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State of Oklahoma

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WATER RESOURCES BOARD
the water agency

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State Auditor & Inspector

**STATE LOAN PROGRAM REVENUE BONDS
SERIES 1989**

**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
STATE LOAN PROGRAM REVENUE BONDS – SERIES 1989
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 State Loan Program Revenue Bonds - Series 1989 (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 Oklahoma Water Resources Board State Loan Program Revenue Bonds - Series 1989 as of June 30, 2011 and 2010, and the changes in financial position and 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 November 4, 2011, on our consideration of the Program's internal control over financial reporting and 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.

Arledge & Associates, P.C.
Edmond, Oklahoma
November 4, 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 Water Resources Board State Loan Program Revenue Bonds – Series 1989 Program’s (the “Program”) financial performance provides an overview of the financial activities for the fiscal years ended June 30, 2011 and June 30, 2010. Please read it in conjunction with the financial statements, which begin on page 10. The Oklahoma Water Resources Board (the "Board") administers the Series 1989 Bond Program.

Financial Highlights

- Total Assets increased 70.7% from \$2,375,597 to \$4,055,281 between FY 2010 and FY 2011. Total Assets decreased 9.1% from \$2,612,603 to \$2,375,597 between FY 2009 and FY 2010.
- Ending Net Assets increased 137.5% from \$1,522,797 to \$3,616,871 between FY 2010 and FY 2011. Ending Net Assets decreased .4% from \$1,529,624 to \$1,522,797 between FY 2009 and FY 2010.
- Total Liabilities decreased 48.6% from \$852,800 to \$438,410 between FY 2010 and FY 2011. Total Liabilities decreased over 21.3% from \$1,082,979 to \$852,800 between FY 2009 and FY 2010.
- Other accrued liabilities increased 5.4% and 10.6% in FY 2011 and 2010, respectively. Administrative fees assessed but not used during the FY are "banked" for future administrative costs.

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.

(Unaudited. See accompanying auditor’s report.)

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- Supplemental Information – Grouped Financial Statements of all Program Bond Issues for the year ended June 30, 2011
 - Statements of Net Assets
 - Statements of Revenues, Expenses and Changes in Net Assets
 - Statements of Cash Flows

A Financial Analysis of the Program

One of the most frequently asked questions about the Program’s finances is, “Has the overall financial condition improved, declined or remained steady over the past year?” The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Program as a whole and about its activities in a way that helps answer this question. The following tables present a condensed comparative presentation of net assets and changes therein.

**Oklahoma Water Resources Board
Revenue Bonds - Series 1989
Net Assets**

	Business-Type Activities		
	June 30,		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current assets	\$ 356,913	\$ 499,542	\$ 324,361
Noncurrent assets	3,698,368	1,876,055	2,288,242
Total assets	<u>4,055,281</u>	<u>2,375,597</u>	<u>2,612,603</u>
Current liabilities	282,663	440,635	264,396
Non-current liabilities	155,747	412,165	818,583
Total liabilities	<u>438,410</u>	<u>852,800</u>	<u>1,082,979</u>
Net assets			
Restricted	3,490,508	1,411,008	1,411,008
Unrestricted	126,363	111,789	118,616
Total net assets	<u>\$ 3,616,871</u>	<u>\$ 1,522,797</u>	<u>\$ 1,529,624</u>

The decrease in current liabilities is due to a borrower paying off their loan early in the prior year.

(Unaudited. See accompanying auditor’s report.)

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Oklahoma Water Resources Board
Revenue Bonds - Series 1989
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	\$ 34,214	\$ 59,840	\$ 99,296
Investment interest income	123,863	58,731	60,522
Total revenues	<u>158,077</u>	<u>118,571</u>	<u>159,818</u>
Expenses			
Trustee fees	1,000	1,000	1,000
Administration expenses	673	903	1,986
Interest expense	37,426	62,594	100,239
Amortization of debt issuance cost	2,187	2,187	2,187
Total expenses	<u>41,286</u>	<u>66,684</u>	<u>105,412</u>
Net Income before transfers	116,791	51,887	54,406
Transfers from other programs	2,079,500	-	-
Transfers to other programs	(102,217)	(58,714)	(58,755)
Change in net assets	<u>2,094,074</u>	<u>(6,827)</u>	<u>(4,349)</u>
Total net assets - beginning	1,522,797	1,529,624	1,533,973
Total net assets - ending	<u>\$ 3,616,871</u>	<u>\$ 1,522,797</u>	<u>\$ 1,529,624</u>

(Unaudited. See accompanying auditor's report.)

