

State of Oklahoma



**OKLAHOMA CLEAN WATER STATE REVOLVING
FUND LOAN ACCOUNT PROGRAM**

**ANNUAL FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015
AND INDEPENDENT AUDITOR'S REPORTS**

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2016 and 2015**

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INDEPENDENT AUDITOR'S REPORT

To the Members of the
Oklahoma Water Resources Board

Report on the Financial Statements

We have audited the accompanying financial statements of the Oklahoma Water Resources Board/Oklahoma Clean Water State Revolving Fund Loan Account Program (the "Program") as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

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.

Auditor's 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 audits 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 auditor's 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 relevant to the entity'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 entity'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Program as of June 30, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2016, on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Program's internal control over financial reporting and compliance.



Edmond, Oklahoma
September 20, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Oklahoma Clean Water State Revolving Loan Fund Account Program's (the "Program") financial performance provides an overview of the Program's financial activities for the fiscal years ended June 30, 2016 and 2015. Please read it in conjunction with the Program's financial statements, which begin on page 11. The Oklahoma Water Resources Board (the "Board") administers the Program.

Program Highlights

- The Program made binding commitments for seven (7) new construction loans totaling approximately \$41.8 million.
- The Program funded four (4) projects for communities discharging to priority stream segments identified as threatened or impaired on the Impaired Waterbodies List (Section 303(d)) of Oklahoma's Integrated Water Quality Assessment Report. The total funding approved for these communities was approximately \$34.1 million.
- The Program saw seven (7) projects begin construction and five (5) projects complete construction and initiate operations.
- The Program approved two (2) projects to assist Oklahoma communities to attain compliance with the enforceable permit requirements of the Clean Water Act in order to protect the water quality of receiving streams and lakes.

Financial Highlights

- The Program experienced a net increase in the total dollar amount of outstanding loans in FY 2016. At June 30, 2016 there were 182 outstanding loans with a principal balance of \$481,453,878. At June 30, 2015 the Program had 187 loans with a balance of \$454,221,267.
- Ending Program net position increased from \$344,029,943 to \$357,479,768 between FY 2015 and FY 2016 with \$29,542,651 restricted for debt service. Ending Program net position increased from \$328,657,252 to \$344,029,943 between FY 2014 and FY 2015 with \$31,779,990 restricted for debt service.

Using This Annual Report

This annual report is presented in a format that substantially meets the presentation requirements of the Governmental Accounting Standards Board (GASB) in accordance with generally accepted accounting principles. The Program is accounted for and presented similar to, but not identical to, a special-purpose government engaged solely in business-type activities.

(Unaudited. See accompanying auditor's report.)

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The financial statements for the Program are presented after the Management’s Discussion and Analysis in this annual report and then followed by the footnotes in this order:

- Management’s Discussion and Analysis – that provides useful analysis that facilitates a better understanding of the Program’s financial condition and changes therein.
- Basic Financial Statements
 - Statements of Net Position
 - Statements of Revenues, Expenses and Changes in Net Position
 - Statements of Cash Flows
- Footnotes - that elaborate on the accounting principles used in the preparation of the financial statements and further explain financial statement elements.

A Financial Analysis of the Program

One of the most frequently asked questions about the Program’s finances is, “Has the overall financial condition improved, declined or remained steady over the past year?” The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Program as a whole and about its activities in a way that helps answer this question. The following tables present a condensed comparative presentation of net position and changes therein.

Oklahoma Water Resources Board
CWSRF Loan Account Program
Net Position

| | Business-Type | | |
|---|-----------------------|-----------------------|-----------------------|
| | Activities | | |
| | June 30 | | |
| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| Current assets | \$ 199,673,806 | \$ 107,924,237 | \$ 121,211,170 |
| Non-current assets | 483,726,083 | 461,129,430 | 447,620,835 |
| Total assets | 683,399,889 | 569,053,667 | 568,832,005 |
| Current liabilities | 21,567,163 | 15,368,562 | 15,674,136 |
| Non-current liabilities and deferred inflows | 300,981,871 | 209,655,162 | 224,500,617 |
| Total liabilities and deferred inflows | 322,549,034 | 225,023,724 | 240,174,753 |
| Net position | | | |
| Restricted | 29,542,651 | 31,779,990 | 34,517,147 |
| Unrestricted | 327,937,117 | 312,249,953 | 294,140,105 |
| Total net position | \$ 357,479,768 | \$ 344,029,943 | \$ 328,657,252 |

The increase in total assets and total liabilities and deferred inflows is attributable to an increase in loans outstanding and the issuance of debt to fund the loans in FY 2016.

(Unaudited. See accompanying auditor’s report.)

