

WATER QUALITY PROGRAM
Oklahoma Conservation Commission

FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

Bruce G. Luttrell, CPA, PC _____
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WATER QUALITY PROGRAM
Oklahoma Conservation Commission

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The Board of Directors
Oklahoma Conservation Commission

INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Water Quality program of the Oklahoma Conservation Commission, an agency of the State of Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the Water Quality program's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Water Quality program's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinions.

As discussed in Note 1, the financial statements of the Water Quality program of the Oklahoma Conservation Commission are intended to present the financial position and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, each major, and the aggregate remaining fund information of the Water Quality program that is attributable to the transactions of the program. They do not purport to, and do not, present fairly the financial position of the Oklahoma Conservation Commission nor the State of Oklahoma as of June 30, 2011, and the changes in their financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As also described in Note 1, the Water Quality program's financial statements are prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Thus, the financial statements referred to above do not present fairly in all material respects, in conformity with accounting principles generally accepted in the United States of America, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Water Quality program as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended.

However, in my opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities and fund equity arising from the cash basis of accounting of the governmental activities, each major fund, and the aggregate remaining fund information of the Water Quality program of the Oklahoma Conservation Commission, as of June 30, 2011, and the revenues collected and expenditures paid of the governmental activities, each major fund, and the aggregate remaining fund information for the year then ended in conformity with the cash basis of accounting.

In accordance with *Government Auditing Standards*, I have also issued a report dated August 24, 2012, on my consideration of the Water Quality program's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on page 3, 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

The Water Quality program has not presented the budgetary comparison information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

My audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Water Quality program's financial statements as a whole. The Statement of Receipts, Expenditures, and Cash Balances, on pages 21 and 22, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and the Schedule of Findings and Questioned Costs, on pages 19 and 20, are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are also not a required part of the financial statements. The Statement of Receipts, Expenditures, and Cash Balances, the Schedule of Expenditures of Federal Awards, and the Schedule of Findings and Questioned Costs are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.



Bruce G. Luttrell, CPA, PC

August 24, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

WATER QUALITY PROGRAM
Oklahoma Conservation Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Oklahoma Conservation Commission (OCC) accomplished a great deal of conservation in priority watershed areas and in the Conservation Reserve Enhancement Program (CREP). Staff implemented a variety of best management practices (BMP's) to abate priority nonpoint source pollutants through Priority Watershed Implementation projects in the Spavinaw Creek, Illinois River, North Canadian River, and Honey Creek (Grand Lake) watersheds. OCC personnel processed over 300 claims in these watersheds totaling \$1,268,231 in federal and state funds through 319 and CREP program efforts. Practices included fencing off riparian areas, pasture improvement, construction of winter feeding areas, poultry litter stack out sheds, provision of off stream water, conservation tillage conversion, and cropland conversion to pasture.

The OCC monitored 137 fixed sites, 11 implementation monitoring sites, and 50 probabilistic sites for a total of 198 stream sites across the state. OCC's foundational monitoring effort occurs with its Rotating Basin Monitoring Program (RBMP) where fixed sites (137 for this period) are monitored for over 20 parameters on five week intervals. Biological collections (fish and macroinvertebrates) are significant components of this effort. The RBMP also includes a probabilistic site component where 50 randomly selected sites are visited once for the same parameters. During this period, OCC staff collected more than 1,600 water samples for contract laboratory analysis of conventional pollutants at over 198 sites. Biologists completed approximately 100 fish collections with concurrent aquatic habitat assessments and collected over 200 macroinvertebrate samples. In addition to OCC's core monitoring effort, priority watershed monitoring was conducted in Beaty, Spavinaw and Honey Creeks and the North Canadian and Illinois Rivers where continuous, flow-weighted samples were collected in addition to weekly field measurements.

Water quality education efforts are a hallmark of OCC's Water Quality program and significant staff resources are spent supporting it. Through the nationally recognized Blue Thumb Education Program, volunteers monitored 102 streams sites across the state each month. With this and additional program efforts, over 4,893 volunteer hours were logged from education and stream monitoring events. Currently, a total of 37 counties across the state are participating in Blue Thumb stream monitoring. Teams conducted 29 fish collections and 139 macroinvertebrate collections. Blue Thumb held four stream monitoring trainings and nine mini-academies trainings.

