

State of Oklahoma



WATER RESOURCES BOARD
the water agency

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

**ANNUAL FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019
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, 2020 and 2019**

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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 Administrative Fund (the "Fund") as of and for the years ended June 30, 2020 and 2019, 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 Fund as of June 30, 2020 and 2019, 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 21, 2020, on our consideration of the Fund'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 Fund's internal control over financial reporting and compliance.

Arledge & Associates, P.C.

Edmond, Oklahoma
September 21, 2020

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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, 2020 and 2019. 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 fourteen (14) new construction, planning loans totaling approximately \$134.5 million.
- The Program funded fourteen (14) 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 \$91.6 million.
- The Program saw twelve (12) projects begin construction and five (5) projects complete construction and initiate operations.
- The Program approved thirteen (13) 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

- Ending Program net position decreased from \$396,676,044 to \$396,156,648 between FY 2019 and FY 2020 with \$17,507,734 restricted for debt service. Ending Program net position increased from \$371,474,444 to \$396,676,044 between FY 2018 and FY 2019 with \$19,530,153 restricted for debt service.
- The Program experienced a net increase in the total dollar amount of outstanding loans in FY 2020. At June 30, 2020 there were 140 outstanding loans with a principal balance of \$588,271,688. At June 30, 2019 the Program had 194 loans with a balance of \$502,498,088.
- In December 2019, the Program refunded the 2011A and 2012B bonds outstanding with the issuance of \$126,210,000 of 2019 Refunding Revenue Bonds. The refunding resulted in an unamortized gain of \$14,521,156.

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>2020</u>	<u>2019</u>	<u>2018</u>
Current assets	\$ 100,641,089	\$ 165,766,990	\$ 183,383,906
Non-current assets	538,336,481	490,002,526	471,475,626
Total assets	638,977,570	655,769,516	654,859,532
Current liabilities	19,374,839	27,521,172	24,720,902
Non-current liabilities	207,522,523	229,242,922	255,987,572
Deferred inflows	15,923,560	2,329,378	2,676,614
Total liabilities and deferred inflows	242,820,922	259,093,472	283,385,088
Net position			
Restricted	17,507,734	19,530,153	21,771,506
Unrestricted	378,648,914	377,145,891	349,702,938
Total net position	\$ 396,156,648	\$ 396,676,044	\$ 371,474,444

In FY 20, the decrease in total assets and total liabilities, and the increase in deferred inflows is attributable to a decrease in cash, the refunding of the 2011A and 2012B Revenue Bonds, and the repayment of long term debt.

In FY 19, the decrease in total liabilities is attributable to the repayment of long-term debt.

(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>2020</u>	<u>2019</u>	<u>2018</u>
Revenues			
Loan program income, net	\$ 8,912,134	\$ 10,702,993	\$ 10,328,925
Investment income	3,786,841	4,546,436	1,998,419
Total revenues	<u>12,698,975</u>	<u>15,249,429</u>	<u>12,327,344</u>
Expenses			
Interest expense	5,051,494	8,606,991	9,355,624
Transfer to escrow agent	7,744,118	-	-
Bond issuance costs	1,024,474	-	-
Total expenses	<u>13,820,086</u>	<u>8,606,991</u>	<u>9,355,624</u>
Net Income (loss) before transfers, grants and contributions	(1,121,111)	6,642,438	2,971,720
Federal grants	15,409,263	19,939,759	5,959,067
Federal grant principal forgiveness	(1,280,970)	(1,380,597)	(580,838)
Principal forgiveness refunding savings	(1,093,978)	-	-
Transfers from other programs	2,567,400	-	-
Transfers to other programs	(15,000,000)	-	-
Increase (decrease) in net position	<u>(519,396)</u>	<u>25,201,600</u>	<u>8,349,949</u>
Total net position - beginning	396,676,044	371,474,444	363,124,495
Total net position - ending	<u>\$ 396,156,648</u>	<u>\$ 396,676,044</u>	<u>\$ 371,474,444</u>

OWRB provided \$1,280,970 in principal forgiveness to borrowers in FY 20 compared to \$1,380,597 in FY 19. In addition, the Program received \$15,409,263 in net Federal Capitalization Grants in FY 2020 compared to \$19,939,759 in FY 2019. In FY 20, the Program refunded the 2011A and 2012B Revenue Bonds with the issuance of the 2019 Refunding Bonds. The issuance resulted in the Program passing savings to the borrowers of \$1,093,978.

