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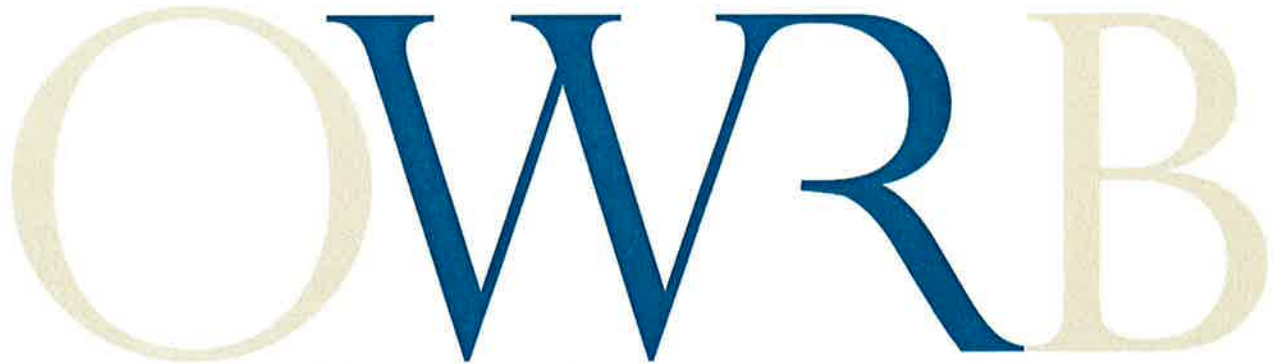
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State Auditor & Inspector

State of Oklahoma



**WATER RESOURCES BOARD**  
the water agency

**STATE LOAN PROGRAM REVENUE BONDS**  
**SERIES 2007**

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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 2007  
ANNUAL FINANCIAL REPORT  
As of and for the Years Ended June 30, 2011 and 2010**

---

**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 the Basic Financial Statements .....	14-18
<b>Supplemental Information:</b>	
Independent Auditor’s Report on Additional Information .....	20
Grouped Statements of Net Assets .....	21
Grouped Statements of Revenues, Expenses, and Changes in Net Assets .....	22
Grouped Statements of Cash Flows .....	23
<b>Internal Control over Financial Reporting and Compliance .....</b>	<b>24-26</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 2007 (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 2007 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.

*Wedge Associates, P.C.*  
Edmond, Oklahoma  
November 4, 2011

**OKLAHOMA WATER RESOURCES BOARD  
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2007  
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 2007**  
**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 2007 (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 2007 Bond Program.

**Financial Highlights**

- The Board issued a \$10,215,000 bond issue in March 2007 for the purpose of making loans to Local Entities to provide for acquisition, development and utilization of storage and control facilities for water and sewage systems.
- Total Assets decreased 3.5% from \$9,726,593 to \$9,382,402 between FY 2010 to FY 2011. Total Assets decreased 3.3% from \$10,054,991 to \$9,726,593 between FY 2009 and FY 2010.
- Total Net assets increased from \$200,560 in FY 2010 to \$207,629 in FY 2011. Total Net Assets increased from \$193,316 in FY 2009 to \$200,560 in FY 2010.
- At the time of the bond closing, three loans were identified to receive the bond funds. One of the borrowers had bids come in higher than anticipated and requested an increase in their loan amounts. As a result, \$185,000 was transferred in from funds available from a defeased bond series to cover the additional funds.
- Other accrued liabilities increased 26.6% in FY 2011 and decreased 38.1% in FY 2010. Administrative fees assessed but not used during the fiscal year are "banked" for future administrative costs. No administrative fees have been drawn from this Bond Series.

**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(Unaudited. See accompanying auditor’s report.)

**OKLAHOMA WATER RESOURCES BOARD  
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2007  
ANNUAL FINANCIAL REPORT  
As of and for the Years Ended June 30, 2011 and 2010**

- 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 2007  
Net Assets**

	<b>Business-Type Activities</b>		
	June 30,		
	2011	2010	2009
Current Assets	\$ 553,671	\$ 523,952	\$ 488,596
Non-current Assets	8,828,731	9,202,641	9,566,395
<b>Total assets</b>	<b>9,382,402</b>	<b>9,726,593</b>	<b>10,054,991</b>
Current liabilities	519,773	501,033	476,675
Non-current liabilities	8,655,000	9,025,000	9,385,000
<b>Total liabilities</b>	<b>9,174,773</b>	<b>9,526,033</b>	<b>9,861,675</b>
Net assets			
Unrestricted	207,629	200,560	193,316
<b>Total net assets</b>	<b>\$ 207,629</b>	<b>\$ 200,560</b>	<b>\$ 193,316</b>

(Unaudited. See accompanying auditor’s report.)

