Oklahoma Municipal Power Authority
A Component Unit of the State of Oklahoma

Auditors' Reports and Financial Statements

As Of and For The Years Ended December 31, 2011 and 2010

Oklahoma Municipal Power Authority
A Component Unit of the State of Oklahoma
December 31, 2011 and 2010

Contents

BAKER TILLY

Baker Tilly Virchow Krause, LLP
Ten Terrace Ct, PO Box 7398
Madison, WI 53707-7398
tel 608 249 6622
fax 608 249 8532
bakertilly.com

Independent Accountants' Report on Financial Statements and Supplementary Information

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

We have audited the accompanying balance sheets and the related statements of revenues, expenses and changes in fund equity and cash flows of Oklahoma Municipal Power Authority (the Authority), a component unit of the State of Oklahoma, as of and for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of Authority management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oklahoma Municipal Power Authority as of December 31, 2011 and 2010 and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we will issue 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* and should be considered in assessing the results of our audit.

Effective with the financial statements for 2010 the Oklahoma Municipal Power Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

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.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
April 1, 2012

Oklahoma Municipal Power Authority
A Component Unit of the State of Oklahoma
Management's Discussion and Analysis
Years Ended December 31, 2011, 2010 and 2009
(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, 2011, 2010 and 2009. 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

	2011	2010	2009
Utility plant, net	$ 406,875,998	$ 394,319,802	$ 387,436,948
Non-current investments	84,100,794	86,539,848	84,150,165
Other assets	126,602,733	124,112,503	113,447,087
Current assets	113,616,168	140,670,626	99,397,437
Total assets	$ 731,195,693	$ 745,642,779	$ 684,431,637

Liabilities and Fund Equity

	2011	2010	2009
Long-term debt, net	$ 623,109,722	$ 640,374,033	$ 587,978,000
Current portion of long-term debt	19,472,354	19,667,409	17,672,839
Other current liabilities	38,030,609	39,095,533	39,626,863
Other non-current liabilities	10,401,418	8,344,545	—
Deferred revenues – rate stabilization	16,595,633	16,245,633	18,000,000
Total liabilities	707,609,736	723,727,153	663,277,702
Fund equity			
Invested in capital assets, net of related debt	(21,013,779)	(25,875,331)	(26,850,091)
Restricted	22,690,686	23,499,916	23,048,353
Unrestricted	21,909,050	24,291,041	24,955,673
Total fund equity	23,585,957	21,915,626	21,153,935
Total liabilities and fund equity	$ 731,195,693	$ 745,642,779	$ 684,431,637

Revenues, Expenses and Changes in Fund Equity

	2011	2010	2009
Operating revenues			
System	$ 155,858,245	$ 139,363,850	$ 124,280,771
Off-system	12,250,647	17,504,465	23,388,937
Non-operating revenues			
Interest income	2,804,260	2,276,250	2,707,638
Gain/(loss) on sale of assets	746	—	47,924
Lease revenue	2,934,323	3,023,894	3,108,394
Deferred costs	1,613,972	2,577,965	3,611,934
SSEP grant revenues	715,321	227,670	—
Total revenues	176,177,514	164,974,094	157,145,598
Operating expenses	141,674,015	132,876,761	128,678,557
Non-operating expenses			
Interest expense, net	29,852,920	27,363,447	25,817,128
Amortization	2,927,573	3,142,552	3,450,625
(Increase)/decrease in fair value of investments	(662,646)	601,973	978,515
SSEP grant expenditures	715,321	227,670	—
Total expenses	174,507,183	164,212,403	158,924,825
Net increase/(decrease) in fund equity	$ 1,670,331	$ 761,691	$ (1,779,227)

Financial Highlights

With the hottest summer on record for Oklahoma, energy sales to participants were 10.1% higher in 2011 compared to 2010. The total cost of power to members was higher in 2011, due to high summer loads and the continuing drought which limited hydro generation.

In November 2011, the City of Watonga, Oklahoma became the Authority's 39th member city. The Town of Orlando, Oklahoma began service with the Authority in January 2011. 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 a five year contract. The city of Paris, Arkansas will begin receiving supplemental energy from the Authority in 2012.

