

State of Oklahoma



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

**ANNUAL FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014
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, 2015 and 2014**

TABLE OF CONTENTS

	Page
Independent Auditor’s Report on Financial Statements	3-4
Management’s Discussion and Analysis	5-9
The Basic Financial Statements:	
Statements of Net Position	11
Statements of Revenues, Expenses, and Changes in Net Position	12
Statements of Cash Flows	13
Footnotes to Statements	14-23



INDEPENDENT AUDITOR'S REPORT

To the Members of the
Oklahoma Water Resources Board

Report on the Financial Statements

We have audited the accompanying financial statements of the Oklahoma Water Resources Board/Oklahoma Clean Water State Revolving Fund Loan Account Program (the "Program") as of and for the years ended June 30, 2015 and 2014, 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, 2015 and 2014, 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 23, 2015, 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.

Arlidge & Associates, P.C.

Edmond, Oklahoma
September 23, 2015

**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, 2015 and 2014**

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2015 and 2014

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, 2015 and 2014. 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 five (5) new construction loans and two (2) refinancing loans totaling approximately \$16.2 million (note that El Reno's BC amount for FY 2015 was a supplemental BC, and that total assistance provided to El Reno was \$21.5 million).
- The Program funded five (5) 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 \$14.3 million (note that El Reno's BC amount for FY 2015 was a supplemental BC, and that total assistance provided was \$21.5 million).
- The Program saw seven (7) projects begin construction and eleven (11) projects complete construction and initiate operations.
- The Program approved five (5) projects to assist Oklahoma communities to attain compliance with the enforceable permit requirements of the Clean Water Act in order to protect the water quality of receiving streams and lakes.

Financial Highlights

- The Program experienced a net increase in the number of outstanding loans in FY 2015. At June 30, 2015 the Program had 187 loans with a balance of \$454,221,267. At June 30, 2014 there were 183 outstanding loans with a principal balance of \$436,872,311.
- Ending Program net position increased from \$328,657,252 to \$344,029,943 between FY 2014 and FY 2015 of which \$31,779,990 is restricted for debt service. Ending Program net position increased from \$316,299,026 to \$328,657,252 between FY 2013 and FY 2014 of which \$34,517,147 is restricted for debt service.

Using This Annual Report

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

(Unaudited. See accompanying auditor's report.)

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, 2015 and 2014

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>2015</u>	<u>2014</u>	Restated, <u>2013</u>
Current assets	\$ 107,924,237	\$ 121,211,170	\$ 134,470,154
Non-current assets	461,129,430	447,620,835	456,444,283
Total assets	569,053,667	568,832,005	590,914,437
Current liabilities	15,368,562	15,674,136	14,614,282
Non-current liabilities and deferred inflows	209,655,162	224,500,617	260,001,129
Total liabilities and deferred inflows	225,023,724	240,174,753	274,615,411
Net position			
Restricted	31,779,990	34,517,147	38,261,162
Unrestricted	312,249,953	294,140,105	278,037,864
Total net position	\$ 344,029,943	\$ 328,657,252	\$ 316,299,026

The increase in total assets is attributable to an increase in loans outstanding. The decrease in non-current liabilities in fiscal year 2015 is directly attributable to a decrease in interest payable.

(Unaudited. See accompanying auditor’s report.)

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, 2015 and 2014

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

	Business-Type		
	Activities		
	Years Ended June 30,		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Revenues			
Loan program income, net	\$ 9,557,342	\$ 9,530,973	\$ 9,260,511
Other contributions	-	12,240	-
Investment interest income	1,900,334	2,316,787	2,364,964
Total revenues	<u>11,457,676</u>	<u>11,860,000</u>	<u>11,625,475</u>
Expenses			
Trustee fees	30,956	30,101	30,758
Administration expenses	50	-	67,063
Interest expense	6,794,892	9,255,257	9,251,787
Bond issuance costs	-	527,149	579,099
Total expenses	<u>6,825,898</u>	<u>9,812,507</u>	<u>9,928,707</u>
Net Income before transfers	4,631,778	2,047,493	1,696,768
Federal grants	11,328,000	10,786,000	14,020,727
Federal grant principal forgiveness	(616,443)	(508,067)	(3,236,354)
Transfers from other programs	29,356	32,800	27,187
Increase in net position	<u>15,372,691</u>	<u>12,358,226</u>	<u>12,508,328</u>
Total net position - beginning	328,657,252	316,299,026	303,790,698
Total net position - ending	<u>\$ 344,029,943</u>	<u>\$ 328,657,252</u>	<u>\$ 316,299,026</u>

