

State of Oklahoma



**STATE LOAN PROGRAM REVENUE BONDS
SERIES 2012A**

**FINANCIAL STATEMENTS
FOR THE INITIAL PERIOD FROM
March 28, 2012 (DATE OF INCEPTION)
TO JUNE 30, 2012
AND INDEPENDENT AUDITOR'S REPORTS**

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2012A
ANNUAL FINANCIAL REPORT**

For the Initial Period from March 28, 2012 (date of inception) to June 30, 2012

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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 2012A (the "Program") as of June 30, 2012, and the related statement of revenues, expenses, and changes in net assets and cash flows for the initial period from March 28, 2012 (date of inception) to June 30, 2012. 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 audit.

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. 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 audit provides 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 2012A as of June 30, 2012, and the changes in financial position and cash flows for the initial period from March 28, 2012 (date of inception) to June 30, 2012 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.

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

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2012A
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MANAGEMENT'S DISCUSSION AND ANALYSIS

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2012A
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For the Initial Period from March 28, 2012 (date of inception) to June 30, 2012

MANAGEMENT’S DISCUSSION AND ANALYSIS

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

Financial Highlights

- The Board issued a \$33,445,000 bond issue in March 2012 for the purpose of making loans to Local Entities to provide for construction of water and wastewater system improvements.
- Total Assets at June 30, 2012 totaled \$33,686,946.
- Total Net Assets (Deficit) at June 30, 2012 totaled \$(2,045), due to the administrative fees payable.
- At the time of the bond closing, twelve loans were identified to receive the bond funds.
- Other accrued liabilities were \$26,789 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
 - Statement of Net Assets
 - Statement of Revenues, Expenses and Changes in Net Assets
 - Statement of Cash Flows

(Unaudited. See accompanying auditor’s report.)

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2012A
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- 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
 - Statements of Revenues, Expenses and Changes in Net Assets
 - 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 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.

**Oklahoma Water Resources Board
Revenue Bonds - Series 2012A
Net Assets**

	Business-Type Activities
	June 30,
	<u>2012</u>
Current Assets	\$ 1,376,946
Non-current Assets	32,310,000
Total assets	33,686,946
Current liabilities	1,378,991
Non-current liabilities	32,310,000
Total liabilities	33,688,991
Net assets (deficit)	
Unrestricted	(2,045)
Total net assets	\$ (2,045)

(Unaudited. See accompanying auditor’s report.)

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2012A
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**Oklahoma Water Resources Board
Revenue Bonds - Series 2012A
Revenues, Expenses, and Changes in Net Assets**

	Business-Type Activities
	Period Ended June 30,
	<u>2012</u>
Revenues	
Loan program income	\$ 241,655
Investment interest income	291
Total revenues	241,946
Expenses	
Trustee fees	1,145
Administration expenses	25,644
Interest expense	217,202
Total expenses	243,991
Increase (decrease) in net assets	(2,045)
Total net assets - beginning	-
Total net assets (deficit) - ending	\$ (2,045)

Long-Term Debt

At year-end, the Program had \$33,445,000 in long-term debt outstanding. The Program's changes in long-term debt by type of debt are as follows:

	<u>2012</u>
Serial and term bonds due October 1, 2012 to October 1, 2032, interest rates at .25% to 3.25%	-
Plus: debt issued	\$ 33,445,000
Ending balances	\$ 33,445,000
Amounts due in one year	\$ 1,135,000

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.)

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STATE LOAN PROGRAM REVENUE BONDS – SERIES 2012A
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Economic Factors and Next Year's Outlook

Due to the nature of the Series 2012A 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 2012A 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 2012A
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For the Initial Period from March 28, 2012 (date of inception) to June 30, 2012

BASIC FINANCIAL STATEMENTS

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2012A
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For the Initial Period from March 28, 2012 (date of inception) to June 30, 2012

Statement of Net Assets – June 30, 2012

	<u>2012</u>
ASSETS:	
Current Assets:	
Cash and cash equivalents	\$291
Current portions of notes receivable	1,135,000
Interest receivable:	
Note receivable	241,655
Total current assets	1,376,946
Noncurrent Assets:	
Note receivable	32,310,000
Total noncurrent assets	32,310,000
Total assets	33,686,946
 LIABILITIES:	
Current Liabilities:	
Accrued interest payable	217,202
Current maturities of long-term debt	1,135,000
Other accrued liabilities	26,789
Total current liabilities	1,378,991
Noncurrent liabilities:	
Long-term debt	32,310,000
Total noncurrent liabilities	32,310,000
Total liabilities	33,688,991
 NET ASSETS (DEFICIT):	
Unrestricted	(2,045)
Total net assets (deficit)	(\$2,045)

See accompanying notes to the basic financial statements.

