

**OKLAHOMA DEPARTMENT OF  
ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER  
STATE REVOLVING FUND  
LOAN PROGRAM**

**FINANCIAL STATEMENTS  
AS OF  
JUNE 30, 2017 AND 2016  
AND INDEPENDENT AUDITOR'S REPORT**

OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM

ANNUAL FINANCIAL STATEMENTS  
FOR THE YEARS ENDED June 30, 2017 and 2016

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## INDEPENDENT AUDITOR'S REPORT

To the Directors of the  
Oklahoma Department of Environmental Quality  
Oklahoma Drinking Water State Revolving Fund Loan Program

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Oklahoma Department of Environmental Quality/Oklahoma Drinking Water State Revolving Fund Loan Program (the "Program") as of and for the years ended June 30, 2017 and 2016, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Program as of June 30, 2017 and 2016, 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 supplemental combining financial statement information, as listed in the table of contents under Supplemental Schedule Information, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Program.

The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 supplemental combining financial statement information is 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 26, 2017, on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.



Edmond, Oklahoma  
September 26, 2017



SCOTT A. THOMPSON  
Executive Director

OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY

MARY FALLIN  
Governor

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)**

Our discussion and analysis of the Oklahoma Drinking Water State Revolving Fund Program's (the "Program") financial performance provides an overview of the Program's financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the Program's financial statements, which begin on page 5. The Oklahoma Department of Environmental Quality ("ODEQ") administers the Program. ODEQ's primary activities include providing direct assistance and managing the coordination of the Program to meet the objectives of the Safe Drinking Water Act. Pursuant to an interagency agreement between ODEQ and the Oklahoma Water Resources Board (the "OWRB"), OWRB handles certain financial functions including originating, approving and servicing loans made to qualifying recipients.

### **FINANCIAL HIGHLIGHTS**

- The Program's net position increased by over 2% from \$252,889,003 in FY-2016 to \$258,562,846 in FY-2017. The increase in net position is primarily attributable to an increase in federal grant revenue retained to fund loans.
- The Program experienced an increase of \$58,175,298 in the amount of outstanding loans. At June 30, 2017, the Program had 126 outstanding loans with a principal balance of \$427,968,367. At June 30, 2016 the Program had 124 outstanding loans with a principal balance of \$369,793,069.

### **PROGRAM HIGHLIGHTS**

- During FY 2017, eight (8) construction loans and one (1) refinance loan, totaling approximately \$108 million were made to correct deficiencies and achieve compliance with the national primary drinking water regulations or otherwise further public health protection objectives of the Safe Drinking Water Act (SWDA).
- Completed construction during the year on five (5) projects totaling \$15 million.
- Made binding commitments for nine (9) new loans, totaling approximately \$110 million, in drinking water construction for communities to correct problems and achieve compliance with the SWDA.



## ECONOMIC FACTORS AND NEXT YEAR'S OUTLOOK

The Oklahoma DWSRF has been extremely popular with communities that borrow from the program. The Program's financing strategy of providing long-term loans at 70% of market rate has been consistent for many years. No additional staff is planned at this time. The Program is expected to increase assets as well as operating income as more loans are approved and eligible draws are made from the federal capitalization grants and the bond issue.

## CONTACTING THE PROGRAM'S FINANCIAL MANAGEMENT

This financial report is designed to provide the DEQ's accountability of the Program. If you have questions about this report or need additional financial information, contact the Administrative Services Division of the Oklahoma Department of Environmental Quality at 707 North Robinson, Oklahoma City, OK 73101.

