

**OKLAHOMA DEPARTMENT OF  
ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER  
STATE REVOLVING FUND  
LOAN PROGRAM**

**FINANCIAL STATEMENTS  
AS OF  
JUNE 30, 2012 AND 2011  
AND INDEPENDENT AUDITOR'S REPORT**

**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

**ANNUAL FINANCIAL STATEMENTS  
FOR THE YEARS ENDED June 30, 2012 and 2011**

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## INDEPENDENT AUDITOR'S REPORT

To the Directors of the  
Oklahoma Department of Environmental Quality  
Oklahoma Drinking Water State Revolving Fund Loan Program

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental combining financial statement information, as listed in the table of contents under Supplemental Schedule Information, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Program. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

  
Edmond, Oklahoma  
September 18, 2012





STEVEN A. THOMPSON  
Executive Director

OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY

MARY FALLIN  
Governor

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Our discussion and analysis of the Oklahoma Drinking Water State Revolving Fund Program's (the "Program") financial performance provides an overview of the Program's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the Program's financial statements, which begin on page 5. The Oklahoma Department of Environmental Quality ("ODEQ") administers the Program. ODEQ's primary activities include providing direct assistance and managing the coordination of the Program to meet the objectives of the Safe Drinking Water Act. Pursuant to an interagency agreement between ODEQ and the Oklahoma Water Resources Board (the "OWRB"), OWRB handles certain financial functions including originating, approving and servicing loans made to qualifying recipients.

### FINANCIAL HIGHLIGHTS

- The Program's net assets increased by over 5% from \$201,017,657 in FY 2011 to \$210,990,869 in FY 2012. The significant increase can be attributable to an increase in federal grant revenue retained to fund loans.
- The Program experienced an increase of \$37,185,326 in the amount of outstanding loans. At June 30, 2011 the Program had 112 outstanding loans with a principal balance of \$407,635,368. At June 30, 2012 the Program had 124 loans with a balance of \$444,820,694.

### PROGRAM HIGHLIGHTS

- During FY 2012, 9 construction and refinancing loan commitments totaling approximately \$60 million were made to correct deficiencies and achieve compliance with the national primary drinking water regulations or otherwise further public health protection objectives of the Safe Drinking Water Act (SWDA).
- Completed construction during the year on 26 projects totaling \$142.5 million.
- Made binding commitments for 12 new loans, totaling approximately \$68.9 million, in drinking water construction for communities to correct problems and achieve compliance with the SWDA.



## ECONOMIC FACTORS AND NEXT YEAR'S OUTLOOK

The Oklahoma DWSRF has been extremely popular with communities that borrow from the program. The Program's financing strategy of providing long-term loans at 70% of market rate has been consistent for many years. No additional staff is planned at this time. The Program is expected to increase assets as well as operating income as more loans are approved and eligible draws are made from the federal capitalization grants and the bond issue.

## CONTACTING THE PROGRAM'S FINANCIAL MANAGEMENT

This financial report is designed to provide the DEQ's accountability of the Program. If you have questions about this report or need additional financial information, contact the Administrative Services Division of the Oklahoma Department of Environmental Quality at 707 North Robinson, Oklahoma City, OK 73101.

**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

**STATEMENTS OF NET ASSETS  
June 30, 2012 and 2011**

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash	\$ 4,736,640	2,465,111
Federal letter of credit payments receivable	598,231	627,821
Accrued interest on loans receivable	3,782,711	3,414,224
Other interest receivable	249,713	252,783
Due from Drinking Water Admin Fund	469	-
Loans receivable	17,967,676	18,844,420
Total current assets	<u>27,335,440</u>	<u>25,604,359</u>
Noncurrent Assets:		
Restricted cash	69,985,894	54,762,776
Restricted investments	62,585,018	63,568,285
Loans receivable, net of current portion and allowance for uncollectible loans of \$4,705,372 in 2012 and \$492,617 in 2011	426,853,018	388,790,948
Equipment, net	19,500	53,452
Debt issuance cost, net	2,442,507	2,114,855
Total noncurrent assets	<u>561,885,937</u>	<u>509,290,316</u>
Total assets	<u>589,221,377</u>	<u>534,894,675</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable	416,909	130,301
Due to Oklahoma Department of Environmental Quality ("ODEQ")	278,147	509,790
Compensated absences	30,609	35,654
Interest payable	3,728,898	3,589,219
Current maturities of long-term debt	13,300,000	11,265,000
Total current liabilities	<u>17,754,563</u>	<u>15,529,964</u>
Noncurrent Liabilities:		
Compensated absences	130,493	153,650
Long-term debt, net of current maturities	340,670,000	304,575,000
Unamortized (discount)/ premium	19,675,452	13,618,404
Total noncurrent liabilities	<u>360,475,945</u>	<u>318,347,054</u>
Total liabilities	<u>378,230,508</u>	<u>333,877,018</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	19,500	53,452
Restricted for loans and debt service	211,132,471	201,153,509
Unrestricted net liability	<u>(161,102)</u>	<u>(189,304)</u>
Total net assets	<u>\$ 210,990,869</u>	<u>201,017,657</u>

See accompanying notes and independent auditor's report.