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Oklahoma Water Resources Board
CWSRF Loan Account Program
Revenues, Expenses, and Changes in Net Position

| | Business-Type | | |
|--|-----------------------------|-----------------------|-----------------------|
| | Activities | | |
| | Years Ended June 30, | | |
| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| Revenues | | | |
| Loan program income, net | \$ 10,356,700 | \$ 9,557,342 | \$ 9,530,973 |
| Other contributions | - | - | 12,240 |
| Investment interest income | 2,360,347 | 1,900,334 | 2,316,787 |
| Total revenues | <u>12,717,047</u> | <u>11,457,676</u> | <u>11,860,000</u> |
| Expenses | | | |
| Trustee fees | 26,098 | 30,956 | 30,101 |
| Administration expenses | - | 50 | - |
| Interest expense | 8,622,685 | 6,794,892 | 9,255,257 |
| Bond issuance costs | 723,715 | - | 527,149 |
| Total expenses | <u>9,372,498</u> | <u>6,825,898</u> | <u>9,812,507</u> |
| Net Income before transfers, grants and contributions | 3,344,549 | 4,631,778 | 2,047,493 |
| Federal grants | 10,328,961 | 11,328,000 | 10,786,000 |
| Federal grant principal forgiveness | (250,000) | (616,443) | (508,067) |
| Transfers from other programs | 26,315 | 29,356 | 32,800 |
| Increase in net position | <u>13,449,825</u> | <u>15,372,691</u> | <u>12,358,226</u> |
| Total net position - beginning | 344,029,943 | 328,657,252 | 316,299,026 |
| Total net position - ending | <u>\$ 357,479,768</u> | <u>\$ 344,029,943</u> | <u>\$ 328,657,252</u> |

OWRB provided \$250,000 in principal forgiveness to borrowers in FY 16 compared to \$616,443 in FY 15. In addition, the Program received \$10,328,961 in net Federal Capitalization Grants in FY 2016 compared to \$11,328,000 in FY 2015. Interest expense increased due to the issuance of the 2015 bonds.

(Unaudited. See accompanying auditor's report.)

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Long- Term Debt

At year-end, the Program had \$319,461,871 in long-term debt outstanding, net of unamortized premium, which represents a \$100,180,032 or 45.7% increase from June 30, 2015 to June 30, 2016. Debt decreased \$14,503,218, or 6.2%, from 2014 to 2015. The Program's changes in long-term debt by type of debt are as follows:

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|-----------------------|-----------------------|-----------------------|
| Beginning balances: | | | |
| 2004 Serial bonds due April 1, 2014 to April 1, 2026, interest at 3.50% to 5.25% | \$ - | \$ - | \$ 82,685,000 |
| 2011 Serial bonds due April 1, 2014 to April 1, 2031, interest at 4.0% to 5.0% | 66,765,000 | 71,615,000 | 76,275,000 |
| 2012 Serial bonds due April 1, 2014 to April 1, 2033, interest at 2.00% to 5.00% | 83,875,000 | 85,885,000 | 86,505,000 |
| 2014A Serial bonds due April 1, 2015 to April 1, 2026, interest at 0.188% to 3.671% | 49,070,000 | 55,560,000 | |
| Unamortized premium | 19,571,839 | 20,725,057 | 26,271,129 |
| | <u>\$ 219,281,839</u> | <u>\$ 233,785,057</u> | <u>\$ 271,736,129</u> |
| Add: 2014A Serial bonds due April 1, 2015 to April 1, 2026, interest at 0.188% to 3.671% | - | - | 55,560,000 |
| Add: 2015 Serial bonds due April 1, 2017 to April 1, 2040, interest at 3.125% to 5.000% | 100,620,000 | - | - |
| Add: 2015 bond premium | 14,375,840 | - | - |
| Less: debt principal repayments | (13,345,000) | (13,350,000) | (5,280,000) |
| Less: debt refunded, net | - | - | (86,851,837) |
| Less: current amortization of premium | (1,470,808) | (1,153,218) | (1,379,235) |
| Ending balances | <u>\$ 319,461,871</u> | <u>\$ 219,281,839</u> | <u>\$ 233,785,057</u> |
| Amounts due in one year | 18,480,000 | 13,345,000 | 13,350,000 |

See Note 6 to the financial statements for more detailed information on the Program's long-term debt and changes therein.

Economic Factors and Next Year's Outlook

As a result of the widespread need for water pollution control financing, and efforts by the OWRB to implement a "lower than market rate" loan program, we continue to receive responses from communities across the state requesting their projects be added to the five-year CWSRF Project Priority List. To date, eighteen (18) communities have made requests for eighteen (18) construction and water conservation projects in FY 2017 totaling over \$143.6 million. An additional \$181.6 million in projects have been requested through 2021.

Contacting the Program's Financial Management

This financial report is designed to provide the Board's accountability of the Program. If you have questions about this report or need additional financial information, contact the Financial Assistance Division of the Oklahoma Water Resources Board at 3800 N. Classen Blvd, Oklahoma City, OK 73118.

(Unaudited. See accompanying auditor's report.)