The adjustment of investments to market value had a favorable impact in 2011 of $662,646 compared to an unfavorable adjustment of $601,973 and $978,515 in 2010 and 2009, 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 $13.1 million in 2011, primarily due to continued construction on the Turk generating facility. Net utility plant increased $6.9 million in 2010 .

At December 31, 2011, electric utility plant in service was $232.7 million, net of depreciation. Electric plant consisted of generation plant in the amount of $231.8 million that represents ownership in 121 megawatts of undivided ownership in plants in both Texas and Louisiana, 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 $923,000 at year end 2011.

The Authority also has $16.8 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 2011 were $607.9 million, including the current portion of debt paid January 3, 2012. This amount excludes the FPL Wind Energy note of approximately $47.3 million that is secured by lease revenues from FPL Wind Energy. The revenue bonds outstanding in 2010 and 2009 were $626.1 million and $577.7 million, respectively. The current portion of revenue bonds payable at year end 2011, in the amount of $17.8 million, was paid in January 2012.

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, 2011 and 2010

Assets

	2011	2010
Utility Plant, at Cost		
Utility plant in service	$ 438,436,915	$ 435,777,725
Less accumulated depreciation	188,904,058	174,028,438
	249,532,857	261,749,287
Construction in progress	108,523,876	82,076,483
Intangible plant assets, net	1,496,286	1,588,644
Leased electric plant, net	47,322,979	48,905,388
	406,875,998	394,319,802
Non-current Restricted Investments	54,936,062	56,309,204
Non-current Investments	29,164,732	30,230,644
Other Assets		
Unamortized bond issue costs	4,597,196	5,044,073
Unamortized organization costs and other assets	939,616	1,025,035
Net deferred costs recoverable in future years	104,526,870	100,797,447
Long-term deferred outflow of resources	10,401,418	8,344,545
Capacity pre-payment	6,137,633	8,901,403
	126,602,733	124,112,503
Total non-current assets	617,579,525	604,972,153
Current Assets		
Cash and cash equivalents	4,679,723	7,350,663
Investments	9,348,391	13,001,890
Interest receivable	311,493	120,427
Accounts receivable	16,305,866	15,053,008
Inventory	3,782,608	2,441,904
Other current assets	2,425,902	2,820,077
Restricted cash and cash equivalents	39,034,304	45,939,222
Restricted investments	33,364,301	51,293,036
Restricted interest receivable	646,640	440,916
Current deferred outflow of resources	3,716,940	2,209,483
Total current assets	113,616,168	140,670,626
Total assets	$ 731,195,693	$ 745,642,779

Liabilities and Fund Equity

	2011	2010
Long-term Debt		
Revenue bonds payable	$ 590,195,000	$ 607,990,000
Less unamortized net discount/(premium)	(4,861,940)	(5,371,458)
Less unamortized loss on advance refunding of bonds	17,592,843	20,310,404
	577,464,097	593,051,054
Note payable	45,645,625	47,322,979
	623,109,722	640,374,033
Non-current derivative liability – natural gas hedging	613,871	248,196
Non-current derivative liability – interest rate swap	9,787,547	8,096,349
Deferred Revenues – Rate Stabilization	16,595,633	16,245,633
Total non-current liabilities	650,106,773	664,964,211
Current Liabilities		
Accounts payable	14,329,025	13,625,774
Accrued expenses	5,669,789	9,100,663
Interest payable	14,314,855	14,159,613
Current portion of long-term debt	17,795,000	18,085,000
Current portion of note payable	1,677,354	1,582,409
Current derivative liability – natural gas hedging	2,116,522	1,004,724
Current derivative liability – interest rate swap	1,600,418	1,204,759
Total current liabilities	57,502,963	58,762,942
Total liabilities	707,609,736	723,727,153
Fund Equity		
Invested in capital assets, net of related debt	(21,013,779)	(25,875,331)
Restricted – expendable for		
Debt service	13,275,722	13,861,955
Capital acquisitions	361,156	401,595
Specific operating activities	9,053,808	9,236,366
Unrestricted	21,909,050	24,291,041
Total fund equity	23,585,957	21,915,626
Total liabilities and fund equity	$ 731,195,693	$ 745,642,779