OWRB provided \$616,443 in principal forgiveness to borrowers in FY 15 compared to \$508,067 in FY 14. In addition, the Program received \$11,328,000 in net Federal Capitalization Grants in FY 2015 compared to \$10,786,000 in FY 2014. Interest expense decreased due to the refunding of bonds in FY 14.

(Unaudited. See accompanying auditor's report.)

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, 2015 and 2014

Long- Term Debt

At year-end, the Program had \$219,281,839 in long-term debt outstanding, net of unamortized premium, which represents a \$14,503,218 or 6.2% decrease from June 30, 2014 to June 30, 2015. Debt decreased \$37,951,072, or 14%, from 2013 to 2014. The Program's changes in long-term debt by type of debt are as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Beginning balances:			
2004 Serial bonds due April 1, 2014 to April 1, 2026, interest at 3.50% to 5.25%	\$ -	\$ 82,685,000	\$ 88,935,000
2011 Serial bonds due April 1, 2014 to April 1, 2031, interest at 4.0% to 5.0%	71,615,000	76,275,000	80,785,000
2012 Serial bonds due April 1, 2014 to April 1, 2033, interest at 2.00% to 5.00%	85,885,000	86,505,000	-
2014A Serial bonds due April 1, 2015 to April 1, 2026, interest at 0.188% to 3.671%	55,560,000		
Unamortized premium	20,725,057	26,271,129	13,323,570
	<u>\$ 233,785,057</u>	<u>\$ 271,736,129</u>	<u>\$ 183,043,570</u>
Add: 2014A Serial bonds due April 1, 2015 to April 1, 2026, interest at 0.188% to 3.671%	-	55,560,000	86,505,000
Add: 2012 bond premium	-	-	14,172,391
Less: debt principal repayments	(13,350,000)	(5,280,000)	(10,760,000)
Less: debt refunded, net	-	(86,851,837)	-
Less: current amortization of premium	(1,153,218)	(1,379,235)	(1,224,832)
Ending balances	<u>\$ 219,281,839</u>	<u>\$ 233,785,057</u>	<u>\$ 271,736,129</u>
Amounts due in one year	13,345,000	13,350,000	11,735,000

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, twelve (12) communities have made requests for thirteen (13) construction and water conservation projects in FY 2016 totaling over \$94.9 million. An additional \$145.2 million in projects has been requested through 2020.

Contacting the Program's Financial Management

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

(Unaudited. See accompanying auditor's report.)

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2015 and 2014**

BASIC FINANCIAL STATEMENTS

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, 2015 and 2014

Statements of Net Position – June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$30,525,522	\$34,537,172
Investments	43,368,039	53,453,178
Loans receivable	31,078,429	30,402,643
Interest receivable:		
Loans receivable	2,836,918	2,690,904
Other interest receivable	115,329	127,273
 Total current assets	 <u>107,924,237</u>	 <u>121,211,170</u>
Noncurrent Assets:		
Loans receivable, net of current portion and allowance for uncollectible loans of \$268,895 in 2015 and \$289,423 in 2014	423,142,838	406,469,668
Restricted investments	31,779,990	34,517,147
Investments	6,206,602	6,634,020
 Total noncurrent assets	 <u>461,129,430</u>	 <u>447,620,835</u>
 Total assets	 <u>569,053,667</u>	 <u>568,832,005</u>
 LIABILITIES:		
Current Liabilities:		
Accrued interest payable	2,016,292	2,122,788
Current maturities of long-term debt	13,345,000	13,350,000
Other accrued liabilities	7,220	115,077
Due to other programs	50	86,271
Total current liabilities	<u>15,368,562</u>	<u>15,674,136</u>
Noncurrent liabilities:		
Long-term debt, less current maturities and plus unamortized premium	205,936,839	220,435,057
 Total noncurrent liabilities	 <u>205,936,839</u>	 <u>220,435,057</u>
 Total liabilities	 <u>221,305,401</u>	 <u>236,109,193</u>
 DEFERRED INFLOW OF RESOURCES:		
Deferred amount on refunding	<u>3,718,323</u>	<u>4,065,560</u>
 NET POSITION:		
Restricted for debt service	31,779,990	34,517,147
Unrestricted	312,249,953	294,140,105
 Total net position	 <u>\$344,029,943</u>	 <u>\$328,657,252</u>

