



**2016 GENERAL BOND RESOLUTION STATE LOAN
PROGRAM**

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

OKLAHOMA WATER RESOURCES BOARD
2016 GENERAL BOND RESOLUTION STATE LOAN 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 2016 General Bond Resolution State Loan Program Revenue Bonds (the "Program") 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 Program 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Program's basic financial statements. The combining financial statements, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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 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.

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 2016 General Bond Resolution State Loan Program Revenue Bonds (the "Program") financial performance provides an overview of the financial activities 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 11. This report covers the Bond Programs administered by the Oklahoma Water Resources Board (the "Board") for the Series 2016A, 2017A, 2017B, 2017C, 2018A, 2018B, 2018C, 2018D, 2019A, 2019B and 2019C Bond Programs and the reserve fund related to the bond accounts.

Financial Highlights

- Total assets increased 10.43% from \$249,192,982 to \$275,196,222 between FY 2019 and FY 2020.
- Total liabilities increased 9.56% from \$234,531,928 to \$256,963,562 between FY 2019 and FY 2020.
- Total Net Position at June 30, 2020 totaled \$18,232,660. Of this amount, \$18,222,870 was restricted for the debt service reserve account.
- During fiscal year 2020, the program issued the 2019C bonds totaling \$25,635,000.

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

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
 - 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.

- Supplemental Information – Combining Financial Statements of all Program Bond Issues for the year ended June 30, 2020:
 - Statement of Net Position
 - Statement of Revenues, Expenses and Changes in Net Position
 - Statement of Cash Flows(Unaudited. See accompanying auditor’s report.)

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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 presentation of net position and changes therein.

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current assets	\$ 7,973,352	\$ 5,822,775	\$ 1,946,969
Non-current assets	<u>267,222,870</u>	<u>243,370,207</u>	<u>88,375,219</u>
Total assets	<u>275,196,222</u>	<u>249,192,982</u>	<u>90,322,188</u>
Current liabilities	7,963,562	5,801,928	1,940,133
Non-current liabilities	<u>249,000,000</u>	<u>228,730,000</u>	<u>80,850,000</u>
Total liabilities	<u>256,963,562</u>	<u>234,531,928</u>	<u>82,790,133</u>
Net position			
Restricted for debt service	18,222,870	14,645,939	7,500,000
Unrestricted	<u>9,790</u>	<u>15,115</u>	<u>32,055</u>
Total net position	<u>\$ 18,232,660</u>	<u>\$ 14,661,054</u>	<u>\$ 7,532,055</u>

During fiscal year 2020, assets and liabilities increased due the issuance of the 2019C bonds and the related notes receivable totaling \$25,635,000. The increase in current liabilities relates to the increase in current bonds payable. Cash and investments of \$18,222,870 was restricted for the bond debt service reserve account.

During fiscal year 2019, the assets and liabilities increased due to the issuance of the 2018B, 2018C, 2018D, 2019A and 2018B bonds and the related notes receivable totaling \$150,990,000. Cash and investments of \$14,645,939 was restricted for the bond debt service reserve account.

(Unaudited. See accompanying auditor’s report.)

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	Business-Type		
	Activities		
	Period Ended June 30,		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Revenues			
Loan program income	\$ 10,613,319	\$ 7,233,984	\$ 2,748,917
Other income	2,854,178	-	-
Investment interest income	275,306	262,427	59,285
Total revenues	<u>13,742,803</u>	<u>7,496,411</u>	<u>2,808,202</u>
Expenses			
Trustee fees	37,246	21,266	8,881
Administration expenses	469,066	308,213	119,291
Interest expense	10,118,818	6,895,738	2,620,680
Total expenses	<u>10,625,130</u>	<u>7,225,217</u>	<u>2,748,852</u>
Net Income before transfers	3,117,673	271,194	59,350
Transfers in from other program	453,933	6,857,805	2,468,324
Change in net position	<u>3,571,606</u>	<u>7,128,999</u>	<u>2,527,674</u>
Total net position- beginning	14,661,054	7,532,055	5,004,381
Total net position - ending	<u>\$ 18,232,660</u>	<u>\$ 14,661,054</u>	<u>\$ 7,532,055</u>

The significant increase in loan program income from FY 2019 to 2020 and FY 2018 to 2019 is due to the collection of interest on notes receivable. The other income in FY 20 is related to a settlement involving the sale of Sardis Lake and an old loan. The increase in interest expense is related to debt service on the outstanding bonds and the continual issuance of new bonds for the program.

