State of Oklahoma

the water agency



STATE LOAN PROGRAM REVENUE BONDS SERIES 2010B

FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YAR ENEDED JUNE 30, 2012 AND
FOR THE INITIAL PERIOD FROM NOVEMBER 3, 2010 (DATE OF
INCEPTION) TO JUNE 30, 2011
AND INDEPENDENT AUDITOR'S REPORTS

OKLAHOMA WATER RESOURCES BOARD STATE LOAN PROGRAM REVENUE BONDS - SERIES 2010B

ANNUAL FINANCIAL REPORT

As of and for the Year Ended June 30, 2012 and the Initial Period November 3, 2010 (date of inception) to June 30, 2011

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Oklahoma Water Resources Board

We have audited the accompanying statement of net assets of the Oklahoma Water Resources Board State Loan Program Revenue Bonds - Series 2010B (the "Program") as of June 30, 2012 and 2011, and the related statement of revenues, expenses, and changes in net assets and cash flows for the year ended June 30, 2012 and the initial period from November 3, 2010 (date of inception) to June 30, 2011. 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 2010B as of June 30, 2012 and 2011, and the changes in financial position and cash flows for the year ended June 30, 2012 and the initial period from November 3, 2010 (date of inception) to June 30, 2011 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.

Medge V Association, P.C. Edmond, Oklahoma October 12, 2012

As of and for the Year Ended June 30, 2012 and the Initial Period November 3, 2010 (date of inception) to June 30, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and for the Year Ended June 30, 2012 and the Initial Period November 3, 2010 (date of inception) to June 30, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Oklahoma Water Resources Board State Loan Program Revenue Bonds – Series 2010B (the "Program") financial performance for the 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 2010B Bond Program.

Financial Highlights

- The Board issued a \$27,955,000 bond issue in November 2010 for the purpose of making a loan to a Local Entity to purchase water storage rights and make water system improvements.
- Total Assets decreased 2.35% from \$28,242,035 to \$27,577,416 between June 30, 2011 and June 30, 2012.
- Total Net Assets decreased 27.85% from \$8,074 to \$5,825 between June 30, 2012 and June 30, 2011.
- Other accrued liabilities increased 189.36% from \$19,186 in FY 2011 to \$55,516 in FY 2012.
 Administrative fees assessed but not used during the fiscal year are "banked" for future administrative costs. No administrative fees have been drawn from this Bond Series, although the administrative fees have been incurred.

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

(Unaudited. See accompanying auditor's report.)

As of and for the Year Ended June 30, 2012 and the Initial Period November 3, 2010 (date of inception) to June 30, 2011

- 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 period ended June 30, 2012
 - Statements of Net Assets
 - o Statements of Revenues, Expenses and Changes in Net Assets
 - o Statements of Cash Flows

A Financial Analysis of the Program

One of the most frequently asked questions about the Program's finances is, "Has the overall financial condition improved, declined or remained steady over the past period?" 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.

Oklahoma Water Resources Board Revenue Bonds - Series 2010 B Net Assets

Rusiness-Type

			vities	
		June	e 30,	
	.13	2012		2011
Current Assets	\$	1,092,416	\$	987,035
Non-current Assets		26,485,000		27,255,000
Total assets		27,577,416		28,242,035
Current liabilities		1,086,591		978,961
Non-current liabilities		26,485,000		27,255,000
Total liabilities	8	27,571,591		28,233,961
Net assets	8:	10		
Unrestricted	6	5,825		8,074
Total net assets	\$	5,825	\$	8,074

As of and for the Year Ended June 30, 2012 and the Initial Period November 3, 2010 (date of inception) to June 30, 2011

Oklahoma Water Resources Board Revenue Bonds - Series 2010 B Revenues, Expenses, and Changes in Net Assets

Business-Type Activities Period Ended June 30, 2012 2011 Revenues 719,047 Loan program income \$ 1,084,774 Investment interest income 1,084,779 719,049 Total revenues Expenses Trustee fees 3,683 2,164 Administration expenses 36,345 18,562 Interest expense 1,047,000 690,249 Total expenses 1,087,028 710,975 Increase in net assets (2,249)8,074 Total net assets - beginning 8.074 \$ 5,825 8,074 Total net assets - ending