**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

**STATEMENTS OF NET POSITION  
June 30, 2017 and 2016**

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Current Assets:		
Cash	\$ 43,378,434	\$ 19,865,281
Federal letter of credit payments receivable	471,800	545,361
Accrued interest on loans receivable	2,920,410	2,634,394
Other interest receivable	116,684	89,106
Loans receivable	<u>21,290,816</u>	<u>18,356,042</u>
Total current assets	<u>68,178,144</u>	<u>41,490,184</u>
Noncurrent Assets:		
Restricted cash	26,630,876	93,344,750
Restricted investments	24,550,581	26,698,212
Loans receivable, net of current portion and allowance for uncollectible loans of \$97,271 in 2017 and \$137,469 in 2016	406,677,551	351,437,027
Equipment, net	<u>177,717</u>	<u>84,731</u>
Total noncurrent assets	<u>458,036,725</u>	<u>471,564,720</u>
 Total assets	 <u>526,214,869</u>	 <u>513,054,904</u>
 <b><u>DEFERRED OUTFLOW OF RESOURCES</u></b>		
Unamortized loss on defeasance	<u>2,486,757</u>	<u>-</u>
 <b><u>LIABILITIES</u></b>		
Current Liabilities:		
Accounts payable	105,840	270,669
Due to Oklahoma Department of Environmental Quality ("ODEQ")	365,960	393,590
Compensated absences	101,072	93,613
Interest payable	2,665,662	2,666,669
Current maturities of long-term debt	<u>10,405,000</u>	<u>89,195,000</u>
Total current liabilities	<u>13,643,534</u>	<u>92,619,541</u>
Noncurrent Liabilities:		
Compensated absences	47,565	26,805
Long-term debt, net of current maturities	230,320,000	150,725,000
Unamortized (discount)/ premium	<u>26,127,681</u>	<u>16,794,555</u>
Total noncurrent liabilities	<u>256,495,246</u>	<u>167,546,360</u>
 Total liabilities	 <u>270,138,780</u>	 <u>260,165,901</u>
 <b><u>NET POSITION</u></b>		
Invested in capital assets, net of related debt	177,717	84,731
Restricted for loans and debt service	258,533,766	252,924,690
Unrestricted net liability	<u>(148,637)</u>	<u>(120,418)</u>
 Total net position	 <u>\$ 258,562,846</u>	 <u>\$ 252,889,003</u>

See accompanying notes and independent auditor's report.

**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>REVENUES</b>		
Operating revenues:		
Federal grants	\$ 3,744,051	\$ 3,359,571
Loan program income (net of bad debt recovery of \$40,198 in 2017 and \$18,698 in 2016)	9,776,703	11,391,054
Other revenue	8,348	
Total operating revenue	<u>13,529,102</u>	<u>14,750,625</u>
<b>EXPENSES</b>		
Operating expenses:		
Salaries and benefits	2,408,887	2,149,373
Professional services	382,729	217,618
Travel	45,494	31,724
Office	120,110	68,856
Equipment	26,324	-
Depreciation	41,267	13,751
Indirect costs	653,476	644,856
Other expense	997	138,856
Interest expense	9,256,422	10,181,006
Debt issuance expense	756,526	-
Trustee fees	15,142	33,135
Total operating expenses	<u>13,707,374</u>	<u>13,479,175</u>
Operating income (loss)	<u>(178,272)</u>	<u>1,271,450</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Federal grants	7,822,673	14,723,609
Federal grants-principal forgiveness	(2,888,765)	(2,066,531)
Investment income	295,325	1,506,043
Interest income-invested cash balances	559,501	542,777
Total nonoperating revenues	<u>5,788,734</u>	<u>14,705,898</u>
Income (loss) before transfers	5,610,462	15,977,348
Transfers in - Drinking Water Treatment Loan Administrative Fund	<u>63,381</u>	<u>2,799,590</u>
Increase in net position	5,673,843	18,776,938
<b>NET POSITION</b>		
Net position, beginning of year	<u>252,889,003</u>	<u>234,112,065</u>
Net position, end of year	<u>\$ 258,562,846</u>	<u>\$ 252,889,003</u>

See accompanying notes and independent auditor's report.