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Long-Term Debt

At June 30, 2011, the Program had \$445,000 in bonds payable outstanding which represents a \$410,000 or 48% decrease from the prior year. From FY 2009 to FY 2010, total bonds payable decreased 21.2% . The Program's changes in debt are as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Beginning balances:			
Serial and term bonds due September 1, 2011 to September 1, 2019, interest at 6.25% to 6.70%	\$ 855,000	\$ 1,085,000	\$ 3,550,000
Less: debt principal repayments	(410,000)	(230,000)	(2,465,000)
Ending balances	<u>\$ 445,000</u>	<u>\$ 855,000</u>	<u>\$ 1,085,000</u>
Amounts due in one year	\$ 260,000	\$ 410,000	\$ 230,000

See Note 7 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

Due to the nature of the Series 1989 Bond Program, the Board expects a decrease in net assets and liabilities as the loans continue to make principal repayments and bonds are redeemed. As the net assets and liabilities decrease, so will the revenues and operating expenses. However, the Board expects to have sufficient income to sustain the Series 1989 Bond Program throughout the life of the bonds.

Contacting the Program's Financial Management

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

(Unaudited. See accompanying auditor's report.)

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BASIC FINANCIAL STATEMENTS

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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	\$ 55,732	\$ 55,786
Current portion of notes receivable	255,000	410,000
Interest receivable:		
Notes receivable	9,870	19,077
Other	36,311	14,679
 Total current assets	 <u>356,913</u>	 <u>499,542</u>
Noncurrent Assets:		
Restricted Investment	3,490,508	1,411,008
Notes receivable net of current portion	190,000	445,000
Bond issuance cost, net of accumulated amortization of \$65,411 and \$63,224 in 2011 and 2010, respectively	17,860	20,047
 Total noncurrent assets	 <u>3,698,368</u>	 <u>1,876,055</u>
 Total assets	 <u>4,055,281</u>	 <u>2,375,597</u>
 LIABILITIES:		
Current Liabilities:		
Accrued interest payable	9,655	18,299
Current maturities of long-term debt	260,000	410,000
Other accrued liabilities	13,008	12,336
 Total current liabilities	 <u>282,663</u>	 <u>440,635</u>
Noncurrent liabilities:		
Long-term debt, less current maturities and unamortized discount of \$29,253 and \$32,835 in 2011 and 2010, respectively	155,747	412,165
 Total noncurrent liabilities	 <u>155,747</u>	 <u>412,165</u>
 Total liabilities	 <u>438,410</u>	 <u>852,800</u>
 NET ASSETS:		
Restricted for debt service	3,490,508	1,411,008
Unrestricted	126,363	111,789
 Total net assets	 <u>\$ 3,616,871</u>	 <u>\$ 1,522,797</u>

See accompanying notes to the basic financial statements.