**OKLAHOMA WATER RESOURCES BOARD
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BASIC FINANCIAL STATEMENTS

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Statements of Net Position – June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|----------------------|
| ASSETS: | | |
| Current Assets: | | |
| Cash and cash equivalents | \$53,013,193 | \$30,525,522 |
| Investments | 110,158,564 | 43,368,039 |
| Loans receivable | 33,309,926 | 31,078,429 |
| Interest receivable: | | |
| Loans receivable | 3,043,131 | 2,836,918 |
| Other interest receivable | 148,992 | 115,329 |
| | <u>199,673,806</u> | <u>107,924,237</u> |
| Total current assets | | |
| Noncurrent Assets: | | |
| Loans receivable, net of current portion and allowance for uncollectible loans of \$0 in 2016 and \$268,895 in 2015 | 448,143,952 | 423,142,838 |
| Restricted investments | 29,542,651 | 31,779,990 |
| Investments | 6,039,480 | 6,206,602 |
| | <u>483,726,083</u> | <u>461,129,430</u> |
| Total noncurrent assets | | |
| Total assets | <u>683,399,889</u> | <u>569,053,667</u> |
| LIABILITIES: | | |
| Current Liabilities: | | |
| Accrued interest payable | 3,080,153 | 2,016,292 |
| Current maturities of long-term debt | 18,480,000 | 13,345,000 |
| Other accrued liabilities | 6,931 | 7,220 |
| Due to other programs | 79 | 50 |
| Total current liabilities | <u>21,567,163</u> | <u>15,368,562</u> |
| Noncurrent liabilities: | | |
| Long-term debt, less current maturities and plus unamortized premium | 300,981,871 | 205,936,839 |
| | <u>300,981,871</u> | <u>205,936,839</u> |
| Total noncurrent liabilities | | |
| Total liabilities | <u>322,549,034</u> | <u>221,305,401</u> |
| DEFERRED INFLOW OF RESOURCES: | | |
| Deferred amount on refunding | <u>3,371,087</u> | <u>3,718,323</u> |
| NET POSITION: | | |
| Restricted for debt service | 29,542,651 | 31,779,990 |
| Unrestricted | 327,937,117 | 312,249,953 |
| Total net position | <u>\$357,479,768</u> | <u>\$344,029,943</u> |

See accompanying notes to the basic financial statements.

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Statements of Revenues, Expenses and Changes in Net Position – Years Ended June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|-----------------------------|-----------------------------|
| OPERATING REVENUES: | | |
| Loan program income {net of bad debt recovery of (\$268,895) and (\$20,528)} in 2016 and 2015, respectively | \$10,356,700 | \$9,557,342 |
| Total operating revenues | <u>10,356,700</u> | <u>9,557,342</u> |
| OPERATING EXPENSES: | | |
| Trustee fees | 26,098 | 30,956 |
| Administration expenses | - | 50 |
| Interest expense | 8,622,685 | 6,794,892 |
| Bond issuance costs | 723,715 | - |
| Total operating expenses | <u>9,372,498</u> | <u>6,825,898</u> |
| OPERATING INCOME | 984,202 | 2,731,444 |
| NON-OPERATING REVENUES (EXPENSES): | | |
| Federal grants and contracts | 10,328,961 | 11,328,000 |
| Federal grant principal forgiveness | (250,000) | (616,443) |
| Interest Income: | | |
| Invested cash balances | 300,520 | 608,003 |
| Short-term investments | 106,396 | 84,881 |
| Long-term investments | 178,891 | 206,026 |
| Gain on Investments | 1,774,540 | 1,001,424 |
| Total net non-operating revenues | <u>12,439,308</u> | <u>12,611,891</u> |
| Net income before transfers | 13,423,510 | 15,343,335 |
| Transfers in - Clean Water Revolving Fund Loan Administrative Fund | <u>26,315</u> | <u>29,356</u> |
| Change in net position | 13,449,825 | 15,372,691 |
| Total net position - beginning | 344,029,943 | 328,657,252 |
| Total net position - ending | <u><u>\$357,479,768</u></u> | <u><u>\$344,029,943</u></u> |

See accompanying notes to the basic financial statements.