Long-Term Debt

At year-end, the Program had \$254,295,000 in long-term debt outstanding. The Program's long-term debt by bond issue are as follows:

(Unaudited. See accompanying auditor's report.)

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Series:	2020	2019
2016A	\$ 15,425,000	\$ 15,805,000
2017A	27,125,000	27,300,000
2017B	7,790,000	8,035,000
2017C	23,025,000	23,190,000
2018A	6,135,000	6,520,000
2018B	25,815,000	26,215,000
2018C	42,260,000	42,960,000
2018D	19,770,000	19,770,000
2019A	47,595,000	48,130,000
2019B	13,790,000	13,915,000
2019C	25,565,000	-
Total Bonds	<u>\$ 254,295,000</u>	<u>\$ 231,840,000</u>

See Note 7 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

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 Program, the Board expects an increase in net position and liabilities as new bond issues close and new loans are funded.

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	\$10,969	\$13,207
Current portion of notes receivable	5,295,000	3,110,000
Interest receivable:		
Notes receivable	2,667,338	2,693,828
Other	45	5,740
Total current assets	<u>7,973,352</u>	<u>5,822,775</u>
Noncurrent Assets:		
Cash and cash equivalents, restricted	5,922,072	3,597,494
Restricted investment	12,300,798	11,042,713
Notes receivable net of current portion	249,000,000	228,730,000
Total noncurrent assets	<u>267,222,870</u>	<u>243,370,207</u>
Total assets	<u>275,196,222</u>	<u>249,192,982</u>
 LIABILITIES:		
Current Liabilities:		
Accrued interest payable	2,543,142	2,568,116
Current maturities of long-term debt	5,295,000	3,110,000
Other accrued liabilities	125,420	123,812
Total current liabilities	<u>7,963,562</u>	<u>5,801,928</u>
Noncurrent liabilities:		
Long-term debt, less current maturities	249,000,000	228,730,000
Total noncurrent liabilities	<u>249,000,000</u>	<u>228,730,000</u>
Total liabilities	<u>256,963,562</u>	<u>234,531,928</u>
 NET POSITION:		
Restricted for debt service	18,222,870	14,645,939
Unrestricted	9,790	15,115
Total net position	<u>\$18,232,660</u>	<u>\$14,661,054</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	\$10,613,319	\$7,233,984
Total operating revenues	<u>10,613,319</u>	<u>7,233,984</u>
Operating Expenses:		
Trustee fees	37,246	21,266
Administration fees	469,066	308,213
Interest expense	10,118,818	6,895,738
Total operating expenses	<u>10,625,130</u>	<u>7,225,217</u>
Operating income (loss)	(11,811)	8,767
Non-Operating Revenues (Expenses):		
Other income	2,854,178	-
Interest income	<u>275,306</u>	<u>262,427</u>
Total non-operating revenues	<u>3,129,484</u>	<u>262,427</u>
Net income before transfers	3,117,673	271,194
Transfers In - Oklahoma Water Resources Board	750,000	7,050,000
Transfers out - Oklahoma Water Resources Board	<u>(296,067)</u>	<u>(192,195.00)</u>
Change in net position	3,571,606	7,128,999
Total net position - beginning	14,661,054	7,532,055
Total net position - ending	<u><u>\$18,232,660</u></u>	<u><u>\$14,661,054</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 governments	\$ 10,639,809	\$ 5,355,644
Payments to other suppliers	(504,704)	(243,318)
Interest paid on debt	(10,143,792)	(5,105,104)
Net Cash Provided by (Used in) Operating Activities	<u>(8,687)</u>	<u>7,222</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in - Oklahoma Water Resources Board	453,933	6,857,805
Issuance of long-term debt	25,635,000	150,990,000
Settlement income	2,854,178	-
Repayments of Long-term Debt	(3,180,000)	(1,125,000)
Net Cash Provided by Noncapital Financing Activities	<u>25,763,111</u>	<u>156,722,805</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales (purchase) of investments	(1,313,165)	(8,003,078)
Collections of principal on loans to local governmental units	3,180,000	1,125,000
Loans to local governments	(25,635,000)	(150,990,000)
Interest income	336,081	222,079
Net Cash Provided by (Used in) Investing Activities	<u>(23,432,084)</u>	<u>(157,645,999)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,322,340	(915,972)
Balances - beginning of the year	<u>3,610,701</u>	<u>4,526,673</u>
Balances - end of the year	<u><u>\$5,933,041</u></u>	<u><u>\$3,610,701</u></u>
Reconciliation of Statement of Net Position:		
Cash and Cash Equivalents	\$10,969	\$13,207
Restricted Cash and cash equivalents	5,922,072	3,597,494
Total Cash and cash equivalents	<u><u>\$5,933,041</u></u>	<u><u>\$3,610,701</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	(\$11,811)	\$8,767
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Change in assets and liabilities:		
Decrease (Increase) in interest receivable	26,490	(1,878,340)
Increase (Decrease) in accrued interest payable	(24,974)	1,790,634
Increase (Decrease) in other accrued liabilities	1,608	86,161
Net Cash Provided by (Used in) Operating Activities	<u><u>(\$8,687)</u></u>	<u><u>\$7,222</u></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") 2016 General Bond Resolution State Loan Program Revenue Bonds (the "Program") was established to provide statewide financial assistance to local governments by making loans 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. As part of the program, the following bonds were issued:

- Series 2016A Bonds commenced operations in December 2016. The bonds were issued to provide loans to local government units.
- Series 2017A Bonds commenced operations in February 2017. The bonds were issued to provide loans to local government units.
- Series 2017B Bonds commenced operations in June 2017. The bonds were issued to provide loans to local government units.
- Series 2017C Bonds commenced operations in November 2017. The bonds were issued to provide loans to local government units.
- Series 2018A Bonds commenced operations in April 2018. The bonds were issued to provide loans to local government units.
- Series 2018B Bonds commenced operations in July 2018. The bonds were issued to provide loans to local government units.
- Series 2018C Bonds commenced operations in September 2018. The bonds were issued to provide loans to local government units.
- Series 2018D Bonds commenced operations in October 2018. The bonds were issued to provide loans to local government units.
- Series 2019A Bonds commenced operations in February 2019. The bonds were issued to provide loans to local government units.
- Series 2019B Bonds commenced operations in April 2019. The bonds were issued to provide loans to local government units.
- Series 2019C Bonds commenced operations in July 2019. The bonds were issued to provide loans to local government units.
- The 2016 Debt Service Reserve Fund accounts for the debt service reserve required to be held on all outstanding bonds.

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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 not billed by the Board, but are recovered from the administration fees paid by the Program (see Note 4).

Basis of Accounting and Measurement Focus

The Programs are accounted for and presented similar 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, liabilities, net position, revenues, expenses and transfers relating to the Program and net income and capital maintenance are measured.

Pursuant to its bond indentures, the Programs are 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 Program's ongoing operations.

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

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

Investments are reported at fair value using selected bases. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Operating Revenues and Expenses

The Program considers income earned on outstanding loans receivable to be operating revenue. Similarly, the Program considers expenses incurred in administering the loan program, such as trustee fees, administration expenses, and interest expense, 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.

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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 \$5,933,041 and \$3,610,701 at June 30, 2020 and June 30, 2019, respectively, were on deposit with the Program'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 Program 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 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.

At June 30, 2020, the Program'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	\$ 5,933,041
U.S. Treasury Bill	1 yr.	N/A	Level I	12,300,798
Total				<u>\$ 18,233,839</u>

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

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<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	\$ 3,610,701
U.S. Treasury Bill	8 mo.	N/A	Level I	6,019,595
U.S. Treasury Bond	3 mo. To 9 mo.	N/A	Level I	5,023,118
Total				<u>\$ 14,653,414</u>

Concentration of Investment Credit Risk – the bond indenture places no limit on the amount the Program may invest in any one issuer. The Program has the following concentration of credit risk at June 30, 2020: 32.5% is invested in Federated Treasury Obligations Fund and 67.5% in US Treasury Bills.

The Program has the following concentration of credit risk at June 30, 2019: 24.6% is invested in Federated Treasury Obligations Fund, 34.3% in US Treasury Bonds, and 41.1% in U.S. Treasury Bills.