**OKLAHOMA WATER RESOURCES BOARD**  
**STATE LOAN PROGRAM REVENUE BONDS – SERIES 2007**  
**ANNUAL FINANCIAL REPORT**  
**As of and for the Years Ended June 30, 2011 and 2010**

**Oklahoma Water Resources Board**  
**Revenue Bonds - Series 2007**  
**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	\$ 388,378	\$ 403,299	\$ 413,759
Investment interest income	11	10	285
<b>Total revenues</b>	<u>388,389</u>	<u>403,309</u>	<u>414,044</u>
<b>Expenses</b>			
Trustee fees	1,252	1,269	1,315
Administration expenses	12,342	12,820	13,277
Interest expense	367,726	381,976	395,626
Provision (credit) for arbitrage rebate	-	-	(6,796)
<b>Total expenses</b>	<u>381,320</u>	<u>396,065</u>	<u>403,422</u>
<b>Increase in net assets</b>	7,069	7,244	10,622
<b>Total net assets - beginning</b>	200,560	193,316	182,694
<b>Total net assets - ending</b>	<u>\$ 207,629</u>	<u>\$ 200,560</u>	<u>\$ 193,316</u>

**Long-Term Debt**

At June 30, 2011, the Program had \$9,025,000 in long-term debt outstanding which represents a \$360,000 or 3.8% decrease from the prior year. At June 30, 2010, total outstanding long-term debt decreased \$345,000 or 3.5%. The Program's changes in long-term debt by type of debt are as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Serial and term bonds due October 1, 2011 to October 1, 2036, interest rates at 3.65% to 4.50%	\$ 9,385,000	\$ 9,730,000	\$ 10,060,000
Less: debt principal repayments	(360,000)	(345,000)	(330,000)
Ending balances	<u>\$ 9,025,000</u>	<u>\$ 9,385,000</u>	<u>\$ 9,730,000</u>
Amounts due in one year	\$ 370,000	\$ 360,000	\$ 345,000

(Unaudited. See accompanying auditor's report.)



**OKLAHOMA WATER RESOURCES BOARD  
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2007  
ANNUAL FINANCIAL REPORT  
As of and for the Years Ended June 30, 2011 and 2010**

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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 2007 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 2007 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 2007  
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 2007**  
**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	\$83,608	\$60,275
Current portions of notes receivable	373,910	363,754
Interest receivable:		
Notes receivable	96,152	99,922
Other	1	1
 Total current assets	 <u>553,671</u>	 <u>523,952</u>
Noncurrent Assets:		
Notes receivable net of current portion	8,828,731	9,202,641
 Total noncurrent assets	 <u>8,828,731</u>	 <u>9,202,641</u>
 Total assets	 <u>9,382,402</u>	 <u>9,726,593</u>
 <b>LIABILITIES:</b>		
Current Liabilities:		
Accrued interest payable	91,032	94,632
Current maturities of long-term debt	370,000	360,000
Other accrued liabilities	58,741	46,401
 Total current liabilities	 <u>519,773</u>	 <u>501,033</u>
Noncurrent liabilities:		
Long-term debt, less current maturities	8,655,000	9,025,000
 Total noncurrent liabilities	 <u>8,655,000</u>	 <u>9,025,000</u>
 Total liabilities	 <u>9,174,773</u>	 <u>9,526,033</u>
 <b>NET ASSETS:</b>		
Unrestricted	207,629	200,560
 Total net assets	 <u>\$207,629</u>	 <u>\$200,560</u>

See accompanying notes to the basic financial statements.

**OKLAHOMA WATER RESOURCES BOARD**  
**STATE LOAN PROGRAM REVENUE BONDS – SERIES 2007**  
**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	\$388,378	\$403,299
Total operating revenues	<u>388,378</u>	<u>403,299</u>
<b>Operating Expenses:</b>		
Trustee fees	1,252	1,269
Administration expenses	12,342	12,820
Interest expense	367,726	381,976
Total operating expenses	<u>381,320</u>	<u>396,065</u>
<b>Operating income</b>	7,058	7,234
<b>Non-Operating Revenues:</b>		
Other interest income	11	10
Total non-operating revenues	<u>11</u>	<u>10</u>
<b>Change in net assets</b>	7,069	7,244
<b>Total net assets - beginning</b>	200,560	193,316
<b>Total net assets - ending</b>	<u>\$207,629</u>	<u>\$200,560</u>

See accompanying notes to the basic financial statements.

