Oklahoma Municipal Power Authority

A Component Unit of the State of Oklahoma

Financial Statements

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2012 and 2011

Oklahoma Municipal Power Authority
A Component Unit of the State of Oklahoma
As Of And For The Years Ended December 31, 2012 and 2011

Contents

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Oklahoma Municipal Power Authority
Edmond, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Oklahoma Municipal Power Authority (the Authority), a component unit of the State of Oklahoma, which comprise the Balance Sheets as of December 31, 2012 and 2011, and the related Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors
Oklahoma Municipal Power Authority

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oklahoma Municipal Power Authority as of December 31, 2012 and 2011 and the changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in the Note 1, the Authority adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective January 1, 2012. Our opinion is not modified with respect to this matter.

Other Matter

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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economical, 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 financial statements, and other knowledge we obtained during our audit of the 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 and opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have issued our report dated March 29, 2013 a report on our consideration of the Oklahoma Municipal Power Authority's internal control over financial reporting and our 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 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* in considering the Authority's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
March 29, 2013

Oklahoma Municipal Power Authority
A Component Unit of the State of Oklahoma
Management's Discussion and Analysis
(Unaudited)

This section of the Oklahoma Municipal Power Authority's (the Authority) annual financial report presents our discussion and analysis of the Authority's financial performance for the years ended December 31, 2012, 2011 and 2010. Please read it in conjunction with the financial statements, which follow this section. The following table summarizes the financial condition and operations of the Authority.

Assets

	2012	2011	2010
Utility plant, net	$ 421,575,946	$ 406,875,998	$ 394,319,802
Non-current investments	76,292,901	84,100,794	86,539,848
Other assets	115,699,714	117,215,080	117,027,588
Current assets	95,047,318	108,885,463	137,201,513
Total assets	708,615,879	717,077,335	735,088,751
Deferred outflows of resources	12,110,086	14,118,358	10,554,028
Total assets and deferred outflows of resources	$ 720,725,965	$ 731,195,693	$ 745,642,779

Liabilities and Net Position

	2012	2011	2010
Long-term debt, net	$ 604,755,539	$ 623,109,722	$ 640,374,033
Current portion of long-term debt	20,412,995	19,472,354	19,667,409
Other current liabilities	42,746,276	38,030,609	39,095,533
Other non-current liabilities	9,389,199	10,401,418	8,344,545
Deferred revenues – rate stabilization	15,245,632	16,595,633	16,245,633
Total liabilities	692,549,641	707,609,736	723,727,153
Net position			
Net investment in capital assets	(14,267,196)	(21,013,779)	(25,875,331)
Restricted	23,219,520	22,690,686	23,499,916
Unrestricted	19,224,000	21,909,050	24,291,041
Total net position	28,176,324	23,585,957	21,915,626
Total liabilities and net position	$ 720,725,965	$ 731,195,693	$ 745,642,779

Revenues, Expenses and Changes in Net Position

	2012	2011	2010
Operating revenues			
System	$ 156,164,638	$ 155,858,245	$ 139,363,850
Off-system	13,496,046	12,250,647	17,504,465
Non-operating revenues			
Interest income	2,365,358	2,804,260	2,276,250
Gain/(loss) on sale of assets	875	746	—
Lease revenue	2,839,279	2,934,323	3,023,894
Deferred costs	1,048,341	1,613,972	2,577,965
SSEP grant revenues	1,299,283	715,321	227,670
Total revenues	177,213,820	176,177,514	164,974,094
Operating expenses	140,321,480	141,674,015	132,876,761
Non-operating expenses			
Interest expense, net	27,977,616	29,852,920	27,363,447
Amortization	2,799,533	2,927,573	3,142,552
(Increase)/decrease in fair value of investments	225,541	(662,646)	601,973
SSEP grant expenditures	1,299,283	715,321	227,670
Total expenses	172,623,453	174,507,183	164,212,403
Net increase in net position	$ 4,590,367	$ 1,670,331	$ 761,691

Financial Highlights

Sales of energy for 2012 were approximately 3% less than 2011, however, the billed peak demand was slightly higher at 800MW as compared to 796MW in 2011. The summer heat in 2011 persisted for a longer time than what was experienced in 2012 resulting in lower energy sales. With low natural gas prices, the Authority was able to dispatch its efficient gas fleet, with gas making up 50% of the energy mix. This was somewhat offset by the continued drought facing the region impacting production from the Kaw hydroelectric facility. The overall energy mix for 2012 was 50% gas, 31% coal, 10% renewables, and 9% purchased.

In June 2012, the City of Paris, Arkansas began receiving supplemental energy from the Authority. In 2011, the City of Watonga, Oklahoma and the Town of Orlando, Oklahoma began service with the Authority. In 2010, the City of Geary, Oklahoma began service with the Authority, and the City of Clarksville, Arkansas began receiving supplemental energy from the Authority under an eight year contract.

The adjustment of investments to market value had an unfavorable impact in 2012 of $225,541 compared to a favorable adjustment of $662,646 and an unfavorable adjustment of $601,973 in 2011 and 2010, respectively. However, the Authority typically holds all investments until maturity, so the market value gains and losses during the term of the investments are not normally realized.

On March 10, 2010, the Authority issued $111,260,000 of Series 2010A Power Supply System Refunding Bonds. Proceeds from this issue were used for the refunding of $89,055,000 of the Power Supply System Revenue Bonds Series 1994A, and $27,710,000 of the Power Supply Revenue Bonds Series 2001A. The Series 2010A bonds carry a fixed interest rate of 2.00% to 5.00% and are due January 2011 thru January 2028. The transaction resulted in a net present value savings of 6.13%.

The Authority issued $70,000,000 of Series 2010B Power Supply System Revenue Bonds (Federally Taxable Build America Bonds – Direct Pay) on August 11, 2010. The proceeds are being used for the continued construction of the John W. Turk Jr. power plant and other capital projects. The Series 2010B bonds carry a fixed interest rate of 6.31% to 6.44% and are due January 2039 thru January 2045. The Authority receives a Federal subsidy equal to 35% of interest payable.

Net deferred costs recoverable in future years represent the amount by which depreciation/amortization exceeds principal repayment on debt. The Authority sets rates to cities on a cash basis utilizing essentially level debt service, and the deferred costs allow the Authority to convert from cash-based rates to accrual accounting.

Utility Plant and Debt Administration

Utility Plant

Net utility plant increased $14.7 million in 2012, primarily due to the completion of construction on the Turk generating facility. Net utility plant increased $13.1 million in 2011 .

At December 31, 2012, electric utility plant in service was $353.4 million, net of depreciation. Electric plant consisted of generation plant in the amount of $351 million that represents ownership in 162 megawatts of undivided ownership in plants in both Texas, Louisiana and Arkansas, 110 megawatts of the undivided ownership in the McClain plant, 156 megawatts of undivided ownership in the Redbud plant, plus 137 megawatts of generating plant owned and operated by the Authority in Oklahoma. Electric plant also includes lignite reserves that totaled $2.4 million at year end 2012.

The Authority also has $18 million of general plant, net of depreciation, consisting of substation facilities, a small amount of transmission lines, and the OMPA headquarters building.

Debt Administration

Revenue bonds outstanding at year end 2012 were $590.2 million, including the current portion of debt paid January 2, 2013. This amount excludes the FPL Wind Energy note of approximately $45.6 million that is secured by lease revenues from FPL Wind Energy. The revenue bonds outstanding in 2011 and 2010 were $607.9 million and $626.1 million, respectively. The current portion of revenue bonds payable at year end 2012, in the amount of $18.6 million, was paid in January 2013.