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Statements of Cash Flows – Years Ended June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Collections of interest on loans to local governmental units | \$9,881,592 | \$9,390,800 |
| Payments to other suppliers | (750,073) | (138,863) |
| Payments from other programs | - | (86,221) |
| Interest paid on debt | (9,376,868) | (8,401,843) |
| | <u>(245,349)</u> | <u>763,873</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Transfers in - Clean Water Revolving Fund Loan Administrative Fund | 26,315 | 29,356 |
| Federal grant receipts | 10,078,961 | 10,711,557 |
| Bond issue proceeds | 100,620,000 | - |
| Premium received on bonds issued | 14,375,840 | - |
| Principal paid on bonds/notes | (13,345,000) | (13,350,000) |
| | <u>111,756,116</u> | <u>(2,609,087)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Loans to local governmental units | (58,877,917) | (47,934,929) |
| Collections of principal on loans to local governmental units | 31,664,201 | 29,990,059 |
| Collections of principal on loans to local governmental units from federal grant proceeds | 250,000 | 616,443 |
| Interest on invested cash balances | 300,520 | 608,003 |
| Interest on short-term investments | 106,398 | 84,882 |
| Interest on long-term investments | 145,227 | 1,219,392 |
| Sale of long-term investments | 4,179,000 | 3,164,575 |
| Sale (Purchase) of short-term investments | (66,790,525) | 10,085,139 |
| | <u>(89,023,096)</u> | <u>(2,166,436)</u> |
| Net Cash Provided by (Used in) Investing Activities | <u>(89,023,096)</u> | <u>(2,166,436)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 22,487,671 | (4,011,650) |
| Balances - beginning of the year | <u>30,525,522</u> | <u>34,537,172</u> |
| Balances - end of the year | <u>\$53,013,193</u> | <u>\$30,525,522</u> |
| Reconciliation of operating income to net cash provided by (used in) operating activities: | | |
| Operating income | \$984,202 | \$2,731,444 |
| Adjustments to reconcile operating income to net cash provided by (used in) operating activities: | | |
| Amortization of bond issuance premiums and deferred amount on refunding | (1,818,044) | (1,500,455) |
| Allowance for uncollectible loans | (268,895) | (20,528) |
| Change in assets and liabilities: | | |
| Decrease (Increase) in interest receivable | (206,213) | (146,014) |
| Increase (Decrease) in other current liabilities | (289) | (107,857) |
| Increase (Decrease) in accrued interest payable | 1,063,861 | (106,496) |
| Increase (Decrease) in due to other funds | 29 | (86,221) |
| | <u>(\$245,349)</u> | <u>\$763,873</u> |
| Net Cash Provided by (Used in) Operating Activities | <u>(\$245,349)</u> | <u>\$763,873</u> |
| Non-cash Transactions: | | |
| Federal principal forgiveness | <u>\$250,000</u> | <u>\$616,443</u> |
| Total Non Cash Transactions | <u>\$250,000</u> | <u>\$616,443</u> |

See accompanying notes to the basic financial statements.

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Footnotes to the Basic Financial Statements:

1. Summary of Significant Accounting Policies

Reporting Entity

The Oklahoma Water Resources Board/Oklahoma Wastewater Facility Construction Revolving Loan Account Program (the "Program") was created pursuant to the 1987 Amendments (P.L. 100-4) to the "Clean Water Act" (P.L. 92-500) to provide a perpetual fund for financing the construction of wastewater treatment facilities for municipalities and other public entities. The Program funds loans with Federal grants, State matching funds, principal repayments, bond proceeds, and interest received on loans and invested cash balances. State matching funds are provided through State appropriations, issuance of notes payable and bond proceeds.

Administrative costs of the Oklahoma Water Resources Board ("OWRB") allocated to the Program may be reimbursed by the Program, limited to 4% of total cumulative Federal contributions or through fees assessed to each participating borrower at the rate of one-half of one percent per annum of the amount of each borrower's loan balance outstanding, and loan application fees. The fees paid by the participating borrowers are remitted directly to OWRB and, therefore, are not included in the accompanying financial statements.

The significant accounting principles and practices followed by the Program are presented below:

Basis of Accounting and Measurement Focus

The Program is accounted for and presented similar to, but not identical to, a special-purpose government engaged solely in business type activities.

The Program uses the accrual basis of accounting whereby expenses are recognized when the liability is incurred and revenues are recognized when earned.

The Program uses the economic resources measurement focus where all assets, deferred outflows, liabilities, deferred inflows, net position, revenues, expenses and transfers relating to the Program and net income and capital maintenance are measured.

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB").

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1. Summary of Significant Accounting Policies (cont'd)

Loans Receivable and Allowance for Uncollectible Loans

Loans receivable are stated at the amount of unpaid principal reduced by an allowance for uncollectible loans. The allowance for uncollectible loans is established through a provision for bad debts that is charged to expense. Loans receivable are charged against the allowance for uncollectible loans when management believes that the collectability of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans receivable that may become uncollectible, based on evaluations of the collectability of loans receivable. The evaluations take into consideration such factors as the borrowers' debt coverage ratio, review of specific problem loans receivable and current economic conditions that may affect the borrowers' ability to pay. Accrual of interest is discontinued on a loan receivable when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful.

Federal Letter of Credit Payments Receivable

Funding from Federal grants, which have been approved, is provided through a Federal letter of credit. Timing of deposits is specified by the terms of the grant. The Program draws on the available funds as necessary to fund loans. Letter of Credit Payment Receivables are recorded only when the required State match has been met and actual requests for loan draws have been received by the Program. When these events have occurred, the Program records the receivable and federal revenue for the amount of the loan request.

Federal Grant Income

Federal grant income represents contributions from the Environmental Protection Agency ("EPA") of the U.S. Federal Government. In the unlikely circumstance of termination of the Program, all Federal and State contributions are refundable to the respective governments upon liquidation of the Program's assets.

In accordance with the Consolidated Appropriations Act 2014, the State agreed to provide additional subsidization in the form of principal forgiveness, negative interest rate loans, or grants to eligible recipients for the 2014 Capitalization Grant. No additional subsidization was required for the 2015 Capitalization Grant awarded in FY 2016. For FY 2016 and 2015, the OWRB chose to give principal forgiveness in the amount of \$250,000 and \$616,443, respectively. During FY 2016 additional awards totaling \$750,000 were awarded but not drawn by the entities.