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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	\$ 34,214	\$ 59,840
Total operating revenues	<u>34,214</u>	<u>59,840</u>
Operating Expenses:		
Trustee fees	1,000	1,000
Administration fees	673	903
Interest expense	37,426	62,594
Amortization of bond issuance cost	2,187	2,187
Total operating expenses	<u>41,286</u>	<u>66,684</u>
Operating (loss)	(7,072)	(6,844)
Non-Operating Revenues:		
Interest income	123,863	58,731
Total non-operating revenues	<u>123,863</u>	<u>58,731</u>
Net income before transfers	116,791	51,887
Transfers In - Series 1992 Debt Reserve	2,079,500	-
Transfers out - Oklahoma Water Resources Board	<u>(102,217)</u>	<u>(58,714)</u>
Change in net assets	2,094,074	(6,827)
Total net assets - beginning	1,522,797	1,529,624
Total net assets - ending	<u>\$ 3,616,871</u>	<u>\$ 1,522,797</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 governments	\$ 43,421	\$ 65,056
Payments to other suppliers	(1,001)	(716)
Interest paid on debt	(42,488)	(63,960)
	<u>(68)</u>	<u>380</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out - Oklahoma Water Resources Board	(102,217)	(58,714)
Repayments of Long-term Debt	(410,000)	(230,000)
	<u>(512,217)</u>	<u>(288,714)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Collections of principal on loans to local governmental units	410,000	230,000
Interest income	102,231	58,736
	<u>512,231</u>	<u>288,736</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(54)	402
Balances - beginning of the year	<u>55,786</u>	<u>55,384</u>
Balances - end of the year	<u>\$ 55,732</u>	<u>\$ 55,786</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ (7,072)	\$ (6,844)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Amortization of bond issuance costs and bond issuance discounts	5,769	5,769
Change in assets and liabilities:		
Decrease (Increase) in interest receivable	9,207	5,216
Increase (Decrease) in accrued interest payable	(8,644)	(4,948)
Increase (Decrease) in other accrued liabilities	672	1,187
Net Cash Provided by (Used In) Operating Activities	<u>\$ (68)</u>	<u>\$ 380</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 (the "Board") State Loan Program Revenue Bonds - Series 1989 (the "Program") was established in September 1989 and commenced operations in November 1989. The Program was established by the Board to provide monies to implement its state-wide financial assistance program to make loans to local governmental units in the State of Oklahoma to be utilized to provide for the acquisition, development and utilization of storage and control facilities for water and sewage systems. Provisions of the bond indenture required that all local loans be originated by November 1, 1992. No new loans were originated after that date without amendments to the bond indenture. Any portion of the bond proceeds may be used to redeem bonds at the option of the Board as specified by the bond indenture.

Administrative, accounting, and other technical support services are provided by employees of the Board. Payroll and other costs incurred by the Board on behalf of the Program are not billed by the Board, but are recovered from the administration fees paid by the Program (see Note 4).

Basis of Accounting and Measurement Focus

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

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

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

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

Pursuant to its bond indenture, the Program is required to maintain various separate accounts for principal payments, interest payments and various other purposes. To assist in fulfilling these responsibilities, the Board has engaged BancFirst to act as trustee and maintain appropriate fiduciary records. Except for funds received from the Board's Statewide Water Development Revolving Fund (the "Revolving Fund") at the inception of the Program, of which certain amounts are restricted for use as a debt service reserve, \$3,490,508 and \$1,411,008 at June 30, 2011 and 2010, respectively, (see Note 5), all activities and monies in the various accounts required by the bond indenture are considered to be applicable to the conduct of the Program's ongoing operations. Accordingly, all such activities and monies are combined for purposes of preparing the Program's financial statements. Also see Note 8.

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

Bond Issuance Cost

Bond issuance costs are amortized using the straight-line method over the life of the bonds, which is 30 years.

Bond Issue Discount

The Program's bonds were initially sold at a discount of \$287,000. The bond discount is being amortized over the remaining life of the bonds. Amortization expense of \$3,582 was recorded in 2011 and 2010, respectively, 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. Total unrestricted cash and cash equivalents at June 30, 2011 and 2010 were \$55,732 and \$55,786, respectively.

Operating Revenues and Expenses

The Program considers income earned on outstanding loans receivable to be operating revenue. Similarly, the Program considers expenses incurred in administering the loan program, such as trustee fees, administration expenses, interest expense, and the amortization of bond issuance costs, to be operating expenses.

Use of Estimates

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

2. Cash Deposits and Investment Risk

Cash of \$55,732 and \$55,786 at June 30, 2011 and 2010 respectively, was on deposit with the Program's trustee. The deposits are invested in the Federated Treasury Obligations mutual fund.

Investment Interest Rate Risk – the bond indenture provides that initial bond proceeds be invested in an investment agreement that provides for an interest rate return equal to the interest due on the bonds for the initial loan period, 3 years.

Investment Credit Risk – the bond indenture provides for restrictions on the investment choices of the Program as follows:

- a. Obligations of the United States Government, its agencies and instrumentalities.

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

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

At June 30, 2011, 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>
Federated Treasury Obligations Fund	16 days	AAAm	\$ 55,732
AEGON Institutional Markets	Matures 1/7/2013	AA- See Note 5	<u>\$ 3,490,508</u>
Total			<u>\$ 3,546,240</u>

Concentration of Investment Credit Risk – the bond indenture places no limit on the amount the Program may invest in any one issuer. The Program has the following concentration of credit risk: 98.4% is invested in a guaranteed investment agreement with AEGON Institutional Markets.