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2012A
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Statement of Revenues, Expenses, and Changes in Net Assets – For the Initial Period from March 28, 2012 (date of inception) to June 30, 2012

	<u>2012</u>
Operating Revenues:	
Loan program income	\$241,655
Total operating revenues	<u>241,655</u>
Operating Expenses:	
Trustee fees	1,145
Administration expenses	25,644
Interest expense	217,202
Total operating expenses	<u>243,991</u>
Operating income (loss)	(2,336)
Non-Operating Revenues (Expenses):	
Other interest income	291
Total non-operating revenues (expenses)	<u>291</u>
Change in net assets	(2,045)
Total net assets - beginning	-
Total net assets (deficit) - ending	<u>(\$2,045)</u>

See accompanying notes to the basic financial statements.

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Statement of Cash Flows – For the Initial Period from March 28, 2012 (date of inception) to June 30, 2012

	<u>2012</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Issuance of long-term debt	\$33,445,000
Net Cash Provided by Noncapital Financing Activities	<u>\$33,445,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Loan to local governmental unit	(\$33,445,000)
Interest income	291
Net Cash Provided (Used) in Investing Activities	<u>(\$33,444,709)</u>
Net Increase in Cash and Cash Equivalents	\$291
Balances - beginning of the year	<u>-</u>
Balances - end of the year	<u><u>\$291</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	(\$2,336)
Change in assets and liabilities:	
Decrease (Increase) in interest receivable	(241,655)
Increase (Decrease) in accrued interest payable	217,202
Increase (Decrease) in other accrued liabilities	<u>26,789</u>
Net Cash Provided in Operating Activities	<u><u>-</u></u>

See accompanying notes to the basic financial statements.

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2012A
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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 2012A (the "Program") commenced operations in March 2012. 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 2012A issue was used to fund twelve new loans to a local governmental entities for their use in acquisition, development and utilization of storage and control facilities for water and sewer systems.

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.

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STATE LOAN PROGRAM REVENUE BONDS – SERIES 2012A
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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 \$291 at June 30, 2012 was on deposit with the Program's trustee. The deposits are invested in the *Federated 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:

- 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:

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STATE LOAN PROGRAM REVENUE BONDS – SERIES 2012A
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2. Cash Deposits and Investment Risk (cont'd)

<u>Type</u>	<u>Maturities</u>	<u>Credit Rating</u>	<u>Carrying Value</u>
Federated Treasury Obligations Fund	16 days	AAA m	\$ 291
Total			<u>\$ 291</u>

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 \$291 is invested in *Federated Treasury Obligations Fund*.

3. Note Receivable

Note receivable of \$33,445,000 at June 30, 2012 represents loans made by the Program to local governmental entities for the purposes of acquisition, development, utilization of storage and control facilities for water and sewage systems. Payments on the notes are due in semiannual installments with various maturity dates through 2032, including interest at various fixed rates; however, the local entity has the option to pay the note earlier than the scheduled maturity. The program has \$1,135,000 of notes scheduled to mature within the next year. 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:

- During the year, .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.

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6. Long-term Debt

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

	<u>2012</u>
Serial and term bonds due October 1, 2012 to October 1, 2032, interest rates at .25% to 3.25%	-
Plus: debt issued	<u>\$ 33,445,000</u>
Ending balances	<u>\$ 33,445,000</u>
Amounts due in one year	<u>\$ 1,135,000</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$1,135,000	\$846,370	\$1,981,370
2014	2,305,000	833,335	3,138,335
2015	2,320,000	805,525	3,125,525
2016	2,635,000	755,975	3,390,975
2017	2,685,000	702,775	3,387,775
2018-2022	9,725,000	2,548,550	12,273,550
2023-2027	6,835,000	1,431,144	8,266,144
2028-2032	5,015,000	477,219	5,492,219
2033	<u>790,000</u>	<u>12,838</u>	<u>802,838</u>
 Total	 <u>\$33,445,000</u>	 <u>\$8,413,731</u>	 <u>\$41,858,731</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, on such dates and for such prices, plus accrued interest as are set forth in the bond indenture.

The 2012A 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.

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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 2012A 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.

A handwritten signature in cursive script that reads 'Arledge & Associates, P.C.'.

Edmond, Oklahoma
October 12, 2012

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STATE LOAN PROGRAM REVENUE BONDS – SERIES 2012
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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 2012A (the "Program") as of and for the initial period March 28, 2012 (date of inception) to June 30, 2012, and have issued our report thereon 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.

Arledge & Associates, P.C.

Edmond, Oklahoma
October 12, 2012