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State Auditor & Comptroller

State of Oklahoma

**OWRB**

**WATER RESOURCES BOARD**  
the water agency

**OKLAHOMA DRINKING WATER TREATMENT LOAN  
ADMINISTRATIVE FUND**

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**ANNUAL FINANCIAL STATEMENTS  
AS OF AND FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010  
AND INDEPENDENT AUDITOR'S REPORTS**

**OKLAHOMA WATER RESOURCES BOARD  
OKLAHOMA DRINKING WATER TREATMENT LOAN ADMINISTRATIVE FUND  
ANNUAL FINANCIAL REPORT  
As of and for the Years Ended June 30, 2011 and 2010**

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## INDEPENDENT AUDITOR'S REPORT

To the Members of the  
Oklahoma Water Resources Board

We have audited the accompanying statements of net assets of the Oklahoma Water Resources Board/Oklahoma Drinking Water Treatment Loan Administrative Fund (the "Fund") as of June 30, 2011 and 2010, 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 Fund'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 Fund as of June 30, 2011 and 2010, 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 26, 2011, on our consideration of the Fund'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.

  
Edmond, Oklahoma  
September 26, 2011

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**OKLAHOMA WATER RESOURCES BOARD  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the Oklahoma Drinking Water Treatment Loan Administrative Fund's (the "Fund") financial performance provides an overview of the Fund's financial activities for the fiscal years ended June 30, 2011 and 2010. Please read it in conjunction with the Fund's financial statements, which begin on page 10. The Fund was created to account for the administrative fees and application fees received from loans made out of The Oklahoma Drinking Water State Revolving Fund Program (the "Program"). The Oklahoma Department of Environmental Quality manages the capitalization grant. The Oklahoma Water Resources Board (the "Board") handles certain financial functions including originating, approving and servicing loans made to qualifying recipients as well as maintaining the Fund.

**Financial Highlights**

- During FY 2011, total operating income increased by \$646,306. Total operating income increased \$301,777 in FY 2010. Operating revenues come from borrowers paying 0.5% administrative fees on their outstanding loan balance.
- The Fund's net assets increased by approximately 49% and 41% in FY 2011 and 2010, respectively. Ending net assets increased from \$3,391,621 in FY 2010 to \$5,052,487 in FY 2011. Ending net assets increased from \$2,406,627 in FY 2009 to \$3,391,621 in FY 2010.

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

The financial statements for the Fund 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 Fund's financial condition and changes therein.
- Basic Financial Statements
  - Statements of Net Assets
  - Statements of Revenues, Expenses and Changes in Net Assets
  - Statements of Cash Flows
- Footnotes - that elaborate on the accounting principles used in the preparation of the financial statements and further explain financial statement elements.

**A Financial Analysis of the Fund**

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

(Unaudited. See accompanying auditor's report.)

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The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Fund as a whole and about its activities in a way that helps answer this question. The following tables present a condensed comparative presentation of net assets and changes therein.

**Oklahoma Water Resources Board**  
**Drinking Water Treatment Loan Account Administrative Fund**  
**Net Assets**

	<b>Business-Type</b>		
	<b>Activities</b>		
	June 30		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current assets	\$ 4,991,815	\$ 3,417,876	\$ 2,436,331
Capital assets, net	61,532	-	8,057
<b>Total assets</b>	<b>5,053,347</b>	<b>3,417,876</b>	<b>2,444,388</b>
Current liabilities	860	26,255	37,761
<b>Total liabilities</b>	<b>860</b>	<b>26,255</b>	<b>37,761</b>
Net assets			
Invested in capital assets, net	61,532	-	8,057
Unrestricted	4,990,955	3,391,621	2,398,570
<b>Total net assets</b>	<b>\$ 5,052,487</b>	<b>\$ 3,391,621</b>	<b>\$ 2,406,627</b>

The increase in current assets and unrestricted net assets is attributable to an increase in the number of loans and related receivables in fiscal year 2011 and 2010. Current liabilities decreased due to a decrease in the amount of accounts payable.

(Unaudited. See accompanying auditor's report.)

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**Oklahoma Water Resources Board**  
**Drinking Water Treatment Loan Account Administrative Fund**  
**Revenues, Expenses, and Changes in Net Assets**

	<b>Business-Type</b>		
	<b>Activities</b>		
	<b>Years Ended June 30,</b>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Revenues</b>			
Operating revenues	\$ 1,761,127	\$ 1,374,999	\$ 1,166,653
Non-operating revenues	92,313	78,182	56,282
<b>Total revenues</b>	<u>1,853,440</u>	<u>1,453,181</u>	<u>1,222,935</u>
<b>Expenses</b>			
Personnel expense	84,954	288,524	381,017
Indirect cost expense	3,433	57,817	58,682
Other administrative expenses	65,338	64,541	64,614
Depreciation expense	5,036	8,057	8,057
<b>Total expenses</b>	<u>158,761</u>	<u>418,939</u>	<u>512,370</u>
Net income before transfers	1,694,679	1,034,242	710,565
Transfers to other programs	<u>(33,813)</u>	<u>(49,248)</u>	<u>(23,983)</u>
<b>Increase in net assets</b>	1,660,866	984,994	686,582
<b>Total net assets - beginning</b>	3,391,621	2,406,627	1,720,045
<b>Total net assets - ending</b>	<u>\$ 5,052,487</u>	<u>\$ 3,391,621</u>	<u>\$ 2,406,627</u>

Operating revenues and net assets increased due to the number of loans and related administrative and application fee income in fiscal year 2011 and 2010.