See accompanying notes to the basic financial statements.

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, 2015 and 2014

Statements of Revenues, Expenses and Changes in Net Position – Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES:		
Loan program income (net of bad debt recovery of (\$20,528) in 2015 and bad debt expense of \$210,137 in 2014)	\$9,557,342	\$9,530,973
Total operating revenues	<u>9,557,342</u>	<u>9,530,973</u>
OPERATING EXPENSES:		
Trustee fees	30,956	30,101
Administration expenses	50	-
Interest expense	6,794,892	9,255,257
Bond issuance costs	-	527,149
Total operating expenses	<u>6,825,898</u>	<u>9,812,507</u>
OPERATING INCOME (LOSS)	2,731,444	(281,534)
NON-OPERATING REVENUES (EXPENSES):		
Federal grants and contracts	11,328,000	10,786,000
Federal grant principal forgiveness	(616,443)	(508,067)
Interest Income:		
Invested cash balances	608,003	543,985
Short-term investments	84,881	5,284
Long-term investments	206,026	1,763,149
Gain/(Loss) on Investments	1,001,424	4,369
Other contributions	-	12,240
Total net non-operating revenues	<u>12,611,891</u>	<u>12,606,960</u>
Net income before transfers	15,343,335	12,325,426
Transfers in - Clean Water Revolving Fund Loan Administrative Fund	<u>29,356</u>	<u>32,800</u>
Change in net position	15,372,691	12,358,226
Total net position - beginning	328,657,252	316,299,026
Total net position - ending	<u><u>\$344,029,943</u></u>	<u><u>\$328,657,252</u></u>

See accompanying notes to the basic financial statements.

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, 2015 and 2014

Statements of Cash Flows – Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Collections of interest on loans to local governmental units	\$9,390,800	\$9,733,460
Payments to other suppliers	(138,863)	(450,461)
Receipts from other programs	-	500
Payments from other programs	(86,221)	86,271
Interest paid on debt	(8,401,843)	(11,483,975)
	<u>763,873</u>	<u>(2,114,205)</u>
Net Cash Provided by (Used in) Operating Activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in - Clean Water Revolving Fund Loan Administrative Fund	29,356	32,800
Federal grant receipts	10,711,557	10,277,933
Bond issue proceeds	-	55,560,000
Principal paid on bonds/notes	(13,350,000)	(87,965,000)
	<u>(2,609,087)</u>	<u>(22,094,267)</u>
Net Cash Provided by (Used in) Noncapital Financing Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans to local governmental units	(47,934,929)	(47,284,898)
Collections of principal on loans to local governmental units	29,990,059	51,378,927
Collections of principal on loans to local governmental units from federal grant proceeds	616,443	508,067
Interest on invested cash balances	608,003	681,059
Interest on short-term investments	84,882	5,376
Interest on long-term investments	1,219,392	1,736,882
Sale of long-term investments	3,164,575	3,909,411
Sale of short-term investments	10,085,139	20,695,679
	<u>(2,166,436)</u>	<u>31,630,503</u>
Net Cash Provided by (Used in) Investing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	(4,011,650)	7,422,031
Balances - beginning of the year	<u>34,537,172</u>	<u>27,115,141</u>
Balances - end of the year	<u>\$30,525,522</u>	<u>\$34,537,172</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$2,731,444	(\$281,534)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Amortization of bond issuance premiums and deferred gain on refunding	(1,500,455)	(1,480,512)
Misc Revenue	-	12,240
Allowance for uncollectible loans	(20,528)	210,137
Change in assets and liabilities:		
Decrease (Increase) in due from other programs	-	500
Decrease (Increase) in interest receivable	(146,014)	(19,890)
Increase (Decrease) in other current liabilities	(107,857)	106,789
Increase (Decrease) in accrued interest payable	(106,496)	(748,206)
Increase (Decrease) in due to other funds	(86,221)	86,271
	<u>\$763,873</u>	<u>(\$2,114,205)</u>
Net Cash Provided by (Used in) Operating Activities		
Non-cash Transactions:		
Federal principal forgiveness	\$616,443	\$508,067
Deferred amount on refunding	-	4,166,837
Total Non Cash Transactions	<u>\$616,443</u>	<u>\$4,674,904</u>