**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>REVENUES</b>		
Operating revenues:		
Federal grants	\$ 4,242,363	5,056,740
Interest income on loans	<u>13,065,373</u>	<u>10,679,657</u>
Total operating revenue	<u>17,307,736</u>	<u>15,736,397</u>
<b>EXPENSES</b>		
Operating expenses:		
Salaries and benefits	2,187,298	2,952,496
Professional services	399,671	774,759
Travel	52,779	78,747
Office	28,246	105,198
Depreciation	33,952	42,618
Indirect costs	502,484	652,861
Other expense	1,081,130	476,756
Interest expense	13,689,181	11,919,490
Bad debt expense (recovery)	4,212,755	282,790
Debt issuance costs	114,012	100,287
Trustee fees	<u>40,966</u>	<u>36,652</u>
Total operating expenses	<u>22,342,474</u>	<u>17,422,654</u>
Operating income (loss)	<u>(5,034,738)</u>	<u>(1,686,257)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Federal grants	6,224,829	22,557,107
Federal grants-principal forgiveness	(1,644,500)	(8,920,694)
Investment income	3,123,027	3,414,029
Interest income-invested cash balances	<u>67,894</u>	<u>371,841</u>
Total nonoperating revenues	<u>7,771,250</u>	<u>17,422,283</u>
Income (loss) before transfers	2,736,512	15,736,026
Transfers in - Clean Water State Revolving Fund Loan Account Program	3,000,000	-
Transfers in - Drinking Water Treatment Loan Administrative Fund	<u>4,236,700</u>	<u>33,813</u>
Increase in net assets	9,973,212	15,769,839
<b>NET ASSETS</b>		
Net assets, beginning of year	<u>201,017,657</u>	<u>185,247,818</u>
Net assets, end of year	<u>\$ 210,990,869</u>	<u>201,017,657</u>

See accompanying notes and independent auditor's report.

**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

**STATEMENTS OF CASH FLOWS**

**For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Federal grant receipts	\$ 4,271,953	5,237,921
Collection of interest on loans to local governmental units	12,696,886	9,873,268
Payments to employees	(2,215,500)	(2,968,419)
Payments to suppliers	(2,133,380)	(2,302,016)
Interest paid on debt	(14,669,876)	(13,295,261)
Net cash provided (used) by operating activities	<u>(2,049,917)</u>	<u>(3,454,507)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from sale of bonds, net	56,572,422	60,495,560
Payments for debt issuance costs	(359,064)	(512,141)
Principal paid on bonds	(11,265,000)	(8,675,000)
Federal grant receipts	4,580,329	13,636,413
Transfers in - Drinking Water Treatment Loan Administrative Fund	4,236,700	33,813
Transfers in - Clean Water State Revolving Loan Program	3,000,000	-
Net cash provided (used) by noncapital financing activities	<u>56,765,387</u>	<u>64,978,645</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Loans to local governmental units	(63,851,237)	(118,954,723)
Collection of principal on loans to local governmental units	20,808,656	14,905,615
Collection of principal on loans to local governmental units from federal grant proceed	1,644,500	8,920,694
Interest on investments	3,129,663	3,453,995
Interest on invested cash balances	64,328	416,153
Sales of investments	983,267	9,635,993
Net cash provided (used) by investing activities	<u>(37,220,823)</u>	<u>(81,622,273)</u>
Net increase (decrease) in cash	17,494,647	(20,098,135)
Cash and cash equivalents, beginning of year	<u>57,227,887</u>	<u>77,326,022</u>
Cash and cash equivalents, end of year	<u>\$ 74,722,534</u>	<u>57,227,887</u>
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>		
Operating income (loss)	\$ (5,034,738)	(1,686,257)
Adjustment to reconcile net operating income to net cash provided by operating activities:		
Depreciation	33,952	42,618
Amortization of debt issuance costs/bond premium	(1,006,362)	(942,613)
Provision (recovery) for uncollectible loans	4,212,755	282,790
Changes in operating assets and liabilities:		
Decrease (Increase) in letter of credit payments receivable	29,590	181,181
Decrease (Increase) in interest receivable	(368,487)	(806,389)
Decrease (Increase) in other receivable	(469)	75,125
Increase (Decrease) in accounts payable	207,070	17,371
Increase (Decrease) in due to/from ODEQ	(236,660)	(198,552)
Increase (Decrease) in compensated absences	(28,202)	(15,923)
Increase (Decrease) in other accrued liabilities	1,955	4,138
Increase (Decrease) in interest payable	139,679	(407,996)
Net cash provided (used) by operating activities	<u>\$ (2,049,917)</u>	<u>(3,454,507)</u>

See accompanying notes and independent auditor's report.

**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012 and 2011**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

The Oklahoma Department of Environmental Quality/Oklahoma Drinking Water State Revolving Fund Loan Program (the "Program") was created pursuant to the Federal Safe Drinking Water Act Amendments of 1995 (the "Act"), Section 1452, to provide a perpetual fund for financing the construction of drinking water treatment facilities for municipalities and other entities. The program utilizes Federal Capitalization grants, required State matching funds equal to 20% of federal funds received, and interest income for drinking water loan assistance. Standard loans made by the Program must be repaid within 20 years from construction completion. All repayments, including interest and principal, must remain in the fund.

The Program consists of two program components: 1) set-aside funds and 2) loan fund. The set-aside funds are administered by the Oklahoma Department of Environmental Quality ("ODEQ"). ODEQ's primary activities include providing direct assistance and managing the coordination of the Program to meet its primary objective pursuant to the Act. The loan fund is administered by the Oklahoma Water Resources Board ("OWRB") pursuant to an interagency agreement between ODEQ and OWRB. The OWRB handles certain financial functions, including the originating, approving and servicing loans made to qualifying recipients.

