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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 PROGRAM**

**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 PROGRAM
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 Program (the "Program") 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 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, 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 16, 2011, 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.


Edmond, Oklahoma
September 16, 2011

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Oklahoma Clean Water State Revolving Loan Fund Account Program's (the "Program") financial performance provides an overview of the Program's financial activities for the fiscal years ended June 30, 2011 and 2010. Please read it in conjunction with the Program's financial statements, which begin on page 10. The Oklahoma Water Resources Board (the "Board") administers the Program.

Program Highlights

- During FY 2011, fifteen (15) construction loan commitments totaling approximately \$88.9 million were made to protect, maintain and improve waters of the State towards the "fishable/swimmable" goals of the Clean Water Act.
- The Program recognized seven (7) of the fifteen (15) project as incorporating "green" components equaling approximately \$4.28 million.
- The Program completed construction during the year on eight (8) projects totaling approximately \$22.7 million.
- The Program made binding commitments for seven (7) new construction loans, totaling approximately \$68.9 million, in wastewater construction for communities discharging to priority stream segments identified as threatened or impaired on the Impaired Waterbodies List (Section 303(d)) of Oklahoma's Integrated Water Quality Assessment Report.
- Thirteen (13) of fifteen (15) projects funded were proposed to assist Oklahoma communities to attain compliance with the enforceable permit requirements of the Clean Water Act in place to protect the water quality of receiving streams and lakes.

Financial Highlights

- The Program experienced an increase in the number of outstanding loans in FY 2011. At June 30, 2011 the Program had 187 loans with a balance of \$328,333,447. At June 30, 2010 there were 170 outstanding loans with a principal balance of \$245,698,027.
- Ending Program net assets increased from \$257,576,198 to \$283,644,523 between FY 2010 and FY 2011 of which \$43,065,369 is restricted for debt service. Ending Program net assets decreased from \$260,129,533 to \$257,576,198 between FY 2009 and FY 2010 of which \$45,627,620 is restricted for debt service.
- On April 13, 2011, the Program issued State Revolving Fund Revenue Bonds, Series 2011A in the amount of \$85,000,000. 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.

(Unaudited. See accompanying auditor's report.)

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Using This Annual Report

This annual report is presented in a format that substantially meets the presentation requirements of the Governmental Accounting Standards Board (GASB) in accordance with generally accepted accounting principles. The Program is accounted for and presented similar to a special-purpose government engaged solely in business-type activities.

The financial statements for the Program are presented after the Management's Discussion and Analysis in this annual report and then followed by the footnotes in this order:

- Management's Discussion and Analysis – that provides useful analysis that facilitates a better understanding of the Program's financial condition and changes therein.
- Basic Financial Statements
 - 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 Program

One of the most frequently asked questions about the Program's finances is, "Has the overall financial condition improved, declined or remained steady over the past year?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Activities report information about the Program 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 CWSRF Loan Account Program Net Assets			
	Business-Type Activities		
	June 30		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current assets	\$ 120,181,477	\$ 70,276,905	\$ 103,855,470
Non-current assets	359,698,637	294,297,835	269,208,829
Total assets	<u>479,880,114</u>	<u>364,574,740</u>	<u>373,064,299</u>
Current liabilities	12,414,539	6,853,439	6,830,580
Non-current liabilities	183,821,052	100,145,103	106,104,186
Total liabilities	<u>196,235,591</u>	<u>106,998,542</u>	<u>112,934,766</u>
Net assets			
Restricted	43,065,369	45,627,620	54,897,692
Unrestricted	240,579,154	211,948,578	205,231,841
Total net assets	<u>\$ 283,644,523</u>	<u>\$ 257,576,198</u>	<u>\$ 260,129,533</u>

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(Unaudited. See accompanying auditor's report.)

With the addition of new loans, as discussed on page 6, our loans receivable amount increased as would be expected. The increase in non-current liabilities is directly attributable to the payment of outstanding debt in accordance with the maturity schedule. The increase in non-current liabilities is directly attributable to the issuance of \$85,000,000 on revenue bonds.