This financial report is designed to provide interested parties with a general overview of the Water Quality program's finances and to demonstrate its accountability for the money it receives. If you have questions about this report or need additional information, contact the Water Quality program at 2800 Lincoln Blvd., Suite 160, Oklahoma City, Oklahoma 73105. The Water Quality program's telephone number is 405-521-2384.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

WATER QUALITY PROGRAM
Oklahoma Conservation Commission

STATEMENT OF NET ASSETS - CASH BASIS
June 30, 2011

	<u>Government Activities</u>
Assets	
Current assets	
Restricted cash and cash equivalents	\$ (411,337)
Total current assets	<u>(411,337)</u>
Total assets	<u>\$ (411,337)</u>
 Liabilities	
Noncurrent liabilities	
Notes Payable (Note 7)	\$ 391,915
Total noncurrent liabilities	<u>391,915</u>
 Net assets	
Invested in capital assets, net of related debt	-
Restricted for grant programs	(803,252)
Unassigned	<u>-</u>
Total liabilities and net assets	<u>\$ (411,337)</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

WATER QUALITY DIVISION
Oklahoma Conservation Commission

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS - CASH BASIS
For the Year Ended June 30, 2011

Functions/programs	Expenses	Program Revenues	Net (Expense)/ Revenue
Governmental activities			
Water Quality program	\$ 4,667,755	\$ 4,358,419	\$ (309,336)
Total governmental activities	\$ 4,667,755	\$ 4,358,419	(309,336)
 Change in net assets			 (309,336)
Net assets, beginning of year			(493,916)
Net assets, end of year			\$ (803,252)

The accompanying notes to the basic financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

WATER QUALITY PROGRAM
Oklahoma Conservation Commission

STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS
ARISING FROM CASH BASIS TRANSACTIONS
GOVERNMENTAL FUNDS
June 30, 2011

	General Fund
Assets	
Current assets	
Cash and cash equivalents	\$ (411,337)
Total current assets	(411,337)
Total assets	\$ (411,337)
 Liabilities	
Total liabilities	\$ -
 Fund Balance	
Restricted for grant programs	(411,337)
Unassigned	-
Total fund balance	(411,337)
 Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Notes payable	(391,915)
Net assets of governmental activities	\$ (803,252)

The accompanying notes to the basic financial statements are an integral part of this statement.

WATER QUALITY PROGRAM
Oklahoma Conservation Commission

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
ARISING FROM CASH BASIS TRANSACTIONS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	<u>General Fund</u>
Revenues:	
Grants	\$ 4,358,419
Loan Proceeds	386,960
Total revenues	<u>4,745,379</u>
Expenditures:	
Personnel Services	1,324,190
Subcontract	607,681
Travel	43,801
Equipment	-
Supplies	66,171
Other	2,125,727
Indirect Cost	113,225
Planning & Oversight	1,963
Design & Consultation	24,692
Construction	34,997
Engineering	148,249
Fees	75,914
Monitorint	101,145
Total expenditures paid	<u>4,667,755</u>
Excess of revenues collected over (under) expenditures	77,624
Fund balance, beginning of year	<u>(488,961)</u>
Fund balance, end of year	<u>\$ (411,337)</u>

(Continued)

The accompanying notes to the basic financial statements are an integral part of this statement.

**WATER QUALITY PROGRAM
Oklahoma Conservation Commission**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
ARISING FROM CASH BASIS TRANSACTIONS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011**

(Continued)

Reconciliation of the change in fund balances: governmental funds to the change in net assets of governmental activities:

Net change in fund balances: governmental funds	\$	77,624
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report loan proceeds as revenue while governmental activities report loan proceeds as a liability:

Notes payable	(386,960)
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Change in net assets of governmental activities	<u>\$</u>	<u>(309,336)</u>
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The accompanying notes to the basic financial statements are an integral part of this statement.

NOTES TO BASIC FINANCIAL STATEMENTS

WATER QUALITY PROGRAM
Oklahoma Conservation Commission

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Water Quality is a program within the Oklahoma Conservation Commission (OCC), an agency of the State of Oklahoma. Created in 1937, the mission of the Oklahoma Conservation Commission is to conserve, protect, and restore Oklahoma's natural resources working in collaboration with the local conservation districts and other partners on behalf of the citizens of Oklahoma. The OCC fulfills its mission by providing tools, leadership and protection, including, among others, water quality protection.