At June 30, 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>
Federated Treasury Obligations Fund	16 days	AAAm	\$ 55,786
AEGON Institutional Markets	Matures 1/7/2013	AA- See Note 5	<u>\$ 1,411,008</u>
Total			<u>\$ 1,466,794</u>

Concentration of Investment Credit Risk – the bond indenture places no limit on the amount the Program may invest in any one issuer. The Program had the following concentration of credit risk: 96.2% was invested in a guaranteed investment agreement with AEGON Institutional Markets.

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3. Notes Receivable

Notes receivable of \$445,000 and \$855,000 at June 30, 2011 and 2010, respectively, represents loans made by the Program to local governmental entities for the purposes of acquisition, development, and utilization of storage and control facilities for water and sewage systems. Payments on the notes are due in semiannual installments with various maturity dates through 2019, including interest at various fixed rates; however, the local entities have the option to pay the notes earlier than the scheduled maturities. The current portion of notes receivable contains scheduled maturities and any prepayments made subsequent to year-end through September 30, 2011. The notes are collateralized by various revenue sources including, but not limited to user charges and sales taxes of the borrowers and mortgages on the water and/or sewer systems.

4. Program Funding and Fees

As discussed in Note 1, the Board has established the Revolving Fund, held by the Treasurer of the State of Oklahoma, the principal of which is to be used by the Board to support various approved projects. Interest income from the Revolving Fund is deposited into a Water Resources Grant Account, which is utilized by the Board to make grants in emergency situations in amounts up to \$100,000 per local entity for approved purposes. At the inception of the Program, \$2,917,500 was received from the Revolving Fund as a restricted Debt Service Reserve Fund. The investment income from the Debt Service Reserve Fund is to be transferred to the Water Resources Grant Account at the discretion of the Program, except that the Program has agreed to utilize such investment income from the Debt Service Reserve Fund to prevent a default in the payment of principal and interest on the bonds. Pursuant to this provision, \$102,217 and \$58,714 were transferred to the Water Resources Grant Account during the years ended June 30, 2011 and 2010, respectively. Any portion of the Debt Service Reserve Fund that is not expended to cover defaults on principal and interest will be returned to the Revolving Fund at the termination of the Program. The bond indenture agreement provides for various fees to be paid in connection with the administration of the Program. These fees include the following:

- During the year, an annual program administration fee of 0.1328% of notes receivable outstanding during the period was charged to operations. These fees are payable to the Oklahoma Water Resources Board for providing clerical, management and administrative services.
- During the year, a trustee fee of 0.0122% of bonds outstanding with a minimum \$500 fee was charged to operations. Fees are calculated twice a year using the balance of bonds outstanding at February 28 and August 31.

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5. Restricted Investments

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

	<u>2011</u>	<u>2010</u>
Guaranteed investment with AEGON Institutional Markets pursuant to an investment agreement, 4.161% maturing January 7, 2013 (restricted for debt service)	\$ 3,490,508	\$ 1,411,008
Total Restricted Investment	<u>\$ 3,490,508</u>	<u>\$ 1,411,008</u>

The use of the investment is restricted to service debt in the event of default.

The agreement with AEGON Institutional Markets ("AEGON") is uninsured and noncollateralized so long as AEGON maintains certain specified credit ratings. If these credit ratings are not maintained, AEGON 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 AEGON at June 30, 2011 was AA-. The investment is carried at cost, which approximates fair value.

6. Arbitrage Rebate Due Federal Government

In order for the interest on the Program's bonds to be tax exempt, the Program must comply with certain provisions of the Internal Revenue Code, as amended. One provision requires that arbitrage earnings (defined as the excess of the amount earned on all nonpurpose investments over the amount which would have been earned if the nonpurpose investments were invested at a rate equal to the bond yield) be rebated to the Internal Revenue Service. This rebate is payable at the end of each five years during the term of the issue. Management of the Program believes that any arbitrage liability, which exists at June 30, 2011, is immaterial.