Contacting the Authority's Financial Management

Questions about this report or requests for additional financial information can be directed to:

OMPA
Manager of Accounting Services
P.O. Box 1960
Edmond, Oklahoma 73083-1960

Oklahoma Municipal Power Authority
A Component Unit of the State of Oklahoma
Balance Sheets
As Of And For The Years Ended December 31, 2012 and 2011

Assets

	2012	2011
Utility Plant, at Cost		
Utility plant in service	$ 576,362,053	$ 438,436,915
Less accumulated depreciation	204,861,583	188,904,058
	371,500,470	249,532,857
Construction in progress	1,931,623	108,523,876
Intangible plant assets, net	2,498,228	1,496,286
Leased electric plant, net	45,645,625	47,322,979
	421,575,946	406,875,998
Non-current Restricted Investments	52,414,806	54,936,062
Non-current Investments	23,878,095	29,164,732
Other Assets		
Unamortized bond issue costs	4,389,645	4,597,196
Unamortized organization costs and other assets	854,196	939,616
Net deferred costs recoverable in future years	106,276,891	104,526,870
Other non-current assets	1,064,901	1,013,765
Capacity pre-payment	3,114,081	6,137,633
	115,699,714	117,215,080
Total non-current assets	613,568,561	608,191,872
Current Assets		
Cash and cash equivalents	8,154,778	4,679,723
Investments	9,567,105	9,348,391
Interest receivable	271,536	311,493
Accounts receivable	14,816,005	16,305,866
Inventory	7,039,692	3,782,608
Other current assets	3,643,750	1,412,137
Restricted cash and cash equivalents	45,802,962	39,034,304
Restricted investments	5,183,909	33,364,301
Restricted interest receivable	567,581	646,640
Total current assets	95,047,318	108,885,463
Total assets	708,615,879	717,077,335
Deferred Outflow of Resources		
Accumulated decrease in fair value of hedging derivatives	12,110,086	14,118,358
Total assets and deferred outflows of resources	$ 720,725,965	$ 731,195,693

See Notes to Financial Statements

Liabilities and Net Position

	2012	2011
Long-term Debt		
Revenue bonds payable	$ 571,560,000	$ 590,195,000
Less unamortized net discount/(premium)	(4,351,137)	(4,861,940)
Less unamortized loss on advance refunding of bonds	15,023,228	17,592,843
	560,887,909	577,464,097
Note payable	43,867,630	45,645,625
	604,755,539	623,109,722
Non-current derivative liability – natural gas hedging	40,294	613,871
Non-current derivative liability – interest rate swap	9,348,905	9,787,547
Deferred Revenues – Rate Stabilization	15,245,632	16,595,633
Total non-current liabilities	629,390,370	650,106,773
Current Liabilities		
Accounts payable	20,851,642	14,329,025
Accrued expenses	5,782,852	5,669,789
Interest payable	13,390,895	14,314,855
Current portion of long-term debt	18,635,000	17,795,000
Current portion of note payable	1,777,995	1,677,354
Current derivative liability – natural gas hedging	1,024,750	2,116,522
Current derivative liability – interest rate swap	1,696,137	1,600,418
Total current liabilities	63,159,271	57,502,963
Total liabilities	692,549,641	707,609,736
Net Position		
Net investment in capital assets	(14,267,196)	(21,013,779)
Restricted – expendable for		
Debt service	14,061,222	13,275,722
Capital acquisitions	326,562	361,156
Specific operating activities	8,831,736	9,053,808
Unrestricted	19,224,000	21,909,050
Total net position	28,176,324	23,585,957
Total liabilities and net position	$ 720,725,965	$ 731,195,693

Oklahoma Municipal Power Authority
A Component Unit of the State of Oklahoma
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenues		
System	$ 156,164,638	$ 155,858,245
Off-system	13,496,046	12,250,647
	169,660,684	168,108,892
Operating Expenses		
Purchased power	41,696,806	44,444,927
Generation	60,444,567	62,734,900
Transmission	14,239,370	11,893,024
Other operating expenses	7,928,098	7,113,855
Depreciation	16,012,639	15,487,309
	140,321,480	141,674,015
Operating Income	29,339,204	26,434,877
Non-operating Revenues (Expenses)		
Investment income	2,365,358	2,804,260
Net increase in fair value of investments	(225,541)	662,646
Gain/(loss) on sale of assets	875	746
Lease revenue	2,839,279	2,934,323
Amortization of organization costs	(85,420)	(85,420)
Amortization of other assets	(182,741)	(141,518)
SSEP grant revenues	1,299,283	715,321
SSEP grant expenditures	(1,299,283)	(715,321)
	4,711,810	6,175,037
Interest and debt expense		
Interest expense – revenue bonds	(26,707,961)	(28,488,221)
Buy America Bond subsidy proceeds	1,569,624	1,569,624
Interest expense – other	(2,839,279)	(2,934,323)
Amortization of loss on bond refunding, discount and bond issue costs	(2,531,372)	(2,700,635)
	(30,508,988)	(32,553,555)
Net non-operating expenses	(25,797,178)	(26,378,518)
Net Deferred Costs Recoverable in Future Years	1,048,341	1,613,972
Increase in net position	4,590,367	1,670,331
Net Position, Beginning of Year	23,585,957	21,915,626
Net Position, End of Year	$ 28,176,324	$ 23,585,957

See Notes to Financial Statements

Oklahoma Municipal Power Authority
A Component Unit of the State of Oklahoma
Statements of Cash Flows
For the Years Ended December 31, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Cash received from customers	$ 169,800,544	$ 167,206,034
Cash paid to suppliers	(115,646,044)	(122,261,672)
Cash paid to employees	(6,400,716)	(6,037,812)
Net cash provided by operating activities	47,753,784	38,906,550
Cash Flows from Capital and Related Financing Activities		
Payment of bond issue costs	(232,502)	(13,208)
Capital expenditures for utility plant	(31,340,677)	(30,924,198)
Interest paid on long-term debt	(27,631,921)	(28,332,979)
BAB subsidies received	1,569,624	1,569,624
Principal payments on long-term debt	(17,795,000)	(18,085,000)
Proceeds from sale of capital assets	875	746
Net cash provided by/(used in) capital and related financing activities	(75,429,601)	(75,785,015)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	184,658,501	208,942,228
Purchases of investments	(149,114,468)	(184,258,298)
Lease receivable (advance) receipts	291,126	211,202
Payments made for lease receivables	(400,000)	—
Income received on investments	2,484,372	2,407,475
Net cash used in investing activities	37,919,531	27,302,607
Increase/(Decrease) in Cash and Cash Equivalents	10,243,714	(9,575,858)
Cash and Cash Equivalents, Beginning of Year	43,714,027	53,289,885
Cash and Cash Equivalents, End of Year	$ 53,957,740	$ 43,714,027
Consisting of		
Cash and cash equivalents	$ 8,154,778	$ 4,679,723
Restricted cash and cash equivalents	45,802,962	39,034,304
Total cash and cash equivalents	$ 53,957,740	$ 43,714,027
Noncash Items from Investing and Capital and Related Financing Activities		
Change in fair value of investments	$ (225,541)	$ 662,646
Discount accretion/premium amortization on investments	$ (468,371)	$ (449,177)
Reduction of note payable and depreciation expense on leased electric plant	$ 1,677,354	$ 1,582,409
Capital expenditures for utility plant included in accounts payable	$ 993,518	$ 1,035,869

See Notes to Financial Statements

	2012	2011
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 29,339,204	$ 26,434,877
Adjustments to reconcile net operating revenues to net cash provided by operating activities		
Depreciation	15,829,898	15,345,791
Amortization of other assets included in operating expenses	3,206,293	2,905,288
Deferred revenues – rate stabilization	(1,350,000)	350,000
Changes in assets and liabilities which provided/(used) cash		
Accounts receivable	1,489,861	(1,252,858)
Inventory	(3,257,084)	(1,340,704)
Other current assets	(2,206,382)	150,466
Accounts payable and accrued expenses	4,701,995	(3,686,310)
Net cash provided by operating activities	$ 47,753,784	$ 38,906,550

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Oklahoma Municipal Power Authority (the Authority) is a governmental agency of the state of Oklahoma created in 1981 pursuant to the Oklahoma Municipal Power Authority Act to provide a means of municipal electric systems in Oklahoma to jointly plan, finance, acquire and operate electrical power supply facilities necessary to meet the electrical energy requirements of their consumers. As an agency of the State of Oklahoma (the State), the Authority is subject to the State of Oklahoma Council of Bond Oversight, and is bound by various state statutes related to units of the State. The Authority's employees are eligible to participate in the State retirement plan. The Authority is a discretely presented component unit in the financial statements of the State of Oklahoma.