A. Reporting Entity

These financial statements represent all of the activities of the Water Quality program of the Oklahoma Conservation Commission, an agency of the State of Oklahoma. This program is funded by the Office of the Secretary of the Environment (OSE), and is administered by the Oklahoma Conservation Commission. The accompanying financial statements are intended to present only the financial position and results of operations of the Water Quality program of the Oklahoma Conservation Commission.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Basic Financial Statements

Water Quality follows the provisions of Governmental Accounting Standards Board's Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* ("GASB 34"). GASB 34, among other provisions, establishes a basic financial reporting model and requires management's discussion and analysis.

Cash Basis Financial Statements

The accompanying financial statements of the Water Quality program have been prepared in conformity with the cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP.) Revenues are recorded when received and expenses are recorded when paid. Capital assets are not presented.

C. Fund Classification

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by Water Quality or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Water Quality applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Balance

Fund Balance is divided into five classifications based primarily on the extent to which Water Quality

WATER QUALITY PROGRAM

Oklahoma Conservation Commission

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (ordinances).

Enabling legislation authorizes Water Quality to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that Water Quality can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the Board of Trustees. Those committed amounts cannot be used for any other purpose unless the Board of Trustees removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the Board of Trustees, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by Water Quality for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Trustees or any official delegated that authority by trust indenture or ordinance.

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Water Quality applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

WATER QUALITY PROGRAM

Oklahoma Conservation Commission

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Receipts and Expenditures

Receipts are directly deposited into the State Treasurer's # 400 Fund account by the Office of the Secretary of the Environment. All expenditures are done through the State's disbursement system.

E. Cash

At June 30, 2011, all cash was under the control of the State Treasurer and was collateralized in accordance with 62 O.S. 2001, 72.1., titled "Security for Public Deposits Act." As of this date, the bank balances on deposit are fully insured or collateralized with securities held by the State's agent in the State's name.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

NOTE 2. COMPENSATED ABSENCES

Oklahoma Conservation Commission personnel assigned to administer the Water Quality program are allowed to accrue annual and sick leave which may be carried forward if not used. Sick leave accrues at 10 hours per month, with no limit on the maximum accrual. Annual leave accrues at 16.66 hours per month up to a maximum of 480 hours for employees with more than 20 years service, 13.33 hours per month up to a maximum of 480 hours for employees with more than ten years and less than 20 years of continuous service, 12 hours per month up to a maximum of 480 hours for employees with more than five years and less than 10 years of continuous service, and at 10 hours per month up to a maximum of 240 hours for employees with less than five years of continuous service. (This schedule applies to employees hired prior to July 1, 1996. A slightly different schedule applies to employees hired after that date.) Upon the employee's termination, the accrued annual leave shall be paid at the employee's pay rate in effect at the time of termination. Any accrued sick leave is forfeited upon the employee's termination. At June 30, 2011, the total accumulated annual leave which could be charged to the Water Quality program was approximately \$ 150,000.

NOTE 3. INDIRECT COSTS

In March, 2003, the Oklahoma Conservation Commission obtained approval from the U.S. Department of the Interior for an indirect cost rate applicable to the Water Quality program. The indirect cost rate is a predetermined, fixed allocation, based upon 20 % of direct salaries and wages and is effective for the period from July 1, 2010 through June 30, 2014.

The indirect cost allocation formula includes direct salaries and wages paid to Water Quality program administrative staff for active tasks for the current fiscal year grant. For the fiscal year ended June 30, 2011, indirect costs of \$ 113,224.63 were budgeted, and reimbursed, under the current year grants, which was \$ 30,933.31 less than the maximum allowable according to the indirect cost rate in effect.

WATER QUALITY PROGRAM

Oklahoma Conservation Commission

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2011

NOTE 4. RISK MANAGEMENT AND INSURANCE

As part of the primary government of the State of Oklahoma, the risk of losses to which the Water Quality program (through the Conservation Commission) may be exposed is covered through the risk management activities of the State and any losses and liabilities are the responsibility of, and financed through the State's risk management activities. In general, the State is self-insured for health care claims (except for employee participation in certain health maintenance organizations), worker's compensation, second injury worker's compensation, tort liability (except for excess coverage for certain losses in excess of \$ 1,000,000), vehicle liability, and property losses (except for excess coverage for certain losses in excess of \$ 250,000, or \$ 750,000 for certain agencies.) The property loss excess coverage is limited to a maximum loss of \$ 1,000,000,000.