7. Long-term Debt

Long-term debt at June 30, 2011 and 2010 consists of the following:

	<u>2011</u>	<u>2010</u>
Beginning balances:		
Serial and term bonds due September 1, 2011 to September 1, 2019, interest at 6.25% to 6.70%	\$ 855,000	\$ 1,085,000
Less: debt principal repayments	(410,000)	(230,000)
Ending balances	<u>\$ 445,000</u>	<u>\$ 855,000</u>
Amounts due in one year	\$ 260,000	\$ 410,000

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7. Long-term Debt (cont'd)

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$260,000	\$20,309	\$280,309
2013	30,000	10,710	40,710
2014	20,000	9,135	29,135
2015	20,000	7,875	27,875
2016	20,000	6,615	26,615
2017-2020	95,000	11,183	106,183
Total	<u>\$445,000</u>	<u>\$65,827</u>	<u>\$510,827</u>

The above schedule reports an optional prepayment in the next fiscal year that exceeds the normal debt service required. These bonds may be redeemed at the option of the Board, in whole or in part, on such dates and for such prices, plus accrued interest as are set forth in the bond indenture.

The 1989 Bonds share in an aggregate debt service reserve along with all the other Board bond programs. At June 30, 2011, the aggregate debt service reserves totaled \$17,766,508, of which \$3,490,508 is reflected in the accompanying statements of net assets. The remaining debt service reserves are reflected in the Board bond programs 1994A.

8. Transfers In

During FY-2011, the Series 1992 Bond Program retired all outstanding bonds associated with the program. As such, the 1992 Series program was closed and all remaining corpus was transferred to the Series 1994A Program except for the \$2,079,500 debt service reserve investment, which has been transferred into the Series 1989 Program.

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 1989
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2011 and 2010**

SUPPLEMENTAL INFORMATION



INDEPENDENT AUDITOR'S REPORT
ON ADDITIONAL INFORMATION

To the Members of the
Oklahoma Water Resources Board

Our report on our audit of the financial statements of the Oklahoma Water Resources Board State Loan Program Revenue Bonds – Series 1989 for June 30, 2011 appears on page three. The audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Grouped Statements of Net Assets, Statements of Revenues, Expenses, and Changes in Net Assets, and Statements of Cash Flows are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements of each bond issue and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements of each bond issue as a whole.

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

Edmond, Oklahoma
November 4, 2011

OKLAHOMA WATER RESOURCES BOARD STATE LOAN
PROGRAM REVENUE BONDS

SUPPLEMENTAL INFORMATION
GROUPED STATEMENTS OF NET ASSETS
All Program Bond Issues
June 30, 2011