Basis of Accounting

The Program prepares its financial statements under the provisions of Governmental Accounting Standards Board's Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis -for State and Local Governments* ("GASB 34"), as amended by GASB 37 and Statement No. 38, *Certain Financial Statement Note Disclosures* ("GASB 38"). GASB 34, 37 and 38, among other provisions, establish a basic financial reporting model, and require management's discussion and analysis and certain financial statement note disclosures.

The financial statements of the Program are prepared under the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The Program has elected to apply all applicable Governmental Accounting Standards Board ("GASB") pronouncements as well as all Financial Accounting Standards Board ("FASB") and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict statements and GASB pronouncements, in which case GASB prevails.



**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012 and 2011**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

Federal Letter of Credit Payments Receivable

Funding from Federal grants is provided through a Federal letter of credit ("LOC"). The Program records revenue as qualifying expenditures are made or as expenses are incurred, as appropriate. Availability of funds under the LOC is specified by the terms of the grant. The Program draws on the available funds as necessary to fund operations and selected loans.

Federal Grants

Federal grants are recognized as operating revenue upon payment of allowable grant expenditures eligible for reimbursement from the EPA and not covered by state matching or program income.

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash represents the portion of the Program's cash balance at year-end that has been obligated for known future expenditures, such as loans, which have been approved and are complete as to all application requirements. The restricted portion fluctuates as obligated funds are used or as funds are de-obligated.

Restricted Investments

Restricted investments represent a portion of the Series 2003 Revenue Bonds and the Series 2004 Revenue Bonds temporarily invested pending their use in funding future loans plus additional funds set-aside into a Debt Service Reserve fund. The Debt Service Reserve fund portion of restricted investments totals \$59,341,045 at June 30, 2012. (See Note 5).

**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012 and 2011**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

Equipment

Equipment is recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to nine years. The Program's policy is to capitalize individual asset purchases in excess of \$5,000.

Debt Issuance Costs

Debt issuance costs are amortized using the straight-line method over the life of the bonds payable.

Bond Issue Premium

The Program's State Revolving Fund Revenue Bonds, Series 2012A, Series 2011, Series 2010, Series 2004 and Series 2003 were initially sold at a premium of \$26,345,930. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$1,120,374 and \$1,042,900 was recorded in 2012 and 2011, respectively, and is included in interest expense in the accompanying statements of revenues, expenses, and changes in net assets.

Loan Administration Fees

Loan administrative fees are assessed to each participating borrower by the OWRB at the rate of one-half of one percent per annum of the amount of each borrower's loan balance outstanding. Fees paid by the participating borrowers are remitted directly to OWRB and, therefore, are not included in the accompanying Loan Program financial statements. These fees are deposited into the Drinking Water Loan Administration Fund, an account held outside the Program. The activity within this fund for the years ended June 30, 2012 and 2011 was as follows:

Balance, July 1, 2011	\$ 5,052,487	Balance, July 1, 2010	\$ 3,391,621
Fee income	2,172,047	Fee income	1,761,127
Interest income	108,622	Interest income	92,313
Operating expenses	(345,029)	Operating expenses	(158,761)
Transfers	<u>(4,236,700)</u>	Transfers	<u>(33,813)</u>
Balance, June 30, 2012	\$ <u>2,751,427</u>	Balance, June 30, 2011	\$ <u>5,052,487</u>

**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012 and 2011**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

Unrestricted Net Liability

The unrestricted net liability at June 30, 2012 and 2011, is attributed to the accrual for compensated absences for financial reporting purposes in advance of reimbursement of such costs under the Program's federal funding arrangements.

Use of Estimates

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

**2. CASH DEPOSITS AND INVESTMENT RISK**

Cash of \$4,736,640 and \$2,465,111 at June 30, 2012 and 2011 respectively, was on deposit in the State Treasurer's office's internal investment pool – *OK Invest*. Restricted cash of \$69,985,894 and \$54,762,776 at June 30, 2012 and 2011 respectively, was on deposit with the Program's trustee. The deposits are invested in the *Federated Treasury Obligations* mutual fund.

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

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

- a. U.S. Treasury Bills, Notes and Bonds and U.S. Government Agency Securities with certain ratings and maturity limitations.
- b. Collateralized or insured certificates of deposit and other evidences of deposit issued by a bank, savings bank, savings and loan association or credit union located in the state.

**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012 and 2011**

**2. CASH DEPOSITS AND INVESTMENT RISK (Cont'd)**

- c. With certain ratings and maturity limitations, negotiable certificates of deposit, bankers acceptances and commercial paper.
- d. Obligations of state and local governments, including obligations of Oklahoma state public trusts, with certain ratings and maturity limitations.
- e. Collateralized repurchase agreements tri-party repurchase agreements.
- f. Money market mutual funds and short term bond funds regulated by the Securities and Exchange Commission (SEC) and in which investments consist of obligations of the U.S. Government and its agencies and instrumentalities and repurchase agreements collateralized by obligations of the U.S. Government and its agencies and instrumentalities.

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

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

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

**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2012 and 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:

Description	Financial Institution	Amount	Average Maturity/ Due Date	Rating
OK Invest	State Treasurer	\$ 4,736,640	Less than 2 years	Not rated.
Federated Treasury Obligations Fund	BancFirst	\$ 69,985,894	28 days	AAAm
Transamerica Life Insurance and Annuity Co. - GIC	AEGON			See Note 5
Reserve Fund		\$ 32,068,529	4/1/2025	"
Revenue Fund		\$ 2,784,816	4/1/2025	"
Transamerica Occidental Life Insurance Company - GIC	AEGON			See Note 5
Reserve Fund		\$ 27,272,516	4/1/2027	"
Revenue Fund		\$ 459,157	4/1/2027	"

*Concentration of Investment Credit Risk* – neither the Program nor the bond indenture place any limit on the amount the Program may invest in any one issuer. The Program has the following concentration of credit risk: 46% or \$62,585,018 is invested in guaranteed investment agreements with Transamerica Occidental Life Insurance Co./Transamerica Life Insurance and Annuity Co.