Oklahoma Water Resources Board
CWSRF Loan Account Program
Revenues, Expenses, and Changes in Net Assets

	Business-Type		
	Activities		
	Years Ended June 30,		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues			
Loan program income, net	\$ 5,900,679	\$ 4,585,504	\$ 3,670,381
Federal grants	273,022	993,462	-
Investment interest income	2,717,568	4,567,736	5,322,758
Total revenues	<u>8,891,269</u>	<u>10,146,702</u>	<u>8,993,139</u>
Expenses			
Trustee fees	15,955	13,691	14,544
Administration expenses	846,532	510,922	129,093
Interest expense	5,162,409	4,644,130	4,822,030
Amortization of debt issuance cost	37,523	30,906	30,906
Total expenses	<u>6,062,419</u>	<u>5,199,649</u>	<u>4,996,573</u>
Net Income (loss) before transfers	2,828,850	4,947,053	3,996,566
Federal grants	29,661,879	20,918,490	999,857
Federal grant principal forgiveness	(6,435,220)	(19,768,625)	-
Transfers from other programs	12,816	29,407	-
Transfers to other programs	-	(8,679,660)	(4,304,156)
Increase in net assets	<u>26,068,325</u>	<u>(2,553,335)</u>	<u>692,267</u>
Total net assets - beginning	257,576,198	260,129,533	259,437,266
Total net assets - ending	<u>\$ 283,644,523</u>	<u>\$ 257,576,198</u>	<u>\$ 260,129,533</u>

The increase in Federal Grant Revenue in 2011 is attributable to grant funds received under the American Reinvestment Recovery Act. The Program received funds to provide for additional subsidization to Oklahoma Borrowers for projects which met the intent of the Act. OWRB provided \$6,337,720 in principal forgiveness to Borrowers and received \$273,022 in administrative fees related to the program. In addition, the Program received \$23,324,159 in Federal Capitalization Grants in FY 2011 compared to \$1,149,865 in FY 2010.

(Unaudited. See accompanying auditor's report.)

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The OWRB is authorized by the EPA to transfer up to 33% of the Drinking Water Federal Capitalization Grant from the Fund. During 2011, management did not elect to transfer any funds to the Drinking Water State Revolving Fund Loan program, but did elect this option in FY 2009 and 2010. These transfers are included in Transfers to other programs.

Long- Term Debt

At year-end, the Program had \$179,795,000 in long-term debt outstanding which represents a \$79,360,000 or 179% increase from June 30, 2010. Debt decreased \$5,465,000, or 5.2%, from 2009 to 2010. The Program's changes in long-term debt by type of debt are as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Beginning balances:			
2004 Serial bonds due April 1, 2012 to April 1, 2026, interest at 3.125% to 5.25%	\$ 100,435,000	\$ 105,900,000	\$ 111,070,000
2011 Serial bonds due April 1, 2012 to April 1, 2031, interest at 3.0% to 5.0%	85,000,000	\$ -	\$ -
Unamortized premium	14,518,095	5,669,186	5,988,269
	<u>\$ 199,953,095</u>	<u>\$ 111,569,186</u>	<u>\$ 117,058,269</u>
Less: debt principal repayments	(5,640,000)	(5,465,000)	(5,170,000)
Less: current amortization of premium	(417,043)	(319,083)	(319,083)
Ending balances	<u>\$ 193,896,052</u>	<u>\$ 105,785,103</u>	<u>\$ 111,569,186</u>
Amounts due in one year	10,075,000	5,640,000	5,465,000

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

Economic Factors and Next Year's Outlook

As a result of the widespread need for wastewater financing and efforts by the OWRB to implement a "lower than market rate" loan program, we continue to receive an overwhelming response from communities across the state requesting their projects be added to the five-year CWSRF Project Priority List. To date, communities have made requests for twenty-two (22) construction and refinancing projects in FY 2012 totaling over \$130 million. An additional \$170 million in projects has been requested through 2016.