	1989 Series	1992 Series	1994A Series	1995 Series	1997 Series	1999 Series	2001 Series	2003A Series	2003B Series	2004A Series	2006B Series	2007 Series	2009 Series	2010 Series	2011 Series	Totals (Memorandum Only)	
ASSETS																	
Current Assets:																	
Cash and cash equivalents	55,732	-	399,472	130,365	129,692	138,126	675,233	717,356	76,152	73,287	296,405	83,608	5,174	32,496	15,126	7,183	2,835,407
Current portion of notes receivable	255,000	-	1,671,267	650,500	588,550	1,001,650	2,155,050	2,059,200	1,370,000	1,020,000	2,180,000	373,910	105,000	1,120,000	700,000	-	15,250,127
Interest receivable:																	
Notes receivable	9,870	-	15,699	24,273	69,594	97,436	339,353	132,841	63,221	96,527	528,915	96,152	24,279	312,970	271,909	13,986	2,095,045
Other	36,310	-	121	-	-	-	-	-	-	-	-	-	-	-	-	-	36,449
Other receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total current assets	356,912	-	2,086,559	805,159	787,837	1,237,213	3,169,641	2,909,402	1,509,374	1,189,815	3,000,342	553,671	134,453	1,465,466	987,035	21,169	20,217,028
Noncurrent Assets:																	
Notes receivable, net of current portion	190,000	-	6,939,925	9,371,100	5,148,850	9,793,000	36,640,550	19,941,750	5,095,000	5,685,000	42,495,000	8,828,731	2,625,000	28,915,000	27,255,000	14,275,000	223,198,906
Restricted cash / investment	3,490,508	-	14,276,000	-	-	-	-	-	-	-	-	-	-	-	-	-	17,766,508
Bond issuance cost, net of accumulated amortization	17,860	-	157,029	98,601	87,661	65,567	139,920	34,985	69,840	84,613	-	-	-	-	-	-	757,076
Total noncurrent assets	3,698,368	-	21,372,954	9,470,701	5,236,511	9,858,567	36,780,470	19,976,735	5,164,840	5,769,613	42,495,000	8,828,731	2,625,000	28,915,000	27,255,000	14,275,000	241,722,490
Total assets	4,055,280	-	23,459,513	10,275,860	6,024,348	11,095,780	39,950,111	22,886,137	6,674,214	6,959,428	45,498,342	9,382,402	2,759,453	30,380,466	28,242,035	14,296,169	261,939,518
LIABILITIES																	
Current Liabilities:																	
Accrued interest payable	9,655	-	7,486	17,321	66,410	91,008	340,592	141,775	60,877	93,345	510,740	91,032	22,975	302,082	259,775	13,526	2,028,599
Current maturities of long-term debt	260,000	-	1,670,000	650,000	585,000	1,000,000	2,155,000	1,370,000	1,020,000	1,020,000	2,180,000	370,000	105,000	1,120,000	700,000	-	15,240,000
Other accrued liabilities	13,008	-	145,326	130,092	141,620	151,648	595,960	419,908	65,241	62,945	300,280	58,741	6,220	42,444	19,186	7,646	2,160,325
Total current liabilities	282,663	-	1,822,812	797,413	793,030	1,242,656	3,091,552	2,616,743	1,496,118	1,176,290	2,991,020	510,773	134,195	1,464,526	978,961	21,172	19,428,924
Noncurrent Liabilities:																	
Arbitrage rebate payable to Federal Government	-	-	3,529	-	-	-	-	-	-	-	-	-	-	-	-	-	3,529
Long-term debt, less current maturities and unamortized discount or plus unamortized premium	155,747	-	5,979,399	8,723,981	4,960,977	9,649,655	36,104,968	20,233,381	5,095,374	5,754,799	42,495,000	8,655,000	2,625,000	28,915,000	27,255,000	14,275,000	220,898,281
Total noncurrent liabilities	155,747	-	5,982,928	8,723,981	4,960,977	9,649,655	36,104,968	20,233,381	5,095,374	5,754,799	42,495,000	8,655,000	2,625,000	28,915,000	27,255,000	14,275,000	220,901,810
Total liabilities	438,410	-	7,805,740	9,521,394	5,754,007	10,892,311	39,196,520	22,870,124	6,591,492	6,931,089	45,486,020	9,174,773	2,759,195	30,379,526	28,233,961	14,296,172	240,330,734
NET ASSETS																	
Restricted for debt service	3,490,508	-	14,276,000	-	-	-	-	-	-	-	-	-	-	-	-	-	17,766,508
Unrestricted	126,363	-	1,377,773	754,446	270,341	203,469	753,591	16,013	82,722	28,339	12,322	207,629	258	940	8,074	(3)	3,842,277
Total net assets	\$ 3,616,871	-	15,653,773	754,446	270,341	203,469	753,591	16,013	82,722	28,339	12,322	207,629	258	940	8,074	(3)	21,608,785

OKLAHOMA WATER RESOURCES BOARD STATE LOAN PROGRAM REVENUE BONDS

SUPPLEMENTAL INFORMATION GROUPED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS For the Year Ended June 30, 2011