Two separate component units of the State provide coverage for health care claims and worker's compensation. The State and Education Employees' Group Insurance Board provides group health, life, dental and disability benefits to the State's employees and certain other eligible participants. The State Insurance Fund (Compsource) provides workers' compensation coverage for the State's employees (and private and local government employees.) Coverage for second injury workers' compensation is provided by the Multiple Injury Trust Fund, a component unit of the State.

The remaining risk management activities of the State are included in the State's General Fund. The Risk Management Division of the Department of Central Services is responsible for administering the State's tort liability, vehicle liability, property loss, and other types of risk coverage. Also, the Division is responsible for the acquisition and administration of all insurance policies purchased by the State and administration of any self-insurance plans and programs adopted for use by the State (and for certain organizations and bodies outside of state government.)

NOTE 5. PENSION PLANS

Plan Description. The Oklahoma Conservation Commission contributes to the Oklahoma Public Employees Retirement Plan. The Oklahoma Public Employees Retirement System (OPERS) is a cost sharing multiple employer defined benefit retirement system. The plan provides retirement, disability, and death benefits to plan members and their beneficiaries. The pension benefit provisions are established and may be amended by the state legislature. Cost-of-living adjustments are provided to plan members and beneficiaries at the discretion of the state legislature.

A separately issued independent audit report for the pension plan may be obtained from: Public Employees Retirement, 5801 N. Broadway Extension, Suite 400, Oklahoma City, Oklahoma 73118.

Funding Policy: Plan members and state agencies are required to contribute at a rate set by statute. The contribution requirements of plan members and state agencies are established and may be amended by the State legislature. Oklahoma Public Employees Retirement System (OPERS) receives contributions from each member based on their gross salary earned (excluding overtime.)

OPERS receives contributions from the Oklahoma Conservation Commission and each member based on their gross salary earned, excluding overtime. There is no cap on qualifying salary earned,

WATER QUALITY PROGRAM

Oklahoma Conservation Commission

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2011

NOTE 5. PENSION PLANS (continued)

subject to internal revenue service limitations on compensation. Water Quality employees contribute 3.5 % of total salary, and the Oklahoma Conservation Commission contributes 15.5 % of total salary.

NOTE 6. OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 5, the State provides post-retirement health care benefits (OPEB.) The Oklahoma Public Employees Retirement System (OPERS) pays the Medicare supplement premium or \$ 105.00 per month; whichever is less, for all retirees who elect coverage at the time of retirement through the respective systems. Information specific to the Water Quality program is not available and cannot be reasonably estimated.

NOTE 7. LONG-TERM DEBT

GOVERNMENTAL ACTIVITIES

As of June 30, 2011, the governmental long-term debt of the financial reporting entity consisted of the following:

Notes Payable:

- On December 8, 2009, the Oklahoma Conservation Commission, entered into a note agreement with the Oklahoma Water Resources Board, in the principal amount of \$ 86,500 (Series 2009A) to administer ARRA (American Recovery and Reinvestment Act) funds for the cost of constructing a green project consisting of a green roof on the National Weather Center. The note bears no interest, and requires semi-annual payments of principal. The note is eligible for principal forgiveness as detailed below. \$ 59,689.47
 - On December 8, 2009, the Oklahoma Conservation Commission, entered into a note agreement with the Oklahoma Water Resources Board, in the principal amount of \$ 2,000,000 (Series 2009B) to administer ARRA funds for the cost of constructing a green project consisting of stream bank stabilization in the Cow Creek watershed in Payne County. The note bears no interest, and requires semi-annual payments of principal. The note is eligible for principal forgiveness as detailed below. 325,307.57
 - On December 29, 2009, the Oklahoma Conservation Commission, entered into a note agreement with the Oklahoma Water Resources Board, in the principal amount of \$ 2,000,000 (Series 2009C) to administer ARRA funds for the cost of constructing a green project consisting of stream bank stabilization in the Illinois River and Eucha/Spavinaw watersheds. The note bears no interest, and requires semi-annual payments of principal. The note is eligible for principal forgiveness as detailed below. 6,917.70
- Total Notes Payable \$ 391,914.74