Contacting the Program's Financial Management

This financial report is designed to provide the Board's accountability of the Program. If you have questions about this report or need additional financial information, contact the Financial Assistance Division of the Oklahoma Water Resources Board at 3800 N. Classen Blvd, Oklahoma City, OK 73118.

(Unaudited. See accompanying auditor's report.)

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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:		
Loan program income (net of bad debt recovery of \$18,415 and \$2,959 in 2010 and 2011, respectively)	\$5,900,679	\$4,585,504
ARRA administration revenue	273,022	993,462
Total operating revenues	<u>6,173,701</u>	<u>5,578,966</u>
OPERATING EXPENSES:		
Trustee fees	15,955	13,691
Administration expenses	846,532	510,922
Interest expense	5,162,409	4,644,130
Amortization of debt issuance cost	37,523	30,906
Total operating expenses	<u>6,062,419</u>	<u>5,199,649</u>
OPERATING INCOME (LOSS)	111,282	379,317
NON-OPERATING REVENUES (EXPENSES):		
Federal grants and contracts	29,661,879	20,918,490
Federal grant principal forgiveness	(6,435,220)	(19,768,625)
Interest Income:		
Invested cash balances	657,209	1,099,824
Short-term investments	25,684	9,353
Long-term investments	2,528,481	2,880,603
Gain/(Loss) on Investments	(493,806)	577,956
Total non-operating revenues (expenses)	<u>25,944,227</u>	<u>5,717,601</u>
Net income before transfers	26,055,509	6,096,918
Transfers in - Clean Water Revolving Fund Loan Administrative Fund	12,816	29,407
Transfers out - Drinking Fund Revolving Fund Loan Program Debt Reserve	<u>-</u>	<u>(8,679,660)</u>
Change in net assets	26,068,325	(2,553,335)
Total net assets - beginning	257,576,198	260,129,533
Total net assets - ending	<u><u>\$283,644,523</u></u>	<u><u>\$257,576,198</u></u>

See accompanying notes to the basic financial statements.

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

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Collections of interest on loans to local governmental units	\$5,354,928	\$4,259,613
Federal grant income	273,022	993,462
Payments to other suppliers	(783,927)	(1,162,911)
Payments to other programs	308,339	-
Payments from other programs	260,307	-
Interest paid on debt	(4,840,250)	(5,004,200)
Net Cash Provided by (Used in) Operating Activities	<u>572,419</u>	<u>(914,036)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in - Clean Water Revolving Fund Loan Administrative Fund	12,816	29,407
Transfers out - Drinking Fund Revolving Fund Loan Program debt reserve	-	(8,679,660)
Federal grant receipts	23,226,659	1,149,865
Bond issue proceeds	85,000,000	-
Bond issue cost	(619,235)	-
Premium on bonds issued	9,167,991	-
Principal paid on bonds/notes	(5,640,000)	(5,465,000)
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>111,148,231</u>	<u>(12,965,388)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans to local governmental units	(107,296,664)	(62,810,314)
Collections of principal on loans to local governmental units	18,228,983	17,558,284
Collections of principal on loans to local governmental units from federal grant proceeds	6,435,220	19,768,625
Interest on invested cash balances	709,562	1,129,337
Interest on short-term investments	25,266	13,846
Interest on long-term investments	2,065,666	3,570,153
Purchase (sale) of long-term investments	15,345,560	(3,170,431)
Sale (purchase) of short-term investments	(52,836,490)	32,393,898
Net Cash Provided by (Used in) Investing Activities	<u>(117,322,897)</u>	<u>8,453,398</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(5,602,247)</u>	<u>(5,426,026)</u>
Balances - beginning of the year	<u>37,905,477</u>	<u>43,331,503</u>
Balances - end of the year	<u>\$32,303,230</u>	<u>\$37,905,477</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$111,282	\$379,317
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Amortization of debt issuance costs and note issuance discounts (premiums)	(379,519)	(288,177)
Allowance for uncollectible loans	(2,959)	(18,415)
Change in assets and liabilities:		
Decrease (Increase) in due from other programs	260,307	(527,144)
Decrease (Increase) in interest receivable	(542,792)	(307,476)
Increase (Decrease) in other current liabilities	78,560	(111,154)
Increase (Decrease) in accrued interest payable	739,201	(40,987)
Increase (Decrease) in due to other funds	308,339	-
Net Cash Provided by (Used in) Operating Activities	<u>\$572,419</u>	<u>(\$914,036)</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.