Long-Term Debt

At year-end, the Program had \$27,255,000 in long-term debt outstanding which represents a \$700,000 or 2.5% decrease from the prior year. The Program's changes in long-term debt by type of debt are as follows:

	2012	<u>2011</u>
Serial and term bonds due October 1, 2012 to		
October 1, 2035, interest rates at 2.00% to 5.00%	\$ 27,955,000	-
Less: debt principal repayments	(700,000)	-
Plus: debt issued	-	\$ 27,955,000
Ending balances	\$ 27,255,000	\$ 27,955,000
Amounts due in one year	\$ 770,000	\$ 700,000

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

(Unaudited. See accompanying auditor's report.)

As of and for the Year Ended June 30, 2012 and the Initial Period November 3, 2010 (date of inception) to June 30, 2011

Economic Factors and Next Year's Outlook

Due to the nature of the Series 2010B Bond Program, the Board expects a decrease in net assets and liabilities as the loan continues 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 2010B 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.)

As of and for the Year Ended June 30, 2012 and the Initial Period November 3, 2010 (date of inception) to June 30, 2011

BASIC FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2012 and the Initial Period November 3, 2010 (date of inception) to June 30, 2011

Statements of Net Assets - June 30, 2012 and 2011

	2012	2011
ASSETS:		
Current Assets:		415106
Cash and cash equivalents	\$51,461	\$15,126
Current portions of note receivable	770,000	700,000
Interest receivable:	270.055	071 000
Note receivable	270,955	271,909
Total current assets	1,092,416	987,035
Noncurrent Assets:		
Note receivable	26,485,000	27,255,000
Total noncurrent assets	26,485,000	27,255,000
Total assets	27,577,416	28,242,035
LIABILITIES: Current Liabilities: Accrued interest payable Current maturities of long-term debt Other accrued liabilities	261,075 770,000 55,516	259,775 700,000 19,186
Total current liabilities	1,086,591	978,961
Noncurrent liabilities:		
Long-term debt, less current maturities	26,485,000	27,255,000
Total noncurrent liabilities	26,485,000	27.255,000
Total liabilities	27 ,571,591	28,233,961
NET ASSETS:		
Unrestricted	5,825	8,074
Total net assets	\$5,825	\$8,074

See accompanying notes to the basic financial statements.

As of and for the Year Ended June 30, 2012 and the Initial Period November 3, 2010 (date of inception) to June 30, 2011

Statements of Revenues, Expenses, and Changes in Net Assets - Year Ended June 30, 2012 and the Initial Period from November 3, 2010 (date of inception) to June 30, 2011

	2012	2011
Operating Revenues:		
Loan program income	\$1,084,774	\$719,047
Total operating revenues	1,084,774	71 9,047
Operating Expenses:		
Trustee fees	3,683	2,164
Administration expenses	36,345	18,562
Interest expense	1,047,000	690,249
Total operating expenses	1,087,028	710,975
Operating income (loss)	(2,254)	8,072
Non-Operating Revenues:		
Other interest income	5	2
	· · · · · · · · · · · · · · · · · · ·	
Total non-operating revenues	5	2
Net income (loss)	(2,249)	8,074
Total net assets - beginning	8,074	~
Total net assets - ending	\$5,825	\$8,074

See accompanying notes to the basic financial statements.