**OKLAHOMA WATER RESOURCES BOARD  
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2007  
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**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Collections of interest on loans to local governments	\$392,148	\$406,911
Payments to other suppliers	(1,254)	(1,281)
Interest paid on debt	(371,326)	(385,426)
Net Cash Provided by Operating Activities	<u>19,568</u>	<u>20,204</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Repayments of Long-term Debt	(360,000)	(345,000)
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(360,000)</u>	<u>(345,000)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Collections of principal on loans to local governmental units	363,754	348,605
Interest income	11	9
Net Cash Provided by Investing Activities	<u>363,765</u>	<u>348,614</u>
<b>Net Increase in Cash and Cash Equivalents</b>	23,333	23,818
<b>Balances - beginning of the year</b>	<u>60,275</u>	<u>36,457</u>
<b>Balances - end of the year</b>	<u>\$83,608</u>	<u>\$60,275</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$7,058	\$7,234
Change in assets and liabilities:		
Decrease (Increase) in interest receivable	3,770	3,612
Increase (Decrease) in accrued interest payable	(3,600)	(3,450)
Increase (Decrease) in other accrued liabilities	<u>12,340</u>	<u>12,808</u>
Net Cash Provided (Used) in Operating Activities	<u>\$19,568</u>	<u>\$20,204</u>

See accompanying notes to the basic financial statements.

**OKLAHOMA WATER RESOURCES BOARD**  
**STATE LOAN PROGRAM REVENUE BONDS – SERIES 2007**  
**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 2007 (the "Program") commenced operations in March 2007. The Program was established by the Board to provide new loans to local governmental entities to be used to refund a portion of the Board's outstanding State Loan Program Revenue Bonds originally issued by the Board and to fund one new loan to a local governmental entity for its use in acquisition, development and utilization of storage and control facilities for water and sewer systems.

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.

Bond Issuance Cost

Bond issuance costs were paid by the borrowers.

**OKLAHOMA WATER RESOURCES BOARD  
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2007  
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 Issue Discount

The net premium/discount and underwriter discount was applied to the benefit of the borrowers.

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 \$83,608 and \$60,275 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.
- 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.

**OKLAHOMA WATER RESOURCES BOARD  
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2007  
ANNUAL FINANCIAL REPORT  
As of and for the Years Ended June 30, 2011 and 2010**

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

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	\$ 83,608
Total			<u>\$ 83,608</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 \$83,608 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	\$ 60,275
Total			<u>\$ 60,275</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 \$60,275 is invested in *Federated Treasury Obligations Fund*.

**3. Notes Receivable**

Notes receivable of \$9,202,641 and \$9,566,395 at June 30, 2011 and 2010, respectively, represents loans made by the Program to local governmental entities for the purposes of acquisition, development, utilization of storage and control facilities for water and sewage systems, and refunding a portion of the Board's outstanding revenue bonds originally issued by the Board. Payments on the notes are due in semiannual installments with various maturity dates through 2036, including interest at various fixed rates; however, the local entity has the option to pay the note earlier than the scheduled maturity. The current portion of the note receivables contains scheduled maturity 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 borrower 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:



**OKLAHOMA WATER RESOURCES BOARD**  
**STATE LOAN PROGRAM REVENUE BONDS – SERIES 2007**  
**ANNUAL FINANCIAL REPORT**  
**As of and for the Years Ended June 30, 2011 and 2010**

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**4. Program Fees (cont'd)**

- During the year, an annual program administration fee of .1328% of fixed rate 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 .0134% 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.

**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 or 2010.

**6. Long-term Debt**

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

	<u>2011</u>	<u>2010</u>
Serial and term bonds due October 1, 2011 to October 1, 2036, interest rates at 3.65% to 4.50%	\$ 9,385,000	\$ 9,730,000
Less: debt principal repayments	<u>(360,000)</u>	<u>(345,000)</u>
Ending balances	<u>\$ 9,025,000</u>	<u>\$ 9,385,000</u>
Amounts due in one year	\$ 370,000	\$ 360,000

**OKLAHOMA WATER RESOURCES BOARD  
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2007  
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)**

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	\$370,000	\$356,726	\$726,726
2013	385,000	342,300	727,300
2014	400,000	327,974	727,974
2015	415,000	312,996	727,996
2016	430,000	295,644	725,644
2017-2021	2,460,000	1,168,303	3,628,303
2022-2026	3,005,000	620,675	3,625,675
2027-2031	990,000	166,000	1,156,000
2032-2036	465,000	68,900	533,900
2037	105,000	2,100	107,100
	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>\$9,025,000</u>	<u>\$3,661,618</u>	<u>\$12,686,618</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, on such dates and for such prices, plus accrued interest as are set forth in the bond indenture.

The 2007 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 \$17,776,508. 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.

**OKLAHOMA WATER RESOURCES BOARD  
STATE LOAN PROGRAM REVENUE BONDS – SERIES 2007  
ANNUAL FINANCIAL REPORT  
As of and for the Years Ended June 30, 2011 and 2010**

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**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 2007 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 4, 2011

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.

*Allyson H. Associates, P.C.*

Edmond, Oklahoma  
November 4, 2011