3. Notes Receivable

Notes receivable represents loans made by the Program 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. 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 and 2019 are as follows:

<u>Issue</u>	<u>Maturity Date</u>	<u>Note Receivable</u>		<u>FY 2020</u>
		<u>2020</u>	<u>2019</u>	<u>Current Maturities</u>
2016A	2046	\$ 15,425,000	\$ 15,805,000	\$ 390,000
2017A	2046	27,125,000	27,300,000	280,000
2017B	2047	7,790,000	8,035,000	250,000
2017C	2038	23,025,000	23,190,000	1,125,000
2018A	2032	6,135,000	6,520,000	400,000
2018B	2039	25,815,000	26,215,000	575,000
2018C	2049	42,260,000	42,960,000	780,000
2018D	2049	19,770,000	19,770,000	-
2019A	2049	47,595,000	48,130,000	830,000
2019B	2049	13,790,000	13,915,000	250,000
2019C		25,565,000	-	415,000
		<u>\$ 254,295,000</u>	<u>\$ 231,840,000</u>	<u>\$ 5,295,000</u>

4. Program Funding and Fees

In order to develop a financial assistance program to provide water and wastewater infrastructure financing for Oklahoma communities, approximately \$40 million has been contributed to the Statewide Water Development Revolving Fund (SWDRF) that was established during the 1982 legislative session. A portion of those funds were used to create reserves to provide security for

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OWRB bond issues to enhance the Financial Assistance Program. Interest income earned on these reserve funds are transferred to the Emergency Grant Account at the discretion of the Program to be utilized by the Board to make emergency grants in amounts up to \$100,000 per local entity for approved purposes. Any portion of the Debt Service Reserve Fund that is not expended to cover defaults on principal and interest will be returned to the Revolving Fund at the termination of the Program.

At closing of the Series 2016A Bonds, \$4 million was transferred from the 1986 General Bond Resolution Debt Service Reserve Fund to the 2016 Debt Service Reserve Fund to satisfy the Aggregate Debt Service Requirement as defined in the 2016 General Bond Resolution. An additional \$1 million was transferred into the 2016 Debt Service Reserve at closing of the Series 2017A Bonds. An additional \$7,050,000 million and \$750,000 million was transferred in FY 2019 and 2020 respectively. The 2016 Debt Service Reserve is held by the Board's trustee bank.

For the year ended June 30, 2020 and 2019 \$296,067 and \$192,195, respectively, were transferred to the Emergency Grant Account.

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 year, an annual program administration fee of 0.1866% of fixed rate notes receivable outstanding during the period was charged to operations of the Bond Programs. These fees are payable to the Oklahoma Water Resources Board for providing clerical, management and administrative services.
- During the year, a trustee fee 0.0134% of bonds outstanding was charged to operations of the 2016A, 2017A, and 2017B bonds. A fee of .013% of bonds outstanding was charged to operations of the 2017C, 2018A, 2018B, 2018C, 2018D, 2019A, 2019B, and 2019C bonds. Fees are calculated twice a year using the balance of bonds outstanding at March 31 and September 30.

5. Restricted Cash and Investments

A description of the restricted cash and investment as of June 30, 2020 and June 30, 2019 is as follows:

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	<u>2020</u>	<u>2019</u>
Cash and cash equivalents - Federated Treasury Obligations	\$ 5,922,072	\$ 3,597,494
Investment -U.S. Treasury Bill principal amount of \$6,145,300 maturing in February 2020	-	6,019,595
Investments - U.S. Treasury Bonds principal of \$3,000,000, interest of 1.75% maturing September 2019	-	2,996,910
Investments - U.S. Treasury Bonds principal of \$12,310,000, interest of 1.75% maturing December 2020	12,300,798	
Investments - U.S. Treasury Bonds principal of \$2,032,000, interest of 1.70% maturing March 2020	-	2,026,208
	<u>\$ 18,222,870</u>	<u>\$ 14,640,207</u>

The use of the investments are restricted for debt service. The restricted cash and investments are held in the Debt Service Reserve Fund.

6. Arbitrage Rebate Due Federal Government

In order for the interest on the Program's bonds to be tax exempt, the Board must comply with certain provisions of the Internal Revenue Code, as amended. One provision requires that 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 has estimated the arbitrage rebate liability to be zero at June 30, 2020 and 2019.