**Capital Assets**

At the end of June 30, 2011, the capital assets net of depreciation were \$61,532.

(Unaudited. See accompanying auditor's report.)

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**Oklahoma Water Resources Board  
Drinking Water Treatment Loan Account Administrative Fund  
Capital Assets  
(Net of accumulated depreciation)**

	<b>Business-Type Activities</b>		
	<u>Years Ended June 30,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Software	\$ 52,702	\$ -	\$ 8,057
Automobile	8,830	-	-
	<hr/>	<hr/>	<hr/>
<b>Totals</b>	<b>\$ 61,532</b>	<b>\$ -</b>	<b>\$ 8,057</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

During FY 2011, the program purchased software totaling \$56,756 and a car for \$9,812. Other than depreciation, there were no additions or deletions to capital assets in FY 2010.

See Note 3 to the financial statements for more detailed information on the Fund's capital assets and changes therein.

**Economic Factors and Next Year's Outlook**

The Oklahoma DWSRF has been extremely popular with communities that borrow from the program. No additional staff is planned at this time. No change in the Oklahoma DWSRF financing strategy is anticipated for the next fiscal year.

**Contacting the Fund's Financial Management**

This financial report is designed to provide the Board's accountability of the Fund. 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.)

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**Statements of Revenues, Expenses and Changes in Net Assets – Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>OPERATING REVENUES</b>		
Administrative fee income	\$ 1,756,377	\$ 1,364,499
Application fee income	4,750	10,500
Total operating revenues	<u>1,761,127</u>	<u>1,374,999</u>
<b>OPERATING EXPENSES</b>		
Personnel expense	84,954	288,524
Indirect cost expense	3,433	57,817
Other administrative expenses	65,338	64,541
Depreciation expense	5,036	8,057
Total operating expenses	<u>158,761</u>	<u>418,939</u>
<b>OPERATING INCOME</b>	1,602,366	956,060
<b>NON-OPERATING REVENUES</b>		
Interest income	92,313	76,691
Other income	-	1,491
Total non-operating revenues	<u>92,313</u>	<u>78,182</u>
Net income before transfers	1,694,679	1,034,242
Transfers to Oklahoma Drinking Water State Revolving Fund Loan Program	<u>(33,813)</u>	<u>(49,248)</u>
<b>Change in net assets</b>	1,660,866	984,994
<b>Total net assets - beginning</b>	<u>3,391,621</u>	<u>2,406,627</u>
<b>Total net assets - ending</b>	<u>\$5,052,487</u>	<u>\$3,391,621</u>

See accompanying notes to the basic financial statements.

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**Statements of Cash Flows – Years Ended June 30, 2011 and 2010**

	<b><u>2011</u></b>	<b><u>2010</u></b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Administrative fee income	\$1,617,300	\$1,288,029
Application fee income	4,750	10,500
Payments to employees	(84,954)	(288,524)
Payments to other suppliers	(96,292)	(133,864)
Payments from other funds	-	42,867
Net Cash Provided by Operating Activities	<u>1,440,804</u>	<u>919,008</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers to Oklahoma Drinking Water State Revolving Fund Loan Program	<u>(33,813)</u>	<u>(49,248)</u>
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(33,813)</u>	<u>(49,248)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(66,568)	-
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(66,568)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income	<u>90,419</u>	<u>74,719</u>
Net Cash Provided by Investing Activities	<u>90,419</u>	<u>74,719</u>
<b>Net Increase in Cash and Cash Equivalents</b>	1,430,842	944,479
<b>Balances - beginning of the year</b>	<u>2,982,646</u>	<u>2,038,167</u>
<b>Balances - end of the year</b>	<u>\$4,413,488</u>	<u>\$2,982,646</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$1,602,366	\$956,060
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	5,036	8,057
Other income	-	1,491
Change in assets and liabilities:		
Decrease (Increase) in administration fee receivable	(138,627)	(77,961)
Decrease (Increase) in other receivable	(2,576)	-
Decrease (Increase) in due to other funds	-	42,867
Increase (Decrease) in accounts payable	<u>(25,395)</u>	<u>(11,506)</u>
Net Cash Provided by Operating Activities	<u>\$1,440,804</u>	<u>\$919,008</u>

See accompanying notes to the basic financial statements.