(Unaudited. See accompanying auditor's report.)

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Long- Term Debt

At year-end, the Program had \$225,272,523 in long-term debt outstanding, net of unamortized premium, which represents a \$28,970,399 or 11.4% decrease from June 30, 2019. Debt decreased \$23,739,650, or 8.5%, from 2019 to 2020. The Program's changes in long-term debt by type of debt are as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Beginning balances:			
2011A Serial bonds due April 1, 2015 to April 1, 2031, interest at 4.0% to 5.0%	\$ 45,860,000	\$ 51,080,000	\$ 56,420,000
2012B Serial bonds due April 1, 2015 to April 1, 2033, interest at 3.00% to 5.00%	76,645,000	79,255,000	80,060,000
2014A Serial bonds due April 1, 2015 to April 1, 2026, interest at 0.188% to 3.671%	26,335,000	31,410,000	37,080,000
2015 Serial bonds due April 1, 2017 to April 1, 2040, interest at 2.00% to 5.00%	78,160,000	87,250,000	94,945,000
Unamortized premium	27,242,922	28,987,572	30,732,222
	<u>\$ 254,242,922</u>	<u>\$ 277,982,572</u>	<u>\$ 299,237,222</u>
Add: 2019 Serial bonds due April 1, 2022 to April 1, 2033, interest at 1.73% to 2.77%	126,210,000	-	-
Less: debt principal repayments	(17,125,000)	(21,995,000)	(19,510,000)
Less: debt refunded, net	(136,887,532)	-	-
Less: current amortization of premium	(1,167,867)	(1,744,650)	(1,744,650)
Ending balances	<u>\$ 225,272,523</u>	<u>\$ 254,242,922</u>	<u>\$ 277,982,572</u>
Amounts due in one year	17,750,000	25,000,000	21,995,000

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, 41 communities have made requests for construction and planning projects in FY 2021 totaling over \$255 million. An additional \$11.2 million in projects have been requested through FY 2022.

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.)

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BASIC FINANCIAL STATEMENTS

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Statements of Net Position – June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$35,877,820	\$107,899,887
Investments	19,838,146	17,842,328
Loans receivable	41,620,347	36,581,510
Interest receivable:		
Loans receivable	3,175,101	3,135,452
Other interest receivable	129,675	307,813
 Total current assets	 <u>100,641,089</u>	 <u>165,766,990</u>
Noncurrent Assets:		
Loans receivable, net of current portion and allowance for uncollectible loans of \$0 in 2020 and 2019	516,651,341	465,916,578
Restricted investments	17,507,734	19,530,153
Investments	4,177,406	4,555,795
 Total noncurrent assets	 <u>538,336,481</u>	 <u>490,002,526</u>
 Total assets	 <u>638,977,570</u>	 <u>655,769,516</u>
 LIABILITIES:		
Current Liabilities:		
Accrued interest payable	1,624,839	2,521,172
Current maturities of long-term debt	17,750,000	25,000,000
Total current liabilities	<u>19,374,839</u>	<u>27,521,172</u>
Noncurrent liabilities:		
Long-term debt, less current maturities and plus unamortized premium	207,522,523	229,242,922
 Total noncurrent liabilities	 <u>207,522,523</u>	 <u>229,242,922</u>
 Total liabilities	 <u>226,897,362</u>	 <u>256,764,094</u>
 DEFERRED INFLOW OF RESOURCES:		
Deferred amount on refunding	15,923,560	2,329,378
 NET POSITION:		
Restricted for debt service	17,507,734	19,530,153
Unrestricted	378,648,914	377,145,891
 Total net position	 <u>\$396,156,648</u>	 <u>\$396,676,044</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES:		
Loan program income (net of bad debt recovery of \$0 and \$312,072) in 2020 and 2019, respectively	\$8,912,134	\$10,702,993
Total operating revenues	<u>8,912,134</u>	<u>10,702,993</u>
OPERATING EXPENSES:		
Interest expense	5,051,494	8,606,991
Transfer to escrow agent	7,744,118	-
Bond issuance costs	1,024,474	-
Total operating expenses	<u>13,820,086</u>	<u>8,606,991</u>
OPERATING INCOME (LOSS)	(4,907,952)	2,096,002
NON-OPERATING REVENUES (EXPENSES):		
Federal grants and contracts	15,409,263	19,939,759
Federal grant principal forgiveness	(1,280,970)	(1,380,597)
Principal forgiveness refunding savings	(1,093,978)	-
Investment Income:		
Invested cash balances	2,132,586	2,157,109
Short-term investments	260,724	924,559
Long-term investments	159,340	202,868
Gain on Investments	1,234,191	1,261,900
Total net non-operating revenues	<u>16,821,156</u>	<u>23,105,598</u>
Net income before transfers	11,913,204	25,201,600
Transfers in - Clean Water Revolving Fund Loan Administrative Fund	2,567,400	-
Transfers out - Drinking Fund Revolving Fund Loan Program	<u>(15,000,000)</u>	<u>-</u>
Change in net position	(519,396)	25,201,600
Total net position - beginning	396,676,044	371,474,444
Total net position - ending	<u><u>\$396,156,648</u></u>	<u><u>\$396,676,044</u></u>