The above loans are were issued pursuant to and secured by and entitled to the protection of a funding agreement for ARRA Green Project Funds between the OWRB and the Oklahoma Conservation

WATER QUALITY PROGRAM
Oklahoma Conservation Commission

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2011

NOTE 7. LONG-TERM DEBT (continued)

Commission. The OWRB is administering the ARRA green project funds to eligible entities by providing a program for financial assistance, commonly know as the Clean Water State Revolving Fund Financing Program.

Under the funding agreement, if the OCC covenants to apply the requirements of the ARRA to the construction of the project, then the borrower shall receive a credit for, and shall not be required to repay principal amounts in an amount equal to the sum of all disbursements of ARRA funds. Upon completion of the project, if the borrower has failed to comply with the terms and covenants of the funding agreement, the borrower shall be required to repay to the OWRB the principal amount of funds advanced under the loans.

CHANGES IN LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2011.

Type of Debt	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Amount Due Within One Year
Governmental Activities:					
OWRB Series 2009A	-	59,689		59,689	-
OWRB Series 2009B	-	325,308		325,308	-
OWRB Series 2009C	4,955	1,963		6,918	-
Total Governmental Activities	4,955	386,960	-	391,915	-

NOTE 8. CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability to the Water Quality program. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Water Quality program expects such amounts, if any, to be immaterial.

NOTE 9. RELATED PARTY

The Water Quality program utilizes office space and certain other overhead costs provided to it by the Oklahoma Conservation Commission.

NOTE 10: SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 24, 2012, which is the date the financial statements were available to be issued.

OTHER SUPPLEMENTARY INFORMATION

**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**

The Board of Directors
Oklahoma Conservation Commission

I have audited the cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Water Quality program of the Oklahoma Conservation Commission, an agency of the State of Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the Water Quality program's basic financial statements and have issued my report thereon dated August 24, 2012. My report states that the financial statements were prepared on the cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America; the financial statements present only the financial position of the Water Quality program of the Oklahoma Conservation Commission; and includes explanatory information that the Budget Comparison information has not been presented. I conducted my 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 my audit, I considered the Water Quality program's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Water Quality program's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Water Quality 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

My 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Water Quality program's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my 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 Board of Directors of the Oklahoma Conservation Commission, management involved in administering the Water Quality program, others within the entity, the State of Oklahoma, the Office of the Secretary of Environment, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Bruce G. Luttrell, CPA, PC

August 24, 2012

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Oklahoma Conservation Commission

Compliance

I have audited the Water Quality program of the Oklahoma Conservation Commission, an agency of the State of Oklahoma's, compliance with the types of compliance requirements described in the *(OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Water Quality program's major federal programs for the year ended June 30, 2011. The Water Quality program's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Water Quality program's management. My responsibility is to express an opinion on the Water Quality program's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Water Quality program's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Water Quality program's compliance with those requirements.

In my opinion, the Water Quality program complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Water Quality program is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the Water Quality program's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Water Quality program's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

My consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors of the Oklahoma Conservation Commission, management involved in administering the Water Quality program, others within the organization, the State of Oklahoma, the Office of the Secretary of Environment, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Bruce G. Luttrell". The signature is written in a cursive, flowing style.

Bruce G. Luttrell, CPA, PC

August 24, 2012

WATER QUALITY PROGRAM

Oklahoma Conservation Commission

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2011

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Year</u>	<u>Federal CFDA Number</u>	<u>Amount of Expenditures</u>
U.S. Environmental Protection Agency (EPA)			
Passed-through the Oklahoma Office of the Secretary of the Environment:			
Nonpoint Source Pollution Program	6-30-11	66.460	\$ 4,123,114.16
Wetlands Program	6-30-11	66.461	138,812.90
Water Pollution Control Program	6-30-11	66.419	18,868.32
Passed-through the Oklahoma Water Resources Board:			
American Recovery and Reinvestment Act – Green Project Funds	6-30-11	66.458	<u>386,959.83</u>
Total Expenditures of Federal Awards			\$ 4,667,755.21 <u>=====</u>

Note A: Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Water Quality program and is presented under the cash basis of accounting, which is a comprehensive basis other than accounting principles generally accepted in the United States of America.

