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State Auditor & Inspector

State of Oklahoma

**OWRB**

**WATER RESOURCES BOARD**  
the water agency

**STATE LOAN PROGRAM REVENUE BONDS  
SERIES 1999**

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

**OKLAHOMA WATER RESOURCES BOARD  
STATE LOAN PROGRAM REVENUE BONDS – SERIES 1999  
ANNUAL FINANCIAL REPORT  
As of and for the Years Ended June 30, 2011 and 2010**

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**TABLE OF CONTENTS**

	<b>Page</b>
<b>Independent Auditor’s Report on Financial Statements .....</b>	<b>3-4</b>
<b>Management’s Discussion and Analysis .....</b>	<b>5-9</b>
<b>The Basic Financial Statements:</b>	
Statements of Net Assets .....	11
Statements of Revenues, Expenses, and Changes in Net Assets .....	12
Statements of Cash Flows .....	13
Footnotes to Statements .....	14-19
<b>Supplemental Information:</b>	
Independent Auditor’s Report on Additional Information .....	21
Grouped Statements of Net Assets .....	22
Grouped Statements of Revenues, Expenses, and Changes in Net Assets .....	23
Grouped Statements of Cash Flows .....	24
<b>Internal Control over Financial Reporting and Compliance .....</b>	<b>25-27</b>
Independent Auditor’s Report on Internal Control and Compliance	



## 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 1999 (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 1999 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 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.

*Arledge & Associates, P.C.*

Edmond, Oklahoma  
November 4, 2011

**OKLAHOMA WATER RESOURCES BOARD  
STATE LOAN PROGRAM REVENUE BONDS – SERIES 1999  
ANNUAL FINANCIAL REPORT  
As of and for the Years Ended June 30, 2011 and 2010**

---

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**OKLAHOMA WATER RESOURCES BOARD  
STATE LOAN PROGRAM REVENUE BONDS – SERIES 1999  
ANNUAL FINANCIAL REPORT  
As of and for the Years Ended June 30, 2011 and 2010**

---

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the Oklahoma Water Resources Board State Loan Program Revenue Bonds – Series 1999 (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 1999 Bond Program.

**Financial Highlights**

- Total Assets decreased 21.68 % from \$14,166,465 to \$11,095,780 between FY 2010 and FY 2011. Total Assets decreased 10.47% from \$15,823,193 to \$14,166,465 between FY 2009 and FY 2010.
- Total Net Assets decreased from \$205,467 to \$203,469 between FY 2010 and FY 2011. Total Net Assets decreased from \$210,280 to \$205,467 between FY 2009 and FY 2010.
- Total Liabilities decreased 21.98% from \$13,960,998 to \$10,892,311 between FY 2010 and FY 2011. Total bond redemptions in the amount of \$3,045,000 were the major factor in the decrease. Total Liabilities decreased over 10% from \$15,612,913 to \$13,960,998 between FY 2009 and FY 2010. Total bond redemptions in the amount of \$1,680,000 in FY 2010 were the major factor in the decrease.
- Other accrued liabilities increased 14.86% between FY 2010 and FY 2011. Other accrued liabilities increased 20.22% between FY 2009 and 2010. Administrative fees assessed but not used during past fiscal years are "banked" for future administrative costs. During FY 2011 and 2010, the Board did not collect fees from the Series 1999 Bond Program for administrative services provided.
- The Board converted \$7,095,000 of variable rate bonds to fixed rate term bonds in FY 2009.

**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.

(Unaudited. See accompanying auditor’s report.)

**OKLAHOMA WATER RESOURCES BOARD**  
**STATE LOAN PROGRAM REVENUE BONDS – SERIES 1999**  
**ANNUAL FINANCIAL REPORT**  
**As of and for the Years Ended June 30, 2011 and 2010**

- 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.
  