	1989 Series	1992 Series	1994A Series	1995 Series	1997 Series	1999 Series	2001 Series	2003A Series	2003B Series	2003C Series	2004A Series	2006B Series	2007 Series	2009 Series	2010 Series	2010 B Series	2011 Series	Total (Memorandum Only)
REVENUES																		
Operating revenues:																		
Loan program income	\$ 34,214	\$ 2,308	\$ 232,343	\$ 183,770	\$ 301,470	\$ 382,048	\$ 1,509,444	\$ 725,040	\$ 264,005	\$ 294,964	\$ 2,129,448	\$ 388,378	\$ 97,389	\$ 1,255,824	\$ 719,947	\$ 13,986	\$ 8,533,768	
Total operating revenues	34,214	2,308	232,343	183,770	301,470	382,048	1,509,444	725,040	264,005	294,964	2,129,448	388,378	97,389	1,255,824	719,947	13,986	8,533,768	
EXPENSES																		
Operating Expenses:																		
Trustee fees	1,000	250	1,209	1,187	1,027	1,369	4,756	2,787	1,000	1,000	6,127	1,252	1,313	4,036	2,164	43	30,520	
Administration fees	673	107	36,517	40,433	13,679	26,791	75,277	56,457	9,027	9,124	60,024	12,342	3,657	38,688	18,562	420	401,778	
Interest expense	37,426	822	141,142	106,861	277,260	335,112	1,384,604	582,675	254,098	279,880	2,063,910	367,726	93,319	1,211,685	690,249	13,526	7,840,295	
Amortization of bond issuance cost	2,187	255	12,906	7,551	5,771	3,316	6,117	1,462	9,615	6,915	-	-	-	-	-	-	56,095	
Standby bond purchase agreement fees	-	-	9,387	9,662	1,832	15,816	9,352	68,520	-	-	-	-	-	-	-	-	114,569	
Remarketing fees	-	-	6,206	4,640	1,010	1,719	8,203	8,083	-	-	-	-	-	-	-	-	29,861	
Total operating expenses	41,286	1,434	207,367	170,334	300,579	384,123	1,488,309	719,984	273,740	296,919	2,130,061	381,320	98,289	1,254,409	710,975	13,989	8,473,118	
Operating income (loss)	(7,072)	964	24,976	13,436	891	(2,075)	21,135	5,056	(9,735)	(1,955)	(613)	7,058	(900)	1,415	8,072	(3)	60,650	
NONOPERATING REVENUES (EXPENSES)																		
Credit (provision) for arbitrage rebate	-	-	7,963	-	-	-	-	-	-	-	-	-	-	-	-	-	7,963	
Other interest income	123,863	21,407	106,004	24	97	77	178	128	36	22	51	11	3	7	2	-	251,910	
Gross production tax from state	123,863	21,407	101,367	24	97	77	178	128	36	22	51	11	3	7	2	-	900,000	
Net nonoperating revenues	116,791	22,371	1,038,943	13,460	988	(1,998)	21,313	5,184	(9,699)	(1,933)	(562)	7,069	(897)	1,422	8,074	(3)	1,220,523	
Transfers (to) from Oklahoma Water Resources Board	1,977,283	(2,341,193)	138,695	-	-	-	-	-	-	-	-	-	-	-	-	-	(225,215)	
Change in net assets	2,094,074	(2,318,822)	1,177,638	13,460	988	(1,998)	21,313	5,184	(9,699)	(1,933)	(562)	7,069	(897)	1,422	8,074	(3)	995,308	
NET ASSETS																		
Net assets, Beginning of year	1,522,797	2,318,822	14,476,135	740,986	269,353	205,467	732,278	10,829	92,421	30,272	12,884	208,560	1,155	(482)	-	-	20,613,477	
Net assets (deficit), end of year	\$ 3,616,871	\$ -	\$ 15,653,773	\$ 754,446	\$ 270,341	\$ 203,469	\$ 753,591	\$ 16,013	\$ 82,722	\$ 28,339	\$ 12,322	\$ 207,629	\$ 258	\$ 940	\$ 8,074	\$ (3)	\$ 21,608,785	

OKLAHOMA WATER RESOURCES BOARD STATE LOAN PROGRAM REVENUE BONDS

SUPPLEMENTAL INFORMATION GROUPED STATEMENTS OF CASH FLOWS
All Program Bond Issues
For the Year Ended June 30, 2011

