



FAP ADMINISTRATION ACCOUNT

**ANNUAL FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019
AND INDEPENDENT AUDITOR'S REPORT**

**OKLAHOMA WATER RESOURCES BOARD
FAP ADMINISTRATION ACCOUNT
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/FAP Administration Account (the "Account") as of and for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Account as of June 30, 2020, and 2019, and the changes in financial position and cash flows thereof for the year 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 Account'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 Account'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 Water Resources Board FAP Administration Account (the "Account") financials provides an overview of the financial activities of the administrative fees and related expenses for the fiscal years ended June 30, 2020 and June 30, 2019. Please read it in conjunction with the financial statements, which begin on page 10. This report covers the administrative fees associated with the 1986 General Bond Resolution State Loan Program Revenue Bonds and the 2016 General Bond Resolution State Loan Program Revenue Bonds (the “Programs”).

Financial Highlights

- Total net position increased 9.36% from \$6,585,438 to \$7,201,728 between FY 2019 and FY 2020. Total net position increased 8.45% from \$6,072,051 to \$6,585,438 between FY 2018 and FY 2019.
- During fiscal year 2020, the 1986 General Bond Resolution State Loan Program transferred the notes receivables balance of 1999 notes totaling \$408,200 to the FAP Administration Account. During fiscal year 2019, the 1986 General Bond Resolution State Loan Program transferred the balance of the 2001 and 2003A fixed rate notes receivables to the FAP Administration Account totaling \$2,470,000.

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 Account is accounted for and presented similar to a special-purpose government engaged solely in business-type activities.

The financial statements for the Account 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 Account’s financial condition and changes therein.
- Basic Financial Statements
 - Statement of Net Position
 - Statement of Revenues, Expenses and Changes in Net Position
 - Statement of Cash Flows

Footnotes – that elaborate on the accounting principles used in the preparation of the financial statements and further explain financial statement elements.

(Unaudited. See accompanying auditor’s report.)

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A Financial Analysis of the Account

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

	Business-Type Activities		
	<u>June 30,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current assets	\$ 5,744,695	\$ 5,124,765	\$ 4,696,701
Non-current assets	1,516,833	1,672,767	1,638,800
Total assets	<u>7,261,528</u>	<u>6,797,532</u>	<u>6,335,501</u>
Current liabilities	59,800	212,094	263,450
Total liabilities	<u>59,800</u>	<u>212,094</u>	<u>263,450</u>
Net position			
Unrestricted	7,201,728	6,585,438	6,072,051
Total net position	<u>\$ 7,201,728</u>	<u>\$ 6,585,438</u>	<u>\$ 6,072,051</u>

During fiscal year 2020, assets and net position increased due the transfer of the balance of the 1999 notes receivable and the early payoff of several of the notes receivable. In FY 19, the current assets increased due to the transfer of the fixed rate notes receivable from the 2001 and 2003A.

(Unaudited. See accompanying auditor's report.)

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**Oklahoma Water Resources Board
FAP Administration Account
Statement of 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	\$ 882,322	\$ 926,163	\$ 593,770
Investment interest income	52,490	72,727	32,554
Other income	-	-	51,076
Total revenues	<u>934,812</u>	<u>998,890</u>	<u>677,400</u>
Expenses			
Trustee fees	1,500	1,875	-
Administration expenses	95,858	75,413	850,950
Indirect cost	97,574	125,713	-
Personnel expense	290,962	301,727	-
Other fees	-	-	14,859
Total expenses	<u>485,894</u>	<u>504,728</u>	<u>865,809</u>
Net Income before transfers	448,918	494,162	(188,409)
Transfers to other programs	<u>167,372</u>	<u>19,225</u>	<u>2,111,977</u>
Change in net position	<u>616,290</u>	<u>513,387</u>	<u>1,923,568</u>
Total net position- beginning	6,585,438	6,072,051	4,148,483
Total net position - ending	<u>\$ 7,201,728</u>	<u>\$ 6,585,438</u>	<u>\$ 6,072,051</u>

Economic Factors and Next Year's Outlook

The Board anticipates additional bond issues to be closed during FY 2021 under the 2016 General Bond Resolution. As with the nature of the Bond Programs, loans will pay down in their principal balance. The trend in income for the future of the FAP Administration Account should be consistent with FY 2020.

Contacting the Account's Financial Management

This financial report is designed to provide the Board's accountability of the Account. 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

**OKLAHOMA WATER RESOURCES BOARD
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Statement of Net Position – June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$4,943,943	\$2,452,230
Current portion of notes receivable	576,233	2,406,033
Administrative fee receivable	201,974	219,208
Interest receivable:		
Notes receivable	22,504	43,406
Other	41	3,888
Total current assets	<u>5,744,695</u>	<u>5,124,765</u>
Noncurrent Assets:		
Notes receivable net of current portion	1,516,833	1,672,767
Total noncurrent assets	<u>1,516,833</u>	<u>1,672,767</u>
Total assets	<u>7,261,528</u>	<u>6,797,532</u>
LIABILITIES:		
Other accrued liabilities	<u>59,800</u>	<u>212,094</u>
Total liabilities	<u>59,800</u>	<u>212,094</u>
NET POSITION:		
Unrestricted	7,201,728	6,585,438
Total net position	<u>\$7,201,728</u>	<u>\$6,585,438</u>

See accompanying notes to the basic financial statements.