Oklahoma Municipal Power Authority
A Component Unit of the State of Oklahoma
Statements of Revenues, Expenses and Changes in Fund Equity
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Revenues		
System	$ 155,858,245	$ 139,363,850
Off-system	12,250,647	17,504,465
	168,108,892	156,868,315
Operating Expenses		
Purchased power	44,444,927	36,927,758
Generation	62,734,900	62,286,193
Transmission	11,893,024	11,580,402
Other operating expenses	7,113,855	6,815,137
Depreciation	15,487,309	15,267,271
	141,674,015	132,876,761
Operating Income	26,434,877	23,991,554
Non-operating Revenues (Expenses)		
Investment income	2,804,260	2,276,250
Net increase in fair value of investments	662,646	(601,973)
Gain/(loss) on sale of assets	746	—
Lease revenue	2,934,323	3,023,894
Amortization of organization costs	(85,420)	(85,420)
Amortization of other assets	(141,518)	(153,383)
SSEP grant revenues	715,321	227,670
SSEP grant expenditures	(715,321)	(227,670)
	6,175,037	4,459,368
Interest and debt expense		
Interest expense – revenue bonds	(28,488,221)	(24,949,962)
Buy America Bond subsidy proceeds	1,569,624	610,409
Interest expense – other	(2,934,323)	(3,023,894)
Amortization of loss on bond refunding, discount and bond issue costs	(2,700,635)	(2,903,749)
	(32,553,555)	(30,267,196)
Net non-operating expenses	(26,378,518)	(25,807,828)
Net Deferred Costs Recoverable in Future Years	1,613,972	2,577,965
Increase/(decrease) in fund equity	1,670,331	761,691
Fund Equity, Beginning of Year	21,915,626	21,153,935
Fund Equity, End of Year	$ 23,585,957	$ 21,915,626

Oklahoma Municipal Power Authority
A Component Unit of the State of Oklahoma
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Cash received from customers	$ 167,206,034	$ 154,325,060
Cash paid to suppliers	(122,261,672)	(109,276,048)
Cash paid to employees	(6,037,812)	(5,797,493)
Net cash provided by operating activities	38,906,550	39,251,519
Cash Flows from Capital and Related Financing Activities		
Proceeds from issuance of bonds	—	181,260,000
Payments on bonds refunded	—	(116,765,000)
Proceeds from bond refunding premium	—	6,950,406
Payment of bond issue costs	(13,208)	(2,002,839)
Capital expenditures for utility plant	(30,924,198)	(26,916,249)
Interest paid on long-term debt	(26,763,355)	(24,118,990)
Principal payments on long-term debt	(18,085,000)	(16,180,000)
Proceeds from sale of capital assets	746	—
Net cash provided by/(used in) capital and related financing activities	(75,785,015)	2,227,328
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	208,942,228	193,775,013
Purchases of investments	(184,258,298)	(223,667,865)
Lease receivable (advance) receipts	211,202	186,902
Income received on investments	2,407,475	2,424,429
Net cash used in investing activities	27,302,607	(27,281,521)
Increase/(Decrease) in Cash and Cash Equivalents	(9,575,858)	14,197,326
Cash and Cash Equivalents, Beginning of Year	53,289,885	39,092,560
Cash and Cash Equivalents, End of Year	$ 43,714,027	$ 53,289,885
Consisting of		
Cash and cash equivalents	$ 4,679,723	$ 7,350,663
Restricted cash and cash equivalents	39,034,304	45,939,222
Total cash and cash equivalents	$ 43,714,027	$ 53,289,855
Noncash Items from Investing and Capital and Related Financing Activities		
Change in fair value of investments	$ 662,646	$ (601,973)
Discount accretion/premium amortization on investments	$ (449,177)	$ (361,988)
Reduction of note payable and depreciation expense on leased electric plant	$ 1,582,409	$ 1,492,839
Capital expenditures for utility plant included in accounts payable	$ 1,035,869	$ 981,141

