operating revenue. Similarly, the Program considers expenses incurred in administering the loan program, such as trustee fees, administration expenses, interest expense, and the amortization of bond issuance costs, to be operating expenses.

#### Use of Estimates

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

#### 2. Cash Deposits and Investment Risk

Cash and cash equivalents of \$75,453 and \$130,365 at June 30, 2012 and 2011 respectively, were on deposit with the Program's trustee.

Investment Interest Rate Risk – the bond indenture provides that initial bond proceeds be invested in an investment agreement that provides for an interest rate return equal to the interest due on the bonds for the initial loan period, 3 years.

*Investment Credit Risk* – the bond indenture provides for restrictions on the investment choices of the Program as follows:

As of and for the Years Ended June 30, 2012 and 2011

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

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

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

Type	Maturities	Credit Rating	C	arrying <u>Value</u>
Federated Treasury Obligations Fund	16 days	AAAm	\$	75,453
Total			\$	75,453

Concentration of Investment Credit Risk – the bond indenture places no limit on the amount the Program may invest in any one issuer. The Program has the following concentration of credit risk: 100% or \$75,453 is invested in Federated Treasury Obligations Fund.

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

Type	<u>Maturities</u>	Credit Rating	C	Carrying <u>Value</u>
Federated Treasury Obligations Fund	16 days	AAAm	\$	130,365
Total			\$	130,365

Concentration of Investment Credit Risk – the bond indenture places no limit on the amount the Program may invest in any one issuer. The Program had the following concentration of credit risk: 100% or \$130,365 was invested in Federated Treasury Obligations Fund.

As of and for the Years Ended June 30, 2012 and 2011

#### 3. Notes Receivable

Notes receivable of \$4,657,250 and \$10,021,600 at June 30, 2012 and 2011, respectively, represents loans made by the Program to local governmental entities for the purposes of acquisition, development, and utilization of storage and control facilities for water and sewage systems. Payments on the notes are due in semiannual installments for fixed rate notes and quarterly for variable rate notes with various maturity dates through 2025; however, the local entities have the option to pay the notes earlier than the scheduled maturities. The current portion of notes receivable contains scheduled maturities and any prepayments made subsequent to year-end through September 30, 2012. The notes are collateralized by various revenue sources including, but not limited to user charges and sales taxes of the borrowers and mortgages on the water and/or sewer systems.

#### 4. Program Fees

The bond indenture agreement provides for various fees to be paid in connection with the administration of the Program. These fees include the following:

- Standby purchase agreement fees are to be paid to a bank, which has guaranteed to purchase outstanding bonds that cannot otherwise be sold.
- During the year, an annual program administration fee of .1328% of fixed rate notes
  receivable outstanding during the period was charged to operations. An annual program
  administration fee of 0.4000% of variable rate notes receivable outstanding was charged to
  operations for the year. These fees are payable to the Oklahoma Water Resources Board for
  providing clerical, management and administrative services.
- Remarketing fees are payable to an investment banker for services related to determining the interest rate adjustment and attempting to remarket bonds when necessary.
- During the year, a trustee fee of 0.0122% of bonds outstanding was charged to operations.
   Fees are calculated twice a year using the balance of bonds outstanding at February 28 and August 31.
- Pursuant to the bond indenture, the Program was required to purchase a \$5,000,000 surety bond prior to the bond issuance. The cost of the surety bond was \$90,000 and is included as capitalized bond issuance costs.

#### 5. Arbitrage Rebate Due Federal Government

In order for the interest on the Program's bonds to be tax exempt, the Program must comply with certain provisions of the Internal Revenue Code, as amended. One provision requires that arbitrage earnings (defined as the excess of the amount earned on all nonpurpose investments over the amount which would have been earned if the nonpurpose investments were invested at a rate equal to the bond yield) be rebated to the Internal Revenue Service. This rebate is payable at the end of each five years during the term of the issue. The Program has no arbitrage liability at June 30, 2012.

As of and for the Years Ended June 30, 2012 and 2011

#### 6. Long-term Debt

Long-term debt at June 30, 2012 and 2011 consists of the following:

	<u>2012</u>	2011
Beginning Balance:		
Serial and term bonds due September 1, 2012 to		
September 1, 2016, at fixed interest rates	\$ 790,000	\$ 905,000
Serial and term bonds due September 1, 2012 to		
September 1, 2022, at variable rates subject to		
mandatory sinking fund redemption	8,660,000	9,250,000
Less: debt principal repayments	(5,410,000)	(705,000)
Ending Balances	\$ 4,040,000	\$ 9,450,000
Amount due in one year	\$ 360,000	\$ 650,000