See accompanying notes to the basic financial statements.

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, 2015 and 2014

Footnotes to the Basic Financial Statements:

1. Summary of Significant Accounting Policies

Reporting Entity

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

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").

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, 2015 and 2014

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

Loans Receivable and Allowance for Uncollectible Loans

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

Federal Letter of Credit Payments Receivable

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

Federal Grant Income

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

In accordance with the Consolidated Appropriations Act 2014, the State agreed to provide additional subsidization in the form of principal forgiveness, negative interest rate loans, or grants to eligible recipients. For FY 2015 and 2014, the OWRB chose to give principal forgiveness in the amount of \$616,443 and \$508,067, respectively.

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, 2015 and 2014

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

Bond Issue Premium

The Program's State Revolving Fund Revenue Bonds, Series 2004 were initially sold at a premium of \$7,161,445. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$226,017 was recorded in 2014 and is included in interest expense in the accompanying statements of revenues, expenses, and changes in net position. The 2004 bonds were refunded in March 2014 and the remaining balance of the unamortized bond premium of \$4,166,837 was used in the determination of the amount of the deferred inflows from the refunding.

The Program's State Revolving Fund Revenue Bonds, Series 2011 were initially sold at a premium of \$9,167,991. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$458,400 was recorded in 2015 and 2014 and is included in interest expense in the accompanying statements of revenues, expenses, and changes in net position.

The Program's State Revolving Fund Revenue Bonds, Series 2012 were initially sold at a premium of \$14,172,391. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$694,818 was recorded in 2015 and 2014, 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 and \$101,277 was recorded in FY 2015 and 2014, respectively, and is included in interest expense in the accompanying statements of revenues, expense and changes in net position.

Cash and Cash Equivalents

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

Investments

Included in the total is \$31,779,990, 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.

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, 2015 and 2014

2. Cash Deposits and Investment Risk

Cash of \$30,525,522 and \$34,537,172 at June 30, 2015 and 2014 respectively, was on deposit in the State Treasurer's office's internal investment pool – *OK Invest*. Short-term investments of \$43,368,039 and \$53,453,178 at June 30, 2015 and 2014, respectively, were on deposit with the Program's trustee. The deposits are invested in the *Federated Treasury Obligations and the Goldman Sachs Financial SQ Treasury Obligation Fund Admin* mutual funds.

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.

The State Treasurer has determined that current holdings in *OK Invest* should be limited to obligations of the United States government, its agencies and instrumentalities, tri-party repurchase agreements collateralized at 102% with the collateral held by a third party in the name of the Oklahoma State Treasurer and money market mutual funds which either directly or indirectly invest in U.S. Treasury and/or Agency securities and repurchase agreements related to such securities. *OK Invest* is not insured or guaranteed by the State of Oklahoma, the Federal Deposit Insurance Corporation or any other government agency.

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.

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, 2015 and 2014

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

- 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.