As of and for the Year Ended June 30, 2012 and the Initial Period November 3, 2010 (date of inception) to June 30, 2011

Statements of Cash Flows – Year Ended June 30, 2012 and the Initial Period from November 3, 2010 (date of inception) to June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES 2011 Collection of interest on loan to local government \$1,085,728 \$447,138 Payments (to) from other suppliers (3,698) (1,540) Interest paid on debt (1,045,700) (430,474) Net Cash Provided by Operating Activities 36,330 \$15,124 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES \$27,955,000 Repayments of Long-term debt (\$700,000) - Net Cash Provided by (Used in) Noncapital Financing Activities (\$700,000) \$27,955,000 CASH FLOWS FROM INVESTING ACTIVITIES (\$700,000) - Collections of principal on loans to local governmental units \$700,000 - Loan to local governmental unit - (\$27,955,000) Interest income 5 2 Net Cash Provided by (Used in) in Investing Activities \$700,000 (\$27,954,098) Net Increase in Cash and Cash Equivalents \$36,335 \$15,126 Balances - beginning of the year 15,126 - Balances - end of the year \$51,461 \$15,126 Change in assets and liabilities (\$22,254)	2010 (date of inception) to June 30, 2011		
Sample		2012	<u>2011</u>
Payments (to) from other suppliers			
Net Cash Provided by Operating Activities 36,330 \$15,124	Collection of interest on loan to local government	\$1,085,728	\$447,138
Net Cash Provided by Operating Activities 36,330 \$15,124 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES \$27,955,000 Repayments of Long-term debt - \$27,955,000 Net Cash Provided by (Used in) Noncapital Financing Activities (\$700,000) \$27,955,000 CASH FLOWS FROM INVESTING ACTIVITIES \$700,000 - Collections of principal on loans to local governmental units 5 2 Loan to local governmental unit - (\$27,955,000) Interest income 5 2 Net Cash Provided by (Used in) in Investing Activities \$700,005 (\$27,954,998) Net Increase in Cash and Cash Equivalents \$36,335 \$15,126 Balances - beginning of the year 15,126 - Balances - end of the year \$51,461 \$15,126 Reconciliation of operating income (loss) to net cash provided by operating activities: Operating income (loss) (\$2,254) \$8,072 Change in assets and liabilities (\$2,254) \$8,072 Operating income (loss) (\$2,274,999) \$1,300 259,775 Increase (Decrease) in interest receivable	Payments (to) from other suppliers	(3,698)	(1,540)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES - \$27,955,000 Repayments of Long-term debt - \$27,955,000 Net Cash Provided by (Used in) Noncapital Financing Activities (\$700,000) \$27,955,000 CASH FLOWS FROM INVESTING ACTIVITIES \$700,000 - Collections of principal on loans to local governmental units - (\$27,955,000) Interest income 5 2 Net Cash Provided by (Used in) in Investing Activities \$700,005 (\$27,954,998) Net Increase in Cash and Cash Equivalents \$36,335 \$15,126 Balances - beginning of the year 15,126 - Balances - end of the year \$51,461 \$15,126 Reconciliation of operating income (loss) to net cash provided by operating activities: (\$2,254) \$8,072 Change in assets and liabilities: 954 (271,999) locrease (Increase) in interest receivable placeses (Decrease) in accrued interest payable placeses (Decrease) in other accrued liabilities 36,330 19,186	Interest paid on debt	(1,045,700)	(430,474)
Sample S	Net Cash Provided by Operating Activities	36,330	\$15,124
Repayments of Long-term Debt (\$700,000) - Net Cash Provided by (Used in) Noncapital Financing Activities (\$700,000) \$27,955,000 CASH FLOWS FROM INVESTING ACTIVITIES \$700,000 - Collections of principal on loans to local governmental units \$700,000 - Loan to local governmental unit - (\$27,955,000) Interest income 5 2 Net Cash Provided by (Used in) in Investing Activities \$700,005 (\$27,954,998) Net Increase in Cash and Cash Equivalents \$36,335 \$15,126 Balances - beginning of the year 15,126 - Balances - end of the year \$51,461 \$15,126 Reconciliation of operating income (loss) to net cash provided by operating activities: \$51,461 \$15,126 Operating income (loss) (\$2,254) \$8,072 Change in assets and liabilities: \$954 (271,909) Increase (Decrease) in accrued interest payable 