The variable rate bonds bear interest at a variable rate, initially set at 3.8% and periodically adjusted pursuant to the provisions of the bond indenture, to a maximum rate of 12% per year. The interest rate on the bonds was .35% at June 30, 2012. At the option of the Board and subject to applicable provisions of the bond indenture, which require, among other things that all bonds be successfully remarketed, the variable interest rate may be converted to a term rate that would stay fixed until maturity of the bonds. These bonds bear interest at fixed rates ranging from 5.0% to 5.10%. Variable interest rates are reset quarterly on March 1<sup>st</sup>, June 1<sup>st</sup>, September 1<sup>st</sup>, and December 1<sup>st</sup>, by the Program's remarketing agent. At June 30, 2012, the Program had \$4,040,000 in variable bonds outstanding. All fixed rate bonds were retired during FY 2012.

Future debt service payments required by the serial and term bonds as of June 30, 2012, were developed using the loan repayment amortization schedules maintained in the IFS system for variable rate bonds. Future debt service payments required by the Program's serial and term bonds as of June 30, 2012 are as follows:

Fiscal Year	<b>Principal</b>	<u>Interest</u>	<u>Total</u>
2013	\$360,000	\$14,140	\$374,140
2014	385,000	12,880	397,880
2015	385,000	11,533	396,533
2016	380,000	10,185	390,185
2017	415,000	8,855	423,855
2018-2022	1,885,000	7,403	1,892,403
2023	230,000	805	230,805
Total	\$4,040,000	\$65,801	\$4,105,801

Interest on the bonds is payable semiannually for fixed rate bonds and quarterly for variable rate bonds. While the variable bonds bear interest at an adjustable, variable rate, the variable bonds are to be repurchased at each such interest payment date at a price equal to the unpaid principal amount, unless such repurchase is waived in writing by the bond holder. The bonds are also subject to mandatory tender upon conversion to a term interest rate.

# OKLAHOMA WATER RESOURCES BOARD STATE LOAN PROGRAM REVENUE BONDS – SERIES 1995 ANNUAL FINANCIAL REPORT As of and for the Years Ended June 30, 2012 and 2011

# 6. Long-term Debt (cont'd)

In addition to their normal scheduled maturity dates as shown above, the bonds may be redeemed at the option of the Board, in whole or in part, on any interest payment date prior to conversion to a term interest rate, for their principal amount plus accrued interest to the date of redemption.

Following any conversion to a term rate, the bonds may also be redeemed at the option of the Board, in whole or in part, at such dates and for such prices, plus accrued interest as are set forth in the bond indenture.

The 1995 Bonds share in an aggregate debt service reserve along with all the other Board bond programs. At June 30, 2012, the aggregate debt service reserves totaled \$17,766,508. The debt service reserves are reflected in the Board bond programs Series 1989 and 1994A.

On May 10, 2011, the Board approved a resolution authorizing an amendment to the General Bond Resolution creating a General Debt Service Reserve Fund for the purpose of further securing the Board's State Loan Program Bonds. The Reserve has been funded with State appropriated gross production tax revenues in the amount of \$4,509,081 as of June 30, 2012 and is held by the Board's trustee bank.



# INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

To the Members of the Oklahoma Water Resources Board

Our report on our audit of the financial statements of the Oklahoma Water Resources Board State Loan Program Revenue Bonds – Series 1995 for June 30, 2012 appears on page three. The audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Grouped Statements of Net Assets, Statements of Revenues, Expenses, and Changes in Net Assets, and Statements of Cash Flows are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements of each bond issue and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements of each bond issue as a whole.

Edmond, Oklahoma
October 18, 2012

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OKLAHOMA WATER RESOURCES BOARD STATE LOAN PROGRAM REYENUE BONDS

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Underparatised lance
For the Vest Ended Jane 30, 2012