**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

**STATEMENTS OF CASH FLOWS**

**For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Federal grant receipts	\$ 3,817,612	\$ 3,349,863
Collection of interest on loans to local governmental units	9,458,837	11,922,464
Payments to employees	(2,374,668)	(2,191,117)
Payments to suppliers	(2,088,709)	(1,125,734)
Interest paid on debt	(8,768,086)	(11,060,557)
Net cash provided (used) by operating activities	<u>44,986</u>	<u>894,919</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from sale of bonds, net	105,645,757	-
Defeasance of debt	(89,733,731)	-
Principal paid on bonds	(8,750,000)	(11,855,000)
Federal grant receipts	4,933,908	12,657,078
Transfers in (out) - Drinking Water Treatment Loan Administrative Fund	(47,167)	2,910,138
Net cash provided (used) by noncapital financing activities	<u>12,048,767</u>	<u>3,712,216</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of equipment	(134,253)	(66,544)
Net cash (used) in capital and related financing activities	<u>(134,253)</u>	<u>(66,544)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Loans to local governmental units	(78,858,520)	(43,984,431)
Collection of principal on loans to local governmental units	17,834,655	88,895,550
Collection of principal on loans to local governmental units from federal grant proceeds	2,888,765	2,066,531
Interest on investments	295,325	1,506,381
Interest on invested cash balances	531,923	546,495
Sales of investments	2,147,631	755,178
Net cash provided (used) by investing activities	<u>(55,160,221)</u>	<u>49,785,704</u>
Net increase (decrease) in cash	(43,200,721)	54,326,295
Cash and cash equivalents, beginning of year	113,210,031	58,883,736
Cash and cash equivalents, end of year	<u>\$ 70,009,310</u>	<u>\$ 113,210,031</u>
Reconciliation to Statement of Net Position:		
Cash	\$ 43,378,434	\$ 19,865,281
Restricted Cash	26,630,876	93,444,750
Total cash and cash equivalents	<u>\$ 70,009,310</u>	<u>\$ 113,310,031</u>
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>		
Operating income (loss)	\$ (178,272)	\$ 1,271,450
Adjustment to reconcile net operating income to net cash provided by operating activities:		
Depreciation	41,267	13,751
Amortization of bond premium and deferred loss on defeasance	489,343	(781,081)
Provision (recovery) for uncollectible loans	(40,198)	(18,698)
Changes in operating assets and liabilities:		
Decrease (Increase) in letter of credit payments receivable	76,347	(9,708)
Decrease (Increase) in interest receivable	(286,016)	550,108
Increase (Decrease) in accounts payable	(45,951)	119,980
Increase (Decrease) in due to/from ODEQ	(30,396)	(110,272)
Increase (Decrease) in compensated absences	28,219	(41,744)
Increase (Decrease) in other accrued liabilities	(8,350)	(397)
Increase (Decrease) in interest payable	(1,007)	(98,470)
Net cash provided (used) by operating activities	<u>\$ 44,986</u>	<u>\$ 894,919</u>

See accompanying notes and independent auditor's report.

OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Oklahoma Department of Environmental Quality/Oklahoma Drinking Water State Revolving Fund Loan Program (the "Program") was created pursuant to the Federal Safe Drinking Water Act Amendments of 1995 (the "Act"), Section 1452, to provide a perpetual fund for financing the construction of drinking water treatment facilities for municipalities and other entities. The program utilizes Federal Capitalization grants, required State matching funds equal to 20% of federal funds received, and interest income for drinking water loan assistance. Standard loans made by the Program must be repaid within 30 years from construction completion. All repayments, including interest and principal, must remain in the fund.

The Program consists of two program components: 1) set-aside funds and 2) loan fund. The set-aside funds are administered by the Oklahoma Department of Environmental Quality ("ODEQ"). ODEQ's primary activities include providing direct assistance and managing the coordination of the Program to meet its primary objective pursuant to the Act. The loan fund is administered by the Oklahoma Water Resources Board ("OWRB") pursuant to an interagency agreement between ODEQ and OWRB. The OWRB handles certain financial functions, including the originating, approving and servicing loans made to qualifying recipients.

Basis of Accounting and Measurement Focus

The Program prepares its financial statements in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB"). The Program is accounted for and presented similar to a special-purpose government engaged solely in business type activities.

The financial statements of the Program are prepared under the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the liability is incurred. 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.

Federal Letter of Credit Payments

Funding from Federal grants is provided through a Federal letter of credit ("LOC"). The Program records revenue as qualifying expenditures are made or as expenses are incurred, as appropriate. Availability of funds under the LOC is specified by the terms of the grant. The Program draws on the available funds as necessary to fund operations and selected loans.

OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Federal Grants

Federal grants are recognized as operating revenue upon payment of allowable grant expenditures eligible for reimbursement from the EPA and not covered by state matching or program income.

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.

Restricted Cash

Restricted cash represents the portion of the Program's cash balance at year-end that has been obligated for known future expenditures, such as loans, which have been approved and are complete as to all application requirements. The restricted portion fluctuates as obligated funds are used or as funds are de-obligated.