- 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 1999**  
**Net Assets**

	<b>Business-Type</b>		
	<b>Activities</b>		
	June 30,		
	2011	2010	2009
Current assets	\$ 1,237,213	\$ 1,392,932	\$ 1,250,695
Non-current assets	9,858,567	12,773,533	14,572,498
<b>Total assets</b>	11,095,780	14,166,465	15,823,193
Current liabilities	1,242,656	1,387,372	1,200,316
Non-current liabilities	9,649,655	12,573,626	14,412,597
<b>Total liabilities</b>	10,892,311	13,960,998	15,612,913
Net assets			
Unrestricted	203,469	205,467	210,280
<b>Total net assets</b>	\$ 203,469	\$ 205,467	\$ 210,280

(Unaudited. See accompanying auditor’s report.)

**OKLAHOMA WATER RESOURCES BOARD**  
**STATE LOAN PROGRAM REVENUE BONDS – SERIES 1999**  
**ANNUAL FINANCIAL REPORT**  
**As of and for the Years Ended June 30, 2011 and 2010**

**Oklahoma Water Resources Board**  
**Revenue Bonds - Series 1999**  
**Revenues, Expenses, and Changes in Net Assets**

	<b>Business-Type</b>		
	<b>Activities</b>		
	<b>Years Ended June 30,</b>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Revenues</b>			
Loan program income	\$ 382,048	\$ 475,387	\$ 534,523
Investment interest income	77	56	1,859
<b>Total revenues</b>	<u>382,125</u>	<u>475,443</u>	<u>536,382</u>
<b>Expenses</b>			
Trustee fees	1,369	1,649	1,948
Administration expenses	26,791	26,015	44,023
Interest expense	335,112	430,340	449,741
Amortization of debt issuance cost	3,316	3,315	3,315
Standby bond purchase agreement fees	15,816	16,906	11,969
Remarketing fees	1,719	2,031	7,513
<b>Total expenses</b>	<u>384,123</u>	<u>480,256</u>	<u>518,509</u>
<b>Increase (Decrease) in net assets</b>	(1,998)	(4,813)	17,873
<b>Total net assets - beginning</b>	205,467	210,280	192,407
<b>Total net assets - ending</b>	<u>\$ 203,469</u>	<u>\$ 205,467</u>	<u>\$ 210,280</u>

**Long-Term Debt**

At June 30, 2011, the Program had \$10,670,000 in long-term debt outstanding which represents a \$3,045,000 or 22.2% decrease from the prior year. The Board converted \$7,095,000 of variable rate bonds to fixed term bonds in FY 2009. From FY 2009 to FY 2010, long-term debt outstanding decreased \$1,680,000 or 10.9%. The Program's changes in long-term debt by type of debt are as follows:

(Unaudited. See accompanying auditor's report.)



**OKLAHOMA WATER RESOURCES BOARD  
STATE LOAN PROGRAM REVENUE BONDS – SERIES 1999  
ANNUAL FINANCIAL REPORT  
As of and for the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Beginning Balances:			
Serial and term bonds due September 1, 2011 to September 1, 2021, at fixed interest rates	\$ 11,475,000	\$ 12,110,000	\$ 5,360,000
Serial and term bonds due September 1, 2011 to September 1, 2030, at variable rates subject to mandatory sinking fund redemption	2,240,000	3,285,000	11,480,000
Less: debt principal repayments	<u>(3,045,000)</u>	<u>(1,680,000)</u>	<u>(1,445,000)</u>
Ending Balances	<u>\$ 10,670,000</u>	<u>\$ 13,715,000</u>	<u>\$ 15,395,000</u>
Amounts due in one year	<u>\$ 1,000,000</u>	<u>\$ 1,120,000</u>	<u>\$ 960,000</u>

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**

Due to the nature of the Series 1999 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 1999 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.)

**OKLAHOMA WATER RESOURCES BOARD  
STATE LOAN PROGRAM REVENUE BONDS – SERIES 1999  
ANNUAL FINANCIAL REPORT  
As of and for the Years Ended June 30, 2011 and 2010**

---

**BASIC FINANCIAL STATEMENTS**

**OKLAHOMA WATER RESOURCES BOARD**  
**STATE LOAN PROGRAM REVENUE BONDS – SERIES 1999**  
**ANNUAL FINANCIAL REPORT**  
**As of and for the Years Ended June 30, 2011 and 2010**