See Notes to Financial Statements

	2011	2010
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 26,434,877	$ 23,991,554
Adjustments to reconcile net operating revenues to net cash provided by operating activities		
Depreciation	15,345,791	15,114,223
Amortization of other assets included in operating expenses	2,905,288	2,916,818
Deferred revenues – rate stabilization	350,000	(1,754,367)
Changes in assets and liabilities which provided/(used) cash		
Accounts receivable	(1,252,858)	(788,888)
Inventory	(1,340,704)	2,951,723
Other current assets	150,466	(745,607)
Accounts payable and accrued expenses	(3,686,310)	(2,433,937)
Net cash provided by operating activities	$ 38,906,550	$ 39,251,519

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 Financial Accounting Standards Board ASC 980, *Regulated Operations*, formerly known as Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effect of Certain Types of Regulation*, as the statement relates to the deferral of revenues and expenses to future periods in which the revenues are earned, or the expenses are recovered through the rate-making process.

In accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 20, the Authority utilizes all applicable GASB Statements and only Financial Accounting Standards Board Statements issued on or before November 30, 1989, and that do not conflict with or contradict GASB pronouncements, as the Authority's accounting principles. The Authority has elected to follow subsequent private sector guidance.

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.

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. 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.

Inventory Pricing

Inventory consists of fuel stock and is stated at 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 2011 and 2010, billings to participating municipalities under Power Sales Contracts were \$157,242,506 and \$138,000,338, 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 deferral of $350,000 in 2011, and a rate stabilization withdrawal of $1,754,367 in 2010. These amounts are reflected as increases or decreases in deferred revenues – rate stabilization in the accompanying balance sheets. 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.

Fund Equity

Fund equity of the Authority is classified in three components. Fund equity invested in capital assets, net of related debt, 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 expendable fund equity is 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 fund equity is remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable. 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.

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 65% and 66% of the Authority's operating revenues (two of which accounted for 48 % and 49% of the Authority's operating revenues) for the years ended December 31, 2011 and 2010, respectively.

Effect of New Accounting Standards on Current Period Financial Statements

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, Statement No. 61, *The Financial Reporting Entity: Omnibus*, Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 64, *Derivative Instruments: Applications of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. 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 years 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 $725,902 and $1,055,798 were exposed to custodial credit risk at December 31, 2011 and 2010, 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, 2011 and 2010, the Authority had the following investments and maturities:

	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

	December 31, 2010				
		Maturities in Years			
Type	**Fair Value**	**Less Than 1**	**1-5**	**6-10**	**More Than 10**
U.S. agencies obligations	$ 134,374,528	$ 63,876,522	$ 66,648,186	$ 3,849,820	$ —
Corporate bonds	2,007,000	—	2,007,000	—	—
Municipal bonds	218,130	218,130	—	—	—
Certificates of deposit	14,235,115	8,973,514	5,261,601	—	—
Money market funds	52,234,088	52,234,088	—	—	—
	$ 203,068,861	$ 125,302,254	$ 73,916,787	$ 3,849,820	$ —

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.

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, 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

At December 31, 2010, 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	AAA	AAA
Municipal bonds/certificates of deposit	Not rated	Not rated	Not rated
Money market mutual funds	Aaa	AAAm	AAAmmf
Corporate bonds	Aa2	AA+	-

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, 2011 and 2010, 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, 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 15.7%, 31.5%, 5.3% and 14.3%, respectively, of its total investments. At December 31, 2010, 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 5.3%, 27.0%, 26.0% and 7.8%, respectively, of its total investments.

Investments Highly Sensitive to Market Changes – 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.

At December 31, 2010, the Authority held $151,012,817 in government mutual funds and U.S. Agencies which mature from 2011 to 2016. 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, 2010, was $150,834,773.

