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State Auditor & Inspector

State of Oklahoma

OWRB

WATER RESOURCES BOARD
the water agency

**OKLAHOMA CLEAN WATER STATE REVOLVING
FUND LOAN ACCOUNT ADMINISTRATIVE FUND**

**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 CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT
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 Clean Water State Revolving Fund Loan Account 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 Clean Water State Revolving Fund Loan Account Administrative Fund's (the "Fund") financial performance provides an overview of the Fund's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the Fund's financial statements, which begin on page 10. The Oklahoma Water Resources Board (the "Board") administers the Fund in conjunction with the Oklahoma Clean Water State Revolving Fund Loan Account Program (the "Program").

Financial Highlights

- The Fund's net assets increased 35.2%. Ending net assets increased from \$976,697 to \$1,320,610 from 2010 to 2011.
- The Fund's net assets increased 13.3% from FY 2009 to FY 2010. Ending net assets increased from \$862,180 to \$976,697 from 2009 to 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?" 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.

(Unaudited. See accompanying auditor's report.)

OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT
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Oklahoma Water Resources Board
CWSRF Loan Account Administrative Fund
Net Assets

	Business-Type		
	Activities		
	June 30		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current assets	\$ 1,282,719	\$ 1,069,638	\$ 1,017,540
Capital assets, net	68,109	5,964	17,996
Total assets	1,350,828	1,075,602	1,035,536
Current liabilities	30,218	98,905	173,356
Total liabilities	30,218	98,905	173,356
Net assets			
Invested in capital assets, net	68,109	5,964	17,996
Unrestricted	1,252,501	970,733	844,184
Total net assets	\$ 1,320,610	\$ 976,697	\$ 862,180

Significant variances between 2010 and 2011 related to current assets due to an increase in administrative income. Increase in capital assets is due to the addition of software and an automobile purchased in FY 2011.

(Unaudited. See accompanying auditor's report.)

OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT
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Oklahoma Water Resources Board
CWSRF Loan Account Administrative Fund
Revenues, Expenses, and Changes in Net Assets

	Business-Type		
	Activities		
	Years Ended June 30,		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues			
Operating revenues	\$ 1,407,688	\$ 1,153,510	\$ 1,016,003
Non-operating revenues	12,297	16,904	19,130
Total revenues	<u>1,419,985</u>	<u>1,170,414</u>	<u>1,035,133</u>
Expenses			
Personnel expense	651,867	695,130	646,935
Indirect cost expense	310,389	175,646	345,344
Other administrative expenses	91,636	143,682	78,678
Depreciation expense	9,364	12,032	12,032
Total expenses	<u>1,063,256</u>	<u>1,026,490</u>	<u>1,082,989</u>
Net Income (loss) before transfers	356,729	143,924	(47,856)
Transfers to other programs	(12,816)	(29,407)	(14,488)
Increase (decrease) in net assets	<u>343,913</u>	<u>114,517</u>	<u>(62,344)</u>
Total net assets - beginning	976,697	862,180	924,524
Total net assets - ending	<u>\$ 1,320,610</u>	<u>\$ 976,697</u>	<u>\$ 862,180</u>

Operating revenue and indirect costs both increased due to the increase in ARRA funds received and the increase in loan activity of the program.

Capital Assets

At the end of June 30, 2011, the Fund had \$68,109 invested in capital assets, net of depreciation, including computer software and an automobile. This represents a net increase of \$62,145 over the prior year.

(Unaudited. See accompanying auditor's report.)

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

	Business-Type Activities		
	Years Ended June 30,		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Software	\$ 57,290	\$ -	\$ 8,058
Automobile	10,819	5,964	9,938
Totals	\$ 68,109	\$ 5,964	\$ 17,996

Increase in capital assets is due to the addition of software and an automobile purchased in FY 2011.

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 Clean Water State Revolving Fund has been extremely popular with communities that borrow from the program. The Program's financing strategy of providing long-term loans at 60% of market rate has been consistent since program start up in 1990. No additional staff is planned at this time, therefore Fund expenses should be fairly consistent with the amount expended in FY 2011.