**Statements of Net Assets – June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>ASSETS:</b>		
Current Assets:		
Cash and cash equivalents	\$138,126	\$132,154
Current portions of notes receivable	1,001,650	1,116,950
Interest receivable:		
Notes receivable	97,436	143,827
Other	1	1
 Total current assets	 <u>1,237,213</u>	 <u>1,392,932</u>
Noncurrent Assets:		
Notes receivable net of current portion	9,793,000	12,704,650
Bond issuance cost, net of accumulated amortization of \$199,849 and \$196,533 in 2011 and 2010, respectively	65,567	68,883
 Total noncurrent assets	 <u>9,858,567</u>	 <u>12,773,533</u>
 Total assets	 <u>11,095,780</u>	 <u>14,166,465</u>
 <b>LIABILITIES:</b>		
Current Liabilities:		
Accrued interest payable	91,008	135,349
Current maturities of long-term debt	1,000,000	1,120,000
Other accrued liabilities	151,648	132,023
 Total current liabilities	 <u>1,242,656</u>	 <u>1,387,372</u>
Noncurrent liabilities:		
Long-term debt, less current maturities and unamortized discount of \$20,345 and \$21,374 in 2011 and 2010, respectively	9,649,655	12,573,626
 Total noncurrent liabilities	 <u>9,649,655</u>	 <u>12,573,626</u>
 Total liabilities	 <u>10,892,311</u>	 <u>13,960,998</u>
 <b>NET ASSETS:</b>		
Unrestricted	203,469	205,467
Total net assets	<u>\$203,469</u>	<u>\$205,467</u>

See accompanying notes to the basic financial statements.

**OKLAHOMA WATER RESOURCES BOARD**  
**STATE LOAN PROGRAM REVENUE BONDS – SERIES 1999**  
**ANNUAL FINANCIAL REPORT**  
**As of and for the Years Ended June 30, 2011 and 2010**

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

	<u>2011</u>	<u>2010</u>
<b>Operating Revenues:</b>		
Loan program income	\$382,048	\$475,387
Total operating revenues	<u>382,048</u>	<u>475,387</u>
<b>Operating Expenses:</b>		
Trustee fees	1,369	1,649
Administration expenses	26,791	26,015
Interest expense	335,112	430,340
Amortization of bond issuance cost	3,316	3,315
Standby bond purchase agreement fees	15,816	16,906
Remarketing fees	1,719	2,031
Total operating expenses	<u>384,123</u>	<u>480,256</u>
<b>Operating income (loss)</b>	(2,075)	(4,869)
<b>Non-Operating Revenues:</b>		
Other interest income	77	56
Total non-operating revenues	<u>77</u>	<u>56</u>
<b>Change in net assets</b>	(1,998)	(4,813)
<b>Total net assets - beginning</b>	205,467	210,280
<b>Total net assets - ending</b>	<u><u>\$203,469</u></u>	<u><u>\$205,467</u></u>

See accompanying notes to the basic financial statements.

**OKLAHOMA WATER RESOURCES BOARD**  
**STATE LOAN PROGRAM REVENUE BONDS – SERIES 1999**  
**ANNUAL FINANCIAL REPORT**  
**As of and for the Years Ended June 30, 2011 and 2010**

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

	<b><u>2011</u></b>	<b><u>2010</u></b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Collections of interest on loans to local governmental units	\$428,439	\$472,419
Payments to other suppliers	(26,070)	(24,399)
Interest paid on debt	(378,424)	(424,457)
	<u>23,945</u>	<u>23,563</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Repayments of long-term debt	(3,045,000)	(1,680,000)
	<u>(3,045,000)</u>	<u>(1,680,000)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Collections of principal on loans to local governmental units	3,026,950	1,639,950
Interest income	77	70
	<u>3,027,027</u>	<u>1,640,020</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	5,972	(16,417)
<b>Balances - beginning of the year</b>	<u>132,154</u>	<u>148,571</u>
<b>Balances - end of the year</b>	<u><u>\$138,126</u></u>	<u><u>\$132,154</u></u>
<b>Reconciliation of operating income to net cash provided (used)</b>		
<b>by operating activities:</b>		
Operating income (loss)	(\$2,075)	(\$4,869)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Amortization of bond issuance costs and bond issuance discounts	4,345	4,344
Change in assets and liabilities:		
Decrease (Increase) in interest receivable	46,391	(2,968)
Increase (Decrease) in accrued interest payable	(44,341)	4,854
Increase (Decrease) in other accrued liabilities	19,625	22,202
Net Cash Provided by Operating Activities	<u><u>\$23,945</u></u>	<u><u>\$23,563</u></u>

See accompanying notes to the basic financial statements.