A "pooled cash" concept is used by ODEQ in maintaining cash and equivalents for the Program's Set Aside accounts. Under this method, cash and equivalents are pooled and each ODEQ program has equity in the pooled amount. There were no pooled cash overdrafts included in Due to ODEQ in the current year.

**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2012 and 2011**

**3. FEDERAL LETTERS OF CREDIT**

Federal letters of credit ("LOC") balances at June 30, 2012 and 2011 are as follows:

		Year Ended June 30, 2012				
		Administrative & ARRA Administrative	Program Management & Reserve	Small Systems	Local Assistance	Totals
LOC available for draw	\$	7,722,785	15,038,833	3,126,908	15,355,333	182,955,141
Cumulative cash draws		7,583,887	13,993,288	3,085,350	13,515,041	176,753,192
LOC balance available for draw at June 30, 2012	\$	138,898	1,045,545	41,558	1,840,292	6,201,949
						9,268,242
		Year Ended June 30, 2011				
		Administrative & ARRA Administrative	Program Management & Reserve	Small Systems	Local Assistance	Totals
LOC available for draw	\$	7,254,745	13,868,733	2,892,888	13,600,182	174,881,452
Cumulative cash draws		7,118,038	12,291,779	2,742,202	11,753,594	170,528,363
LOC balance available for draw at June 30, 2011	\$	136,707	1,576,954	150,686	1,846,588	4,353,089
						8,064,024

Due to the fact that the grants cover a period of more than 8 quarters, not all of the balances presented above are available for immediate drawdown.



**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012 and 2011**

**4. LOANS RECEIVABLE**

The Program originates loans with Oklahoma municipalities and other entities for financing the construction of drinking water treatment facilities which are payable in semiannual installments at subsidized rates. Funded projects of the Program must meet established eligibility requirements. Effective interest rates on the outstanding loans vary from 0% to 3.69% at June 30, 2012 and 2011.

Up to 30% of the federal grant can be used for principal forgiveness for communities meeting "disadvantaged" criteria. As of June 30, 2012 and 2011, no disadvantaged community loans were made. Loans are collateralized by various revenue sources including, but not limited to, user charges and sales taxes collected by the borrowers. Principal payments must start within one year of construction completion or at an earlier date set in the loan agreement. During the years ended June 30, 2012 and 2011, principal payments of \$22,453,156 and \$23,826,309, respectively, had been received.

The allowance for loan losses at June 30, 2012 of \$4,705,372 is based upon management's evaluation of the collectability of the loans. The evaluation takes into consideration such factors as size of the individual loans, overall quality, current economic conditions and trends that may affect the borrowers' ability to pay.

Loans receivable activity from July 1, 2010 to June 30, 2012, is as follows:

Balance, June 30, 2010	312,789,744
Loan disbursements	118,954,723
Loan principal repayments	(23,826,309)
Change in provision for uncollectible loans	<u>(282,790)</u>
Balance, June 30, 2011	407,635,368
Loan disbursements	63,851,237
Loan principal repayments	<u>(22,453,156)</u>
	449,033,449
Change in provision for uncollectible loans	<u>(4,212,755)</u>
Balance, June 30, 2012	<u><u>\$ 444,820,694</u></u>

**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2012 and 2011**

**5. RESTRICTED INVESTMENTS**

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

	<u>2012</u>	<u>2011</u>
Guaranteed investment with Transamerica Life Insurance and Annuity Co. pursuant to an investment agreement, 4.80%, maturing April 1, 2025 (restricted for reserve fund). \$	32,068,529	34,082,080
Guaranteed investment with Transamerica Life Insurance and Annuity Co. pursuant to an investment agreement, 4.80%, maturing April 1, 2025 (restricted for revenue fund).	2,784,816	445,689
Guaranteed investment with Transamerica Occidental Life Insurance Co. pursuant to an investment agreement, 4.61%, maturing April 1, 2027 (restricted for reserve fund).	27,272,516	28,684,850
Guaranteed investment with Transamerica Occidental Life Insurance Co. pursuant to an investment agreement, 4.40%, maturing April 1, 2027 (restricted for revenue fund).	<u>459,157</u>	<u>355,666</u>
Total restricted investments \$	<u>62,585,018</u>	<u>63,568,285</u>

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

**6. BINDING COMMITMENTS**

The OWRB, pursuant to an interagency agreement entered into between ODEQ and OWRB, approves funding of various loan applications through the Program. These binding commitments will be funded by the Program provided that a loan agreement and promissory note are executed within one year from the date of original approval unless an extension is granted by the OWRB. Binding commitments approved by the OWRB for which a loan agreement and promissory note have not been executed totaled \$7,775,000 and \$0 at June 30, 2012 and 2011, respectively.