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.)

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT
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BASIC FINANCIAL STATEMENTS

**OKLAHOMA WATER RESOURCES BOARD
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Statements of Net Assets – June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$491,309	\$695,626
Administrative fee receivable	481,997	372,152
Interest receivable	1,074	1,860
Due from CWSRF	308,339	-
Total current assets	<u>1,282,719</u>	<u>1,069,638</u>
Noncurrent Assets:		
Depreciable capital assets, net	68,109	5,964
Total noncurrent assets	<u>68,109</u>	<u>5,964</u>
Total assets	<u>1,350,828</u>	<u>1,075,602</u>
LIABILITIES:		
Current Liabilities:		
Accounts payable	-	68,687
Due to Oklahoma Water Resources Board	30,218	30,218
Total current liabilities	<u>30,218</u>	<u>98,905</u>
NET ASSETS:		
Invested in capital assets, net of related debt	68,109	5,964
Unrestricted	1,252,501	970,733
Total net assets	<u>\$1,320,610</u>	<u>\$976,697</u>

See accompanying notes to the basic financial statements.

**OKLAHOMA WATER RESOURCES BOARD
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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>
OPERATING REVENUES:		
Administrative fee income	\$ 1,400,438	\$ 1,145,060
Application fee income	7,250	8,450
	<u>1,407,688</u>	<u>1,153,510</u>
OPERATING EXPENSES:		
Personnel expense	651,867	695,130
Indirect cost expense	310,389	175,646
Other administrative expenses	91,636	143,682
Depreciation expense	9,364	12,032
	<u>1,063,256</u>	<u>1,026,490</u>
OPERATING INCOME	344,432	127,020
NON-OPERATING REVENUES:		
Interest income	11,995	15,413
Other income	302	1,491
	<u>12,297</u>	<u>16,904</u>
Total non-operating revenues	<u>12,297</u>	<u>16,904</u>
Net income before transfers	356,729	143,924
Transfers to Oklahoma Clean Water State Revolving Loan Account Program	(12,816)	(29,407)
	<u>343,913</u>	<u>114,517</u>
Change in net assets	<u>343,913</u>	<u>114,517</u>
Total net assets - beginning	976,697	862,180
Total net assets - ending	<u><u>\$1,320,610</u></u>	<u><u>\$976,697</u></u>

See accompanying notes to the basic financial statements.

OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT
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Statements of Cash Flows – Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Administrative fee income	\$ 982,254	\$ 1,093,896
Application fee income	7,250	8,450
Payments to employees	(651,867)	(695,130)
Payments to other suppliers	(470,712)	(393,779)
Other income	302	1,491
Net Cash Provided by (Used in) Operating Activities	<u>(132,773)</u>	<u>14,928</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers to Oklahoma Clean Water State Revolving Loan Account Program	(12,816)	(29,407)
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(12,816)</u>	<u>(29,407)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(71,509)	-
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(71,509)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	12,781	15,502
Net Cash Provided by Investing Activities	<u>12,781</u>	<u>15,502</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(204,317)	1,023
Balances - beginning of the year	<u>695,626</u>	<u>694,603</u>
Balances - end of the year	<u>\$ 491,309</u>	<u>\$ 695,626</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 344,432	\$ 127,020
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	9,364	12,032
Other income	302	1,491
Change in assets and liabilities:		
Decrease (Increase) in administration fee receivable	(109,845)	(51,164)
Decrease (Increase) in due to CWSRF	(308,339)	-
Increase (Decrease) in accounts payable	(68,687)	(61,802)
Increase (Decrease) in Due to DW Admin fund	-	(42,867)
Increase (Decrease) in Due to OWRB	-	30,218
Net Cash Provided by (Used in) Operating Activities	<u>\$ (132,773)</u>	<u>\$ 14,928</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 Wastewater Facility Construction Revolving Loan Account Program (the "Program") was created pursuant to the 1987 Amendments (P.L. 100-4) to the "Clean Water Act" (P.L. 92-500) to provide a perpetual fund for financing the construction of wastewater treatment facilities for municipalities and other public entities. The Program funds loans with Federal grants, State matching funds, principal repayments, bond proceeds, and interest received on loans and invested cash balances. State matching funds are provided through State appropriations or through the issuance of notes payable.