Restricted Investments

Restricted investments at June 30, 2017 represents a portion of the Series 2013B Revenue Bonds as well as the residual investment amounts related to the Series 2003 Revenue Bonds remaining after the retirement of the Series 2003 Revenue bonds during FY-2016. The amount has been set-aside into a Debt Service Reserve Fund. The Debt Service Reserve fund portion of restricted investments totals \$24,550,581 and \$26,698,212, at June 30, 2017 and June 30, 2016, respectively (See Note 5).

Equipment

Equipment is recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to nine years. The Program's policy is to capitalize individual asset purchases in excess of \$5,000.

Debt Issuance Costs

Debt issuance costs are expensed as incurred.

OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
 OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM

NOTES TO FINANCIAL STATEMENTS  
 June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Bond Issue Premium

The Program's State Revolving Fund Revenue Bonds Series 2016, Series 2013A, Series 2012A, Series 2011, and Series 2010, were initially sold at a premium of \$36,389,889. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$6,312,631 and \$781,081 was recorded in 2017 and 2016, respectively, and is included in interest expense in the accompanying statements of revenues, expenses, and changes in net position.

Deferred Amount on Defeasance

On July 12, 2016, the Program defeased all of the outstanding Series 2010 bonds using available excess cash. The defeasance resulted in a difference between the net carrying amount of the old debt and defeasance cost of \$3,864,397. This difference, reported in the accompanying financial statements as a deferred outflow, is being charged to operations through the year 2019 using the straight line method. Net amortization expense of \$1,377,640 was recorded in fiscal year 2017 and is included in interest expense in the accompanying statements of revenues, expenses, and change in net position

Loan Administration Fees

Loan administrative fees are assessed to each participating borrower by the OWRB at the rate of one-half of one percent per annum of the amount of each borrower's loan balance outstanding. Fees paid by the participating borrowers are remitted directly to OWRB and, therefore, are not included in the accompanying Program financial statements. These fees are deposited into the Drinking Water Loan Administration Fund, an account held outside the Program. The activity within this fund for the years ended June 30, 2017 and 2016 was as follows:

Balance, July 1, 2016	\$ <u>7,595,420</u>	Balance, July 1, 2015	\$ <u>8,566,009</u>
Fee income	2,003,952	Fee income	2,285,693
Interest income	124,924	Interest income	117,384
Operating expenses	(807,345)	Operating expenses	(574,076)
Transfers	<u>(63,381)</u>	Transfers	<u>(2,799,590)</u>
Balance, June 30, 2017	\$ <u>8,853,570</u>	Balance, June 30, 2016	\$ <u>7,595,420</u>

Unrestricted Net Liability

The unrestricted net liability at June 30, 2017 and 2016, is attributed to the accrual for compensated absences for financial reporting purposes in advance of reimbursement of such costs under the Program's federal funding arrangements.

OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

2. CASH DEPOSITS AND INVESTMENT RISK

Cash of \$43,378,434 and \$19,865,281 at June 30, 2017 and 2016 respectively, was on deposit in the State Treasurer's office's internal investment pool – *OK Invest*. Restricted cash of \$26,630,876 and \$93,344,750 at June 30, 2017 and 2016 respectively, was on deposit with the Program's trustee. Amounts on deposit with the Program's trustee bank are invested in the *Federated Treasury Obligations, Federated Government Obligation, Goldman Sachs Financial Square Treasury Obligations and the Goldman Sachs Financial Square Federal Funds* money market mutual funds.

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

Of the \$43,378,434 and \$19,865,281 in cash and cash equivalents on deposit with the State Treasurer as of June 30, 2017 and June 30, 2016, 100% represent amounts held within OK INVEST, an internal investment pool. Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in OK INVEST. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in OK INVEST. Safety, liquidity, and return on investment are the objectives that establish the framework for the day-to-day OK INVEST management with an emphasis on safety of the capital and the probable income to be derived and meeting the State's daily cash flow requirements. Guidelines in the State Treasurer's Investment Policy address credit quality requirements, diversification percentages and the types and maturities of allowable investments. The specifics regarding these policies can be found on the State Treasurer's website at <http://www.ok.gov/treasurer/>. An evaluation of the use and purpose of the Program's participation in the internal investment

OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
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NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

2. CASH DEPOSITS AND INVESTMENT RISK (Cont'd)

pool determined that the amounts on deposit with OK INVEST are considered demand deposits and are reported as cash equivalents.