See accompanying notes to the basic financial statements.

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Statements of Cash Flows – Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Collections of interest on loans to local governmental units	\$8,872,485	\$10,132,057
Interest paid on debt	(8,046,252)	(10,903,607)
	<u>826,233</u>	<u>(771,550)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in - Clean Water Revolving Fund Loan Administrative Fund	2,567,400	-
Transfers out - Drinking Fund Revolving Fund Loan Program	(15,000,000)	-
Federal grant receipts	15,409,263	18,559,162
Bond issue proceeds	126,210,000	-
Bond issuance cost	(1,024,474)	-
Transfer to escrow agent	(130,153,690)	-
Principal paid on bonds/notes	(17,125,000)	(21,995,000)
	<u>(19,116,501)</u>	<u>(3,435,838)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans to local governmental units	(114,626,872)	(59,015,295)
Collections of principal on loans to local governmental units	56,478,324	35,867,371
Collections of principal on loans to local governmental units from federal grant proceeds	1,280,970	1,380,597
Interest on invested cash balances	2,132,586	2,157,110
Interest on short-term investments	292,735	1,017,305
Interest on long-term investments	305,468	1,312,183
Sale of long-term investments	2,400,808	2,541,042
Sale of short-term investments	17,842,328	86,527,525
	<u>(33,893,653)</u>	<u>71,787,838</u>
Net Cash Provided by (used in) Investing Activities		
	<u>(33,893,653)</u>	<u>71,787,838</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(52,183,921)	67,580,450
Balances - beginning of the year	<u>107,899,887</u>	<u>40,319,437</u>
Balances - end of the year	<u>\$55,715,966</u>	<u>\$107,899,887</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	(\$4,907,952)	\$2,096,002
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Amortization of bond issuance premiums and deferred amount on refunding	(2,098,425)	(2,091,886)
Transfer to escrow agent	7,744,118	-
Bond issuance cost	1,024,474	-
Allowance for uncollectible loans	-	(312,072)
Change in assets and liabilities:		
Decrease (Increase) in interest receivable	(39,649)	(258,864)
Increase (Decrease) in accrued interest payable	(896,333)	(204,730)
	<u>\$826,233</u>	<u>(\$771,550)</u>
Net Cash Provided by (Used in) Operating Activities		
	<u>\$826,233</u>	<u>(\$771,550)</u>
Non-cash Transactions:		
Federal principal forgiveness	\$1,280,970	\$1,380,597
Forgiveness of debt from refunding savings	1,093,978	-
Deferred amount on refunding	14,524,566	-
Total Non Cash Transactions	<u>\$16,899,514</u>	<u>\$1,380,597</u>

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Footnotes to the Basic Financial Statements:

1. Summary of Significant Accounting Policies

Reporting Entity

The Oklahoma Wastewater Facility Construction Revolving Loan Account Program (the "Program"), Title 82 Oklahoma Statutes, Sections 1085.51 et seq., was created pursuant to the 1987 Amendment (P.L. 100-4) to the "Federal Clean Water Act" (P.L. 92-500) set apart from all other Oklahoma Water Resources Board accounts and programs to be permanent and perpetual; not subject to fiscal year limitations. The Program was created to provide a 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, the issuance of revenue notes, bond proceeds, or other funds.