Administrative costs of the Oklahoma Water Resources Board ("OWRB") allocated to the Program may be reimbursed by the Program, limited to 4% of total cumulative Federal contributions or through fees assessed to each participating borrower at the rate of one-half of one percent per annum of the amount of each borrower's loan balance outstanding, and loan application fees. The fees paid by the participating borrowers are remitted directly to OWRB and, therefore, are not included in the accompanying financial statements.

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

Basis of Accounting and Measurement Focus

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

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

The Program uses the economic resources measurement focus where all assets, liabilities, net assets, revenues, expenses and transfers relating to the Program and net income and capital maintenance are measured.

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB"). Under the guidelines of GASB Statement 20, the Program has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

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

Loans Receivable and Allowance for Uncollectible Loans

Loans receivable are stated at the amount of unpaid principal reduced by an allowance for uncollectible loans. The allowance for uncollectible loans is established through a provision for bad debts that is charged to expense. Loans receivable are charged against the allowance for uncollectible loans when management believes that the collectability of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans receivable that may become uncollectible, based on evaluations of the collectability of loans receivable. The evaluations take into consideration such factors as the borrowers' debt coverage ratio, review of specific problem loans receivable and current economic conditions that may affect the borrowers' ability to pay. Accrual of interest is discontinued on a loan receivable when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful.

Federal Letter of Credit Payments Receivable

Funding from Federal grants, which have been approved, is provided through a Federal letter of credit. Timing of deposits is specified by the terms of the grant. The Program draws on the available funds as necessary to fund loans and fund bond reserve. Letter of Credit Payment Receivables are recorded only when the required State match has been met and actual requests for loan draws have been received by the Program. When these events have occurred, the Program records the receivable and federal revenue for the amount of the loan request.

Federal Grant Income

Federal grant income represents contributions from the Environmental Protection Agency ("EPA") of the U.S. Federal Government. In the unlikely circumstance of termination of the Program, all Federal and State contributions are refundable to the respective governments upon liquidation of the Program's assets.

During FY 2011 and 2010, the program received federal grant income under the American Recovery and Reinvestment Act. Proceeds under this program were used to forgive principal for Borrowers meeting the requirements of the Act. For FY 2011 and 2010, \$6,337,720 and \$19,768,625, respectively, was provided for principal forgiveness under the program.

Debt Issuance Costs

Debt issuance costs are included in other non-current assets and are amortized using the straight-line method over the life of the Program bonds payable, which is 23 years for the 2004 bonds and 21 years for the 2011 bonds.

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Bond Issue Premium

The Program's State Revolving Fund Revenue Bonds, Series 2004 were initially sold at a premium of \$7,161,445. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$319,083 was recorded in 2011 and 2010 and is included in interest expense in the accompanying statements of revenues, expenses, and changes in net assets.

The Program's State Revolving Fund Revenue Bonds, Series 2011 were initially sold at a premium of \$9,167,991. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$97,959 was recorded in 2011 and is included in interest expense in the accompanying statements of revenues, expenses, and changes in net assets.

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.

Investments

Included in the total is \$43,065,369, which has been deposited into a Debt Service Reserve fund, pursuant to the bond indenture (See Note 5).

Use of Estimates

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

2. Cash Deposits and Investment Risk

Cash of \$32,302,823 and \$37,905,070 at June 30, 2011 and 2010 respectively, was on deposit in the State Treasurer's office's internal investment pool – *OK Invest*. In addition to the \$32,302,823 and \$37,905,070, there is a cash balance of \$407 on deposit with BancFirst at the end of June 30, 2011 and 2010. Short-term investments of \$59,704,341 and \$11,818,332 at June 30, 2011 and 2010, respectively, were 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. For proceeds from debt issued by the Program, the bond indenture provides that

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

initial bond proceeds be invested in an investment agreement that provides for an interest rate return equal to the interest due on the bonds for the initial loan period, 4 years.