**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012 and 2011**

**7. EQUIPMENT**

A summary of changes to equipment is as follows:

		Year ended 2012		
		June 30, 2011	Additions	June 30, 2012
Equipment	\$	763,271	-	763,271
Accumulated depreciation		(709,819)	(33,952)	(743,771)
Net	\$	<u>53,452</u>	<u>(33,952)</u>	<u>19,500</u>

		Year ended 2011		
		June 30, 2010	Additions	June 30, 2011
Equipment	\$	763,271	-	763,271
Accumulated depreciation		(667,201)	(42,618)	(709,819)
Net	\$	<u>96,070</u>	<u>(42,618)</u>	<u>53,452</u>

**8. LONG-TERM DEBT**

**Bonds Payable**

On June 12, 2012, the Program issued State Revolving Fund Revenue Bonds, Series 2012A in the amount of \$49,395,000. The bonds are secured by the loans made to the local entities by the OWRB, investment income in the Drinking Water State Revolving Fund Account and monies held in the Debt Service Reserve Fund. These bonds were issued to provide low interest cost financing for Oklahoma Local governmental entities for acquiring, constructing, or improving their wastewater treatment systems and to enable the Program to meet the State matching requirements in order to obtain Federal grants.

On April 13, 2011, the Program issued State Revolving Fund Revenue Bonds, Series 2011 in the amount of \$57,910,000. The bonds are secured by the loans made to the local entities by the OWRB, investment income in the Drinking Water State Revolving Fund Account and monies held in the Debt Service Reserve Fund. These bonds were issued to provide low interest cost financing for Oklahoma Local governmental entities for acquiring, constructing, or improving their wastewater treatment systems and to enable the Program to meet the State matching requirements in order to obtain Federal grants.

**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012 and 2011**

**8. LONG-TERM DEBT (Cont'd)**

**Bonds Payable (Cont'd)**

On January 13, 2010, the Program issued State Revolving Fund Revenue Bonds, Series 2010 in the amount of \$94,460,000. The bonds are secured by the loans made to the local entities by the OWRB, investment income in the Drinking Water State Revolving Fund Account and monies held in the Debt Service Reserve Fund. These bonds were issued to provide low interest cost financing for Oklahoma Local governmental entities for acquiring, constructing, or improving their wastewater treatment systems and to enable the Program to meet the State matching requirements in order to obtain Federal grants.

On October 26, 2004, the Program issued State Revolving Fund Revenue Bonds, Series 2004 in the amount of \$83,405,000. The bonds are secured by the loans made to the local entities by the OWRB, investment income in the Drinking Water State Revolving Fund Account and monies held in the Debt Service Reserve Fund. These bonds were issued to provide low interest cost financing for Oklahoma Local governmental entities for acquiring, constructing, or improving their wastewater treatment systems and to enable the Program to meet the State matching requirements in order to obtain Federal grants. The bonds represent a portion of the overall \$204,480,000 Revolving Fund Revenue Bonds, Series 2004 (Master Trust) issued by the Oklahoma Water Resources Board. The balance of the bonds and related debt issue costs, bond premium, etc. were allocated proportionately to the Clean Water State Revolving Fund Loan Account Program for similar purposes related to its wastewater treatment facilities projects.

On October 29, 2003, the Program issued Drinking Water State Revolving Fund Revenue Bonds, Series 2003, in the amount of \$122,910,000. The bonds are secured by the loans made to the local entities by the OWRB, investment income in the Drinking Water State Revolving Fund Account and monies held in the Debt Service Reserve Fund. The proceeds from the Series 2003 Bonds are to be used to provide program loans, pay cost of issuance, finance a portion of the state matching funds requirement, and pay interest on the bonds during the period when financed projects are under construction.

**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2012 and 2011**

**8. LONG-TERM DEBT (Cont'd)**

**Bonds Payable (Cont'd)**

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

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 13,300,000	16,075,975	29,375,975
2014	15,045,000	15,958,996	31,003,996
2015	16,190,000	15,288,794	31,478,794
2016	16,860,000	14,645,319	31,505,319
2017	17,650,000	13,850,441	31,500,441
2018-2022	96,980,000	56,652,071	153,632,071
2023-2027	93,765,000	33,051,833	126,816,833
2028-2032	51,400,000	14,493,350	65,893,350
2033-2037	19,005,000	5,704,925	24,709,925
2038-2042	13,775,000	1,704,463	15,479,463
	<u>\$ 353,970,000</u>	<u>187,426,167</u>	<u>541,396,167</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 part, as such dates and for such prices, plus accrued interest as are set forth in the bond indenture.

In order for the interest on the Program's Series 2012A, 2011, 2010, Series 2004 and Series 2003 Bonds to be tax-exempt, the Board must comply with certain provisions of the Internal Revenue Code, as amended. One provision requires that the arbitrage earnings (defined as the excess of the amount earned on all nonpurpose investments over the amount which would have been earned if the nonpurpose investments were invested at a rate equal to the note/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 issues. Management has estimated the arbitrage rebate liability at June 30, 2012 to be immaterial for the Series 2003, Series 2004, Series 2010, Series 2011 and Series 2012A bonds.

The Drinking Water State Revolving Fund Loan Program bonds share in an aggregate debt service reserve with the Clean Water State Revolving Fund Loan Program. At June 30, 2012, the aggregate debt service reserves totaled \$67,675,687, of which \$27,272,516 is reflected in the accompanying statements of net assets.