**OKLAHOMA WATER RESOURCES BOARD**  
**STATE LOAN PROGRAM REVENUE BONDS – SERIES 1999**  
**ANNUAL FINANCIAL REPORT**  
**As of and for the Years Ended June 30, 2011 and 2010**

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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 1999 (the "Program") commenced operations in March 1999. 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 require that all local loans be originated by March 3, 2002. No new loans will be 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. 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.

**OKLAHOMA WATER RESOURCES BOARD**  
**STATE LOAN PROGRAM REVENUE BONDS – SERIES 1999**  
**ANNUAL FINANCIAL REPORT**  
**As of and for the Years Ended June 30, 2011 and 2010**

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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 \$82,500. The bond discount is being amortized over the remaining life of the bonds. Amortization expense of \$1,029 was recorded in 2011 and 2010, and is included in interest expense in the accompanying statement of revenues, expenses, and changes in net assets.

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.

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 \$138,126 and \$132,154 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.

**OKLAHOMA WATER RESOURCES BOARD**  
**STATE LOAN PROGRAM REVENUE BONDS – SERIES 1999**  
**ANNUAL FINANCIAL REPORT**  
**As of and for the Years Ended June 30, 2011 and 2010**

**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	\$ 138,126
Total			<u>\$ 138,126</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: 100% or \$138,126 is invested in *Federated Treasury Obligations Fund*.

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	15 days	AAAm	\$ 132,154
Total			<u>\$ 132,154</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: 100% or \$132,154 is invested in *Federated Treasury Obligations Fund*.

**3. Notes Receivable**

Notes receivable of \$10,794,650 and \$13,821,600 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 for fixed rate notes and quarterly for variable rate notes with various maturity dates through 2031; 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



**OKLAHOMA WATER RESOURCES BOARD**  
**STATE LOAN PROGRAM REVENUE BONDS – SERIES 1999**  
**ANNUAL FINANCIAL REPORT**  
**As of and for the Years Ended June 30, 2011 and 2010**

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**3. Notes Receivable (cont'd)**

including, but not limited to user charges and sales taxes of the borrowers and mortgages on the water and/or sewer systems.

**4. Program Fees**

The bond indenture agreement provides for various fees to be paid in connection with the administration of the Program. These fees include the following:

- Standby purchase agreement fees are to be paid to a bank, which has guaranteed to purchase outstanding bonds that cannot otherwise be sold.
- During the year, an annual program administration fee of 0.1328% of fixed rate notes receivable outstanding during the period was charged to operations. An annual program administration fee of 0.3800% of variable rate notes receivable outstanding was charged to operations for the year. These fees are payable to the Oklahoma Water Resources Board for providing clerical, management and administrative services.
- Remarketing fees are payable to an investment banker for services related to determining the interest rate adjustment and attempting to remarket bonds when necessary.
- During the year, a trustee fee of 0.0122% of bonds outstanding was charged to operations. Fees are calculated twice a year using the balance of bonds outstanding at February 28 and August 31.
- Pursuant to the bond indenture, the Program was required to purchase a \$7,500,000 surety bond prior to the bond issuance. The cost of the surety bond was \$89,250 and is included in capitalized bond issuance costs.