7. Long-term Debt

<u>Type of Bonds</u>	<u>Beginning July 1, 2019</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending June 30, 2020</u>	<u>Due Within One Year</u>
Fixed Rate Bonds	\$ 231,840,000	\$ 25,635,000	\$ 3,180,000	\$ 254,295,000	\$ 5,295,000
Total Bonds Outstanding	<u>\$ 231,840,000</u>	<u>\$ 25,635,000</u>	<u>\$ 3,180,000</u>	<u>\$ 254,295,000</u>	<u>\$ 5,295,000</u>

<u>Type of Bonds</u>	<u>Beginning July 1, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending June 30, 2019</u>	<u>Due Within One Year</u>
Fixed Rate Bonds	\$ 81,975,000	\$ 150,990,000	\$ 1,125,000	\$ 231,840,000	\$ 3,110,000
Total Bonds Outstanding	<u>\$ 81,975,000</u>	<u>\$ 150,990,000</u>	<u>\$ 1,125,000</u>	<u>\$ 231,840,000</u>	<u>\$ 3,110,000</u>

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Outstanding Bonds at June 30, 2020:

Series 2016A serial and term bonds due in annual installments of \$260,000 to \$790,000, interest from 2.0% to 5.0%, final maturity October 1, 2046	\$ 15,425,000
Series 2017A serial and term bonds due in annual installments of \$25,000 to \$1,635,000 interest from 2.00% to 5.00%, final maturity October 1, 2046	27,125,000
Series 2017B serial and term bonds due in annual installments of \$40,000 to \$415,000, interest from 2.00% to 4.00%, final maturity October 1, 2047	7,790,000
Series 2017C serial and term bonds due in annual installments of \$125,000 to \$1,770,000, interest from 2.00% to 4.00%, final maturity October 1, 2038	23,025,000
Series 2018A serial and term bonds due in annual installments of \$200,000 to \$555,000, interest from 2.00% to 5.00%, final maturity October 1, 2032	6,135,000
Series 2018B serial and term bonds due in annual installments of \$400,000 to \$2,515,000, interest from 3.00% to 5.00%, final maturity October 1, 2038	25,815,000
Series 2018C serial and term bonds due in annual installments of \$445,000 to \$1,860,000, interest from 3.00% to 5.00%, final maturity September 1, 2048	42,260,000

Outstanding Bonds at June 30, 2020 (continued):

Series 2018D serial and term bonds due in annual installments of \$100,000 to \$860,000, interest from 3.125% to 5.00%, final maturity October 1, 2048	19,770,000
Series 2019A serial and term bonds due in annual installments of \$350,000 to \$1,810,000, interest from 3.25% to 5.00%, final maturity October 1, 2048	47,595,000
Series 2019B serial and term bonds due in annual installments of \$125,000 to \$630,000, interest from 3.25% to 5.00%, final maturity October 1, 2048	13,790,000
Series 2019C serial and term bonds due in annual installments of \$70,000 to \$1,150,000, interest from 3.00% to 5.00%, final maturity October 1, 2049	25,565,000

Total Bonds Outstanding	<u>\$ 254,295,000</u>
Current portion	\$ 5,295,000
Long-term portion	249,000,000
Gross amount	<u>\$ 254,295,000</u>

Future debt service payments required by the serial and term bonds as of June 30, 2020, were developed using scheduled maturities for fixed rate bonds. Future debt service payments required by the Program's serial and term bonds as of June 30, 2020 are as follows:

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<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 5,295,000	\$ 10,114,144	\$ 15,409,144
2022	5,950,000	9,899,444	15,849,444
2023	6,715,000	9,687,694	16,402,694
2024	7,035,000	9,448,169	16,483,169
2025	7,065,000	9,187,144	16,252,144
2026-2030	46,900,000	40,390,273	87,290,273
2031-2035	47,455,000	30,852,964	78,307,964
2036-2040	45,360,000	21,437,959	66,797,959
2021-2045	45,680,000	12,379,523	58,059,523
2046-2049	36,840,000	3,057,194	39,897,194
Total	<u>\$ 254,295,000</u>	<u>\$ 156,454,508</u>	<u>\$ 410,749,508</u>

Interest on the bonds is payable semiannually.

In addition to their normal scheduled maturity dates as shown above, the bonds may be redeemed at the option of the Board, in whole or in part, on any interest payment date for their principal amount plus accrued interest to the date of redemption.

The Bonds share in an aggregate debt service reserve. At June 30, 2020 and 2019, the aggregate debt service reserves totaled \$18,222,870 and \$14,645,939, respectively, which is reflected in the 2016 Debt Service Reserve Fund.