1,300 259,775 Increase (Decrease) in other accrued liabilities 36,330 19,186	CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Repayments of Long-term Debt (\$700,000) - Net Cash Provided by (Used in) Noncapital Financing Activities (\$700,000) \$27,955,000 CASH FLOWS FROM INVESTING ACTIVITIES \$700,000 - Collections of principal on loans to local governmental units \$700,000 - Loan to local governmental unit - (\$27,955,000) Interest income 5 2 Net Cash Provided by (Used in) in Investing Activities \$700,005 (\$27,954,998) Net Increase in Cash and Cash Equivalents \$36,335 \$15,126 Balances - beginning of the year 15,126 - Balances - end of the year \$51,461 \$15,126 Reconciliation of operating income (loss) to net cash provided by operating activities: \$51,461 \$15,126 Operating income (loss) (\$2,254) \$8,072 Change in assets and liabilities: 954 (271,909) Increase (Decrease) in accrued interest payable 1,300 259,775 Increase (Decrease) in other accrued liabilities 36,330 19,186	Issuance of long-term debt	:-	\$27,955,000
CASH FLOWS FROM INVESTING ACTIVITIES Collections of principal on loans to local governmental units Loan to local governmental unit Loan to local governmental unit Loan to local governmental unit To (\$27,955,000) Interest income Solution		(\$700,000)	-
CASH FLOWS FROM INVESTING ACTIVITIES Collections of principal on loans to local governmental units Loan to local governmental unit Loan to local governmental units Loan to local governmental uniters (\$27,954,098) S700,000 \$ \$700,000 \$ \$700,000 \$ \$700,000 \$ \$700,000 \$ \$700,000 \$ \$700,000 \$ \$700,000 \$ \$700,000 \$ \$ \$700,000 \$	Net Cash Provided by (Used in) Noncapital Financing Activities	(\$700,000)	\$27,955,000
Collections of principal on loans to local governmental units Loan to local governmental unit Interest income Net Cash Provided by (Used in) in Investing Activities Net Increase in Cash and Cash Equivalents Sabanaces - beginning of the year Balances - end of the year Reconciliation of operating income (loss) to net cash provided by operating activities: Operating income (loss) Change in assets and liabilities: Decrease (Increase) in interest receivable Increase (Decrease) in accrued interest payable Increase (Decrease) in other accrued liabilities Increase (Decrease) in other accrued liabilities Sabanaces - end of the year Sabanaces	, , , , , , , , , , , , , , , , , , , ,		
Loan to local governmental unit - (\$27,955,000) Interest income 5 2 Net Cash Provided by (Used in) in Investing Activities \$700,005 (\$27,954,998) Net Increase in Cash and Cash Equivalents \$36,335 \$15,126 Balances - beginning of the year 15,126 - Balances - end of the year \$51,461 \$15,126 Reconciliation of operating income (loss) to net cash provided by operating activities: \$51,461 \$15,126 Operating income (loss) (\$2,254) \$8,072 Change in assets and liabilities: \$954 (271,909) Increase (Decrease) in interest receivable Increase (Decrease) in accrued interest payable Increase (Decrease) in other accrued liabilities \$36,330 19,186	CASH FLOWS FROM INVESTING ACTIVITIES		
Loan to local governmental unit - (\$27,955,000) Interest income 5 2 Net Cash Provided by (Used in) in Investing Activities \$700,005 (\$27,954,998) Net Increase in Cash and Cash Equivalents \$36,335 \$15,126 Balances - beginning of the year 15,126 - Balances - end of the year \$51,461 \$15,126 Reconciliation of operating income (loss) to net cash provided by operating activities: \$51,461 \$15,126 Operating income (loss) (\$2,254) \$8,072 Change in assets and liabilities: \$954 (271,909) Increase (Decrease) in interest receivable Increase (Decrease) in accrued interest payable Increase (Decrease) in other accrued liabilities \$36,330 19,186	Collections of principal on loans to local governmental units	\$700,000	
Interest income52Net Cash Provided by (Used in) in Investing Activities\$700,005(\$27,954,998)Net Increase in Cash and Cash Equivalents\$36,335\$15,126Balances - beginning of the year15,126-Balances - end of the year\$51,461\$15,126Reconciliation of operating income (loss) to net cash provided by operating activities:Operating income (loss)(\$2,254)\$8,072Change in assets and liabilities:954(271,909)Decrease (Increase) in interest receivable lorrease (Decrease) in accrued interest payable lncrease (Decrease) in other accrued liabilities1,300259,775Increase (Decrease) in other accrued liabilities36,33019,186		_	(\$27.955.000)