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

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

- a. U.S. Treasury Bills, Notes and Bonds and U.S. Government Agency Securities with certain ratings and maturity limitations.
- b. Collateralized or insured certificates of deposit and other evidences of deposit issued by a bank, savings bank, savings and loan association or credit union located in the state.
- c. With certain ratings and maturity limitations, negotiable certificates of deposit, bankers' acceptances and commercial paper.
- d. Obligations of state and local governments, including obligations of Oklahoma state public trusts, with certain ratings and maturity limitations.
- e. Collateralized repurchase agreements tri-party repurchase agreements.
- f. Money market mutual funds and short-term bond funds regulated by the Securities and Exchange Commission (SEC) and in which investments consist of obligations of the U.S. Government and its agencies and instrumentalities and repurchase agreements collateralized by obligations of the U.S. Government and its agencies and instrumentalities.

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

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

OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

2. CASH DEPOSITS AND INVESTMENT RISK (Cont'd)

The program categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based 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, 2017 and 2016, the Program's investments in obligations not directly guaranteed by the U.S. Government and investments in money market mutual funds were valued according to the following hierarchy and were rated as follows:

Type	Maturities	Credit Rating	Fair Value Hierarchy	Carrying Value	
				2017	2016
OK Invest	On Demand	Not Rated	N/A	\$ 43,378,434	\$ 19,865,281
Federated Treasury Obligations Fund	16 days	AAAm	Level 1	9,754,808	4,599,190
Federated Government Obligations Fund	16 days	AAAm	Level 1	13,540,818	88,188,547
Goldman Sach Fin. Sq. Treasury Oblig. Fund		AAAm	Level 1	3,335,250	557,013
Federal Farm Credit Bank	2022/2025	AA+	Level 2	2,908,402	3,120,343
Federal Home Loan Bank	2020/2023	AA+	Level 2	1,109,017	1,160,247
Federal Home Loan Mortgage Corp. Int. Strips	2025	AA+	Level 2	-	2,440,575
Federal National Mortgage Assoc. Int. Strips	2017/2022	AA+	Level 2	-	1,092,010
Federal National Mortgage Assoc. Princ. Strips	2018	AA+	Level 2	24,780	24,620
Federal National Mortgage Assoc.	2016	AA+	Level 2	894,200	-
Federal Home Loan Mortgage Corp.	2017	AA+	Level 2	2,379,200	73,239
Tennessee Valley Authority	2018/2021	AA+	Level 2	1,117,501	1,166,209
Tennessee Valley Authority Coupon Strips	2017/2025	AA+	Level 2	16,117,481	17,620,969
U.S. Treasury Strip Principal Strip	2016	AA+	Level 2	-	-
Total				<u>\$ 94,559,891</u>	<u>\$ 139,908,243</u>
Reconciliation to Statemet of Net Position					
	Cash			\$ 43,378,434	\$ 19,865,281
	Restricted cash			26,630,876	93,344,750
	Restricted investments			24,550,581	26,698,212
	Total			<u>\$ 94,559,891</u>	<u>\$ 139,908,243</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, 2017: 28% or \$26,630,876 is invested in government obligations money market mutual funds, 26% or \$24,550,581 is invested directly in fixed income securities, and 46% or \$43,378,434 is invested in OK Invest.

OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
 OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM

NOTES TO FINANCIAL STATEMENTS  
 June 30, 2017 and 2016

2. CASH DEPOSITS AND INVESTMENT RISK (Cont'd)

A "pooled cash" concept is used by ODEQ in maintaining cash and equivalents for the Program's Set Aside accounts. Under this method, cash and equivalents are pooled and each ODEQ program has equity in the pooled amount. There were no pooled cash overdrafts included in Due to ODEQ in the current year.