Note B: There were no amounts passed to subrecipients.

Note C: Grantor provides adequate insurance coverage against loss on assets purchased with Federal Awards.

WATER QUALITY PROGRAM

Oklahoma Conservation Commission

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2011

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Reportable condition(s) identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weakness(es) identified?	No
Reportable condition(s) identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	None reported

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>	<u>Expenditures</u>
66.460	Nonpoint Source Pollution Program	\$ 4,123,114.16

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
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Auditee qualified as low-risk auditee?	No
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SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

WATER QUALITY PROGRAM
Oklahoma Conservation Commission

STATEMENT OF RECEIPTS, EXPENDITURES AND CASH BALANCES
For the Year Ended June 30, 2011

	2005 319(h) C9-996100-13	2005 Special 319(h) C9-996100-13A	2007 319(h) C9-996100-14	2007 Special 319(h) C9-996100-14S	2009 319(h) C9-996100-15	2011 319(h) C9-996100-16	2011 Special 319(h) C9-00F31301	2005 104(b)(3) CD-966017-01
CASH at July 1, 2010	(42,448.03)	(70,000.00)	(83,000.01)	(51,103.72)	(236,418.23)	-	-	(2,439.91)
319(h) Grant Revenue	50,739.00	70,000.00	587,715.00	406,273.00	2,108,698.00	860,125.00	117,863.00	
Wetlands Grant Revenue								7,379.00
OWRB Loan Proceeds								
Total Cash Available	8,290.97	-	504,714.99	355,169.28	1,872,279.77	860,125.00	117,863.00	4,939.09
Expenditures Paid:								
Personnel			55,293.78	30,080.18	645,090.06	507,352.49	44,842.75	4,523.94
Equipment								
Travel			123.46	18.00	30,710.23	11,890.08	105.00	
Supplies	54.34		1,826.77	2,165.84	45,359.77	15,776.42	927.78	
Subcontract	7,423.80		173,124.94	6,552.90	279,785.05	31,782.60	365.70	
Other	905.42		285,988.56	394,842.48	850,573.92	422,785.48	170,631.44	
Indirect Costs					39,358.31	67,376.61		718.79
Planning & Oversight								
Design & Consultation								
Construction								
Engineering								
Fees								
Monitoring								
OCC Admin Fee								
Total Expenditures	8,383.56	-	516,357.51	433,859.40	1,890,877.34	1,056,963.68	216,872.67	5,242.73
CASH at June 30, 2011	(92.59)	-	(11,642.52)	(78,490.12)	(18,597.57)	(196,838.68)	(99,009.67)	(303.64)

2006 104(b)(3) CD-966400-01	2007 104(b)(3) CD-966618-01	2010 104(b)(3) CD-00F074-01	2011 104(b)(3) CD-00F299-01	2010 Water Pollution CA#1-00F28001	OWRB ORF-09-0028-CW	OWRB ORF-09-0031-CW	OWRB ORF-09-0032-CW	TOTALS
(253.90)	(3,296.53)	(0.70)	-	-	-	-	-	(488,961.03)
838.00	88,981.00	37,711.00	5,736.00	16,361.00	1,962.79	59,689.47	325,307.57	4,201,413.00 157,006.00 386,959.83
584.10	85,684.47	37,710.30	5,736.00	16,361.00	1,962.79	59,689.47	325,307.57	4,256,417.80
212.86	6,305.62	6,267.31	8,423.23	15,798.13				1,324,190.35
		192.89		761.48 60.00				43,801.14 66,170.92 607,681.04
330.00	78,147.97	30,168.08						2,125,727.30
40.78	1,230.65	1,080.74	1,170.04	2,248.71	1,962.79			113,224.63 1,962.79 24,692.17 34,997.30
						24,692.17 34,997.30		148,248.98 74,287.11 101,144.95 1,626.53
583.64	85,684.24	37,709.02	9,593.27	18,868.32	1,962.79	59,689.47	325,307.57	4,687,755.21
0.46	0.23	1.28	(3,857.27)	(2,507.32)	-	-	-	(411,337.41)