Net Cash Provided by (Used in) in Investing Activities \$700,005 (\$27,954,998) Net Increase in Cash and Cash Equivalents \$36,335 \$15,126 Balances - beginning of the year \$15,126 - Balances - end of the year \$51,461 \$15,126 Reconciliation of operating income (loss) to net cash provided by operating activities: Operating income (loss) \$15,126 \$15,126 Change in assets and liabilities: Decrease (Increase) in interest receivable 10,200 \$259,775 \$1,000 \$259,	,	5	
Net Increase in Cash and Cash Equivalents Balances - beginning of the year 15,126 - Balances - end of the year S51,461 S15,126 Reconciliation of operating income (loss) to net cash provided by operating activities: Operating income (loss) Change in assets and liabilities: Decrease (Increase) in interest receivable Increase (Decrease) in accrued interest payable Increase (Decrease) in other accrued liabilities 1,300 259,775 Increase (Decrease) in other accrued liabilities	moreal module	9	-
Balances - beginning of the year 15,126 - Balances - end of the year \$51,461 \$15,126 Reconciliation of operating income (loss) to net cash provided by operating activities: Operating income (loss) (\$2,254) \$8,072 Change in assets and liabilities: Decrease (Increase) in interest receivable 1,300 259,775 Increase (Decrease) in other accrued liabilities 36,330 19,186	Net Cash Provided by (Used in) in Investing Activities	\$700,005	(\$27,954,998)
Reconciliation of operating income (loss) to net cash provided by operating activities: Operating income (loss) Change in assets and liabilities: Decrease (Increase) in interest receivable Increase (Decrease) in accrued interest payable Increase (Decrease) in other accrued liabilities Increase (Decrease) in other accrued liabilities \$ 51,461 \$ \$15,126 \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	Net Increase in Cash and Cash Equivalents	\$36,335	\$15,126
Reconciliation of operating income (loss) to net cash provided by operating activities: Operating income (loss) (\$2,254) \$8,072 Change in assets and liabilities: Decrease (Increase) in interest receivable 954 (271,909) Increase (Decrease) in accrued interest payable 1,300 259,775 Increase (Decrease) in other accrued liabilities 36,330 19,186	Balances - beginning of the year	15,126	
by operating activities: Operating income (loss) Change in assets and liabilities: Decrease (Increase) in interest receivable Increase (Decrease) in accrued interest payable Increase (Decrease) in other accrued liabilities Increase (Decrease) in other accrued liabilities S8,072 (\$2,254) \$8,072 (271,909) 1,300 259,775 Increase (Decrease) in other accrued liabilities 36,330 19,186	Balances - end of the year	\$51,461	\$15,126
Operating income (loss) (\$2,254) \$8,072 Change in assets and liabilities: Decrease (Increase) in interest receivable 954 (271,909) Increase (Decrease) in accrued interest payable 1,300 259,775 Increase (Decrease) in other accrued liabilities 36,330 19,186	Reconciliation of operating income (loss) to net cash provided		
Change in assets and liabilities:954(271,909)Decrease (Increase) in interest receivable954(271,909)Increase (Decrease) in accrued interest payable1,300259,775Increase (Decrease) in other accrued liabilities36,33019,186	by operating activities:		
Decrease (Increase) in interest receivable 954 (271,909) Increase (Decrease) in accrued interest payable 1,300 259,775 Increase (Decrease) in other accrued liabilities 36,330 19,186	Operating income (loss)	(\$2,254)	\$8,072
Increase (Decrease) in accrued interest payable Increase (Decrease) in other accrued liabilities 1,300 259,775 36,330 19,186	7600 (1.10 프스크리) 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1		
Increase (Decrease) in other accrued liabilities		V.=.	
a Deep Control of the	and the state of t		
Net Cash Provided by Operating Activities \$36,330 \$15,124	Increase (Decrease) in other accrued liabilities	36,330	19,186
	Net Cash Provided by Operating Activities	\$36,330	\$15,124