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1. Summary of Significant Accounting Policies (cont'd)

Bond Issue Premium

The Program's State Revolving Fund Revenue Bonds, Series 2011 were initially sold at a premium of \$9,167,991. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$458,400 was recorded in 2016 and 2015 and is included in interest expense in the accompanying statements of revenues, expenses, and changes in net position.

The Program's State Revolving Fund Revenue Bonds, Series 2012 were initially sold at a premium of \$14,172,391. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$694,818 was recorded in 2016 and 2015, and is included in interest expense in the accompanying statements of revenues, expenses, and changes in net position.

The Program's State Revolving Fund Revenue Bonds, Series 2015 were initially sold at a premium of \$14,375,840. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$317,590 was recorded in 2016, and is included in interest expense in the accompanying statements of revenues, expenses, and changes in net position.

Deferred Amount on Refunding

The Program's State Revolving Fund Revenue Bonds, Series 2014A, were used to refund the 2004 Series Revenue Bonds. The refunding resulted in a deferred inflow of \$4,166,837 which is being amortized over twelve years. Net amortization expense of \$347,236 was recorded in FY 2016 and 2015, and is included in interest expense in the accompanying statements of revenues, expense and changes in net position.

Cash and Cash Equivalents

The Program considers all highly liquid debt instruments purchased with an original maturity of three months or less and money market funds to be cash equivalents.

Investments

Included in the total is \$29,542,651, which has been deposited into a Debt Service Reserve fund, pursuant to the bond indenture (See Note 5).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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2. Cash Deposits and Investment Risk

Cash of \$53,013,193 and \$30,525,522 at June 30, 2016 and 2015 respectively, was on deposit in the State Treasurer's office's internal investment pool – *OK Invest*. Short-term investments of \$110,158,564 and \$43,368,039 at June 30, 2016 and 2015, respectively, were on deposit with the Program's trustee. The deposits are invested in the *Federated Treasury Obligations and the Goldman Sachs Financial SQ Treasury Obligation Fund Admin* money market mutual funds.

Custodial credit risk for deposits is the risk that in the event of a bank or other institution failure, the Program deposits may not be returned or the Program will not be able to recover collateral securities in the possession of an outside party. The Program deposits its funds with the Office of the State Treasurer (OST). Oklahoma statutes require OST to ensure that all state funds either be insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The Program deposits with the State Treasurer are pooled with the funds of other State agencies and then, in accordance with statutory limitations, placed in financial institutions or invested as the Treasurer may determine, in the State's name.

Of the \$53,013,193 and \$30,525,522 in cash and cash equivalents on deposit with the State Treasurer as of June 30, 2016 and June 30, 2015, 100% represent amounts held within OK INVEST, an internal investment pool. Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in OK INVEST. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in OK INVEST. Safety, liquidity, and return on investment are the objectives that establish the framework for the day-to-day OK INVEST management with an emphasis on safety of the capital and the probable income to be derived and meeting the State's daily cash flow requirements. Guidelines in the State Treasurer's Investment Policy address credit quality requirements, diversification percentages and the types and maturities of allowable investments. The specifics regarding these policies can be found on the State Treasurer's website at <http://www.ok.gov/treasurer/>. An evaluation of the use and purpose of the Program's participation in the internal investment pool determined that the amounts on deposit with OK INVEST are considered demand accounts and are reported as cash equivalents.

Investment Interest Rate Risk – the Program does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates as it relates to funds not directly associated with bond issue proceeds.

Investment Credit Risk-Non Debt Proceeds – for non-debt proceeds, the Program has no investment policy that limits its investment choices other than the limitation of state law imposed on the State Treasurer as follows:

- a. U.S. Treasury Bills, Notes and Bonds and U.S. Government Agency Securities with certain ratings and maturity limitations.
- b. Collateralized or insured certificates of deposit and other evidences of deposit issued by a bank, savings bank, savings and loan association or credit union located in the state.

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- c. With certain ratings and maturity limitations, negotiable certificates of deposit, bankers acceptances and commercial paper.
- d. Obligations of state and local governments, including obligations of Oklahoma state public trusts, with certain ratings and maturity limitations.
- e. Collateralized repurchase agreements tri-party repurchase agreements.
- f. Money market mutual funds and short term bond funds regulated by the SEC and in which investments consist of obligations of the U.S. Government and its agencies and instrumentalities and repurchase agreements collateralized by obligations of the U.S. Government and its agencies and instrumentalities.

Investment Credit Risk - Debt Proceeds – for debt proceeds, the bond indenture provides for restrictions on the investment choices of the Program as follows:

- a. Obligations of the United States Government, its agencies and instrumentalities.
- b. Collateralized or insured certificates of deposit and other evidences of deposit at banks, savings banks, savings and loan associations or credit unions located in the State of Oklahoma.
- c. Money market funds regulated by the Securities and Exchange Commission and which investments consist of those items specified in (a) and (b) above.
- d. Investment agreements with entities maintaining a rating in the top two categories by a nationally recognized municipal bond rating agency.