Summary of Carrying Values

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

	2011	2010
Carrying value		
Deposits	$ 725,902	$ 1,055,798
Investments	169,801,611	203,068,861
	$ 170,527,513	$ 204,124,659
Included in the following balance sheets captions		
Cash and cash equivalents	$ 4,679,723	$ 7,350,663
Investments – current	9,348,391	13,001,890
Non-current investments	29,164,732	30,230,644
Restricted cash and cash equivalents	39,034,304	45,939,222
Restricted investments – current	33,364,301	51,293,036
Non-current restricted investments	54,936,062	56,309,204
	$ 170,527,513	$ 204,124,659

Investment Income

Investment income for the years ended December 31, 2011 and 2010, consisted of:

	2011	2010
Net interest and accretion income	$ 2,804,260	$ 2,276,250
Net increase/(decrease) in fair value of investments	662,646	(601,973)
	$ 3,466,906	$ 1,674,277

Note 3: Electric Utility Plant

Electric utility plant assets activity for the years ended December 31, 2011 and 2010, were:

	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

	2010			
	January 1, 2010	Additions	Retirements	December 31, 2010
Non-depreciable plant				
Construction work in progress	$ 61,682,983	$ 20,393,500	$ —	$ 82,076,483
Depreciable plant				
General plant	23,619,181	737,537	—	24,356,718
Generation plant	407,713,918	2,509,472	—	410,223,390
Fuel reserves, net	1,156,735	208,687	(167,805)	1,197,617
Intangible Assets	1,736,553	240,755	—	1,977,308
Leased electric plant	57,739,000	—	—	57,739,000
Total depreciable plant	491,965,387	3,696,451	(167,805)	495,494,033
Total electric utility plant	553,648,370	24,089,951	(167,805)	577,570,516
Less accumulated depreciation for				
General plant	(6,044,730)	(804,085)	—	(6,848,815)
Generation plant	(152,591,710)	(14,616,234)	28,321	(167,179,623)
Intangible Assets	(234,209)	(154,455)	—	(388,664)
Leased electric plant	(7,340,773)	(1,492,839)	—	(8,833,612)
Total accumulated depreciation	(166,211,422)	(17,067,613)	28,321	(183,250,714)
Electric utility plant, net	$ 387,436,948	$ 7,022,338	$ (139,484)	$ 394,319,802

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

	2011	2010
Depreciation expense, as reported above	$ 17,264,202	$ 17,067,613
Reduction of note payable and depreciation expense on leased electric plant	(1,582,409)	(1,492,839)
Amortization of intangible assets	(176,556)	(154,455)
Amortization of McClain turbine overhaul liability	(17,928)	(153,048)
Depreciation expense as reported in the statements of revenues, expenses and changes in fund equity	$ 15,487,309	$ 15,267,271

Note 4: Long-term Debt

Long-term liability activity for the years ended December 31, 2011 and 2010, are as follows:

	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 refundings	(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

	2010				
	January 1, 2010	Additions	Payments or Amortization	December 31, 2010	Amounts Due Within One Year
Revenue bonds payable	$ 577,760,000	$ 181,260,000	$(132,945,000)	$ 626,075,000	$ 18,085,000
Less unamortized net (discount)/premium	(4,399,942)	6,950,406	2,820,994	5,371,458	—
Less loss on bond refundings	(18,107,446)	(9,609,104)	7,406,146	(20,310,404)	—
Total revenue bonds payable	555,252,612	178,601,302	(122,717,860)	611,136,054	18,085,000
Note payable	50,398,227	—	(1,492,839)	48,905,388	1,582,409
Derivative liabilities	—	10,554,028	—	10,554,028	2,209,483
Deferred revenue – rate stabilization	18,000,000	—	(1,754,367)	16,245,633	—
Total long-term debt	$ 623,650,839	$ 189,155,330	$(125,965,066)	$ 686,841,103	$ 21,876,892

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, 2011 and 2010, are as follows:

	2011	2010
Power Supply System Revenue Bonds, Series 1992B, 4.65% to 6.00%, due January 1, 1997 to January 1, 2024	$ 93,840,000	$ 100,745,000
Power Supply System Revenue Bonds, Series 1994A, 2.75% to 5.00%, due January 1, 1995 to January 1, 2028	---	---
Power Supply System Revenue Bonds, Series 2001A, 3.40% to 5.00%, due January 1, 2003 to January 1, 2021	---	2,230,000
Power Supply System Revenue Bonds, Series 2001B, 3.85%, due January 1, 2021 to January 1, 2027	25,575,000	25,575,000
Power Supply System Revenue Bonds, Series 2003A, 3.875%, 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	10,115,000	13,260,000
Power Supply System Revenue Bonds, Series 2005A, Variable Rate Demand Obligations (0.10% and 0.34% at December 31, 2011 and 2010, respectively), due January 1, 2007 to January 1, 2023	49,300,000	52,200,000
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	108,355,000	111,260,000
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
	607,990,000	626,075,000
Less current portion of revenue bonds payable	17,795,000	18,085,000
Revenue bonds payable less current portion	$ 590,195,000	$ 607,990,000

Principal and interest payments of revenue bonds (assuming a 5.80% on the 2005A bonds) for the years ending after December 31, 2011, are as follows:

Year Ending December 31,	Principal	Interest	BAB Subsidy	Total
2012	$ 17,795,000	$ 31,412,488	$ (1,569,623)	$ 47,637,865
2013	18,635,000	30,608,951	(1,569,623)	47,674,328
2014	19,600,000	29,643,702	(1,569,623)	47,674,079
2015	20,015,000	28,620,940	(1,569,623)	47,066,317
2016	20,760,000	27,610,140	(1,569,623)	46,800,517
2017 – 2021	116,690,000	120,363,163	(7,848,118)	229,205,045
2022 – 2026	102,240,000	90,301,070	(7,848,118)	184,692,952
2027 – 2031	51,725,000	72,588,306	(7,848,118)	116,465,188
2032 – 2036	62,705,000	58,482,405	(7,848,118)	113,339,287
2037 – 2041	80,175,000	39,067,317	(6,644,612)	112,597,705
2042 – 2046	87,415,000	14,572,119	(1,477,288)	100,509,831
2047	10,235,000	460,575	---	10,695,575
	$ 607,990,000	$ 543,731,176	$ (47,362,487)	$1,104,358,689

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, 2011 and 2010, the Authority's only remaining defeased bonds are the Series 1992A, which have a balance of $39,540,000 and $40,955,000, 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 have a mandatory tender date of January 1, 2012, 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 have a mandatory tender date of July 1, 2012, 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 are being used for the continued 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 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.

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, 2011, are as follows:

Year Ending December 31,	Principal	Interest	Total
2012	$ 1,677,354	$ 2,839,378	$ 4,516,732
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 – 2021	12,653,457	9,930,206	22,583,663
2022 – 2026	16,933,179	5,650,484	22,583,663
2027 – 2028	8,280,944	752,521	9,033,465
	$ 47,322,979	$ 29,461,472	$ 76,784,451

Note 5: Restricted Fund Equity

At December 31, 2011 and 2010, restricted expendable fund equity was available for the following purposes:

	2011	2010
Debt service	$ 13,275,722	$ 13,861,955
Capital acquisitions	361,156	401,595
Specific operating activities	9,053,808	9,236,366
Total restricted expendable fund equity	$ 22,690,686	$ 23,499,916

The restrictions of the various accounts are as follows:

- Operations and maintenance account – By the end of each month, this account is to include sufficient monies to provide for payment of the succeeding month's expenses.
- Construction accounts – These accounts are restricted for payment of construction costs (capital acquisitions).

- Debt service accounts – These accounts are restricted for payment of the current portion of bond principal and interest.
- Debt service reserve accounts – These accounts are to include sufficient funds to cover the maximum annual principal and interest requirements of the respective related bond issues.
- Reserve and contingency fund – This fund is restricted for major renewals and replacements, extraordinary operations and maintenance costs and any contingencies.
- Litigation account – This account is capital acquisition funds held in escrow pending the outcome of pending litigation.

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 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 contribution rate for the Authority was 15.5% for 2010. The 2010 contribution rate for Authority employees was 3.5%.

The Authority's contributions to the Plan for the years ended December 31, 2011, 2010 and 2009, were approximately $681,000, $715,000 and $613,000, respectively, and were equal to their required contributions for each year.