8. Transfers

In FY 2020, the Program received transfers of \$750,000 from the 1986 General Bond Resolution Program for funding the reserve account. The Program transferred \$296,067 for emergency grants.

In FY 2019, the Program received transfers of \$7,050,000 from the 1986 General Bond Resolution Program for funding the reserve account.

9. Other Income

Since 1979 the Board has administered a certain contract dated February 16, 1974 (the "Contract") which calls for annual payments to the United States of America (the "U.S. Government") for the acquisition and purchase of water storage space in the Sardis Reservoir in the southeastern portion of the State of Oklahoma. Litigation concerning the non-payment of annual amounts was filed by the United States against the Board and the State in 1998. In 2019, the City of Oklahoma City paid the OWRB and assumed the State of Oklahoma's financial responsibilities associated with the Sardis Reservoir. The Board and the State of Oklahoma were dismissed as parties from the lawsuit on July 14, 2020. As a result, the 2016 General Reserve received a portion of the settlement in the amount of \$2,854,178.

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SUPPLEMENTAL INFORMATION

SUPPLEMENTAL INFORMATION
COMBINING STATEMENTS OF NET POSITION
2016 GENERAL BOND RESOLUTION STATE LOAN PROGRAM
June 30, 2020

ASSETS	2016A Series	2017A Series	2017B Series	2017C Series	2018A Series	2018B Series	2018C Series	2018D Series	2019A Series	2019B Series	2019C Series	2016 Debt Service Reserve Fund	Totals
Current Assets:													
Cash and cash equivalents	\$ 1,835	\$ 2,581	\$ 286	\$ 115	\$ 84	\$ 1,429	\$ 2,245	\$ 834	\$ 1,162	\$ 202	\$ 196	\$ -	\$ 10,969
Current portion of notes receivable	390,000	280,000	250,000	1,125,000	400,000	575,000	780,000	-	830,000	250,000	415,000	-	5,295,000
Interest receivable:													
Notes receivable	149,625	308,470	71,384	221,727	47,246	272,668	432,808	231,501	511,054	147,700	273,155	-	2,667,338
Other	-	-	-	-	-	-	-	-	-	-	-	45	45
Total current assets	541,460	591,051	321,670	1,346,842	447,330	849,097	1,215,053	232,335	1,342,216	397,902	688,351	45	7,973,352
Noncurrent Assets:													
Notes receivable, net of current portion	15,035,000	26,845,000	7,540,000	21,900,000	5,735,000	25,240,000	41,480,000	19,770,000	46,765,000	13,540,000	25,150,000	-	249,000,000
Cash and cash equivalents, restricted	-	-	-	-	-	-	-	-	-	-	-	5,922,072	5,922,072
Restricted investments	-	-	-	-	-	-	-	-	-	-	-	12,300,798	12,300,798
Total noncurrent assets	15,035,000	26,845,000	7,540,000	21,900,000	5,735,000	25,240,000	41,480,000	19,770,000	46,765,000	13,540,000	25,150,000	18,222,870	267,222,870
Total assets	15,576,460	27,436,051	7,861,670	23,246,842	6,182,330	26,089,097	42,695,053	20,002,335	48,107,216	13,937,902	25,838,351	18,222,915	275,196,222
LIABILITIES													
Current Liabilities:													
Accrued interest payable	141,913	294,908	67,489	213,133	44,178	259,781	411,678	221,619	487,262	140,806	260,375	-	2,543,142
Current maturities of long-term debt	390,000	280,000	250,000	1,125,000	400,000	575,000	780,000	-	830,000	250,000	415,000	-	5,295,000
Other accrued liabilities	7,697	13,535	3,947	8,573	3,175	12,882	21,088	9,865	25,297	6,881	12,480	-	125,420
Total current liabilities	539,610	588,443	321,436	1,346,706	447,353	847,663	1,212,766	231,484	1,342,559	397,687	687,855	-	7,963,562
Noncurrent Liabilities:													
Long-term debt, less current maturities	15,035,000	26,845,000	7,540,000	21,900,000	5,735,000	25,240,000	41,480,000	19,770,000	46,765,000	13,540,000	25,150,000	-	249,000,000
Total noncurrent liabilities	15,035,000	26,845,000	7,540,000	21,900,000	5,735,000	25,240,000	41,480,000	19,770,000	46,765,000	13,540,000	25,150,000	-	249,000,000
Total liabilities	15,574,610	27,433,443	7,861,436	23,246,706	6,182,353	26,087,663	42,692,766	20,001,484	48,107,559	13,937,687	25,837,855	-	256,963,562
NET POSITION													
Restricted for debt service	-	-	-	-	-	-	-	-	-	-	-	18,222,870	18,222,870
Unrestricted	1,850	2,608	234	136	(23)	1,434	2,287	851	(343)	215	496	45	9,790
Total net position	\$ 1,850	\$ 2,608	\$ 234	\$ 136	\$ (23)	\$ 1,434	\$ 2,287	\$ 851	\$ (343)	\$ 215	\$ 496	\$ 18,222,915	\$ 18,232,660