**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2012 and 2011**

**8. LONG-TERM DEBT (Cont'd)**

**Bonds Payable (Cont'd)**

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

	<u>2012</u>	<u>2011</u>
<b>BONDS PAYABLE:</b>		
Serial 2012A bonds due April 1, 2013 to April 1, 2042, interest at 2.00% to 5.00%	\$ 49,395,000	-
Serial 2011 bonds due April 1, 2013 to April 1, 2042, interest at 2.00% to 5.25%	57,910,000	57,910,000
Serial 2010 bonds due April 1, 2013 to April 1, 2032, interest at 2.25% to 5.00%	92,160,000	94,460,000
Serial 2004 bonds due April 1, 2013 to April 1, 2027, interest at 3.50% to 5.25%	66,910,000	70,375,000
Serial 2003 Bonds due April 1, 2013 to April 1, 2025, interest at 3.80% to 5.25%	<u>87,595,000</u>	<u>93,095,000</u>
Total Bonds Payable	353,970,000	315,840,000
Current maturities	(13,300,000)	(11,265,000)
Unamortized (discount)/ premium	<u>19,675,452</u>	<u>13,618,404</u>
Long-term debt, net of unamortized (discount)/ premium	<u>\$ 360,345,452</u>	<u>318,193,404</u>



**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012 and 2011**

**9. PENSION PLAN**

As provided by State law, the Program participates in the Oklahoma Public Employees Retirement System (the "System"), a component unit of the State of Oklahoma. This system covers substantially all State and county employees and extends to local entities if they elect to participate. The System is a multiemployer, cost-sharing plan.

The Retirement Plan, administered by the System, is a defined benefit, contributory plan that provides participants with retirement, death and disability benefits. Pension benefit provisions were established by statute, and benefit provisions are amended by the State Legislature. Cost-of-living adjustments are provided to plan members and beneficiaries at the discretion of the State Legislature.

A separately issued independent audit report for the plan may be obtained by writing:

Oklahoma Public Employees Retirement Plan  
5801 N. Broadway Extension, Suite 400  
Oklahoma City, Oklahoma 73118

The contribution rates for the plan are established by the State Legislature and are not based on an actuarial calculation which is performed to determine the adequacy of the rate.

The Program makes contributions to the plan on behalf of its employees based on their gross salaries earned (excluding overtime) for the fiscal year ended June 30. The contribution rates in effect for the years ended June 30, 2012 and 2011 and subsequent periods are summarized as follows:

	<u>FY-2012</u>	<u>FY-2011</u>
Program	16.5%	16.5%
Program Employees	3.5%	3.5%

Contributions to the plan by the Program for the three years ended June 30, 2012, 2011 and 2010 were \$255,563, \$308,917, and \$328,138, respectively. These contributions represent 100% of the contribution required.

**10. COMMITMENTS AND CONTINGENCIES**

The Program is exposed to various risks of loss related to torts, thefts of assets, efforts and omissions, injuries to employees while performing Program business, or acts of God. The Program maintains insurance through the State of Oklahoma Risk Management Division, which is included in the indirect costs charged to the Program. There have not been any claims against the Program since its inception in 1998.

**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012 and 2011**

**11. RECLASSIFICATIONS**

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

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OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM

SUPPLEMENTAL COMBINING STATEMENT OF NET ASSETS INFORMATION - BY PROGRAM COMPONENT  
June 30, 2012

	Set-Aside Funds							
	Administrative	Program Management	Small Systems	Local Assistance and Other State Programs	ARRA Admin	Program Mgmt Reserve	Loan Fund	Totals
<b><u>ASSETS</u></b>								
Current Assets:								
Cash	\$ -	-	-	-	-	-	4,736,640	4,736,640
Federal letter of credit payments receivable	40,151	184,867	76,246	171,850	5,017	120,100	-	598,231
Accrued interest on loans receivable	-	-	-	-	-	-	3,782,711	3,782,711
Other interest receivable	-	-	-	-	-	-	249,713	249,713
Due from Drinking Water Admin Fund	-	-	-	-	-	-	469	469
Loans receivable	-	-	-	-	-	-	17,967,676	17,967,676
Total current assets	40,151	184,867	76,246	171,850	5,017	120,100	26,737,209	27,335,440
Noncurrent Assets:								
Restricted Cash	-	-	-	-	-	-	69,985,894	69,985,894
Restricted investments	-	-	-	-	-	-	62,585,018	62,585,018
Loans receivable, net of current portion and allowance for uncollectible loans of \$4,705,372	-	-	-	-	-	-	426,853,018	426,853,018
Equipment, net	-	-	-	19,500	-	-	-	19,500
Debt issuance cost, net	-	-	-	-	-	-	2,442,507	2,442,507
Total noncurrent assets	-	-	-	19,500	-	-	561,866,437	561,885,937
Total assets	40,151	184,867	76,246	191,350	5,017	120,100	588,603,646	589,221,377
<b><u>LIABILITIES</u></b>								
Current Liabilities:								
Accounts payable	74,168	506	-	131,198	-	114,212	96,825	416,909
Due to (from) Oklahoma Department of Environmental Quality ("ODEQ")	(34,017)	184,361	76,246	40,652	5,017	5,888	-	278,147
Compensated absences	4,255	10,941	1,249	14,164	-	-	-	30,609
Interest Payable	-	-	-	-	-	-	3,728,898	3,728,898
Current maturities of long-term debt	-	-	-	-	-	-	13,300,000	13,300,000
Total current liabilities	44,406	195,808	77,495	186,014	5,017	120,100	17,125,723	17,754,563
Nnoncurrent Liabilities:								
Compensated absences	18,141	46,645	5,325	60,382	-	-	-	130,493
Long-term debt, net of current maturities	-	-	-	-	-	-	340,670,000	340,670,000
Unamortized (discount)/premium	-	-	-	-	-	-	19,675,452	19,675,452
Total noncurrent liabilities	18,141	46,645	5,325	60,382	-	-	360,345,452	360,475,945
Total liabilities	62,547	242,453	82,820	246,396	5,017	120,100	377,471,175	378,230,508
<b><u>NET ASSETS</u></b>								
Invested in capital assets, net of related debt	-	-	-	19,500	-	-	-	19,500
Restricted for loans and debt service	-	-	-	-	-	-	211,132,471	211,132,471
Unrestricted net liability	(22,396)	(57,586)	(6,574)	(74,546)	-	-	-	(161,102)
Total net assets	\$ (22,396)	(57,586)	(6,574)	(55,046)	-	-	211,132,471	210,990,869

OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM

SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
NET ASSETS INFORMATION - BY PROGRAM COMPONENT  
For the Year Ended June 30, 2012

	Set-Aside Funds							
	Administrative	Program Management	Small Systems	Local Assistance and Other State Programs	ARRA Admin	Program Mgmt Reserve	Loan Fund	Totals
<b>REVENUES</b>								
Operating revenues:								
Federal grants	\$ 443,249	1,229,014	372,123	1,541,804	12,903	643,270	-	4,242,363
Interest income on loans	-	-	-	-	-	-	13,065,373	13,065,373
Total operating revenue	443,249	1,229,014	372,123	1,541,804	12,903	643,270	13,065,373	17,307,736
<b>EXPENSES</b>								
Operating expenses:								
Salaries and benefits	154,417	957,996	308,341	800,027	1,206	(34,689)	-	2,187,298
Professional services	220,000	-	-	170,409	9,262	-	-	399,671
Travel	17,159	22,072	2,560	8,822	2,166	-	-	52,779
Office	7,011	12,831	1,034	7,370	-	-	-	28,246
Depreciation	9,310	1,753	-	22,889	-	-	-	33,952
Indirect costs	46,267	221,088	58,710	176,150	269	-	-	502,484
Other expense	-	-	-	400,413	-	643,270	37,447	1,081,130
Interest expense	-	-	-	-	-	-	13,689,181	13,689,181
Bad debt expense	-	-	-	-	-	-	4,212,755	4,212,755
Debt issuance costs	-	-	-	-	-	-	114,012	114,012
Trustee fees	-	-	-	-	-	-	40,966	40,966
Total operating expenses	454,164	1,215,740	370,645	1,586,080	12,903	608,581	18,094,361	22,342,474
Operating income (loss)	(10,915)	13,274	1,478	(44,276)	-	34,689	(5,028,988)	(5,034,738)
<b>NONOPERATING REVENUES (EXPENSES)</b>								
Federal grants	-	-	-	-	-	-	6,224,829	6,224,829
Federal grants-Principal Forgiveness	-	-	-	-	-	-	(1,644,500)	(1,644,500)
Investment income	-	-	-	-	-	-	3,123,027	3,123,027
Interest income-invested cash balances	-	-	-	-	-	-	67,894	67,894
Net nonoperating revenues	-	-	-	-	-	-	7,771,250	7,771,250
Income (loss) before transfers	(10,915)	13,274	1,478	(44,276)	-	34,689	2,742,262	2,736,512
Transfers in - Clean Water State Revolving Fund Loan Program	-	-	-	-	-	-	3,000,000	3,000,000
Transfers in - Drinking Water Treatment Loan Admin Fund	-	-	-	-	-	-	4,236,700	4,236,700
Increase (decrease) in net assets	(10,915)	13,274	1,478	(44,276)	-	34,689	9,978,962	9,973,212
<b>NET ASSETS</b>								
Net assets, beginning of year	(11,481)	(70,860)	(8,052)	(10,770)	-	(34,689)	201,153,509	201,017,657
Net assets, end of year	\$ (22,396)	(57,586)	(6,574)	(55,046)	-	-	211,132,471	210,990,869

OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM

SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS INFORMATION - BY PROGRAM COMPONENT  
For the Year Ended June 30, 2012