The Program implemented GASB Statement No. 72, Fair Value Measurement and Application, during the fiscal year ended June 30, 2016. The Program categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

At June 30, 2016 and 2015, the Program's investments in obligations not directly guaranteed by the U.S. Government and investments in money market mutual funds were valued according to the following hierarchy and were rated as follows:

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| <u>Type</u> | <u>Maturities</u> | <u>Credit Rating</u> | <u>Fair Value Hierarchy</u> | <u>Carrying Value</u> | |
|---|-------------------|----------------------|-----------------------------|-----------------------|-----------------------|
| | | | | 2016 | 2015 |
| OK Invest (State Treasurer) | on demand | Not rated. | N/A | \$ 53,013,193 | \$ 30,525,522 |
| Federated Treasury Obligations Fund SER Class | 16 days | AAA | Level 1 | 25,768 | 15,330,635 |
| Federated Government Obligations Tax Managed Fund | 16 days | AAA | Level 1 | 96,596,160 | 2,837,227 |
| Goldman Sachs Financial SQ Treasury Obligation Fund Admin | | AAA | | 13,536,636 | 25,200,177 |
| City of Lawton Municipal Bond | 10/1/2028 | Not rated. | Level 2 | 6,039,480 | 6,206,602 |
| FHLMC | 2017-2025 | AA+ | Level 2 | 4,954,147 | 4,949,874 |
| FHLB | 3/10/2023 | AA+ | Level 2 | 742,287 | 716,586 |
| FHLMC - IO Strip | 2018-2022 | AA+ | Level 2 | 1,006,579 | 963,264 |
| FHLMC - Freddie Mac Int Strip | 3/15/2025 | AA+ | Level 2 | 902,278 | 813,305 |
| FNMA IO Strip | 1/15/2026 | AA+ | Level 2 | 111,512 | 100,282 |
| FNMA Interest Strip | 3/23/2019 | AA+ | Level 2 | 383,063 | 368,572 |
| AID Isreal Bonds | 2016-2023 | A+ | Level 2 | 47,781 | 1,800,226 |
| TennVal Authority IO Strip | 2014-2026 | AA+ | Level 2 | 11,159,787 | 11,103,493 |
| Tenn Val Authority CPN Strip | 2015-2025 | AA+ | Level 2 | 10,235,217 | 10,964,388 |
| Total | | | | <u>\$ 198,753,888</u> | <u>\$ 111,880,153</u> |

Concentration of Investment Credit Risk – neither the Program nor the bond indenture place any limit on the amount the Program may invest in any one issuer. The Program has the following concentration of credit risk at June 30, 2016: 48.61% or \$96,621,928 is invested in Federated Treasury money market funds, 6.81% or \$13,536,636 is invested in Goldman Sachs Financial SQ Treasury Obligation Admin Fund, 5.15% or \$10,235,217 invested in Tennessee Valley Authority CPN Strips, and 5.61% or \$11,159,787 is invested in Tennessee Valley Authority IO Strips, and 26.67% or \$53,013,193 is invested in OK Invest.

At June 30, 2015, the Program has the following concentration of credit risk 13.70% or \$15,330,635 is invested in Federated Treasury money market funds, 22.52% or \$25,200,177 is invested in Goldman Sachs Financial SQ Treasury Obligation Admin Fund, 9.80% or \$10,964,388 invested in Tennessee Valley Authority CPN Strips, and 9.92% or \$11,103,493 is invested in Tennessee Valley Authority IO Strips, and 27.28% or \$30,525,522 is invested in OK Invest.

3. Federal Letter of Credit Payments Receivable

A schedule of activity in the Federal letter of credit payments receivable account, as reflected in the accompanying statements of net position, for the years ended June 30, 2016 and 2015, is as follows:

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| | | |
|----------------------------|----|---------------------|
| Balance, June 30, 2014 | \$ | - |
| Federal revenue recognized | | 11,328,000 |
| Federal funds withdrawn | | <u>(11,328,000)</u> |
| Balance, June 30, 2015 | \$ | <u>-</u> |
| Balance, June 30, 2015 | \$ | - |
| Federal revenue recognized | | 10,328,961 |
| Federal funds withdrawn | | <u>(10,328,961)</u> |
| Balance, June 30, 2016 | \$ | <u>-</u> |

Of the Federal letter of credit payments withdrawn during the fiscal year ended June 30, 2016, \$10,078,961 was used to provide loans to borrowers, \$250,000 was used for debt forgiveness and no funds were used for administrative expenses.

Of the Federal letter of credit payments withdrawn during the fiscal year ended June 30, 2015, \$10,711,557 was used to provide loans to borrowers, \$616,443 was used for debt forgiveness and no funds were used for administrative expenses. As of June 30, 2015, the Program has no remaining EPA grant funding available.