**5. 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. The Program had no arbitrage liability at June 30, 2011.

**OKLAHOMA WATER RESOURCES BOARD  
STATE LOAN PROGRAM REVENUE BONDS – SERIES 1999  
ANNUAL FINANCIAL REPORT  
As of and for the Years Ended June 30, 2011 and 2010**

**6. 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, 2021, at fixed interest rates	\$11,475,000	\$ 12,110,000
Serial and term bonds due September 1, 2011 to September 1, 2030, at variable rates subject to mandatory sinking fund redemption	2,240,000	3,285,000
Less: debt principal repayments	<u>(3,045,000)</u>	<u>(1,680,000)</u>
Ending Balances	<u>\$10,670,000</u>	<u>\$ 13,715,000</u>
Amounts due in one year	<u>\$ 1,000,000</u>	<u>\$ 1,120,000</u>

Certain bonds bear interest at a variable rate, initially set at 2.90% and periodically adjusted pursuant to the provisions of the bond indenture, to a maximum rate of 12% per year. The interest rate on the bonds was .55% at June 30, 2011. At the option of the Board and subject to applicable provisions of the bond indenture, which require, among other things that all bonds be successfully remarketed, the variable interest rate may be converted to a term rate that would stay fixed until maturity of the bonds. There were no fixed rate conversions in 2011 or 2010. The previously converted bonds bear interest at fixed rates ranging from 1.50% to 4.30%. Beginning in FY 2009, variable interest rates are reset quarterly on March 1<sup>st</sup>, June 1<sup>st</sup>, September 1<sup>st</sup>, and December 1<sup>st</sup> as specified by the bond indenture, by the Program's remarketing agent. At June 30, 2011, the program had \$2,090,000 in variable rate bonds outstanding.

Future debt service payments required by the serial and term bonds as of June 30, 2011, were developed using the loan repayment amortization schedules maintained in the IFS system for variable rate bonds and scheduled maturities for fixed rate bonds. 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	\$1,000,000	\$272,908	\$1,272,908
2013	1,015,000	253,058	1,268,058
2014	1,045,000	230,292	1,275,292
2015	1,090,000	204,227	1,294,227
2016	1,040,000	174,925	1,214,925
2017-2021	4,345,000	353,505	4,698,505
2022-2026	635,000	8,203	643,203
2027-2030	500,000	2,745	502,745
Total	<u>\$10,670,000</u>	<u>\$1,499,863</u>	<u>\$12,169,863</u>

**OKLAHOMA WATER RESOURCES BOARD  
STATE LOAN PROGRAM REVENUE BONDS – SERIES 1999  
ANNUAL FINANCIAL REPORT  
As of and for the Years Ended June 30, 2011 and 2010**

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**6. Long-term Debt (cont'd)**

Interest on the bonds is payable semiannually for fixed rate bonds and quarterly for variable rate bonds. While the variable bonds bear interest at an adjustable, variable rate, the variable bonds are to be repurchased at each such interest payment date at a price equal to the unpaid principal amount, unless such repurchase is waived in writing by the bond holder. The bonds are also subject to mandatory tender upon conversion to a term interest rate.

In addition to their normal scheduled maturity dates as shown above, the bonds may be redeemed at the option of the Board, in whole or in part, on any interest payment date prior to conversion to a term interest rate, for their principal amount plus accrued interest to the date of redemption.

Following any conversion to a term rate, 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.

The 1999 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. The debt service reserves are reflected in the Board bond programs Series 1989 and 1994A.

On May 10, 2011, the Board approved a resolution authorizing an amendment to the General Bond Resolution creating a General Debt Service Reserve Fund for the purpose of further securing the Board's State Loan Program Bonds. The Reserve has been funded with State appropriated gross production tax revenues in the amount of \$2,194,000 as of June 30, 2011 and is held by the Board's trustee bank.



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 1999 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.