	1989 Series	1992 Series	1994A Series	1995 Series	1997 Series	1999 Series	2001 Series	2003A Series	2003B Series	2003C Series	2007 Series	2009 Series	2010 Series	2010B Series	2011 Series	Funds (Memorandum Only)
CASH FLOWS FROM OPERATING ACTIVITIES:																
Collections of interest on loans to local governmental units	41,421	4,706	256,695	187,735	3,664,979	428,429	1,524,092	738,240	275,127	2,151,157	302,148	97,661	991,071	447,158	821,216	
Payments (to) from other suppliers	(1,000)	981	(19,123)	(16,020)	(4,399)	(26,070)	(231,031)	(85,534)	(4,100)	(6,127)	(1,251)	(1,251)	(4,288)	(1,540)	821,216	
Interest paid on debt	(62,488)	(1,407)	(154,083)	(104,746)	(336,593)	(378,424)	(1,327,040)	(306,193)	(264,782)	(2,084,360)	(371,624)	(63,624)	(958,564)	(430,424)	(7,586,133)	
Net cash provided (used) by operating activities	(88)	4,370	85,489	64,959	25,885	33,945	(63,447)	56,507	9,338	61,170	19,268	2,776	30,189	15,124	7,183	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:																
Transfer (to) from Oklahoma Water Resources Board	(102,217)		33,693													(325,215)
Issuance of long-term debt	(410,000)	(45,000)	(4,355,000)	(795,000)	(3,895,000)	(3,045,000)	(2,220,000)	(2,055,000)	(1,330,000)	(2,095,000)	(360,000)	(95,000)		27,955,000	14,275,000	42,230,000
Repayments of long-term debt			900,000													(21,635,000)
Grave production tax			(3,421,303)	(703,000)	(3,895,000)	(3,045,000)	(2,220,000)	(2,055,000)	(1,330,000)	(2,095,000)	(360,000)	(95,000)		27,955,000	14,275,000	990,000
Net cash provided (used) by noncapital financing activities	(512,217)	(201,633)	(3,421,303)	(703,000)	(3,895,000)	(3,045,000)	(2,220,000)	(2,055,000)	(1,330,000)	(2,095,000)	(360,000)	(95,000)		27,955,000	14,275,000	21,269,785
CASH FLOWS FROM INVESTING ACTIVITIES:																
Collections of principal on loans to local governmental units	410,000	45,000	3,379,125	639,850	3,866,150	3,026,950	2,090,900	2,076,800	1,330,000	2,095,000	363,254	95,000				20,413,179
Sales (purchase) of investments			11,143,000													11,143,000
Loans to local governments																(42,230,000)
Interest income																
Net cash provided (used) by investing activities	512,217	45,000	14,522,125	639,850	3,866,150	3,026,950	2,090,900	2,076,800	1,330,000	2,095,000	363,254	95,000				20,413,179
Net increase (decrease) in cash and cash equivalents	(88)	4,370	85,489	64,959	25,885	33,945	(63,447)	56,507	9,338	61,170	19,268	2,776	30,189	15,124	7,183	
Cash and cash equivalents, beginning of year	55,732		14,675,472	130,365	129,692	138,126	675,233	717,256	761,152	296,403	83,698	5,174	32,496	15,126		17,111,007
Cash and cash equivalents, end of year	(7,072)	964	24,975	15,436	801	(2,075)	21,135	5056	(6,735)	(611)	7,058	(600)	1,415	8,072	(3)	60,650
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:																
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:																
Provision for depreciation	5,769	373	23,641	13,314	9,985	4,345	9,176	3,189	9,564	1,619						80,975
Provision for bad debt expense	9,207	2,398	24,152	3,945	65,409	46,391	15,548	13,500	11,122	21,709	3,270	372	(2,647,53)	(271,989)	(13,986)	(325,553)
Decrease (Increase) Interest receivable		2,187														2,187
Increase (Decrease) Other receivables	(8,644)	(703)	(23,676)	(3,648)	(63,549)	(44,341)	(15,901)	(10,600)	(10,600)	(20,950)	(3,600)	(315)	255,091	259,775	13,526	307,292
Increase (Decrease) Accrued interest payable	672		34,096	37,992	13,149	19,625	(125,662)	50,313	9,037	60,024	12,340	3,719	38,436	19,186	7,646	188,906
Increase (Decrease) Other accrued liabilities																
Net cash provided (used) by operating activities	(88)	4,370	85,489	64,959	25,885	33,945	(63,447)	56,507	9,338	61,170	19,268	2,776	30,189	15,124	7,183	317,458

**OKLAHOMA WATER RESOURCES BOARD
STATE LOAN PROGRAM REVENUE BONDS – SERIES 1989
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2010 and 2009**

INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE

This report is intended solely for the information and use of the audit committee, management, and the members of the Oklahoma Water Resources Board and is not intended to be and should not be used by anyone other than these specified parties.

Arledge & Associates, P.C.
Edmond, Oklahoma
November 4, 2011