4. Loans Receivable

The Program originates direct loans with communities utilizing several sources of funds including existing loan principal repayments, interest earnings, federal grants and bond funds. These loans are collateralized by various revenue sources including, but not limited to, user charges and sales taxes of the borrowers. These loans are made at 60% of the current market interest rate. At June 30, 2016 and 2015, there were \$460,260,645 and \$428,250,876, respectively, in loans outstanding, net of allowances. As of June 30, 2016, the Program had unexpended commitments to borrowers for additional loan funds in the amount of \$87,811,588.

Prior to FY-2007, the Board originated interim construction loans that would upon completion provide the borrowers the opportunity to refinance 40% of their outstanding interim loan balance on a long-term basis without interest. Such loans were collateralized by various revenue sources including, but not limited to, user charges and sales taxes of the borrowers. To avail themselves of this opportunity, the borrowers obtained funding for the remaining 60% of the outstanding loan from sources outside the Program. This is no longer an option for the Program. At June 30, 2016 and 2015, there were \$21,193,233 and \$25,970,391, respectively, in long-term interest-free loans outstanding, net of allowances.

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A schedule of activity of loans receivable for the years ended June 30, 2016 and 2015, is as follows:

| | | |
|---|----|---------------------------|
| Net Balance, June 30, 2014 | \$ | 436,872,311 |
| Loan disbursements | | 47,934,929 |
| Principal repayments and forgiveness | | <u>(30,606,502)</u> |
| | | 454,200,738 |
| Change in allowance for uncollectible loans | | <u>20,529</u> |
| Net Balance, June 30, 2015 | | 454,221,267 |
| Loan disbursements | | 58,877,917 |
| Principal repayments and forgiveness | | <u>(31,914,201)</u> |
| | | 481,184,983 |
| Change in allowance for uncollectible loans | | <u>268,895</u> |
| Net Balance, June 30, 2016 | \$ | <u><u>481,453,878</u></u> |

5. Restricted Investments

A description of the restricted investments held at June 30, 2016 and 2015, is as follows:

| | <u>2016</u> | <u>2015</u> |
|--|-----------------------------|-----------------------------|
| FHLMC - Federal Home Loan Morg Corp maturities from March 2017 to October 2019 | \$ 4,954,147 | \$ 4,949,874 |
| FHLB - Federal Home Loan Bank maturity March 15, 2025 | 742,287 | 716,586 |
| maturities from March 15, 2018 to March 15, 2022 | 1,006,579 | 963,264 |
| FHLMC - Federal Home Loan Mtg Corp Int Strip maturity March 15, 2025 | 902,278 | 813,305 |
| FNMA - Federal National Mtg Assoc. IO Strip maturity January 15, 2026 | 111,512 | 100,282 |
| FNMA - Federal National Mtg Assoc. Interest Strip maturity March 23, 2019 | 383,063 | 368,572 |
| AID-Israel Bonds maturity March 15, 2016 and February 15, 2023 | 47,781 | 1,800,226 |
| Tennessee Valley Authority IO Strips maturities September 15, 2022 to March 15, 2026 | 11,159,787 | 11,103,493 |
| Tennessee Valley Authority CPN Strips maturities from March 15, 2017 to March 15, 2024 | <u>10,235,217</u> | <u>10,964,388</u> |
| Total restricted investments | <u><u>\$ 29,542,651</u></u> | <u><u>\$ 31,779,990</u></u> |

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6. Long-Term Debt

Bonds Payable

On October 26, 2004, the Program issued State Revolving Fund Revenue Bonds, Series 2004 in the amount of \$121,075,000. These bonds were issued to provide low interest cost financing for Oklahoma Local governmental entities for acquiring, constructing, or improving their wastewater treatment systems and to enable the Program to meet the State matching requirements in order to obtain Federal grants. The bonds represent a portion of the overall \$204,480,000 Revolving Fund Revenue Bonds, Series 2004 (Master Trust) issued by the Oklahoma Water Resources Board. The balance of the bonds and related debt issue costs, bond premium, etc. were allocated proportionately to the Drinking Water State Revolving Fund Loan Program for similar purposes related to its drinking water treatment facilities projects. The Bonds were refunded in March 2014 with the issuance of the Series 2014A State Revolving Fund Revenue Bonds.

On April 13, 2011, the Program issued State Revolving Fund Revenue Bonds, Series 2011A in the amount of \$85,000,000. These bonds were issued to provide low interest cost financing for Oklahoma Local governmental entities for acquiring, constructing, or improving their wastewater treatment systems and to enable the Program to meet the State matching requirements in order to obtain Federal grants.

On October 23, 2012, the Program issued State Revolving Fund Revenue Bonds, Series 2012B in the amount of \$86,505,000. These bonds were issued to provide low interest cost financing for Oklahoma Local governmental entities for acquiring, constructing, or improving their wastewater treatment systems and to enable the Program to meet the State matching requirements in order to obtain Federal grants.

On March 20, 2014, the Program issued State Revolving Fund Revenue Bonds, Taxable Series 2014A in the amount of \$55,560,000. These bonds were issued together with certain other available moneys and investments to refund the \$82,685,000 outstanding principal amount of the Board's Revolving Fund Revenue Bonds, Series 2004, to fund a debt service reserve fund for the bonds through the transfer of a portion of reserve funds held for the 2004 Revenue Bonds, and to pay cost of issuance of the bonds.