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 Grant Revenue

Federal grant income represents contributions from the Environmental Protection Agency ("EPA") of the U.S. Federal Government. Funding from Federal grants, which have been awarded, 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. Revenues are recorded only when the required State match has been met and actual requests for loan draws have been received by the Program. 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 Capitalization Grant Conditions, the State agreed to provide additional subsidization in the form of principal forgiveness, negative interest rate loans, or grants to eligible recipients when required by EPA. If not required, an additional subsidization up to 30% of the cap grant was authorized under the Water Resources Reform and Development Act (WRRDA). The 2019 Capitalization Grant awarded in FY 2020 had a 10% required additional subsidization amount totaling \$1,283,700 which was all awarded as principal forgiveness during the fiscal year. The 2018 Capitalization Grant awarded in FY 2019 had a 10% required additional subsidization amount totaling \$1,296,700 which was all awarded as principal forgiveness during the fiscal year.

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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 was being amortized over the remaining life of the bonds. Net amortization expense of \$229,200 and \$458,400 was recorded in 2020 and 2019, respectively, and is included in interest expense in the accompanying statements of revenues, expenses, and changes in net position. The balance of the premium, \$5,173,636, was included in the unamortized gain on refunding of the 2011 bonds with the issuance of the 2019 Refunding Bonds.

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 \$347,409 and \$694,818 was recorded in 2020 and 2019, respectively, and is included in interest expense in the accompanying statements of revenues, expenses, and changes in net position. The balance of the premium, \$9,208,723, was included in the unamortized gain on refunding of the 2012 bonds with the issuance of the 2019 Refunding Bonds.

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 \$591,432 was recorded in both 2020 and 2019, respectively, 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 \$347,237 was recorded in both FY 2020 and 2019, 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 2019, were used to refund the 2011 and 2012 Series Revenue Bonds. The refunding resulted in a deferred inflow of \$14,524,566 which is being amortized over thirteen years. Net amortization expense of \$583,147 was recorded in FY 2020, and is included in interest expense in the accompanying statements of revenues, expenses 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.

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Investments

Included in the total is \$17,507,734 and \$19,530,153 in FY 20 and FY 19, respectively, 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.

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through September 21, 2020, the date the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment to or disclosure in the financial statements.

2. Cash Deposits and Investment Risk

Cash of \$35,877,820 and \$107,899,887 at June 30, 2020 and 2019 respectively, was on deposit in the State Treasurer's office's internal investment pool – *OK Invest*. Short-term investments of \$19,838,146 and \$17,842,328 at June 30, 2020 and 2019, respectively, were on deposit with the Program's trustee. The deposits are invested in the *Federated Treasury Obligations Tax Managed Fund* 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 \$35,877,820 and \$107,899,887 in cash and cash equivalents on deposit with the State Treasurer as of June 30, 2020 and June 30, 2019, 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,

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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.
- 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 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.

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At June 30, 2020 and 2019, 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:

<u>Type</u>	<u>Maturities</u>	<u>Credit Rating</u>	<u>Fair Value Hierarchy</u>	<u>Carrying Value</u>	
				<u>2020</u>	<u>2019</u>
OK Invest (State Treasurer)	on demand	Not rated	N/A	\$ 35,877,820	\$ 107,899,887
Federated Treasury Obligations Fund SER Class	16 days	AAAm	Level 1	-	1,513,876
Federated Government Obligations Tax Managed Fund	16 days	AAAm	Level 1	19,838,146	9,922,525
Goldman Sachs Financial SQ Treasury Obligation Fund Admin		AAAm		-	6,405,927
City of Lawton Municipal Bond	10/1/2028	Not rated	Level 2	4,177,406	4,555,795
FHLMC	2017-2025	AA+	Level 2	-	193,879
FHLB	3/10/2023	AA+	Level 2	689,396	679,698
FHLMC - IO Strip	2018-2022	AA+	Level 2	720,982	688,855
FHLMC - Freddie Mac Int Strip	3/15/2025	AA+	Level 2	1,052,959	958,393
FNMA IO Strip	1/15/2026	AA+	Level 2	132,327	119,291
AID Israel Bonds	2016-2023	A+	Level 2	52,972	50,066
TennVal Authority IO Strip	2014-2026	AA+	Level 2	8,343,071	9,527,443
Tenn Val Authority CPN Strip	2015-2025	AA+	Level 2	6,516,027	7,312,528
Total				<u>\$ 77,401,106</u>	<u>\$ 149,828,163</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. At June 30, 2020, the Program has the following concentration of credit risk: 25.63% or \$19,838,146 is invested in Federated Treasury money market funds, 10.78% or \$8,343,071 invested in Tennessee Valley Authority IO Strips, and 8.42% or \$6,516,027 is invested in Tennessee Valley Authority CPN Strips, and 46.35% or \$35,877,820 is invested in OK Invest.