The Oklahoma Water Resources Board/Oklahoma Wastewater Facility Construction Revolving Loan Account (the "Program"), Title 82 Oklahoma Statutes, Sections 1085.51 et seq. was created pursuant to the 1987 Amendments (P.L. 100-4) to the Federal Clean Water Act (P.L. 92-500) 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 1085.64 created the Oklahoma Water Resources Board/Oklahoma Wastewater Facility Construction Revolving 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 Clean Water Act. The Fund consists of revenues primarily from loan administrative fees, Fund investment earnings and loan processing and application processing fees.

Administrative fees are assessed on loans made from the Program. Fees are assessed to each participating borrower at the rate of one-half of one percent (0.5%) per annum of the amount of each borrower'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

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

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.

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 To/From Other Funds

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 paid until fiscal year 2009. A similar deposit error occurred in fiscal year 2009 in the amount of \$42,867 which was repaid in fiscal year 2010.

The \$30,218 Due to OWRB represents an OWRB drawdown that was incorrectly deposited into the Clean Water State Revolving Fund Loan Account Administrative fund. The amount is to be repaid in fiscal year 2012. During the fiscal year 2011, the Clean Water State Revolving Fund Loan Account Program received administrative fee deposits totaling \$308,339 that, due to an administrative error, were not transferred to the Clean Water State Revolving Fund Loan Account Administrative Fund during the year. The amount is to be paid over in fiscal year 2012.

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2. Cash Deposits and Investment Risk

Cash of \$491,309 and \$695,626 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 Risk 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.
- 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 \$491,309 is invested in *OK Invest*.



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 Clean Water State Revolving Fund Loan Account 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.

Adage & Associates, P.C.
Edmond, Oklahoma
September 26, 2011

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT 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 Members of the
Oklahoma Water Resources Board
Oklahoma Clean Water State Revolving Fund Loan Account Program

We have audited the financial statements of The Oklahoma Water Resources Board/Oklahoma Clean Water State Revolving Fund Loan Account Program (the "Program") as of and for the year ended June 30, 2011, and have issued our report thereon dated September 16, 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

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*.

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 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.

Orledge & Associates, P.C.
Edmond, Oklahoma
September 16, 2011



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 Members of the
Oklahoma Water Resources Board
Oklahoma Clean Water State Revolving Fund Loan Account Program

Compliance

We have audited the Oklahoma Water Resources Board/Oklahoma Clean Water State Revolving Fund Loan Account 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, 2011. 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, 2011.

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, 2011, and have issued our report thereon September 16, 2011 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 members of the Oklahoma Water Resources Board, 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 16, 2011

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Expenditures</u>	<u>Operating Expenditures</u>	<u>Loans Funded Subaward Amount</u>	<u>Loan Forgiveness Subaward Amount</u>
Environmental Protection Agency Capitalization Grants for Clean Water State Revolving Funds	66.458	\$ 23,324,159	-	23,226,659	97,500
ARRA Capitalization Grants for Clean Water State Revolving Funds	66.458	\$ <u>6,610,742</u>	<u>273,022</u>	<u>-</u>	<u>6,337,720</u>
Total Federal Expenditures		\$ <u><u>29,934,901</u></u>	<u><u>273,022</u></u>	<u><u>23,226,659</u></u>	<u><u>6,435,220</u></u>

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 Clean Water State Revolving Fund Loan Account 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*.

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011**

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>
66.458	ARRA Capitalization Grants for Clean Water State Revolving Funds
66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish
 between Type A and Type B programs: \$ 898,047

Auditee qualified as low-risk auditee? yes X no

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011**

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.