See accompanying notes to the basic financial statements.

As of and for the Year Ended June 30, 2012 and the Initial Period November 3, 2010 (date of inception) to June 30, 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 2010B (the "Program") commenced operations in November 2010. The Program was established by the Board to provide new loans to local governmental entities and to be used to refund a portion of the Board's outstanding State Loan Program Revenue Bonds originally issued by the Board. The 2010B issue was used to fund one new loan to a Local Entity to purchase water storage rights and make water system improvements.

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.

Bond Issuance Cost

Bond issuance costs were paid by the borrower.

As of and for the Year Ended June 30, 2012 and the Initial Period November 3, 2010 (date of inception) to June 30, 2011

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

Bond Issue Discount

The net premium/discount and underwriter discount was applied to the benefit of the borrower.

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, and interest expense, to be operating expenses.

Use of Estimates

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

2. Cash Deposits and Investment Risk

Cash of \$51,461 and \$15,126 at June 30, 2012 and 2011 was on deposit with the Program's trustee. The deposits are invested in the *Goldman Sachs Financial Square Treasury Obligations* mutual fund.

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

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

- 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.

As of and for the Year Ended June 30, 2012 and the Initial Period November 3, 2010 (date of inception) to June 30, 2011

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

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	arrying <u>Value</u>
Goldman Sachs Financial Square Treasury Obligations	N/A	AAAm	\$ 51,461
Total			\$ 51,461

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 \$51,461 is invested in Goldman Sachs Financial Square Treasury Obligations.

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

Type	Maturities	Credit Rating	C	arrying <u>Value</u>
Goldman Sachs Financial Square Treasury Obligations	N/A	AAAm	\$	15,126
Total			\$	15,126

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 \$15,126 is invested in Goldman Sachs Financial Square Treasury Obligations.

3. Note Receivable

Note receivable of \$27,255,000 and \$27,955,000 at June 30, 2012 and 2011 represents a loan made by the Program to a local governmental entity for the purpose of acquisition, development, and utilization of storage and control facilities for water and sewage systems. Payments on the note are due in semiannual installments with various maturity dates through 2035, including interest at various fixed rates; however, the local entity has the option to pay the note earlier than the scheduled maturity. The current portion of notes receivable contains scheduled maturities and any prepayments made subsequent to year-end through September 30, 2012. The note is collateralized by various revenue sources including, but not limited to user charges and sales taxes of the borrower and mortgages on the water and/or sewer systems.

As of and for the Year Ended June 30, 2012 and the Initial Period November 3, 2010 (date of inception) to June 30, 2011

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:

- During the year, an annual program administration fee of .1316% of fixed rate notes receivable outstanding during the period was charged to operations. These fees are payable to the Oklahoma Water Resources Board for providing clerical, management and administrative services.
- During the year, a trustee fee of .0134% of bonds outstanding was charged to operations.
 Fees are calculated twice a year using the balance of bonds outstanding at March 31 and September 30.

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 had no arbitrage liability at June 30, 2012 or 2011.

6. Long-term Debt

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

		2012	<u>2011</u>
Serial and term bonds due October 1, 2012 to			
October 1, 2035, interest rates at 2.00% to 5.00%	S	27,955,000	≠ a
Less: debt principal repayments		(700,000)	
Plus: debt issued			\$ 27,955,000
Ending balances	\$	27,255,000	\$ 27,955,000
Amounts due in one year	\$	770,000	\$ 700,000

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

As of and for the Year Ended June 30, 2012 and the Initial Period November 3, 2010 (date of inception) to June 30, 2011

6. Long-term Debt (continued)

Fiscal Year	Principal	<u>Interest</u>	<u>Total</u>
2013	\$770,000	\$1,036,600	\$1,806,600
2014	785,000	1,017,125	1,802,125
2015	810,000	993,250	1,803,250
2016	830,000	972,850	1,802,850
2017	850,000	956,050	1,806,050
2018-2022	4,615,000	4,372,975	8,987,975
2023-2027	5,535,000	3,417,888	8,952,888
2028-2032	6,635,000	2,298,413	8,933,413
2033-2036	6,425,000	662,125	7,087,125
Total	\$27,255,000	\$15,727, 276	\$42,982,276

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, on such dates and for such prices, plus accrued interest as are set forth in the bond indenture.