	Set-Aside Funds							
	Administrative	Program Management	Small Systems	Local Assistance and Other State Programs	ARRA Admin	Program Mgmt Reserve	Loan Fund	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>								
Federal grant receipts	\$ 419,853	1,118,110	343,148	1,761,447	45,996	583,399	-	4,271,953
Collection of interest on loans to local governmental units	-	-	-	-	-	-	12,696,886	12,696,886
Payments to employees	(152,812)	(973,023)	(309,819)	(778,640)	(1,206)	-	-	(2,215,500)
Payments to other suppliers	(267,041)	(145,087)	(33,329)	(982,807)	(44,790)	(583,399)	(76,927)	(2,133,380)
Interest paid on debt	-	-	-	-	-	-	(14,669,876)	(14,669,876)
Net cash provided (used) by operating activities	-	-	-	-	-	-	(2,049,917)	(2,049,917)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>								
Proceeds from sale of bonds, net	-	-	-	-	-	-	56,572,422	56,572,422
Payments for debt issuance costs	-	-	-	-	-	-	(359,064)	(359,064)
Principal paid on bonds	-	-	-	-	-	-	(11,265,000)	(11,265,000)
Federal grant receipts	-	-	-	-	-	-	4,580,329	4,580,329
Transfers in - Drinking Water Treatment Loan Admin. Fund	-	-	-	-	-	-	4,236,700	4,236,700
Transfers in - Clean Water State Revolving Fund Loan Program	-	-	-	-	-	-	3,000,000	3,000,000
Net cash provided (used) by noncapital financing activities	-	-	-	-	-	-	56,765,387	56,765,387
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>								
Loans to local governmental units	-	-	-	-	-	-	(63,851,237)	(63,851,237)
Collection of principal on loans to local governmental units	-	-	-	-	-	-	20,808,656	20,808,656
Collection of principal on loans to local governmental units from federal grant proceeds	-	-	-	-	-	-	1,644,500	1,644,500
Interest on investments	-	-	-	-	-	-	3,129,663	3,129,663
Interest on invested cash balances	-	-	-	-	-	-	64,328	64,328
Purchase of investments	-	-	-	-	-	-	983,267	983,267
Net cash provided (used) by investing activities	-	-	-	-	-	-	(37,220,823)	(37,220,823)
Net increase (decrease) in cash	-	-	-	-	-	-	17,494,647	17,494,647
Cash and cash equivalents, beginning of year	-	-	-	-	-	-	57,227,887	57,227,887
Cash and cash equivalents, end of year	\$ -	-	-	-	-	-	74,722,534	74,722,534
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>								
Operating income (loss)	\$ (10,915)	13,274	1,478	(44,276)	-	34,689	(5,028,988)	(5,034,738)
Adjustment to reconcile net operating income to net cash provided by operating activities:								
Depreciation	9,310	1,753	-	22,889	-	-	-	33,952
Amortization of debt issuance costs/note premium	-	-	-	-	-	-	(1,006,362)	(1,006,362)
Provision (recovery) for uncollectible loans	-	-	-	-	-	-	4,212,755	4,212,755
Changes in operating assets and liabilities:								
Decrease (Increase) in letter of credit payments receivable	(23,396)	(110,904)	(28,975)	219,643	33,093	(59,871)	-	29,590
Decrease (Increase) in interest receivable	-	-	-	-	-	-	(368,487)	(368,487)
Decrease (Increase) in other receivable	-	-	-	-	-	-	(469)	(469)
Increase (Decrease) in accounts payable	72,506	(786)	(339)	23,713	(500)	112,476	-	207,070
Increase (Decrease) in due to/from ODEQ	(49,110)	111,690	29,314	(243,356)	(32,593)	(52,605)	-	(236,660)
Increase (Decrease) in compensated absences	1,605	(15,027)	(1,478)	21,387	-	(34,689)	-	(28,202)
Increase (Decrease) in other accrued liabilities	-	-	-	-	-	-	1,955	1,955
Increase (Decrease) in interest payable	-	-	-	-	-	-	139,679	139,679
Net cash provided (used) by operating activities	\$ -	-	-	-	-	-	(2,049,917)	(2,049,917)

**OKLAHOMA DEPARTMENT OF  
ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER  
STATE REVOLVING FUND  
LOAN PROGRAM**

**SINGLE AUDIT REPORTS  
AND SUPPLEMENTARY SCHEDULES**

**JUNE 30, 2012**



**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

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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 Directors of the  
Oklahoma Department of Environmental Quality  
Oklahoma Drinking Water State Revolving Fund Loan Program

We have audited the financial statements of The Oklahoma Department of Environmental Quality/Oklahoma Drinking Water State Revolving Fund Loan Program (the "Program") as of and for the year ended June 30, 2012, which collectively comprise the Program's basic financial statements and have issued our report thereon dated September 18, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Program, in a separate letter dated September 18, 2012.

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

  
Edmond, Oklahoma  
September 18, 2012

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

To the Directors of the  
Oklahoma Department of Environmental Quality  
Oklahoma Drinking Water State Revolving Fund Loan Program

Compliance

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

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

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



## Internal Control Over Compliance

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

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

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

## Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Program, as of and for the year ended June 30, 2012, and have issued our report thereon September 18, 2012 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

*Wedge Associates, P.C.*  
Edmond, Oklahoma  
September 18, 2012

**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

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

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Operating Expenditures</u>	<u>Loans Funded Subaward Amount</u>	<u>Loan Forgiveness Subaward Amount</u>
Environmental Protection Agency Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ 10,459,307	4,234,478	4,580,329	1,644,500
ARRA Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ 7,885	7,885	-	-
Total Federal Expenditures		\$ 10,467,192	4,242,363	4,580,329	1,644,500

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**2. RECONCILIATION OF 2012 EXPENDITURES**

The 2012 expenditures are detailed as follows:

Loan forgiveness funded during 2012 from federal funds	\$ 1,644,500
Loans funded during 2012 from federal funds	4,580,329
Set-aside program expenditures per financial statements	4,248,113
Depreciation expense	(33,952)
Fiscal year 2012 change in compensated absences	28,202
Total 2012 expenditures	\$ 10,467,192

**3. OUTSTANDING LOANS RECEIVABLE**

At June 30, 2012, the Program's outstanding balance on loans receivable funded by federal awards and related matching funds was \$444,820,694 net of an allowance of \$4,212,755.

**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

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

**SECTION I – SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: Unqualified

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

Noncompliance material to financial statements noted?        yes     X     no

**Federal Awards**

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

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

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

Identification of major programs:

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

Dollar threshold used to distinguish  
 between Type A and Type B programs: \$ 314,015

Auditee qualified as low-risk auditee?     X     yes        no



**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

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

**SECTION II – FINANCIAL STATEMENT FINDINGS**

Compliance Findings

*There are no findings requiring reporting under this section.*

Internal Control Findings

*There are no findings requiring reporting under this section.*

**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

Compliance Findings

*There are no findings requiring reporting under this section.*

Internal Control Findings

*There are no findings requiring reporting under this section.*