  
Edmond, Oklahoma  
November 1, 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	2010 B Series	
<b>ASSETS</b>																
Current Assets:																
Cash and cash equivalents	55,732	-	399,472	130,365	787,837	1,237,213	3,169,641	2,909,402	1,509,374	1,189,815	3,003,342	553,671	134,453	1,465,466	987,035	-
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	15,126
Interest receivable:																
Notes receivable	9,870	-	15,699	24,273	69,594	97,436	339,353	132,841	63,221	96,527	526,935	96,152	24,279	312,970	271,909	-
Other	36,310	-	121	1	1	1	5	5	1	1	2	1	-	-	-	-
Other receivable	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total current assets	356,912	-	2,086,559	805,139	787,837	1,237,213	3,169,641	2,909,402	1,509,374	1,189,815	3,003,342	553,671	134,453	1,465,466	987,035	-
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	-
Restricted cash - investment	3,490,508	-	14,276,000	-	-	-	-	-	-	-	-	-	-	-	-	-
Bond issuance cost, net of accumulated amortization	17,860	-	157,029	99,601	87,661	65,567	139,920	34,985	69,840	84,613	-	-	-	-	-	-
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	-
Total assets	4,055,280	-	23,459,513	10,275,840	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	-
<b>LIABILITIES</b>																
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	-
Current maturities of long-term debt	260,000	-	1,670,000	650,000	585,000	1,000,000	2,155,000	2,055,000	1,370,000	1,020,000	2,180,000	370,000	105,000	1,120,000	700,000	-
Other accrued liabilities	13,008	-	145,326	130,092	141,620	151,648	595,960	419,968	65,241	62,945	300,280	58,741	6,220	42,444	19,186	-
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	519,773	134,195	1,464,526	978,961	-
Noncurrent Liabilities:																
Arbitrage rebate payable to Federal Government	-	-	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	20,253,381	5,095,374	5,754,799	42,495,000	8,655,000	2,625,000	28,915,000	27,255,000	-
Total noncurrent liabilities	155,747	-	5,982,928	8,723,981	4,960,977	9,649,655	36,104,968	20,253,381	5,095,374	5,754,799	42,495,000	8,655,000	2,625,000	28,915,000	27,255,000	-
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	-
<b>NET ASSETS</b>																
Restricted for debt service	3,490,508	-	14,276,000	-	-	-	-	-	-	-	-	-	-	-	-	-
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	-
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	-

See each individual bond issue audit report for additional information and related disclosures.

OKLAHOMA WATER RESOURCES BOARD STATE LOAN  
PROGRAM REVENUE BONDS

SUPPLEMENTAL INFORMATION  
GROUPED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
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	2004A Series	2006B Series	2007 Series	2009 Series	2010 Series	2010 B Series	
<b>REVENUES</b>																
Operating revenues:																
Loan program income	\$ 34,214	\$ 2,398	\$ 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	\$ 719,047	
Total operating revenues	34,214	2,398	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	719,047	
<b>EXPENSES</b>																
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	1,232	1,313	4,056	2,164	
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	
Interest expense	37,426	822	141,142	106,861	277,260	335,112	1,384,604	582,675	254,098	279,880	2,065,910	367,726	93,319	1,211,685	690,249	
Amortization of bond issuance cost	2,187	255	12,906	7,551	5,771	3,316	6,117	1,462	9,615	6,915	-	-	-	-	-	
Standby bond purchase agreement fees	-	-	9,387	9,662	1,832	15,816	9,352	68,520	-	-	-	-	-	-	-	
Remarketing fees	-	-	6,206	4,640	1,010	1,719	8,203	8,083	-	-	-	-	-	-	-	
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	
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	
<b>NONOPERATING REVENUES (EXPENSES)</b>																
Credit (provision) for arbitrage rebate	-	-	7,963	-	-	-	-	-	-	-	-	-	-	-	-	-
Other interest income	123,863	21,407	106,004	24	97	77	1,78	128	36	22	51	11	3	7	2	
Gross production tax from state	123,863	21,407	1,013,967	24	97	77	1,78	128	36	22	51	11	3	7	2	
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	
Transfers (to) from Oklahoma Water Resources Board	1,977,283	(2,341,193)	138,695	-	-	-	-	-	-	-	-	-	-	-	-	
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	
<b>NET ASSETS</b>																
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	200,560	1,155	(482)	-	
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	

See each individual bond issue report for additional information and related disclosures.