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Statement of Revenues, Expenses, and Changes in Net Position – Year Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Revenues:		
Loan program income	\$75,874	\$78,732
Administrative fee income	806,448	847,431
Total operating revenues	<u>882,322</u>	<u>926,163</u>
Operating Expenses:		
Trustee fees	1,500	1,875
Administration fees	95,858	75,413
Indirect cost	97,574	125,713
Personnel expense	290,962	301,727
Total operating expenses	<u>485,894</u>	<u>504,728</u>
Operating income	396,428	421,435
Non-Operating Revenues (Expenses):		
Interest income	<u>52,490</u>	<u>72,727</u>
Total non-operating revenues	<u>52,490</u>	<u>72,727</u>
Net income before transfers	448,918	494,162
Transfers in - Oklahoma Water Resources Board	408,200	2,489,500
Transfers out - Oklahoma Water Resources Board	<u>(240,828)</u>	<u>(2,470,275)</u>
Change in net position	616,290	513,387
Total net position - beginning, restated	6,585,438	6,072,051
Total net position - ending	<u><u>\$7,201,728</u></u>	<u><u>\$6,585,438</u></u>

See accompanying notes to the basic financial statements.

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Statement of Cash Flows – Year Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Collections of administrative fee revenue and interest on notes receivable	\$ 920,458	\$ 681,771
Payment of administration expense and other operational costs	<u>(638,188)</u>	<u>(556,084)</u>
Net Cash Provided by Operating Activities	<u>282,270</u>	<u>125,687</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out - Oklahoma Water Resources Board	(240,828)	(2,470,275)
Transfers in - Oklahoma Water Resources Board	<u>-</u>	<u>19,500</u>
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(240,828)</u>	<u>(2,450,775)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Collections of principal on loans to local governmental units	2,393,934	397,250
Interest income	<u>56,337</u>	<u>73,885</u>
Net Cash Provided by Investing Activities	<u>2,450,271</u>	<u>471,135</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,491,713	(1,853,953)
Balances - beginning of the year	<u>2,452,230</u>	<u>4,306,183</u>
Balances - end of the year	<u>\$4,943,943</u>	<u>\$2,452,230</u>
Reconciliation of Statement of Net Position:		
Cash and Cash Equivalents	<u>\$4,943,943</u>	<u>\$2,452,230</u>
Total Cash and Cash Equivalents	<u>\$4,943,943</u>	<u>\$2,452,230</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$396,428	\$421,435
Change in assets and liabilities:		
Decrease (Increase) in interest receivable	20,902	(25,184)
Decrease (Increase) in administrative fee receivable	17,234	(219,208)
Increase (Decrease) in other accrued liabilities	<u>(152,294)</u>	<u>(51,356)</u>
Net Cash Provided by Operating Activities	<u>\$282,270</u>	<u>\$125,687</u>
NON-CASH TRANSACTIONS:		
Transfer of loans receivable balances	<u>\$408,200</u>	<u>\$2,470,000</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 (the "Board") administers the 1986 General Bond Resolution State Loan Program Revenue Bonds and the 2016 General Bond Resolution State Loan Program Revenue Bonds (the "Programs") that were established to provide statewide financial assistance to local governments by making loans to local governmental units in the State of Oklahoma to be utilized to provide for the acquisition, development, and utilization of storage and control facilities for water and sewage systems and to be used to refund a portion of the Board's outstanding State Loan Program Revenue Bonds originally issued by the Board.

Administrative, accounting, and other technical support services are provided by employees of the Board. Payroll and other costs incurred by the Board on behalf of the Program are billed by the Board and are recovered from the administration fees paid by the borrowers and then recorded in the FAP Administration Account (the "Account").

Each bond series had its own administration account established at the time of the bond issue. In order to ease the management of administration fees and decrease the number of open accounts, the FAP Administration Account was created in May 2016 to consolidate each of the bonds series administration accounts. Administration fees are included in the loan interest rates charged to local governments. Once collected, the administration fees are deposited in the revenues fund of each bond series, expensed in the series, and paid to the FAP Administration Account.

Basis of Accounting and Measurement Focus

The Account is accounted for and presented similar to a special-purpose government engaged solely in business type activities.

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

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

Pursuant to its bond indentures, the Account is required to maintain various separate accounts for principal payments, interest payments and various other purposes. To assist in fulfilling these responsibilities, the Board has engaged BancFirst to act as trustee and maintain appropriate fiduciary records. All activities and monies in the various accounts required by the bond indenture are considered to be applicable to the conduct of the Accounts's ongoing operations.