SUPPLEMENTAL INFORMATION
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
2016 General Bond Resolution State Loan Program
For the Year Ended June 30, 2020

	2016A Series	2017A Series	2017B Series	2017C Series	2018A Series	2018B Series	2018C Series	2018D Series	2019A Series	2019B Series	2019C Series	2016 Debt Service Reserve Fund	Totals
REVENUES													
Operating revenues:													
Loan program income	\$ 600,590	\$ 1,234,844	\$ 288,108	\$ 888,215	\$ 192,063	\$ 1,093,872	\$ 1,736,832	\$ 926,004	\$ 2,055,574	\$ 592,114	\$ 1,005,103	\$ -	\$ 10,613,319
Total operating revenues	600,590	1,234,844	288,108	888,215	192,063	1,093,872	1,736,832	926,004	2,055,574	592,114	1,005,103	-	10,613,319
EXPENSES													
Operating Expenses:													
Trustee fees	2,018	3,532	1,250	2,999	1,875	3,368	5,517	2,570	9,265	2,070	2,782	-	37,246
Administration fees	28,960	50,697	14,650	33,339	17,476	48,357	79,184	36,891	89,561	25,935	44,016	-	469,066
Interest expense	569,550	1,180,506	272,406	853,769	179,600	1,042,125	1,651,963	886,475	1,959,873	564,475	958,076	-	10,118,818
Total operating expenses	600,528	1,234,735	288,306	890,107	198,951	1,093,850	1,736,664	925,936	2,058,699	592,480	1,004,874	-	10,625,130
Operating income (loss)	62	109	(198)	(1,892)	(6,888)	22	168	68	(3,125)	(366)	229	-	(11,811)
NONOPERATING REVENUES (EXPENSES)													
Other interest income	527	663	250	480	330	757	1,239	398	1,238	292	267	268,865	275,306
Other income	-	-	-	-	-	-	-	-	-	-	-	2,854,178	2,854,178
Net nonoperating revenues	527	663	250	480	330	757	1,239	398	1,238	292	267	3,123,043	3,129,484
Income before transfers	589	772	52	(1,412)	(6,558)	779	1,407	466	(1,887)	(74)	496	3,123,043	3,117,673
Transfers from Oklahoma Water Resources Board	-	-	-	-	-	-	-	-	-	-	-	750,000	750,000
Transfers (to) from Oklahoma Water Resources Board	-	-	-	-	-	-	-	-	-	-	-	(296,067)	(296,067)
Change in net position	589	772	52	(1,412)	(6,558)	779	1,407	466	(1,887)	(74)	496	3,576,976	3,571,606
NET POSITION													
Net position, beginning of year	1,261	1,836	182	1,548	6,535	655	880	385	1,544	289	-	14,645,939	14,661,054
Net position, end of year	\$ 1,850	\$ 2,608	\$ 234	\$ 136	\$ (23)	\$ 1,434	\$ 2,287	\$ 851	\$ (343)	\$ 215	\$ 496	\$ 18,222,915	\$ 18,232,660

SUPPLEMENTAL INFORMATION
COMBINING STATEMENTS OF CASH FLOWS
2016 General Bond Resolution State Loan Program
For the Year Ended June 30, 2020