	All Program Boad Issues For the Year Ended June 30, 2012																		Leak Memorahan
		1789 Sene		1995 Senes		1999 School	,		0.			- 0		- 6	7.5	- 1			(Mu)
13,440   14,441   13,424   11,124   14,424   14,244   1	VANUES rating an conses and program income	\$ 15,140	\$ 114,463	\$ 140,561	\$ 211,121		1,457,491	620.121	216,715	- 1	- 1	- 1	26,058		2	42,064	S 512,NA1)	\$ 241.655	. 2,594 14P
LODI	Total specialis in cases	15,140	114,464	130,441	211,323	412,8814	1,457,491	620.121	216,715	259,662	2,019,968	176,818	W.058	1246,462	1,184,74	642,065	423,864	241,655	1,489,049
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1817   12,000   12,000   13,	dentinatations kees	POP.	NAK.	10,250	17.560	41.55	21,183	52.147	122	27.7	67,030	11,825	1.51	18,7,84	14.145	18,786	19:10	13.74	470.292
	kened expense	18.121	4K.R51	64,259	183,548	266.176	1,299,844	Sugar	20K. 74	246,052	1,97 - 540	353,026	92.529	120H.15	1,047,880	621,366	511.484	217.202	K.K72.392
Columb   C	medication of head manner cost	2.1%	12,986	95.	5,770	1,315	6,117	1,462	V.AIA.	\$16.9					·		i	ţ	85 X 38
151,472   121,349   315,544   22,972   130,549   41,645	multive bend purchase agritement lees		6,870	R.636	1,566	9,185	1,549	16,711			•	κ	Ř		•	•	ř		71,417
13,147   11,148   12,148   1	marketing fors		4,748	1621	810	1,637	5,755	4.76%		*			,						11.11
CALTY         13,324         9,212         \$460         (2016)         \$600         (10.24)         (20.04)         (10.24)         (10.24)         (20.24) <td>Joint operating expenses</td> <td>21.617</td> <td>101,543</td> <td>121,340</td> <td>205,854</td> <td>122,472</td> <td>1,397,890</td> <td>MWSSS</td> <td>228.927</td> <td>261,742</td> <td>2,rake,287</td> <td>101,600</td> <td>262.76</td> <td>1,246,725</td> <td>1,087,02X</td> <td>A42,58A</td> <td>511,815</td> <td>143 (9)</td> <td>1927,28%</td>	Joint operating expenses	21.617	101,543	121,340	205,854	122,472	1,397,890	MWSSS	228.927	261,742	2,rake,287	101,600	262.76	1,246,725	1,087,02X	A42,58A	511,815	143 (9)	1927,28%
144,844   15,689   54   23   29   15   15   29   16   13   48   15   2   17   5   2   2   2   2   2   2   2   2   2	Operating mercine (3-xa)	(6,472)	12,920	9.212	5,467	(20,168)	59,601	10,599	(14,212)	(2 ORO)	(414)	10.313	(1.234)	(2741)	(2.2%)	(431)	34	(2,136)	A2 688
	NOPERATING REVENUES (EXPENSES) differents of Cambridge rebald	TP4 PF1	1,529	, 3	. *	8	, 5	. 8	_ 5	. 5	. *		·*	. 5	٠, ۲	. *		. 7	1,524
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141,244   41,344   9,344   5,497   (2014a)   59,734   10,094   (10,094)   (2047)   (2017)	Net noneperators reventues	144,843	WATE.	3	K)	£.	251	3	18	11	¥	15	zı	12	*	- 1		262	176.063
(10.44.57)         (12.35)         (12.35)         (12.35)         (2.34)         (12.35)         (2.34)         (12.34)         <	become (loss) before transfers	138,376.	43,31R	2,416	5,497	(20.148)	157.05	THEST	(967)(1)	(2.0%)	(173)	10,342	(1.232)	(347)	(2,249)	613	14	(2045)	15.78
(0.471) 10.985 9.946 5.40° (20.144) 90.751 10.054 (20.145) (20.145	naters (to) from Oklahoma Water Resources Board	(144,837)	(3,151)	*									1	Ì			İ	Ì	(177,1949)
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\$ 1,50,000 \$ 15,5000 \$ 1,5000 \$ 10,000 \$ 10,000 \$ 10,000 \$ 10,000 \$ 10,000 \$ 10,000 \$ 10,000 \$ 10,000 \$ 10,000 \$	T ASSETS assets, beginning of year	1,616,831	15.654,774	754,44K	2*0,341	201,469	193,187	16.013	×2,23	28,119	12,122	207,629	2,5K	186	N,054	(3)			21,648 765
	assets (default) and of year	\$ 3,610,40	\$ 15.664.75K	1	\$ 275,838	S 183,321	\$ 811,144	- 1	72,52A	26,272	15,051	218,761	(974)	25	5,825		- 1		\$ 27,670,346

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

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# OKLAHOMA WATER RESOURCES BOARD STATE LOAN PROGRAM REVENUE BONDS – SERIES 1995 ANNUAL FINANCIAL REPORT As of and for the Years Ended June 30, 2012 and 2011

INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE



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

To the Members of the Oklahoma Water Resources Board

We have audited the financial statements of the Oklahoma Water Resources Board State Loan Program Revenue Bonds - Series 1995 (the "Program") as of and for the year ended June 30, 2012, and have issued our report thereon dated October 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

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

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

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

#### Compliance and Other Matters

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

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

Island Value