On July 1, 1985, the Authority began selling electric power to its participating municipalities under Power Sales Contracts. The Power Sales Contracts have a primary term through December 31, 2027. In 2005, Amendment No. 1 to the Power Sales Contract was executed by the Authority and members representing over 99% of the Authority's load. Amendment No. 1 provides for a rolling 15-year notice of termination of the Power Sales Contract by either the Authority or the participating municipalities commencing in 2013. No participating municipality has given a notice of termination and neither has the Authority. Under the Power Sales Contract, either the participating municipality or the Authority may limit the power and energy to be purchased or provided. The Authority has not elected to limit its obligation to provide power and energy under the Power Sales Contracts, nor have any of the participating municipalities elected to limit their obligation to purchase full requirements power from the Authority.

The Authority has a 100% ownership interest in a 64 megawatts (MW) combined cycle generating facility and a 29 MW hydroelectric generating facility. The Authority has 100% ownership of a gas unit in Ponca City, Oklahoma, with a generating capacity of 42 MW. The Authority also has joint ownership of 23%, 13%, 11.72%, 3.906% and 2.344% in five other generating facilities, having total generating capacities of 478 MW, 1,200 MW, 690 MW, 650 MW and 650 MW, respectively. All of the joint ownership facilities are operated by other entities. The Authority has also entered into certain power purchase and transmission arrangements in order to supplement generating capacity owned by the Authority and to provide for the transmission of the Authority's power and energy to the participating municipalities.

The Authority bills participants and other power purchasers monthly for power used. The terms generally require payment within 20 days of the billing date. The Authority does not require participants to collateralize the obligation related to power billed.

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.

System of Accounts and Basis of Accounting

The Authority's accounts are maintained in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission, as required by the Power Sales Contracts with the participating municipalities, and in conformity with accounting principles generally accepted in the United States of America using the accrual basis of accounting, including the application of regulatory accounting as described in Governmental Accounting Standards Board (GASB) Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

The Authority considers electric revenues and costs that are directly related to the generation, purchase, transmission and distribution of electricity to be operating revenues and expenses. Revenues and expenses related to financing and other activities are reflected as non-operating.

In June 2011, the GASB issued Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards did not include guidance for these elements, which are distinct from assets and liabilities. The Authority made the decision to implement this standard effective January 1, 2012.

Utility Plant and Depreciation

Utility plant is recorded at cost, including capitalized net interest cost on borrowed funds used for construction of utility plant. Capitalized net interest cost on borrowed funds includes amortization of bond discounts and bond premiums, interest expense and interest income.

Depreciation of generating facilities in which the Authority holds an undivided ownership interest is calculated on a straight-line basis using a group-composite method over the expected services' lives, which range from 20 to 45 years. Depreciation of other utility plant is calculated on a straight-line basis using the estimated useful lives of the depreciable property, which range from three to 10 years. A half year convention is generally used for all assets when placed in service, except in instances where specific assumptions have been made for rate making purposes. Retirements together with removal costs, less salvage value, are charged to accumulated depreciation based upon average unit cost.

The cost of major replacements of property is capitalized to utility plant accounts. The cost of maintenance, repairs and replacements of minor items of property is expensed as incurred.

The Authority has implemented Governmental Accounting Standards Board (GASB) Statement No. 51, *Financial Reporting for Intangible Assets* (Statement 51). Statement 51 requires that all intangible assets not specifically excluded by its scope be classified as capital assets.

Cash Equivalents

For the purpose of the statement of cash flow, cash and cash equivalents have original maturities of three months or less from the date of acquisition. The Authority considers investments in government security money market funds to be cash equivalents.

Investments and Investment Income

The Authority accounts for investments at their fair value. Fair value is determined using quoted market prices. Investment income includes interest income and the change in the fair value of the investments.

Accounts Receivable

Accounts receivable are stated at the amount billed plus any accrued and unpaid interest. Accounts receivable are ordinarily due 20 days from the billing date. Accounts that are unpaid after the due date bear interest at a local bank's prime rate per month. The Authority does not consider an allowance for uncollectible accounts necessary. Its customers are municipalities and historically receivables have been collectible.

Inventory Pricing

Inventory consists of fuel stock and is stated at weighted average cost.

Bond Issuance Costs and Unamortized Loss on Advance Refundings

Financing costs incurred in connection with the issuance of Power Supply System Revenue Bonds and losses on advance refundings of previous bonds have been deferred. These amounts are being amortized over the life of the respective bonds in accordance with the Authority's rate-making policy.

Organization Costs

Development activity costs incurred by the Authority through June 30, 1985, are included in organization costs. Such costs are being amortized on a straight-line basis over 37 years in accordance with the Authority's rate-making policy.

Net Deferred Costs Recoverable in Future Years

The Power Sales Contracts with the participating municipalities provide for billings to those municipalities for output and services of the generating facilities, for payment of current operating and maintenance expenses (excluding depreciation and amortization), for payment of scheduled debt principal and interest, and for deposits in certain funds, all in compliance with the bond resolutions. Net deferred costs recoverable in future years represent the amount by which depreciation/amortization exceeds principal repayment on debt. The Authority sets rates to cities on a cash basis utilizing essentially level debt service, and the deferred costs allow the Authority to convert from cash-based rates to accrual accounting. Net deferred cost will become a reduction in net income at such future time as the principal repayment exceeds depreciation and amortization. Annual budgets and changes in power rates are approved by the Authority's Board of Directors. During 2012 and 2011, billings to participating municipalities under Power Sales Contracts were $154,812,549and $157,242,506, respectively.

Deferred Revenues – Rate Stabilization

The Authority designs its electric service rates to recover costs, as defined above, of providing power supply services. In order to minimize possible future rate increases, each year the Authority determines a rate stabilization amount to be charged or credited to revenues. There was a rate stabilization withdrawal of $1,350,000 in 2012, and a rate deferral of $350,000 in 2011. These amounts are reflected as increases or decreases in deferred revenues – rate stabilization in the accompanying statements of net position. Rate stabilization deferrals or withdrawals are approved by the Board of Directors through the budget approval process.

Capacity Prepayment

In 1994, the Authority entered into a 20-year agreement with Westar Energy that requires Westar Energy to provide capacity and transmission services. The Authority has paid its obligation under the agreement and recognized the payment as a prepaid asset. The asset is being amortized using the straight-line method over the term of the agreement. Under certain circumstances related to Westar Energy credit rating, the Authority may require repayment or collateralization for the remaining prepayment amount.

Derivative Financial Instruments

The Authority has implemented Governmental Accounting Standards Board (GASB) Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments* (Statement 53). Statement 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

The Authority has entered into an interest rate swap (*Note 7*) to synthetically cap the effects of the short-term fluctuations in the variable interest rates. The contract requires the Authority to pay a fixed rate and receive a variable price based upon indices. This transaction meets the requirements of Statement No. 53. Realized gains or losses on the interest rate swap are recorded as either a reduction of or an addition to interest expense.