	2016A Series	2017A Series	2017B Series	2017C Bond	2018A Bond	2018B Bond	2018C Bond	2018D Bond	2019A Bond	2019B Bond	2019C Bond	2016 Debt Service Reserve Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:													
Collections of interest on loans to local governmental units	\$ 602,680	\$ 1,235,807	\$ 290,680	\$ 889,522	\$ 195,143	\$ 1,097,072	\$ 1,742,432	\$ 926,004	\$ 2,336,750	\$ 591,771	\$ 731,948	\$ -	\$ 10,639,809
Payments from (to) other suppliers	(31,168)	(54,317)	(16,014)	(36,332)	(19,530)	(51,925)	(85,049)	(39,461)	(108,876)	(27,714)	(34,318)	-	(504,704)
Interest paid on debt	(571,450)	(1,181,381)	(274,856)	(855,006)	(182,488)	(1,045,125)	(1,657,213)	(886,475)	(2,227,950)	(564,147)	(697,701)	-	(10,143,792)
Net cash provided by (Used in) operating activities	62	109	(190)	(1,816)	(6,875)	22	170	68	(76)	(90)	(71)	-	(8,687)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:													
Transfer (to) from Oklahoma Water Resources Board	-	-	-	-	-	-	-	-	-	-	-	453,933	453,933
Issuance of long-term debt	-	-	-	-	-	-	-	-	-	-	25,635,000	-	25,635,000
Settlement income	-	-	-	-	-	-	-	-	-	-	-	2,854,178	2,854,178
Repayments of long-term debt	(380,000)	(175,000)	(245,000)	(165,000)	(385,000)	(400,000)	(700,000)	-	(535,000)	(125,000)	(70,000)	-	(3,180,000)
Net cash provided by (Used in) noncapital financing activities	(380,000)	(175,000)	(245,000)	(165,000)	(385,000)	(400,000)	(700,000)	-	(535,000)	(125,000)	25,565,000	3,308,111	25,763,111
CASH FLOWS FROM INVESTING ACTIVITIES:													
Sales of investments	-	-	-	-	-	-	-	-	-	-	-	(1,313,165)	(1,313,165)
Collection of principal on loans to local governmental units	380,000	175,000	245,000	165,000	385,000	400,000	700,000	-	535,000	125,000	70,000	-	3,180,000
Loans to local governments	-	-	-	-	-	-	-	-	-	-	25,635,000	-	25,635,000
Interest income	527	666	250	482	330	758	1,240	399	1,238	292	267	329,632	336,081
Net cash provided by (used in) investing activities	380,527	175,666	245,250	165,482	385,330	400,758	701,240	399	536,238	125,292	25,705,267	(983,533)	27,837,916
Net increase (decrease) in cash and cash equivalents	589	775	60	(1,334)	(6,545)	780	1,410	467	1,162	202	51,270,196	2,324,578	53,592,340
Cash and cash equivalents, beginning of year	1,246	1,806	226	1,449	6,629	649	835	367	-	-	-	3,597,494	3,610,701
Cash and cash equivalents, end of year	\$ 1,835	\$ 2,581	\$ 286	115	84	1,429	2,245	834	1,162	202	51,270,196	\$ 5,922,072	\$ 57,203,041
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:													
Operating income (loss)	\$ 62	\$ 109	\$ (198)	\$ (1,892)	\$ (6,888)	\$ 22	\$ 168	\$ 68	\$ (3,125)	\$ (366)	\$ 229	\$ -	\$ (11,811)
Adjustments to reconcile operating income (loss) to net cash provided by (Used in) operating activities:													
Changes in operating assets and liabilities:													
Decrease (Increase) Interest receivable	2,090	963	2,572	1,307	3,080	3,200	5,600	-	281,176	(343)	(273,155)	-	26,490
Increase (Decrease) Accrued interest payable	(1,900)	(875)	(2,450)	(1,237)	(2,888)	(3,000)	(5,250)	-	(268,077)	328	260,375	-	(24,974)
Increase (Decrease) Other accrued liabilities	(190)	(88)	(114)	6	(179)	(200)	(348)	-	(10,050)	291	12,480	-	1,608
Net cash provided by (used in) operating activities	\$ 62	\$ 109	\$ (190)	(1,816)	(6,875)	22	170	68	(76)	(90)	(71)	\$ -	\$ (8,687)

**OKLAHOMA WATER RESOURCES BOARD
2016 GENERAL BOND RESOLUTION STATE LOAN PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2020**

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 2016 General Bond Resolution State Loan Program Revenue Bonds (the "Program") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Program'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 Program'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 Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the Program'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 Program'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Arlidge & Associates, P.C.

Edmond, Oklahoma
September 21, 2020