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.
- 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 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.

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

At June 30, 2011 and 2010, 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:

<u>Type</u>	<u>Maturities</u>	<u>Credit Rating</u>	<u>Carrying Value</u>	
			<u>2011</u>	<u>2010</u>
OK Invest (State Treasurer)	Less than 2 years	Not rated.	\$ 32,302,416	\$ 37,905,070
Federated Treasury Obligations Fund	16 days	AAAm	59,704,341	11,818,332
City of Lawton Municipal Bond	10/1/2028	Not rated.	7,306,300	7,800,106
Reserve Fund	4/1/2027	AAAm	43,065,369	45,627,620
Revenue Fund	4/1/2027	AAAm	5,494,606	12,833,221
Total			<u>\$ 147,873,032</u>	<u>\$ 115,984,349</u>

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 at June 30, 2011: 32.8% or \$48,559,975 is invested in a guaranteed investment agreement with Transamerica Occidental Life Insurance Company, 40.4% or \$59,704,341 is invested in Federated Treasury money market funds, and 21.8% or \$32,302,823 is invested in OK Invest.

At June 30, 2010, the Program has the following concentration of credit risk: 50.4% or \$58,460,841 is invested in a guaranteed investment agreement with Transamerica Occidental Life Insurance Company, 10.2% or \$11,818,332 is invested in Federated Treasury money market funds, and 32.7% or \$37,905,070 is invested in OK Invest.

3. Federal Letter of Credit Payments Receivable

A schedule of activity in the Federal letter of credit payments receivable account, as reflected in the accompanying statements of net assets, for the years ended June 30, 2011 and 2010, is as follows:

Balance, June 30, 2009	\$ -
Federal revenue recognized	21,911,952
Federal funds withdrawn	<u>(21,911,952)</u>
Balance, June 30, 2010	<u>-</u>
Federal revenue recognized	29,934,901
Federal funds withdrawn	<u>(29,934,901)</u>
Balance, June 30, 2011	<u>\$ -</u>

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Of the Federal letter of credit payments withdrawn during the fiscal year ended June 30, 2011, \$23,226,659 was used to provide loans to borrowers, \$6,435,220 was used for debt forgiveness and \$273,022 was used for administrative expenses. During FY-2011 \$236,939 of the 4% administration fee available to the Program was used to pay for administration costs of the Program. As of June 30, 2011, the Program has EPA grant funding available for its use totaling \$15,816,747.

Of the Federal letter of credit payments withdrawn during the fiscal year ended June 30, 2010, \$1,149,865 was used to provide loans to borrowers, \$19,768,625 was used for debt forgiveness and \$993,462 was used for administrative expenses. During FY-2010 \$27,943 of the 4% administration fee available to the Program was used to pay for administration costs of the Program. As of June 30, 2010, the Program has EPA grant funding available for its use totaling \$23,837,548.

4. Loans Receivable

The Program originates direct loans with communities utilizing several sources of funds including existing loan principal repayments, interest earnings, federal grants and bond funds. These loans are collateralized by various revenue sources including, but not limited to, user charges and sales taxes of the borrowers. These loans are made at 60% of the current market interest rate. At June 30, 2011 and 2010, there were \$281,250,433 and \$193,102,287, respectively, in loans outstanding. As of June 30, 2011, the Program had unexpended commitments to borrowers for additional loan funds in the amount of \$149,301,333.

Prior to FY-2007, the Board originated interim construction loans that would upon completion provide the borrowers the opportunity to refinance 40% of their outstanding interim loan balance on a long-term basis without interest. Such loans were collateralized by various revenue sources including, but not limited to, user charges and sales taxes of the borrowers. To avail themselves of this opportunity, the borrowers obtained funding for the remaining 60% of the outstanding loan from sources outside the Program. This is no longer an option for the Program. At June 30, 2011 and 2010, there were \$47,083,014 and \$52,656,493, respectively, in long-term interest-free loans outstanding.