The Program has the following concentration of credit risk at June 30, 2019: 7.63% or \$11,436,401 is invested in Federated Treasury money market funds, 4.28% or \$6,405,927 is invested in Goldman Sachs Financial SQ Treasury Obligation Admin Fund, 4.88% or \$7,312,528 invested in Tennessee Valley Authority CPN Strips, and 6.36% or \$9,527,443 is invested in Tennessee Valley Authority IO Strips, and 72.02% or \$107,899,887 is invested in OK Invest.

3. Federal Letter of Credit Payments

A schedule of activity in the Federal letter of credit payments, as reflected in the accompanying statements of net position, for the years ended June 30, 2020 and 2019, is as follows:

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Balance, June 30, 2018	\$ <u> -</u>
Federal revenue recognized	19,939,759
Federal funds withdrawn	<u>(19,939,759)</u>
Balance, June 30, 2019	\$ <u> -</u>
Federal revenue recognized	15,409,263
Federal funds withdrawn	<u>(15,409,263)</u>
Balance, June 30, 2020	\$ <u> -</u>

Of the Federal letter of credit payments withdrawn during the fiscal year ended June 30, 2020, \$14,124,828 was used to provide loans to borrowers, \$1,284,435 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, 2019, \$18,559,162 was used to provide loans to borrowers, \$1,380,597 was used for debt forgiveness and no funds were used for administrative expenses.

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, 2020 and 2019, there were \$551,765,620 and \$493,035,070, respectively, in loans outstanding, net of allowances. As of June 30, 2020, the Program had no loans approved but not closed.

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, 2020 and 2019, there were \$6,506,068 and \$9,463,018, 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, 2020 and 2019, is as follows:

Net Balance, June 30, 2018	\$	480,418,689
Loan disbursements		59,015,295
Principal repayments and forgiveness		<u>(37,247,968)</u>
		502,186,016
Change in allowance for uncollectible loans		<u>312,072</u>
Net Balance, June 30, 2019		502,498,088
Loan disbursements		114,626,872
Savings distributions		(1,093,978)
Principal repayments and forgiveness		<u>(57,759,294)</u>
		558,271,688
Change in allowance for uncollectible loans		<u>-</u>
Net Balance, June 30, 2020	\$	<u><u>558,271,688</u></u>

5. Restricted Investments

A description of the restricted investments held at June 30, 2020 and 2019, is as follows:

	<u>2020</u>	<u>2019</u>
FHLMC - Federal Home Loan Morg Corp maturities from March 2017 to October 2019	\$ -	\$ 193,879
FHLB - Federal Home Loan Bank maturity March 15, 2023	689,396	679,698
maturities from March 15, 2018 to March 15, 2022	720,982	688,855
FHLMC - Federal Home Loan Mtg Corp Int Strip maturity March 15, 2025	1,052,959	958,393
FNMA - Federal National Mtg Assoc. maturity January 15, 2026	132,327	119,291
AID-Israel Bonds maturity February 15, 2023	52,972	50,066
Tennessee Valley Authority IO Strips maturities November 1, 2020 to March 15, 2026	8,343,071	9,527,443
Tennessee Valley Authority CPN Strips maturities from March 15, 2020 to March 15, 2025	<u>6,516,027</u>	<u>7,312,528</u>
Total restricted investments	<u>\$ 17,507,734</u>	<u>\$ 19,530,153</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. The Bonds were refunded in December 2019 with the issuance of the Series 2019 State Revolving Fund Revenue Refunding Bonds.

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. The Bonds were refunded in December 2019 with the issuance of the Series 2019 State Revolving Fund Revenue Refunding Bonds.

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.