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**Footnotes to the Basic Financial Statements:**

**1. Summary of Significant Accounting Policies**

Reporting Entity

The Oklahoma Water Resources Board/Oklahoma Drinking Water Treatment Revolving Loan Account (the "Program"), Title 82 Oklahoma Statutes, Sections 1085.71 et seq. was created pursuant to the 1996 Amendments (P.L. 104-182) to the Federal Safe Drinking Water Act set apart from all other Oklahoma Water Resources Board accounts and programs to be permanent and perpetual; not subject to fiscal year limitations. Title 82, Section 1085.84 created the Oklahoma Water Resources Board/Oklahoma Drinking Water Treatment Loan Administrative Fund (the "Fund") for the purpose of administering the Program, transferring monies into the Program and for other purposes authorized by the Federal Safe Drinking Water Act. The Fund consists of revenues primarily from loan administrative fees, Fund investment earnings, loan processing and application processing fees.

Administrative fees are assessed on loans made from the Program. Fees are assessed to each participating municipality at the rate of one-half of one percent (0.5%) per annum of the amount of each municipality's loan balance outstanding, and loan application fees.

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

Basis of Accounting and Measurement Focus

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

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

The Fund 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 Fund has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

Cash and Cash Equivalents

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

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

Capital Assets

Capital assets are stated at cost, less accumulated depreciation. Depreciation is charged to operating expense and is computed using the straight-line method. The useful life of software has been estimated at 7 years. The useful life of automobiles has been estimated at 6 years. Maintenance and repairs are charged to operations when incurred and improvements are capitalized. The Fund's policy is to capitalize purchases in excess of \$5,000. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gain or loss is reflected in operations.

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.

Due from the Clean Water State Revolving Fund Loan Account Administrative Fund

During the 2007 fiscal year the Clean Water State Revolving Fund Loan Account Administrative Fund received a lump sum amount for administrative fees revenue. This was intended to be split between the two administrative funds in which \$329,848 was payable to the Drinking Water Treatment Loan Administrative Fund at year end. Due to an administrative error, this amount was not received until fiscal year 2009. A similar deposit error occurred in fiscal year 2009 in the amount of \$42,867 which was received in fiscal year 2010.

**2. Cash Deposits and Investment Risk**

Cash of \$4,413,488 and \$2,982,646 at June 30, 2011 and 2010 respectively, was on deposit in the State Treasurer's office's internal investment pool – *OK Invest*.

*Investment Interest Rate Risk* – the Fund 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.

*Investment Credit and Custodial Credit Risk* – the Fund has no investment policy that limits its investment choices other than the limitation of state law imposed on the State Treasurer as follows:

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

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

- d. Obligations of state and local governments, including obligations of Oklahoma state public trusts, with certain ratings and maturity limitations.
- e. Collateralized repurchase agreements tri-party repurchase agreements.
- f. Money market mutual funds and short term bond funds regulated by the SEC and in which investments consist of obligations of the U.S. Government and its agencies and instrumentalities and repurchase agreements collateralized by obligations of the U.S. Government and its agencies and instrumentalities.

The state treasurer has determined that current holdings in *OK Invest* should be limited to obligations of the United States government, its agencies and instrumentalities, tri-party repurchase agreements collateralized at 102% with the collateral held by a third party in the name of the Oklahoma State Treasurer and money market mutual funds which either directly or indirectly invest in U.S. Treasury and/or Agency securities and repurchase agreements related to such securities. *OK Invest* is not rated by a national rating agency. The overall weighted average maturity of *OK Invest* is less than 2 years. *OK Invest* is not insured or guaranteed by the State of Oklahoma, the Federal Deposit Insurance Corporation or any other government agency.

*Concentration of Investment Credit Risk* – the Fund places no limit on the amount it may invest in any one issuer. Limits are indirectly imposed through the Fund's participation in *OK Invest*. The Fund has the following concentration of credit risk: 100% or \$4,413,488 and \$2,982,646 was invested in *OK Invest* at June 30, 2011 and June 30, 2010 respectively.

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**4. Indirect Costs**

Indirect costs represent recoverable personnel costs charged to the Program by the Fund in connection with administering and accounting for activities of the Program. The amount allocated to the Program is based on a percentage of the Fund personnel costs as established in an indirect cost allocation plan. The indirect cost rate for the year ended June 30, 2011 and 2010 was 83.59% and 88.40%.

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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/Oklahoma Drinking Water Treatment Loan Administrative Fund (the "Fund") as of and for the year ended June 30, 2011, and have issued our report thereon dated September 26, 2011. 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 Fund'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 Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 Fund'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 Fund'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.

*Wedge Associates, P.C.*  
Edmond, Oklahoma  
September 26, 2011