The Authority uses commodity price swap contracts (*Note 8*) to hedge the effects of fluctuations in the prices for natural gas during the Authority's peak sales periods. The contracts require the Authority to pay a fixed price for natural gas and receive a variable price based upon common indices. These transactions meet the requirements of Statement No. 53. Realized gains and losses on commodity swap contracts are recorded as either a reduction of or addition to fuel cost.

Net Position

Net position of the Authority is classified in three components. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted assets are non-capital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Authority, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets or restricted assets. When both restricted and unrestricted resources are available for use for the same purpose, it is the Authority's policy to use unrestricted resources first, then restricted resources as they are needed.

Deferred Outflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

Compensated Absences

Under terms of employment, employees are granted vacation and sick leave in varying amounts based on years of service. Only benefits considered vested are disclosed in these statements. Vested vacation leave is accrued when earned in the financial statements. The liability is liquidated from the general operating revenue of the Authority.

Risk Management

The Authority manages its risks through coverages provided by private insurers for workers' compensation, employee dishonesty and boiler/machinery and other property risks by the State of Oklahoma's Risk Management Administration for automobile and tort liabilities. Settled claims have not exceeded reserves in the last three years. There were no significant reductions in coverage compared to prior year.

Income Taxes

The Authority is exempt from Federal income taxes, as it is a political subdivision of the State. The Authority is exempt from Oklahoma state income taxes as provided under the Municipal Power Authority Act.

Major Customers

The Authority currently serves 39 municipalities in Oklahoma and two partial requirements customers. Five full requirements customers accounted for approximately 66% and 65% of the Authority's operating revenues (two of which accounted for 49 % and 48% of the Authority's operating revenues) for the years ended December 31, 2012 and 2011, respectively.

Lease Receivables

The Authority has established a policy whereby customers can borrow funds to finance improvements to their municipal electric systems. All lending is approved by the Authority's board and is limited to 30% of the customers pervious 12 month billing from the Authority. The leases are classified as other assets on the Authority's balance sheet.

Effect of New Accounting Standards on Current Period Financial Statements

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 65, Items Previously Reported as Assets and Liabilities; Statement No. 66, Technical Corrections - 2012 an amendment of GASB Statements No. 10 and No. 62; Statement No. 67, Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25; and Statement No. 68, Accounting and Financial reporting for Pensions - an amendment of GASB Statement No. 27. Application of these standards may restate portions of these financial statements

Comparative Data

Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State; bonds of any city, county, school district or special road district of the State; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

None of the Authority's bank balances of $851,817 and $725,902 were exposed to custodial credit risk at December 31, 2012 and 2011, respectively.

Investments

The management of investments is under the custody of the Authority's management. Investing is performed in accordance with the formally adopted investment policies of the Authority. The funds may be invested in (1) direct obligations of the United States government of which the full faith and credit of the United States government is pledged; (2) certificates of deposit at savings and loan associations and banks, which are federally insured or when the funds are secured by acceptable collateral; (3) savings accounts at savings and loan associations and banks, to the extent they are fully federally insured; (4) any bonds or other obligations guaranteed by any agency or corporation that has been created pursuant to an Act of Congress as an agency or instrumentality of the United States of America; (5) bonds, notes or other evidences of the indebtedness issued or guaranteed by any corporation which are, at the time of purchase, rated by two nationally recognized rating agencies in their highest rating category; (6) repurchase agreements secured by 1 or 4 above provided collateral is kept safe by a representative of the Authority; and (7) interests in portfolios of money market instruments containing obligations described above. Any un-invested funds shall be deposited in a bank or banks within Oklahoma that are approved and designated by the Board of Directors of the Authority. The management of investments in the bond funds is performed in accordance with applicable bond indentures.

At December 31, 2012 and 2011, the Authority had the following investments and maturities:

	December 31, 2012				
		Maturities in Years			
Type	**Fair Value**	**Less Than 1**	**1-5**	**6-10**	**More Than 10**
U.S. agencies obligations	$ 84,336,033	$ 13,520,448	$ 14,705,291	$ 15,820,174	$ 40,290,120
Certificates of deposit	6,707,878	1,479,276	5,228,602	—	—
Money market funds	53,105,927	53,105,927	—	—	—
	$ 144,149,838	$ 68,105,651	$ 19,933,893	$ 15,820,174	$ 40,290,120

	December 31, 2011				
		Maturities in Years			
Type	**Fair Value**	**Less Than 1**	**1-5**	**6-10**	**More Than 10**
U.S. agencies obligations	$ 113,250,290	$ 33,781,570	$ 26,978,198	$ 15,352,603	$ 37,137,919
Certificates of deposit	13,563,191	7,913,674	5,649,518	—	—
Money market funds	42,988,129	42,988,129	—	—	—
	$ 169,801,610	$ 84,683,373	$ 32,627,716	$ 15,352,603	$ 37,137,919

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy limits investments of operating and maintenance funds with a term beyond five years to a total of $11 million, with $4 million of this amount invested at 10 years or less. The debt service reserve accounts may be invested beyond 10 years provided the yield is adequate. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately. The Authority's was in compliance with this policy at December 31, 2012 and 2011.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The various bond indentures limit the types of investments the Authority may invest in and the related credit risk of those investments. At December 31, 2012, the Authority's investments in U.S. agencies obligations not directly guaranteed by the U.S. government were rated as follows:

Investment	Moody's	S&P	Fitches
U.S. agency securities not directly guaranteed by the U.S. government	Aaa	AA+	AAA
Certificates of deposit	Not rated	Not rated	Not rated
Money market mutual funds	Aaa	AAAm	AAAmmf

At December 31, 2011, the Authority's investments in U.S. agencies obligations not directly guaranteed by the U.S. government were rated as follows:

Investment	Moody's	S&P	Fitches
U.S. agency securities not directly guaranteed by the U.S. government	Aaa	AA+	AAA
Certificates of deposit	Not rated	Not rated	Not rated
Money market mutual funds	Aaa	AAAm	AAAmmf

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the underlying securities for the Authority's investments at December 31, 2012 and 2011, are held by the counterparties in the Authority's name.

Concentration of Credit Risk – The Authority places no limit on the amount that may be invested in any one issuer. At December 31, 2012, the Authority's investment in agency obligations of Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, and Federal Home Loan Mortgage Corporation constituted 7.29%, 39.8%, 8.96% and 2.44%, respectively, of its total investments. At December 31, 2011, the Authority's investment in agency obligations of Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, and Federal Home Loan Mortgage Corporation constituted 15.69%, 31.47%, 5.29% and 14.25%, respectively, of its total investments.

Investments Highly Sensitive to Market Changes – At December 31, 2012, the Authority held $90,329,897 in government mutual funds and U.S. Agencies which mature from 2013 to 2027. These investments can vary in market value depending on current interest rates. It is the Authority's practice to hold these investments to maturity, but, depending on the market, they may be sold prior to maturity, which can result in a gain or loss. The market value of these investments at December 31, 2012, was $91,043,911.