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 $77,000 and $87,000 into the plan in 2011 and 2010, 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

A swaption was entered into December 13, 2001, with an exercise date of October 6, 2005, and provided the Authority an initial net cash receipt of $1,431,000. The agreement provided for the Authority to receive interest from the counterparty at the 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. In October, 2008, the Counterparty, Lehman Brothers Special Financing, ceased making the required payments under the swap and filed for bankruptcy protection in the United States Bankruptcy Court for the Southern District of New York. The agreement was terminated March 19, 2009.

On March 19, 2009, the Authority entered into a new 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 $49,300,000 and $52,200,000 at December 31, 2011 and 2010, 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 $11,387,965 and $9,301,108, 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, 2011. 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, 2011, 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, 2011 and 2010:

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, 2011, 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
2012	$ 3,000,000	$ 406,300	$ 2,007,600	$ 5,413,900
2013	3,200,000	379,950	1,877,400	5,457,350
2014	3,400,000	351,900	1,738,800	5,490,700
2015	3,600,000	322,150	1,591,800	5,513,950
2016	3,700,000	291,125	1,438,500	5,429,625
2017 – 2021	21,900,000	930,325	4,596,900	27,427,225
2022 – 2024	10,500,000	90,525	447,300	11,037,825
	$ 49,300,000	$ 2,772,275	$ 13,698,300	$ 65,770,575

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, 2011, the Authority's outstanding natural gas price swap contracts were as follows:

Maturity Date	Notational Quantity (MMBTU)	Fixed Price ($/MMBTU)	Fair Value
May 31, 2012	210,000	4.32 – 4.68	$ (306,117)
June 30, 2012	250,000	4.49 – 5.23	(464,953)
July 31, 2012	270,000	4.425 – 5.23	(474,234)
Aug. 31, 2012	320,000	4.347 – 5.23	(521,850)
Sept. 30, 2012	250,000	4.348 – 4.96	(349,367)
May 31, 2013	160,000	4.07 – 4.58	(104,267)
June 30, 2013	180,000	4.10 – 4.50	(103,252)
July 31, 2013	230,000	3.935 – 4.595	(130,850)
Aug. 31, 2013	300,000	3.955 – 4.615	(160,787)
Sept. 30, 2013	180,000	4.175 – 4.68	(114,715)
	2,350,000		$ (2,730,392)

At December 31, 2010, the Authority had outstanding natural gas price swap contracts with notional amounts totaling 2,050,000 MMBtu's at fixed prices between $3.98 to $6.40 per MMBtu, and expiring between May 2011 and September 2012.

Fair Value

The outstanding natural gas price swap contracts had a negative fair value of $2,730,392 and $1,252,920 at December 31, 2011 and 2010, 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, 2011 and 2010, 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, 2011, all swap transactions had the following credit ratings:

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

At December 31, 2010, all swap transactions were with JPMorgan Chase, who had the following credit ratings:

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

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 2011 and 2010, approximately $19,981,000 and $17,976,000 of power was purchased pursuant to several long-term purchase agreements. The Authority is obligated to purchase, at a minimum, approximately $23,247,766 of power in 2012.

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, 2011, 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, 2011 and 2010, has been accrued in these financial statements. As of December 31, 2011, approximately $18.4 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, 2011 and 2010:

	2011	2010
Total minimum lease payments to be received	$ 76,784,451	$ 81,301,184
Less: Amounts representing interest included in total minimum lease payments	29,461,472	32,395,796
Net minimum lease payments receivable	$ 47,322,979	$ 48,905,388

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 is scheduled to end on August 31, 2012. Program expenditures thru December 31, 2011 and 2010 are as follows:

	2011	2010
Rebate payments	$ 484,030	$ 85,020
Contractual services	88,080	29,773
Advertising	24,908	27,314
Payroll and related costs	72,449	24,107
Supplies and other costs	45,854	61,456
Total grant expenditures	$ 715,321	$ 227,670

Note 12: Subsequent Event

On January 3, 2012, the Authority completed a private placement of its Power Supply System Revenue Bonds, Series 2001B with Wells Fargo Bank. The term of the placement is three years, and the bonds will bear a variable interest rate based on the SIFMA Municipal Swap Index plus 70 basis points. Interest is paid semi-annually in January and July.