The 2010B 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.

As of and for the Year Ended June 30, 2012 and the Initial Period November 3, 2010 (date of inception) to June 30, 2011

SUPPLEMENTAL INFORMATION



INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

To the Members of the Oklahoma Water Resources Board

Our report on our audit of the financial statements of the Oklahoma Water Resources Board State Loan Program Revenue Bonds – Series 2010B 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 1/2012

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OMIAHOMA WATER RESOURCES BOARD STATE LOAN PROGRAM REVENUE BONDS

NUPPLEMENTAL INFORMATION
GROUPED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
AND PROGRAMMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Foot Ended June 30, 2012

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	1989 Nones	1994A Senes	1935 Venes	1997 Sence	1750 School	2011 Sens	2007A Sens	2005B Senes	2004 A Series	200/d Sepes	2017 Sanes	2019 Senos	2010 Series	July B Senes	2011 Septe	2012 Sence	3112A WING	Oalsa
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Livial eperating resenues	151.41	114,463	131,469	211 123	342,844	1,457,491	KN(323	216.715	250,062	2,039,960	TARIR	9K,05K	1,246,462	1,084.774	(42,065	511,869	241 655	2,5X1.049
EXPENSES () postulos [Apericas] Trades fees	957	000	, K6	0007	1,304	144	018-2	-	1 000	.09%	15 _C 1	963	5161	3,448	7	24× 1	1	****
Administrative fees	ALA	27 KAR	17.2%	17.160	41.5%	19,197	\$2,175	F .	277.5	57,0 kg	11,828	1,513	TH, CRA	345.AF	18,787	1.8.1×1.	25.44	4 7.242
Interest expense	19,127	48,851	257.50	183,54K	266,196	1,252,K44	570,078	21.8(%	246,052	1995,526,3	153,024	92,429	124,124	1,047,4881	621,366	512,784	0000	N R 202
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Remarketing focs		4,048	1,791	MILL	1.645	8,788	5. TCS											31.00
Total operating expenses	21.67	101.541	121,349	10.85	322,972	1,307,890	A10,522	226,927	261,742	2,040,287	106,101	47,292	1,246,738	1,017,02R	M2,5M6	431 R34	143,001	9,522,281
(Speciality and other cleas)	(6,47")	(2,929	9,212	5.469	(21,158)	\$9,411	10,500	(10,213)	(2,0%)	(119)	10,717	0.230	(263)	(2.24)	(53)	77	(2,1%)	10,000
NONOPP RATING REVENUES (EXPENSES) fredit (provided) for arbitrage rebaic (When interest morne)	144,643	26,889	্র	ុ ភ	. ន	. 2	, g	. 91	, 5	. *	. \$1	, **	. 12		, **	0.04	- 7,	MSTER ACTION
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Iny orme (king) before transfers	118,166	41,138	*# 'A	5,447	(39,148)	59,743	10,59%	(10,194)	(2,067)	(271)	St. 111	(212,1)	(246)	(2,249)	(613)	72	(2,045)	218,743
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NET ASSETS Net assets, beginning of year	1,616,873	14,643,711	74,44	270,341	313,469	165.591	16,013	200	28,339	27.21	217,629	298	7	K,024	(3)	İ		21,6418,785
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SUPPLINENTAL INFORMATION
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As of and for the Year Ended June 30, 2012 and the Initial Period November 3, 2010 (date of inception) to June 30, 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 2010B (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.

Allesse & Associates, P.C.
Edmond, Oklahoma
October 12, 2012