At June 30, 2015 and 2014, 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>Maturities</u>	<u>Credit Rating</u>	<u>Carrying Value</u>	
			<u>2015</u>	<u>2014</u>
OK Invest (State Treasurer)	Less than 2 years	Not rated.	\$ 30,525,522	\$ 34,537,172
Federated Treasury Obligations Fund SER Class	16 days	AAAm	15,330,635	12,699,951
Federated Government Obligations Tax Managed Fund	16 days	AAAm	2,837,227	284,806
Goldman Sachs Financial SQ Treasury Obligation Fund Admin		AAAm	25,200,177	40,468,421
City of Lawton Municipal Bond	10/1/2028	Not rated.	6,206,602	6,634,020
FHLMC	2017-2025	AA+	4,949,874	4,927,384
FHLB	3/10/2023	AA+	716,586	715,423
FHLMC - IO Strip	2018-2022	AA+	963,264	911,855
FHLMC - Freddie Mac Int Strip	3/15/2025	AA+	813,305	751,198
FNMA IO Strip	1/15/2026	AA+	100,282	91,875
FNMA Interest Strip	3/23/2019	AA+	368,572	360,483
AID Isreal Bonds	2016-2023	A+	1,800,226	1,785,684
TennVal Authority IO Strip	2014-2026	AA+	11,103,493	11,454,594
Tenn Val Authority CPN Strip	2015-2025	AA+	10,964,388	11,788,897
US Treasury Strips	2/15/2015	AA+	-	1,729,754
Total			<u>\$ 111,880,153</u>	<u>\$ 129,141,517</u>

Concentration of Investment Credit Risk – neither the Program nor the bond indenture place any limit on the amount the Program may invest in any one issuer. The Program has the following concentration of credit risk at June 30, 2015: 13.70% or \$15,330,635 is invested in Federated Treasury money market funds, 22.52% or \$25,200,177 is invested in Goldman Sachs Financial SQ Treasury Obligation Admin Fund, 9.80% or \$10,964,388 invested in Tennessee Valley Authority CPN Strips, and 9.92% or \$11,103,493 is invested in Tennessee Valley Authority IO Strips, and 27.28% or \$30,525,522 is invested in OK Invest.

At June 30, 2014, the Program has the following concentration of credit risk 9.83% or \$12,699,951 is invested in Federated Treasury money market funds, 31.34% or \$40,468,421 is invested in Goldman Sachs Financial SQ Treasury Obligation Admin Fund, 9.13% or \$11,788,897 invested in Tennessee Valley Authority CPN Strips, and 8.87% or \$11,454,594 is invested in Tennessee Valley Authority IO Strips, and 26.74% or \$34,537,172 is invested in OK Invest.

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, 2015 and 2014

3. Federal Letter of Credit Payments Receivable

A schedule of activity in the Federal letter of credit payments receivable account, as reflected in the accompanying statements of net position, for the years ended June 30, 2015 and 2014, is as follows:

Balance, June 30, 2013	\$	-
Federal revenue recognized		10,786,000
Federal funds withdrawn		<u>(10,786,000)</u>
Balance, June 30, 2014	\$	-
Federal revenue recognized		11,328,000
Federal funds withdrawn		<u>(11,328,000)</u>
Balance, June 30, 2015	\$	<u>-</u>

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

Of the Federal letter of credit payments withdrawn during the fiscal year ended June 30, 2014, \$10,277,933 was used to provide loans to borrowers, \$508,067 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, 2015 and 2014, there were \$428,250,876 and \$405,846,076, respectively, in loans outstanding, net of allowances. As of June 30, 2015, the Program had unexpended commitments to borrowers for additional loan funds in the amount of \$114,500,568.

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, 2015 and 2014, there were \$25,970,391 and \$31,026,235, respectively, in long-term interest-free loans outstanding, net of allowances.

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, 2015 and 2014

A schedule of activity of loans receivable for the years ended June 30, 2015 and 2014, is as follows:

Net Balance, June 30, 2013	\$ 441,684,544
Loan disbursements	47,284,898
Principal repayments and forgiveness	<u>(51,886,994)</u>
	437,082,448
Change in allowance for uncollectible loans	<u>(210,137)</u>
Net Balance, June 30, 2014	436,872,311
Loan disbursements	47,934,929
Principal repayments and forgiveness	<u>(30,606,502)</u>
	454,200,738
Change in allowance for uncollectible loans	<u>20,529</u>
Net Balance, June 30, 2015	<u>\$ 454,221,267</u>

5. Restricted Investments

A description of the restricted investments held at June 30, 2015 and 2014, is as follows:

	<u>2015</u>	<u>2014</u>
FHLMC - Federal Home Loan Morg Corp maturities from October 2017 to October 2025	\$ 4,949,874	\$ 4,927,384
FHLB - Federal Home Loan Bank maturity March 15, 2025	716,586	715,423
maturities from March 15, 2018 to March 15, 2022	963,264	911,855
FHLMC - Federal Home Loan Mtg Corp Int Strip maturity March 15, 2025	813,305	751,198
FNMA - Federal National Mtg Assoc. IO Strip maturity January 15, 2026	100,282	91,875
FNMA - Federal National Mtg Assoc. Interest Strip maturity March 23, 2019	368,572	360,483
AID-Israel Bonds maturity March 15, 2016 and February 15, 2023	1,800,226	1,785,684
Tennessee Valley Authority IO Strips maturities September 15, 2014 to March 15, 2026	11,103,493	11,454,594
Tennessee Valley Authority CPN Strips maturities from March 15, 2015 to March 15, 2025	10,964,388	11,788,897
US Treasury Strip maturity February 15, 2015	-	1,729,754
Total restricted investments	<u>\$ 31,779,990</u>	<u>\$ 34,517,147</u>

**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, 2015 and 2014**

6. Long-Term Debt

Bonds Payable

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

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

On October 23, 2012, the Program issued State Revolving Fund Revenue Bonds, Series 2011A in the amount of \$86,505,000. These bonds were issued to provide low interest cost financing for Oklahoma Local governmental entities for acquiring, constructing, or improving their wastewater treatment systems and to enable the Program to meet the State matching requirements in order to obtain Federal grants.

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

Future debt service payments required by the Program's outstanding bonds as of June 30, 2015 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$13,345,000	\$8,065,167	\$21,410,167
2017	12,805,000	7,772,667	20,577,667
2018	11,815,000	7,402,217	19,217,217
2019	12,905,000	7,089,393	19,994,393
2020	12,250,000	6,626,116	18,876,116
2021-2025	61,695,000	25,492,854	87,187,854
2026-2030	49,575,000	12,286,308	61,861,308
2031-2033	<u>25,320,000</u>	<u>1,892,038</u>	<u>27,212,038</u>
Total	<u>\$199,710,000</u>	<u>\$76,626,760</u>	<u>\$276,336,760</u>

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, 2015 and 2014

6. Long-Term Debt (cont'd)

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

In order for the interest on the Program's Series 2004, 2011, and 2012 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, 2015, is immaterial.

Pursuant to the 2014 Bond Indenture, the Clean Water State Revolving Fund Loan Program must maintain a debt service reserve fund. At June 30, 2015, the debt service reserves totaled \$31,779,990.

Long-term debt outstanding at June 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Beginning balances:		
2004 Serial bonds due April 1, 2014 to April 1, 2026, interest at 3.50% to 5.25%	\$ -	\$ 82,685,000
2011 Serial bonds due April 1, 2014 to April 1, 2031, interest at 4.0% to 5.0%	71,615,000	76,275,000
2012 Serial bonds due April 1, 2014 to April 1, 2033, interest at 2.00% to 5.00%	85,885,000	86,505,000
2014A Serial bonds due April 1, 2015 to April 1, 2026, interest at 0.188% to 3.671%	55,560,000	
Unamortized premium	20,725,057	26,271,129
	<u>\$ 233,785,057</u>	<u>\$ 271,736,129</u>
Add: 2014A Serial bonds due April 1, 2015 to April 1, 2026, interest at 0.188% to 3.671%	-	55,560,000
Add: 2012 bond premium	-	-
Less: debt principal repayments	(13,350,000)	(5,280,000)
Less: debt refunded, net	-	(86,851,837)
Less: current amortization of premium	(1,153,218)	(1,379,235)
Ending balances	<u>\$ 219,281,839</u>	<u>\$ 233,785,057</u>
Amounts due in one year	13,345,000	13,350,000

Advance Refunding

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

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, 2015 and 2014

6. Long-Term Debt (cont'd)

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, 2015, 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. Loan applications approved by the OWRB for which a loan agreement and promissory note have not been executed totaled zero at June 30, 2015. All loans that had been approved were closed by June 30, 2015.