At December 31, 2011, the Authority held $126,012,372 in government mutual funds and U.S. Agencies which mature from 2012 to 2029. These investments can vary in market value depending on current interest rates. It is the Authority's practice to hold these investments to maturity, but, depending on the market, they may be sold prior to maturity, which can result in a gain or loss. The market value of these investments at December 31, 2011, was $126,813,482.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2012	2011
Carrying value		
Deposits	$ 851,817	$ 725,902
Investments	144,149,838	169,801,611
	$ 145,001,655	$ 170,527,513
Included in the following balance sheets captions		
Cash and cash equivalents	$ 8,154,778	$ 4,679,723
Investments – current	9,567,105	9,348,391
Non-current investments	23,878,095	29,164,732
Restricted cash and cash equivalents	45,802,962	39,034,304
Restricted investments – current	5,183,909	33,364,301
Non-current restricted investments	52,414,806	54,936,062
	$ 145,001,655	$ 170,527,513

Investment Income

Investment income for the years ended December 31, 2012 and 2011, consisted of:

	2012	2011
Net interest and accretion income	$ 2,365,358	$ 2,804,260
Net increase/(decrease) in fair value of investments	(225,541)	662,646
	$ 2,139,817	$ 3,466,906

Note 3: Electric Utility Plant

Electric utility plant assets activity for the years ended December 31, 2012 and 2011, were:

	2012			
	January 1, 2012	Additions	Retirements	December 31, 2012
Non-depreciable plant				
Construction work in progress	$ 108,523,876	$ 24,149,190	$ (130,741,443)	$ 1,931,623
Depreciable plant				
General plant	23,974,478	2,061,558	—	26,036,036
Generation plant	413,539,744	134,400,110	—	547,939,854
Fuel reserves, net	922,694	1,487,310	(23,841)	2,386,163
Intangible Assets	2,044,603	1,253,290	—	3,297,893
Leased electric plant	57,739,000	—	—	57,739,000
Total depreciable plant	498,220,519	139,202,268	(23,841)	637,398,946
Total electric utility plant	606,744,395	163,351,458	(130,765,284)	639,330,569
Less accumulated depreciation for				
General plant	(7,115,317)	(880,938)	—	(7,996,255)
Generation plant	(181,788,741)	(15,149,630)	73,043	(196,865,328)
Intangible Assets	(548,318)	(251,347)	—	(799,665)
Leased electric plant	(10,416,021)	(1,677,354)	—	(12,093,375)
Total accumulated depreciation	(199,868,397)	(17,959,269)	73,043	(217,754,623)
Electric utility plant, net	$ 406,875,998	$ 145,392,189	$ (130,692,241)	$ 421,595,946

	2011			
	January 1, 2011	Additions	Retirements	December 31, 2011
Non-depreciable plant				
Construction work in progress	$ 82,076,483	$ 26,447,393	$ —	$ 108,523,876
Depreciable plant				
General plant	24,356,718	307,644	(689,884)	23,974,478
Generation plant	410,223,390	3,339,829	(23,475)	413,539,744
Fuel reserves, net	1,197,617	10,756	(285,679)	922,694
Intangible Assets	1,977,308	249,636	(182,341)	2,044,603
Leased electric plant	57,739,000	—	—	57,739,000
Total depreciable plant	495,494,033	3,907,865	(1,181,379)	498,220,519
Total electric utility plant	577,570,516	30,355,258	(1,181,379)	606,744,395
Less accumulated depreciation for				
General plant	(6,848,815)	(834,542)	568,040	(7,115,317)
Generation plant	(167,179,623)	(14,670,695)	61,577	(181,788,741)
Intangible Assets	(388,664)	(176,556)	16,902	(548,318)
Leased electric plant	(8,833,612)	(1,582,409)	—	(10,416,021)
Total accumulated depreciation	(183,250,714)	(17,264,202)	646,519	(199,868,397)
Electric utility plant, net	$ 394,319,802	$ 13,091,056	$ (534,860)	$ 406,875,998

The following reconciles depreciation expense as reported above to the statements of revenues, expenses and changes in net position:

	2012	2011
Depreciation expense, as reported above	$ 17,959,269	$ 17,264,202
Reduction of note payable and depreciation expense on leased electric plant	(1,677,354)	(1,582,409)
Amortization of intangible assets	(251,348)	(176,556)
Amortization of McClain turbine overhaul liability	(17,928)	(17,928)
Depreciation expense as reported in the statements of revenues, expenses and changes in net position	$ 16,012,639	$ 15,487,309

Note 4: Long-term Debt

Long-term liability activity for the years ended December 31, 2012 and 2011, are as follows:

	2012				
	January 1, 2012	Additions	Payments or Amortization	December 31, 2012	Amounts Due Within One Year
Revenue bonds payable	$ 607,990,000	$ —	$ (17,795,000)	$ 590,195,000	$ 18,635,000
Less unamortized net (discount)/premium	4,861,940	—	(510,803)	4,351,137	—
Less loss on bond refunding	(17,592,843)	—	2,569,615	(15,023,228)	—
Total revenue bonds payable	595,259,097	—	(15,736,188)	579,522,909	18,635,000
Note payable	47,322,979	—	(1,677,354)	45,645,625	1,777,995
Derivative liabilities	14,118,358	—	(2,008,272)	12,110,086	2,720,887
Deferred revenue – rate stabilization	16,595,633	—	(1,350,001)	15,245,632	—
Total long-term debt	$ 673,296,067	$ —	$ (20,867,815)	$ 652,428,252	$ 23,133,882

	2011				
	January 1, 2011	Additions	Payments or Amortization	December 31, 2011	Amounts Due Within One Year
Revenue bonds payable	$ 626,075,000	$ —	$ (18,085,000)	$ 607,990,000	$ 17,795,000
Less unamortized net (discount)/premium	5,371,458	—	(509,518)	4,861,940	—
Less loss on bond refunding	(20,310,404)	—	2,717,561	(17,592,843)	—
Total revenue bonds payable	611,136,054	—	(15,876,957)	595,259,097	17,795,000
Note payable	48,905,388	—	(1,582,409)	47,322,979	1,677,354
Derivative liabilities	10,554,028	3,564,330	—	14,118,358	3,716,940
Deferred revenue – rate stabilization	16,245,633	350,000	—	16,595,633	—
Total long-term debt	$ 686,841,103	$ 3,914,330	$ (17,459,366)	$ 673,296,067	$ 23,189,294

Revenue Bonds Payable

The Authority has issued Power Supply System Revenue Bonds to finance portions of its acquisition and construction activities and establish bond reserve investments.

Revenue bonds outstanding at December 31, 2012 and 2011, are as follows:

	2012	2011
Power Supply System Revenue Bonds, Series 1992B, 4.65% to 6.00%, due January 1, 1997 to January 1, 2024	$ 86,530,000	$ 93,840,000
Power Supply System Revenue Bonds, Series 2001B, 1.20%, due January 1, 2021 to January 1, 2027	25,575,000	25,575,000
Power Supply System Revenue Bonds, Series 2003A, due January 1, 2024 to January 1, 2025	16,100,000	16,100,000
Power Supply System Revenue Bonds, Series 2003B, 2.00% to 3.75%, due January 1, 2005 to January 1, 2014	6,865,000	10,115,000
Power Supply System Revenue Bonds, Series 2005A, Variable Rate Demand Obligations (0.13% and 0.10% at December 31, 2012 and 2011, respectively), due January 1, 2007 to January 1, 2023	46,300,000	49,300,000
Power Supply System Revenue Bonds, Series 2007A, 4.125% to 4.75%, due January 1, 2028 to January 1, 2047	135,375,000	135,375,000
Power Supply System Revenue Bonds, Series 2008A, 5.00% to 6.00%, due January 1, 2015 to January 1, 2038	99,330,000	99,330,000
Power Supply System Revenue Bonds, Series 2010A, 2.00% to 5.00%, due January 1, 2011 to January 1, 2028	104,120,000	108,355,000
Power Supply System Revenue Bonds, Series 2010B, 6.31% to 6.44%, due January 1, 2039 to January 1, 2045	70,000,000	70,000,000
	590,195,000	607,990,000
Less current portion of revenue bonds payable	18,635,000	17,795,000
Revenue bonds payable less current portion	$ 571,560,000	$ 590,195,000

Principal and interest payments of revenue bonds (assuming a 5.80% on the 2005A bonds) for the years ending after December 31, 2012, are as follows:

Year Ending December 31,	Principal	Interest	BAB Subsidy	Total
2013	$ 18,635,000	$ 29,664,726	$ (1,569,623)	$ 46,730,103
2014	19,600,000	28,484,140	(1,569,623)	46,514,517
2015	20,015,000	27,461,377	(1,569,623)	45,906,754
2016	20,760,000	26,450,577	(1,569,623)	45,640,954
2017	21,665,000	25,387,215	(1,569,623)	45,482,592
2018 – 2022	119,790,000	108,382,926	(7,848,118)	220,324,808
2023 – 2027	89,945,000	82,486,932	(7,848,118)	164,583,814
2028 – 2032	50,535,000	69,993,746	(7,848,118)	112,680,628
2033 – 2037	66,065,000	55,122,307	(7,848,118)	113,339,189
2038 – 2042	83,710,000	35,299,434	(6,644,612)	112,364,822
2043 – 2047	79,475,000	10,771,761	(1,477,288)	88,769,473
	$ 590,195,000	$ 499,505,141	$ (47,362,487)	$1,042,337,654

The bonds are payable from, and collateralized by, a pledge of and security interest in the proceeds of the sale of the bonds, the operating revenues of the Authority and assets in the funds established by the respective bond resolution. Interest on all fixed rate and term rate bonds is payable semiannually on January 1 and July 1; interest on variable rate bonds is payable on the first business day of each month. Neither the State nor any political subdivision thereof, nor any participating municipality which has contracted with the Authority, is obligated to pay principal or interest on the bonds. The Authority does not have any taxing authority. Additionally, the Authority must have approval from the State of Oklahoma Council of Bond Oversight in order to issue bonds.

The Power Supply System Revenue Bonds, Series 1992B, Series 1994A, Series 2003B and Series 2005A were issued to advance refund previously outstanding bonds of the Authority. The differences between the Authority's net carrying amount of the refunded bonds and the net proceeds of the refunding bonds were deferred and are being amortized over the terms of the refunding bonds. The transactions resulted in a net reduction of debt service cost over the term of the refunding bonds.

The net proceeds of the Series 1992B and Series 1994A bonds have been irrevocably deposited with an escrow agent and have been used to purchase direct obligations of the United States government. The principal and interest on these obligations will be sufficient to pay the refunded bonds at their maturity and to pay interest to such date. Upon establishment of the escrow account, the refunded bonds are considered to be defeased and are no longer considered obligations of the Authority. As of December 31, 2012 and 2011, the Authority's only remaining defeased bonds are the Series 1992A, which have a balance of $38,035,000 and $39,540,000, respectively. These bonds are not considered to be outstanding obligations of the Authority.

On February 13, 2001, the Authority issued $45,000,000 of Power Supply System Revenue Bonds, Series 2001A. Additionally, on February 23, 2001, the Authority issued $25,575,000 of Power Supply System Revenue Bonds, Series 2001B. The proceeds from the 2001 bond issuances were used by the Authority to fund the purchase of 23% undivided interest in the McClain generating facility located outside of Oklahoma City, Oklahoma. The Series 2001B bonds bore interest at a variable interest rate pursuant to a weekly auction rate process until April 16, 2008, at which time the Authority converted them to a term rate mode at an interest rate of 3.85% through December 31, 2011. The Series 2001B bonds were remarketed on January 1, 2012, the mandatory tender date, in a private placement with Wells Fargo Bank, N.A. The bonds will continue in the term rate mode for a subsequent interest period ending January 3, 2015. The Series 2001B bonds have a mandatory tender date on or about January 5, 2015 and may be remarketed at that time. In the event of a failed remarketing, all un-remarketed bonds would bear interest at a maximum rate of 12% per annum. The scheduled payment of principal and interest on the Series 2001B bonds are guaranteed under an insurance policy issued by Financial Security Assurance Inc.

On April 1, 2003, the Series 2003A bonds were issued in the amount of $16,100,000 to fund the second gas turbine located in Ponca City, Oklahoma. The Series 2003A bonds bore interest at a variable interest rate pursuant to a weekly auction rate process until April 16, 2008, at which time the Authority converted them to a term rate mode at an interest rate of 3.875% through June 30, 2012. The Series 2003A bonds were remarketed on July 1, 2012. The bonds were remarketed in a fixed term rate mode at an interest rate of 1.20% for a subsequent interest period ending January 3, 2015. The Series 2001B bonds have a mandatory tender date on January 5, 2015 and may be remarketed at that time. In the event of a failed remarketing, all un-remarketed bonds would bear interest at a maximum rate of 12% per annum. The scheduled payment of principal and interest on the Series 2001B bonds are guaranteed under an insurance policy issued by Financial Security Assurance Inc.

The Authority issued Series 2003B Revenue Refunding Bonds on November 5, 2003, to refund the majority of the Series 1994B bonds. The scheduled payment of principal and interest on the Series 2003B bonds are guaranteed under an insurance policy issued by Financial Security Assurance Inc.

The Authority issued Series 2005A Revenue Refunding Bonds on October 6, 2005, to refund the outstanding balance of the Series 1990A bonds. A refunding loss of approximately $4.9 million was recorded and will be amortized over the life of the new bond issue. The refunding provided a present value refunding savings of approximately $3,600,000. The Series 2005A bonds bore a variable interest rate pursuant to a weekly auction rate process until November 21, 2008, at which time the Authority converted them to daily mode (Variable Rate Demand Obligations). The Series 2005A bonds are limited to a per annum interest rate of 14%. The Series 2005A bonds, when issued initially in the auction rate mode, were insured by MBIA Insurance Corporation.

The Authority issued $135,375,000 Series 2007A of Power Supply System Revenue Bonds on March 22, 2007. The proceeds of this issue were used for the construction of the John W. Turk Jr. power plant, the acquisition of the Redbud generating plant, construction costs of the OMPA headquarters building and other miscellaneous projects. A portion of these funds were intended for the construction of the Redrock generating facility, which has subsequently been cancelled. The 2007A bonds carry a fixed interest rate of 4.125% to 4.54% and are due January 2028 thru January

2047. The scheduled payment of principal and interest on the 2007A bonds are guaranteed by Financial Guaranty Insurance Company.

The Authority issued $99,330,000 of Series 2008A Power Supply System Revenue Bonds on October 30, 2008. The proceeds were used for the construction of the John W. Turk Jr. power plant, the acquisition of the Redbud generating plant, and other capital projects. The Series 2008A bonds carry a fixed interest rate of 5.00% to 6.00% and are due January 2015 thru January 2038. There is no bond insurance policy associated with the Series 2008A bonds.

On March 10, 2010, the Authority issued $111,260,000 of Series 2010A Power Supply Refunding Bonds. Proceeds from this issue were used for the refunding of $89,055,000 of the Power Supply Revenue Bonds Series 1994A, and $27,710,000 of the Power Supply Revenue Bonds Series 2001A. The Series 2010A bonds carry a fixed interest rate of 2.00% to 5.00% and are due January 2011 thru January 2028.The transaction resulted in a net refunding loss of $9,609,104, and had a net present value savings of 6.13%.

The Authority issued $70,000,000 of Series 2010B Power Supply System Revenue Bonds (Federally Taxable Build America Bonds – Direct Pay) on August 11, 2010. The proceeds were used for the construction of the John W. Turk Jr. power plant and other capital projects. The Series 2010B bonds carry a fixed interest rate of 6.31% to 6.44% and are due January 2039 thru January 2045. The Authority receives a Federal subsidy equal to 35% of interest payable.

Under the bond resolutions, the Authority has covenanted that it will establish and collect rents, rates and charges under the Power Sales Contracts and will otherwise charge and collect rents, rates and charges for the use or sale of the output, capacity or service of its system which, together with other available revenues, are reasonably expected to yield net revenues for the 12-month period commencing with the effective date of such rents, rates and charges equal to at least 1.10 times the aggregate debt service for such period and, in any event, as are required, together with other available funds, to pay or discharge all other indebtedness, charges and liens payable out of revenues under the resolutions.