**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	2004A Series	2006H Series	2007 Series	2010 Series	2011 Series
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>														
Collections of interest on loans to local governmental units	41,421	4,796	256,695	187,255	366,879	438,439	1,524,992	738,240	375,127	305,727	2,151,157	392,144	97,661	991,071
Payments (to) from other suppliers	(1,001)	981	(19,123)	(18,020)	(4,399)	(23,070)	(223,191)	(82,514)	(1,000)	(999)	(6,127)	(1,254)	(1,251)	(4,288)
Interest paid on debt	(42,888)	(4,407)	(154,083)	(104,246)	(336,395)	(378,242)	(1,397,946)	(936,192)	(264,789)	(935,458)	(2,084,860)	(371,256)	(95,634)	(956,594)
Net cash provided (used) by operating activities	(68)	4,370	83,489	64,959	25,885	33,945	(95,247)	56,507	9,338	9,270	60,170	19,588	2,776	30,189
	(402,217)	(156,693)	33,695	*	*	*	*	*	*	*	*	*	*	*
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>														
Issuance of long-term debt	(410,000)	(45,100)	(4,355,000)	(705,000)	(3,892,000)	(3,045,000)	(2,320,000)	(2,055,000)	(1,370,000)	(995,000)	(2,095,000)	(460,000)	(95,000)	27,955,000
Repayments of long-term debt			920,000	(705,000)	(3,892,000)	(3,045,000)	(2,320,000)	(2,055,000)	(1,370,000)	(995,000)	(2,095,000)	(460,000)	(95,000)	(14,275,000)
Gross production tax	(512,217)	(201,693)	(3,421,703)	(705,000)	(3,892,000)	(3,045,000)	(2,320,000)	(2,055,000)	(1,370,000)	(995,000)	(2,095,000)	(460,000)	(95,000)	27,955,000
Net cash provided (used) by noncapital financing activities														
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>														
Collections of principal on loans to local governmental units	410,000	45,000	3,379,175	639,850	3,866,120	3,056,650	2,090,900	2,076,400	1,370,000	995,000	2,095,000	363,754	95,000	-
Sales (purchase) of investments	-	-	11,143,000	-	-	-	-	-	-	-	-	-	-	-
Trans. to local governments	-	-	33,952	24	97	77	182	129	36	22	51	11	3	-
Interest income	102,231	83,039	14,536,127	639,874	3,866,247	3,027,027	2,091,082	2,076,539	1,330,036	995,022	2,095,051	363,765	95,003	(14,275,000)
Net cash provided (used) by investing activities	(68)	(109,284)	3,457,161	(1,027)	(3,868)	5,072	(244,155)	78,036	9,274	9,292	60,221	23,331	2,779	10,196
Net increase (decrease) in cash and cash equivalents	55,286	109,284	3,457,161	130,532	125,560	332,144	229,398	639,330	66,278	6,992	2,018	69,275	2,935	2,300
Cash and cash equivalents, beginning of year	55,732	-	14,675,472	130,365	129,692	138,126	675,233	717,356	76,152	71,287	296,405	83,608	5,174	15,126
Cash and cash equivalents, end of year	(68)	4,370	83,489	64,959	25,885	33,945	(95,247)	56,507	9,338	9,270	60,170	19,588	2,776	30,189
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>														
Operating income (loss)	(7,072)	964	24,976	13,416	891	(2,075)	21,135	5,036	(9,735)	(4,935)	(613)	7,038	(9,000)	8,072
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:														
Amortization of bond issuance costs and discount	5,769	375	23,641	13,314	9,985	4,245	9,176	3,189	9,564	1,619	21,709	3,770	272	(264,753)
Decrease (Increase) Interest receivable	9,207	2,398	24,352	3,955	65,409	46,391	15,548	13,200	11,122	10,763	21,709	3,770	272	(271,909)
Decrease (Increase) Other receivables	(8,644)	(703)	(23,676)	(3,648)	(63,549)	(44,341)	(15,501)	(13,251)	(10,640)	(10,382)	(20,050)	(5,600)	(413)	255,091
Increase (Decrease) Accrued interest payable	672	(849)	34,196	32,092	13,149	19,623	(125,603)	50,313	9,037	9,125	60,024	12,340	3,719	19,186
Increase (Decrease) Other interest liabilities														
Net cash provided (used) by operating activities	(68)	4,370	83,489	64,959	25,885	33,945	(95,247)	56,507	9,338	9,270	60,170	19,588	2,776	30,189



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 State Loan Program Revenue Bonds - Series 1999 (the "Program") as of and for the year ended June 30, 2011, and have issued our report thereon dated November 4, 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 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 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