On December 17, 2015, the Program issued State Revolving Fund Revenue Bonds, Series 2015 in the amount of \$100,620,000. These bonds were issued to provide low interest cost financing for Oklahoma Local governmental entities for acquiring, constructing, or improving their wastewater treatment systems and to enable the Program to meet the State matching requirements in order to obtain Federal grants.

Future debt service payments required by the Program's outstanding bonds as of June 30, 2016 are as follows:

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6. Long-Term Debt (cont'd)

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|----------------------|---------------------|----------------------|
| 2017 | \$18,480,000 | \$1,235,541 | \$19,715,541 |
| 2018 | 19,510,000 | 11,701,211 | 31,211,211 |
| 2019 | 21,995,000 | 11,018,137 | 33,013,137 |
| 2020 | 25,000,000 | 10,226,810 | 35,226,810 |
| 2021 | 25,815,000 | 9,173,774 | 34,988,774 |
| 2022-2026 | 89,190,000 | 30,002,900 | 119,192,900 |
| 2027-2031 | 61,185,000 | 13,073,560 | 74,258,560 |
| 2032-2036 | 22,555,000 | 2,202,638 | 24,757,638 |
| 2037-2040 | 3,240,000 | 309,600 | 3,549,600 |
| Total | <u>\$286,970,000</u> | <u>\$88,944,171</u> | <u>\$375,914,171</u> |

In addition to their normal scheduled maturity dates as shown above, the bonds may also be redeemed at the option of the Board, in whole or in part, at such dates and for such prices, plus accrued interest as are set forth in the bond indenture.

In order for the interest on the Program's Series 2004, 2011A, and 2012B bonds to be tax-exempt, the Board must comply with certain provisions of the Internal Revenue Code, as amended. One provision requires that the arbitrage earnings (defined as the excess of the amount earned on all nonpurpose investments over the amount which would have been earned if the nonpurpose investments were invested at a rate equal to the bond yield) be rebated to the Internal Revenue Service. This rebate is payable at the end of each five years during the term of the issue. Management of the Program believes that any arbitrage liability, which exists at June 30, 2016, is immaterial.

Pursuant to the 2014A Bond Indenture, the Clean Water State Revolving Fund Loan Program must maintain a debt service reserve fund. At June 30, 2016, the debt service reserves totaled \$31,779,990.

Long-term debt outstanding at June 30, 2016 and 2015 are as follows:

| | <u>2016</u> | <u>2015</u> |
|--|-----------------------|-----------------------|
| Beginning balances: | | |
| 2011A Serial bonds due April 1, 2014 to April 1, 2031, interest at 4.0% to 5.0% | \$ 66,765,000 | \$ 71,615,000 |
| 2012B Serial bonds due April 1, 2014 to April 1, 2033, interest at 2.00% to 5.00% | 83,875,000 | 85,885,000 |
| 2014A Serial bonds due April 1, 2015 to April 1, 2026, interest at 0.188% to 3.671% | 49,070,000 | 55,560,000 |
| Unamortized premium | 19,571,839 | 20,725,057 |
| | <u>\$ 219,281,839</u> | <u>\$ 233,785,057</u> |
| Add: 2015 Serial bonds due April 1, 2017 to April 1, 2040, interest at 2.00% to 5.00% | 100,620,000 | - |
| Add: 2015 bond premium | 14,375,840 | - |
| Less: debt principal repayments | (13,345,000) | (13,350,000) |
| Less: debt refunded, net | - | - |
| Less: current amortization of premium | (1,470,808) | (1,153,218) |
| Ending balances | <u>\$ 319,461,871</u> | <u>\$ 219,281,839</u> |
| Amounts due in one year | 18,480,000 | 13,345,000 |

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Advance Refunding

On March 20, 2014, the Board issued the \$55,560,000 Series 2014A Taxable State Revolving Fund Revenue Bonds with an interest rate of 0.188% to 3.671% together with other money to current refund the \$82,685,000 outstanding principal amount of the Board's Revolving Fund Revenue Bonds, Series 2004. The proceeds along with other available funds were used to refund the outstanding bonds on April 1, 2014. As a result, the 2004 Series bonds are considered to be paid in full and the liability for those bonds has been removed from the Statement of Net Position.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$4,166,837. This difference, reported in the accompanying financial statements as a deferred inflow, is being charged to operations through the year 2023 using the straight line method. The Board completed the advance refunding to reduce its total debt service payments over the next twelve years by \$35,207,942 and to obtain an economic gain (the difference between the present values of the old and new debt service payments) of \$8,263,471.

7. Binding Commitments

During the year ended June 30, 2016, the OWRB voted to approve funding of various borrower loan applications through the Program. These binding commitments will be funded by the Program provided that a loan agreement and promissory note are executed within one year from the date of original approval unless an extension is granted by the OWRB. There was one loan application approved by the OWRB for which a loan agreement and promissory note had not been executed totaling \$6,700,000 at June 30, 2016.