Note Payable

The Authority has issued $57,739,000 in a taxable limited obligation note. The note bears an interest rate of 6%. Annual principal and interest payments of $4,516,732 are due through December 31, 2028. The note is payable solely from lease payments made by FPL Energy Oklahoma Wind, LLC on a leased electric plant (*Note 10*) with no recourse to the Authority.

Principal and interest payments of the note payable for the years ending after December 31, 2012, are as follows:

Year Ending December 31,	Principal	Interest	Total
2013	$ 1,777,995	$ 2,738,737	$ 4,516,732
2014	1,884,675	2,632,057	4,516,732
2015	1,997,755	2,518,977	4,516,732
2016	2,117,620	2,399,112	4,516,732
2017	2,244,678	2,272,054	4,516,732
2018 – 2022	13,412,664	9,170,998	22,583,662
2023 – 2027	17,949,170	4,634,492	22,583,662
2028	4,261,068	255,664	4,516,732
	$ 45,645,625	$ 26,622,091	$ 72,267,716

Note 5: Restricted Assets

At December 31, 2012 and 2011, restricted net position is available for the following purposes:

	2012	2011
Debt service	$ 14,061,222	$ 13,275,722
Capital acquisitions	326,562	361,156
Specific operating activities	8,831,736	9,053,808
Total restricted expendable net position	$ 23,219,520	$ 22,690,686

The restrictions of the various accounts are as follows:

- Specific operating activities – By the end of each month, this account is to include sufficient monies to provide for payment of the succeeding month's expenses.
- Capital acquisitions – This account is restricted for payment of construction costs & capital acquisitions.

- Debt service accounts – This account is restricted for payment of the current portion of bond principal and interest, and maintenance of debt service reserves sufficient to cover the maximum annual principal and interest requirements of the respective related bond issues.

Note 6: Employee Benefit Plans

Defined Benefit Plan

Plan Description

The Authority contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing multiple-employer public employee retirement system administered by the Oklahoma Public Employees Retirement System (the System). The Plan provides retirement, disability and death benefits to plan members and beneficiaries. The benefit provisions are established and may be amended by the legislature of the State. Title 74 of the Oklahoma Statutes, Sections 901-943, as amended, assigns the authority for management and operation of the Plan to the Board of Trustees of the System. The System issues a publicly available annual financial report that includes financial statements and required supplementary information for the Plan. That annual report may be obtained by writing to: Oklahoma Public Employees Retirement System, 6601 N. Broadway Extension, Suite 129, Oklahoma City, Oklahoma 73116 or by calling 1-800-733-9008.

Funding Policy

Plan members, state employees, Authority employees and the Authority are required to contribute at a rate set by statute. The contribution requirements of plan members and the Authority are established and may be amended by the legislature of the State. The contribution rate for the Authority was 16.5% for 2012. The 2012 contribution rate for Authority employees was 3.5%.The contribution rate for the Authority was 15.5% for the period January thru June 2011, and 16.5% for the period July thru December 2011. The 2011 contribution rate for Authority employees was 3.5%.

The Authority's contributions to the Plan for the years ended December 31, 2012, 2011 and 2010, were approximately $757,000, $681,000 and $715,000, respectively, and were equal to their required contributions for each year. The funded ratio of the Plan was 80.2% at June 30, 2012 compared to 80.7% at June 30, 2011 and 66.0% at June 30, 2010.

Deferred Compensation Plan

Authority employees may participate in a voluntary deferred compensation plan provided for under Section 457 of the Internal Revenue Code. Employees pay no state or federal income tax (*i.e*., only FICA on amounts contributed to the plan), and the income earned on plan assets is also nontaxable. The assets in the plan are held in trust until paid or made available to participants. The assets are not subject to claims of the Authority's general creditors. The plan is administered by ICMA Retirement Corporation, a nonprofit organization specifically designed to serve municipal employees.

Contributions to the deferred compensation plan may not exceed the maximum allowable by IRS guidelines. Plan withdrawals are available at retirement, termination of employment and in the event of disability or unforeseen emergency. In the event of death, the beneficiary receives the full account value based upon current fair value.

401(a) Money Purchase Plan

The Authority participates in a voluntary deferred compensation plan provided for under Section 401(a) of the Internal Revenue Code. The plan is structured so that the Authority will match employee contributions into the Section 457 plan, up to a limit of 5% of the employee's annual salary. The Authority contributed $68,000 and $77,000 into the plan in 2012 and 2011, respectively. The assets are not subject to claims of the Authority's general creditors. The plan is administered by ICMA Retirement Corporation.

Note 7: Interest Rate Swap Agreements

Objective of the Interest Rate Swap

The Authority's asset/liability strategy is to have a mixture of fixed- and variable-rate debt to take advantage of market fluctuations. As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Authority entered into an interest rate swap agreement in a notional amount equal to the outstanding principal on the 2005A bond issue. The intention of the swap is to effectively change the Authority's variable interest rate on the 2005A issue to a synthetic fixed rate of 5.05%.

Terms

On March 19, 2009, the Authority entered into an interest rate swap agreement with Deutsche Bank. The agreement, which will continue until January 1, 2023, provides for the Authority to receive interest from the counterparty at SIFMA Municipal Swap Index, and to pay interest to the counterparty at a fixed rate of 5.05% on notional amounts that match the outstanding principal portion of the 2005A bonds, which was $46,300,000 and $49,300,000 at December 31, 2012 and 2011, respectively. Under the agreement, the Authority pays interest semi-annually and receives interest monthly. The net interest expense resulting from the agreement is included in interest expense.

Fair Value

As of December 31, 2011 and 2010, the agreements had a negative fair value of $11,045,042 and $11,387,965, respectively, calculated using the par-value method (*i.e.*, the fixed rate on the swap was compared with the current fixed rates that could be achieved in the marketplace should the swap be unwound). The fixed-rate component was valued by discounting the fixed-rate cash flows using the current yield to maturity of a comparable bond. The variable-rate component was assumed to be at par value because the interest rate resets to the market rate at every reset date. The fair value was then calculated by subtracting the estimated market value of the fixed component from the established market value of the variable component.

Credit Risk

The swap's fair value represented the Authority's credit exposure to the counterparty as of December 31, 2012. Should the counterparty to this transaction fail to perform according to the terms of the swap agreement, the Authority has a maximum possible loss equivalent to the swap's fair value at that date. At December 31, 2012, the Authority was not exposed to credit risk because the swap had a negative fair value. The transaction does not require collateral from the Authority or the counterparty.

Deutsche Bank, the counterparty in this transaction, had the following credit rating at December 31, 2012:

Moody's	S&P	Fitches
A2	A+	A+

Deutsche Bank, had the following credit rating at December 31, 2011:

Moody's	S&P	Fitches
Aa3	A+	A+

Basis Risk

The swap exposes the Authority to basis risk should the relationship between the variable rate being paid on the 2005A bond issue and the SIFMA Municipal Swap Index rate being received change in a manner adverse to the Authority. If an adverse change occurs in the relationship between these rates, the expected cost savings may not be fully realized.

Termination Risk

The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate notes would no longer have a synthetic fixed rate of interest. Also, if the swap has a negative fair value at the time of termination, the Authority would be liable to the counterparty for a payment equal to the swap's then fair value.

Swap Payments and Associated Debt

Using rates as of December 31, 2012, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term are set forth in the table below. As rates vary, variable-rate interest payments and net swap payments will vary.