Accordingly, all such activities and monies are combined for purposes of preparing the Account's financial statements.

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

Cash and Cash Equivalents

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

Operating Revenues and Expenses

The Account considers income earned on outstanding loans receivable and administrative fees to be operating revenue. Similarly, the Account considers expenses incurred in administering the loan program and administration expenses to be operating expenses.

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 and cash equivalents of \$4,943,943 and \$2,452,230 at June 30, 2020 and 2019 respectively, were on deposit with the Account's trustee.

Investment Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. The Account discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments.

Investment Credit Risk – the bond indenture provides for restrictions on the investment choices of the Account 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.

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- d. Investment agreements with entities maintaining a rating in the top two categories by a nationally recognized municipal bond rating agency.

2. Cash Deposits and Investment Risk (cont'd)

The Account 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, 2020, the Account's investments in obligations not directly guaranteed by the U.S. Government and investments in money market mutual funds were rated as follows:

<u>Type</u>	<u>Average Maturities</u>	<u>Credit Rating</u>	<u>Fair Value Measurement</u>	<u>Carrying Value</u>
Federated Treasury Obligations Fund	16 days	AAAm	Level I	<u>\$ 4,943,943</u>

At June 30, 2019, the Account's investments in obligations not directly guaranteed by the U.S. Government and investments in money market mutual funds were rated as follows:

<u>Type</u>	<u>Average Maturities</u>	<u>Credit Rating</u>	<u>Fair Value Measurement</u>	<u>Carrying Value</u>
Federated Treasury Obligations Fund	16 days	AAAm	Level I	<u>\$ 2,452,230</u>
Total				<u>\$ 2,452,230</u>

Concentration of Investment Credit Risk – the bond indenture places no limit on the amount the Account may invest in any one issuer. The Account has the following concentration of credit risk at June 30, 2020 and 2019: 100% is invested in Federated Treasury Obligations Fund.

3. Notes Receivable

Notes receivable represents loans made by the Program's which were made to local governmental entities for the purposes of acquisition, development, and utilization of storage and control facilities for water and sewage systems. The notes receivables were transferred in from the FAP Bond Series 1994A, 1995, 1997, 1999, and 2001 as bonds associated with these loans were called. Payments on the notes are due in semiannual installments with various maturity dates based upon the bond issue; however, the local entities have the option to pay the notes earlier than the scheduled maturities. The current portion of notes receivable contains scheduled maturities and any prepayments made subsequent to year-end through September 30, 2020. The notes are collateralized by various revenue sources including, but not limited to user charges and sales taxes of the borrowers and mortgages on the water and/or sewer systems. Outstanding notes receivable at June 30, 2020 are as follows:

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Issue	Maturity Date	Note Receivable		June 30, 2020
		2020	2019	Current Maturities
1994A	2023	\$ 408,966	\$ 586,700	\$ 116,133
1995	2024	637,200	809,700	186,500
1997	2026	188,700	212,400	25,500
1999	2030	468,200	-	58,100
2001	2021	390,000	575,000	190,000
2003A	2023	-	1,895,000	
		<u>\$ 2,093,066</u>	<u>\$ 4,078,800</u>	<u>\$ 576,233</u>

4. Program Funding and Fees

The bond indenture agreement provides for various fees to be paid in connection with the administration of the Program. These fees include the following:

- During the years, annual program administration fees of 0.25%, 0.1316%, 0.1328%, 0.1866%, 0.3866%, or 0.4% of notes receivable outstanding during the period were charged to operations of the Bond Programs. These fees are payable to the Oklahoma Water Resources Board for providing clerical, management and administrative services. The fees were collected and expensed in each bond series.

5. Transfers

In 2020, the Account received transfers of the 1999 fixed rate notes receivables totaling \$408,200 from the 1986 General Bond Resolution Program. The Account transferred \$240,000 to payoff the remaining bonds in the 1999 Bond Series. The Account transferred \$828 to the program to assist with administrative fees.

In 2019, the Account received transfers of the 2001 and 2003A fixed rate notes receivables totaling \$2,470,000 from the 1986 General Bond Resolution Program. Also included was a transfer in of \$19,500 from the 2003A Bond Series Local Costs account. The Account transferred \$2,470,000 to payoff the remaining bonds in the 2001 and 2003A Bond Series. The Account transferred \$275 to the 2009 program to assist with a debt service shortage

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INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE

**OKLAHOMA WATER RESOURCES BOARD
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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/FAP Administration Account (the "Account") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Account'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 Account'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 Account's internal control. Accordingly, we do not express an opinion on the effectiveness of the Account'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 Account'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 Account'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 Account's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Arledge & Associates, P.C.
Edmond, Oklahoma
September 21, 2020