A schedule of activity of loans receivable for the years ended June 30, 2011 and 2010, is as follows:

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Net Balance, June 30, 2009	\$ 220,196,207
Loan disbursements	62,810,314
Principal repayments	<u>(37,326,909)</u>
	245,679,612
Change in allowance for uncollectible loans	<u>18,415</u>
Net Balance, June 30, 2010	\$ 245,698,027
Loan disbursements	107,296,664
Principal repayments	<u>(24,664,203)</u>
	328,330,488
Change in allowance for uncollectible loans	<u>2,959</u>
Net Balance, June 30, 2011	<u><u>\$ 328,333,447</u></u>

5. Restricted Investments

A description of the restricted investments held at June 30, 2011 and 2010, is as follows:

	<u>2011</u>	<u>2010</u>
Guaranteed investment with Transamerica Occidental Life Insurance Co. pursuant to an investment agreement, 4.61% maturing April 1, 2027 (restricted for debt service)	<u>43,065,369</u>	<u>45,627,620</u>
Total restricted investments	<u><u>\$ 43,065,369</u></u>	<u><u>\$ 45,627,620</u></u>

The agreement 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, 2011 was AA-. The investment is carried at cost, which approximates fair value.

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6. Long-Term Debt

Bonds Payable

On October 26, 2004, the Program issued State Revolving Fund Revenue Bonds, Series 2004 in the amount of \$121,075,000. 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 Drinking Water State Revolving Fund Loan Program for similar purposes related to its drinking water treatment facilities projects.

On April 13, 2011, the Program issued State Revolving Fund Revenue Bonds, Series 2011A in the amount of \$85,000,000. 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.

Future debt service payments required by the Program's outstanding bonds as of June 30, 2011 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$10,075,000	\$8,422,326	\$18,497,326
2013	10,760,000	8,114,700	18,874,700
2014	11,115,000	7,684,976	18,799,976
2015	11,625,000	7,182,088	18,807,088
2016	12,025,000	6,601,937	18,626,937
2017-2021	60,050,000	24,143,580	84,193,580
2022-2026	49,265,000	10,922,738	60,187,738
2027-2031	<u>14,880,000</u>	<u>1,980,188</u>	<u>16,860,188</u>
Total	<u>\$179,795,000</u>	<u>\$75,052,533</u>	<u>\$254,847,533</u>

In addition to their normal scheduled maturity dates as shown above, the bonds may also be redeemed at the option of the Board, in whole or in part, at 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 2004 and 2011 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 bond yield) be rebated to the Internal Revenue Service. This rebate is payable at the end of each five years during the

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term of the issue. Management of the Program believes that any arbitrage liability, which exists at June 30, 2011, is immaterial.

Pursuant to the 2004 Master Trust Agreement, the Clean Water State Revolving Fund Loan Program bonds share in an aggregate debt service reserve with the Drinking Water State Revolving Fund Loan Program bonds. At June 30, 2011, the aggregate debt service reserves totaled \$71,750,219 of which \$43,065,369 is reflected in the accompanying statements of net assets.

Long-term debt outstanding at June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Beginning balances:		
2004 Serial bonds due April 1, 2012 to April 1, 2026, interest at 3.125% to 5.25%	\$ 100,435,000	\$ 105,900,000
2011 Serial bonds due April 1, 2012 to April 1, 2031, interest at 3.0% to 5.0%	85,000,000	\$ -
Unamortized premium	14,518,095	5,669,186
	<u>\$ 199,953,095</u>	<u>\$ 111,569,186</u>
Less: debt principal repayments	(5,640,000)	(5,465,000)
Less: current amortization of premium	(417,043)	(319,083)
Ending balances	<u>\$ 193,896,052</u>	<u>\$ 105,785,103</u>
Amounts due in one year	10,075,000	5,640,000

7. Binding Commitments

During the year ended June 30, 2011, the OWRB voted to approve funding of various borrower 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. Loan applications approved by the OWRB for which a loan agreement and promissory note have not been executed totaled \$5,795,000 at June 30, 2011.