	Variable-Rate Notes			
	Principal	**Interest**	**Interest Rate Swap, Net**	**Total**
2013	$ 3,200,000	$ 393,360	$ 1,863,990	$ 5,457,350
2014	3,400,000	364,320	1,726,380	5,490,700
2015	3,600,000	333,520	1,580,430	5,513,950
2016	3,700,000	301,400	1,428,225	5,429,625
2017	3,900,000	267,960	1,269,765	5,437,725
2018 – 2022	23,100,000	765,160	3,625,815	27,490,975
2023	5,400,000	23,760	112,590	5,536,350
	$ 46,300,000	$ 2,449,480	$ 11,607,195	$ 60,356,675

Note 8: Commodity Price Swap Contracts

Objective of the Swap

The Authority is exposed to market price fluctuations on its purchase of natural gas. To protect itself from natural gas price fluctuations, the Authority periodically enters into natural gas price swap contracts.

Terms

The Authority enters into natural gas price swap contracts at various fixed prices and notional amounts. Each swap contract provides for the Authority to pay a fixed price, and for the contract counterparty to pay a floating price for the notional amount of the contract. The notional amount of each natural gas price swap contract is measured in MMBtu's with the floating price based on a specific published natural gas price index (spot price) for the relevant contract month. At December 31, 2012, the Authority's outstanding natural gas price swap contracts were as follows:

Maturity Date	Notational Quantity (MMBTU)	Fixed Price ($/MMBTU)	Fair Value
May 31, 2013	200,000	3.397 – 4.68	$ (180,454)
June 30, 2013	220,000	3.397 – 4.50	(181,716)
July 31, 2013	270,000	3.397 – 4.595	(214,762)
Aug. 31, 2013	340,000	3.397 – 4.615	(265,844)
Sept. 30, 2013	220,000	3.397 – 4.68	(181,973)
May 31, 2014	120,000	3.52 – 3.895	(10,352)
June 30, 2014	140,000	3.52 – 3.895	(4,192)
July 31, 2014	150,000	3.52 – 3.97	(9,054)
Aug. 31, 2014	200,000	3.52 – 3.99	(15,745)
Sept. 30, 2014	120,000	3.52 – 3.895	(952)
	1,980,000		$ (1,065,044)

At December 31, 2011, the Authority had outstanding natural gas price swap contracts with notional amounts totaling 2,350,000 MMBtu's at fixed prices between $3.93 to $5.23 per MMBtu, and expiring between May 2012 and September 2013.

Fair Value

The outstanding natural gas price swap contracts had a negative fair value of $1,065,044 and $2,730,392 at December 31, 2012 and 2011, respectively. The fair value is estimated by discounting actual and implied forward prices using the zero-coupon method. The future net settlement amounts are calculated by assuming that the current forward rates implied by the forward curve for natural gas prices correctly anticipate future spot prices. The future net settlement amounts are then discounted using the spot rates implied by the current interest yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of each contract.

Credit Risk

At December 31, 2012 and 2011, the Authority was not exposed to credit risk because the natural gas price swaps had a negative fair value. However, should the fair value of the contracts become positive, the Authority would be exposed to credit risk related to the counterparty of the contract in the amount of the positive fair value. The swap agreements do not require collateral from the Authority or the counterparty.

At December 31, 2012, all swap transactions had the following credit ratings:

	Moody's	S&P	Fitches
BOK	A1	A-	A
Shell	Aa1	AA	
JPMorgan	Aa3	A+	A+

At December 31, 2011, all swap transactions had the following credit ratings:

	Moody's	S&P	Fitches
BOK	A1	A-	AA-
Shell	A2	A-	
JPMorgan	Aa3	A	

Termination Risk

The Authority or the counterparty may terminate any of the swap contracts if the other party fails to perform under the contract terms. Also, if at the time of the termination, any swap contract has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swaps fair value.

Note 9: Commitments and Contingencies

Purchase Power

During 2012 and 2011, approximately $21,018,000 and $19,981,000 of power was purchased pursuant to several long-term purchase agreements. The Authority is obligated to purchase, at a minimum, approximately $19,976,000 of power in 2013.

Federal Grant

The Authority has received a federal grant for specific purposes that are subject to review and audit by the grantor agency. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes such disallowances, if any, would be immaterial.

Investment Exchange

During 1996, the Authority entered into an agreement with an investment banking firm to exchange investment securities at the other party's option. The securities to be received by the Authority pursuant to this agreement must be investments permitted by the Authority's debt covenants and must yield a guaranteed fixed interest rate. The term of the agreement extends through January 1, 2014. No investment security exchanges have occurred since inception.

General Litigation

The Authority is subject to claims and lawsuits that arise in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the changes in financial position and cash flows of the Authority. As of December 31, 2012, there were no claims asserted or lawsuits pending against the Authority.

Open Contracts

The Authority has signed construction contracts that continue into subsequent years. The value of services provided and the corresponding liability as of December 31, 2012 and 2011, has been accrued in these financial statements. As of December 31, 2012, approximately $33.4 million is left to be expended.

Note 10: Leased Electric Plant

The Authority executed a Power Purchase Agreement for 51 MW with FPL Energy Oklahoma Wind, LLC (FPLE Oklahoma) for the development of a wind generation facility in northwestern Oklahoma. Under the Power Purchase Agreement, FPLE Oklahoma was responsible for acquiring, constructing and installing the wind project. The Authority issued a taxable limited obligation note (the Note), which is payable solely from lease payments made by FPLE Oklahoma with no recourse to the Authority (*Note 4*). The Authority used the proceeds of the Note to finance the Authority's acquisition of the wind project and has leased the wind project to FPLE Oklahoma under a long-term capital lease agreement for an amount sufficient to pay debt service, principal and interest on the Note. The Power Purchase Agreement has a term of approximately 25 years, and power is sold on a take and pay basis. FPLE Oklahoma retains the operational risk related to the wind project.

The following lists the components of the lease agreement as of December 31, 2012 and 2011:

	2012	2011
Total minimum lease payments to be received	$ 72,267,720	$ 76,784,451
Less: Amounts representing interest included in total minimum lease payments	26,622,094	29,461,472
Net minimum lease payments receivable	$ 45,645,626	$ 47,322,979

Note 11: Stimulus State Energy Grant

On March 31, 2010, the Authority signed a $3 million contract with the Oklahoma Department of Commerce, with funds provided from the Stimulus State Energy Program (SSEP). The purpose of the grant is to provide rebates for installation of ground sources heat pumps (GHP), training for GHP contractors and installers, and energy audits for customers in member cities. The program provides for up to $1,000 per ton of qualifying GHP installation. The program ended on September 14, 2012. Program expenditures thru December 31, 2012 and 2011 are as follows:

	2012	2011
Rebate payments	$ 1,168,010	$ 484,030
Contractual services	63,487	88,080
Advertising	2,389	24,908
Payroll and related costs	31,914	72,449
Supplies and other costs	33,438	45,854
Total grant expenditures	$ 1,299,238	$ 715,321

Note 12: Subsequent Event

On January 3, 2013, The Authority issued $132,920,000 of Series 2013A Power Supply System Revenue Bonds. The proceeds are being used for the construction of the Charles D. Lamb Energy Center and other capital projects. The Series 2013A bonds carry a fixed interest rate of 3.125% to 4.00% and are due January 2028 thru January 2047.

On March 1, 2013 amounts appropriated for operation of the federal government of the United States was subject to the process of sequester, whereby spending amounts were reduced for many programs. This sequester includes subsidy payments to issuers of Build America Bonds (BABs). Preliminary estimates from the Office of Management and budget include a 5.1% cut for the BABs program, which equates to an effective impact of an 8.7% reduction in payments for the federal budget year ended September 30, 2013. The exact impact will vary based on the amount of the subsidy collected from taxes between March 1 and September 30, 2013.