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On December 17, 2019, the Program issued State Revolving Fund Refunding Revenue Bonds, Taxable Series 2019 in the amount of \$154,420,000. A portion of the bonds, \$126,210,000, were issued together with certain other available moneys and investments to refund the \$45,860,000 of the State Revolving Fund Revenue Bonds, Series 2011A and \$76,645,00 of the State Revolving Fund Revenue Bonds, Series 2012B, and to pay cost of issuance of the bonds. The remaining portion of the issue was used to refund bonds in the OWRB Drinking Water Loan Program.

Future debt service payments required by the Program's outstanding bonds as of June 30, 2020 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 17,750,000	\$ 6,499,357	\$ 24,249,357
2022	28,350,000	5,720,641	34,070,641
2023	27,995,000	4,778,046	32,773,046
2024	17,190,000	3,841,560	21,031,560
2025	14,620,000	3,438,116	18,058,116
2026-2030	69,320,000	11,496,096	80,816,096
2031-2035	34,040,000	2,903,382	36,943,382
2036-2040	4,315,000	482,200	4,797,200
Total	<u>\$ 213,580,000</u>	<u>\$ 39,159,398</u>	<u>\$ 252,739,398</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 2011A, 2012B, and 2015 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, 2020, 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, 2020, the debt service reserves totaled \$19,507,734.

Long-term debt outstanding at June 30, 2020 and 2019 are as follows:

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6. Long-Term Debt (cont'd)

	<u>2020</u>	<u>2019</u>
Beginning balances:		
2011A Serial bonds due April 1, 2015 to April 1, 2031, interest at 4.0% to 5.0%	\$ 45,860,000	\$ 51,080,000
2012B Serial bonds due April 1, 2015 to April 1, 2033, interest at 3.00% to 5.00%	76,645,000	79,255,000
2014A Serial bonds due April 1, 2015 to April 1, 2026, interest at 0.188% to 3.671%	26,335,000	31,410,000
2015 Serial bonds due April 1, 2017 to April 1, 2040, interest at 2.00% to 5.00%	78,160,000	87,250,000
Unamortized premium	27,242,922	28,987,572
	<u>\$ 254,242,922</u>	<u>\$ 277,982,572</u>
Add: 2019 Serial bonds due April 1, 2022 to April 1, 2033, interest at 1.73% to 2.77%	126,210,000	-
Less: debt principal repayments	(17,125,000)	(21,995,000)
Less: debt refunded, net	(136,887,532)	-
Less: current amortization of premium	(1,167,867)	(1,744,650)
Ending balances	<u>\$ 225,272,523</u>	<u>\$ 254,242,922</u>
Amounts due in one year	17,750,000	25,000,000

Advance Refunding

On December 19, 2020, the Board issued the \$154,420,000 Series 2019 Taxable State Revolving Fund Revenue Refunding Bonds with an interest rate of 1.73% to 2.811%. The Program used \$126,210,000 of the proceeds together with other money to advance refund the \$45,860,000 and \$76,645,000 outstanding principal amount of the State Revolving Fund Revenue Bonds, Series 2011A and 2012B, respectively, and to pay cost of issuance of the bonds. The proceeds along with other available funds were placed in escrow to refund the bonds on April 1, 2021. As a result, the 2011A and 2012B Series bonds are considered to defeased and the liability for those bonds has been removed from the Statement of Net Position. The remaining proceeds from the issue were used to refund debt in the OWRB's Drinking Water Loan Program.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$14,521,156. This difference, reported in the accompanying financial statements as a deferred inflow, is being charged to operations through the year 2033 using the straight line method. The Board completed the advance refunding to reduce its total debt service payments over the next thirteen years by \$12,852,145 and to obtain an economic gain (the difference between the present values of the old and new debt service payments) of \$8,738,550 for the CW Program.

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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, 2020, 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 two loan application approved by the OWRB for which a loan agreement and promissory note had not been executed totaling \$279,435 at June 30, 2020.

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INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Members of the
Oklahoma Water Resources Board

We have audited, in accordance with the 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, the financial statements of the Oklahoma Water Resources Board/Oklahoma Clean Water State Revolving Fund Loan Account Administrative Fund (the "Fund") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated September 21, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Arledge & Associates, P.C.

Edmond, Oklahoma
September 21, 2020