3. FEDERAL LETTERS OF CREDIT

Federal letters of credit ("LOC") balances at June 30, 2017 and 2016 are as follows:

	Year Ended June 30, 2017					
	Administrative	Program Management & Reserve	Small Systems	Local Assistance	Loan	Totals
LOC available for draw	\$ 9,635,152	18,550,877	3,895,322	20,333,918	221,780,731	274,196,000
Grant available in 2017	535,720	1,339,300	267,860	2,008,950	9,241,170	13,393,000
LOC reprogrammed	-	-	-	-	-	-
Cumulative cash draws	10,140,065	19,809,046	4,143,214	20,783,861	226,922,403	281,798,589
LOC balance available for draw at June 30, 2017	\$ 30,807	81,131	19,968	1,559,007	4,099,498	5,790,411



OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
 OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM

NOTES TO FINANCIAL STATEMENTS  
 June 30, 2017 and 2016

3. FEDERAL LETTERS OF CREDIT

	Year Ended June 30, 2016					Totals
	Administrative	Program Management & Reserve	Small Systems	Local Assistance	Loan	
LOC available for draw	\$ 9,074,939	17,135,177	3,634,256	19,051,770	211,142,858	260,039,000
Grant available in 2016	566,280	1,415,700	283,140	2,123,550	9,768,330	14,157,000
LOC reprogrammed	(6,067)	-	(22,074)	(841,402)	869,543	-
Cumulative cash draws	<u>9,590,723</u>	<u>18,299,818</u>	<u>3,891,283</u>	<u>19,276,750</u>	<u>219,099,730</u>	<u>270,158,304</u>
LOC balance available for draw at June 30, 2016	\$ <u>44,429</u>	<u>251,059</u>	<u>4,039</u>	<u>1,057,168</u>	<u>2,681,001</u>	<u>4,037,696</u>

Due to the fact that the grants cover a period of more than 8 quarters, not all of the balances presented above are available for immediate drawdown.

4. LOANS RECEIVABLE

The Program originates loans with Oklahoma municipalities and other entities for financing the construction of drinking water treatment facilities which are payable in semiannual installments at subsidized rates. Funded projects of the Program must meet established eligibility requirements. Effective interest rates on the outstanding loans vary from 0% to 3.49% at June 30, 2017 and from 0% to 3.49% at June 30, 2016.

Not less than 20% up to a maximum of 30% of the annual federal grant must be used for principal forgiveness for communities meeting the "disadvantaged" criteria. For the periods ending June 30, 2017 and 2016, the Program made loans that have or will receive principal forgiveness to two and one borrowers, respectively, under the "disadvantaged" criteria. Loans are collateralized by various revenue sources including, but not limited to, user charges and sales taxes collected by the borrowers. Principal payments must start within one year of construction completion or at an earlier date set in the loan agreement. Loan terms are available up to a maximum of twenty years, except for loans qualifying under the "disadvantaged" criteria for which the maximum term is thirty years. During the years ended June 30, 2017 and 2016, principal payments of \$20,723,420 and \$90,692,081, respectively, had been received.

OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
 OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM

NOTES TO FINANCIAL STATEMENTS  
 June 30, 2017 and 2016

4. LOANS RECEIVABLE (Cont'd)

The allowance for loan losses at June 30, 2017 of \$97,271 is based upon management's evaluation of the collectability of the loans. The evaluation takes into consideration such factors as size of the individual loans, overall quality, current economic conditions and trends that may affect the borrowers' ability to pay.

Loans receivable activity from July 1, 2015 to June 30, 2017, is as follows:

Balance, June 30, 2015	\$ 416,752,021
Loan disbursements	43,984,431
Loan principal repayments and forgiveness	<u>(90,962,081)</u>
	369,774,371
Change in provision for uncollectible loans	<u>18,698</u>
Balance, June 30, 2016	\$ <u>369,793,069</u>
Loan disbursements	78,858,520
Loan principal repayments and forgiveness	<u>(20,723,420)</u>
	427,928,169
Change in provision for uncollectible loans	<u>40,198</u>
Balance, June 30, 2017	\$ <u>427,968,367</u>

OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
 OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM

NOTES TO FINANCIAL STATEMENTS  
 June 30, 2017 and 2016

5. RESTRICTED INVESTMENTS

A description of the restricted investments held at June 30, 2017 and 2016, is as follows:

	<u>2017</u>	<u>2016</u>
Federal Farm Credit Bank	\$ 2,908,402	\$ 3,120,343
Federal Home Loan Bank	1,109,017	1,160,247
Federal Home Loan Mortgage Corp. Int. Strips	-	2,440,575
Federal National Mortgage Assoc. Int. Strips	-	1,092,010
Federal National Mortgage Assoc. Princ. Strips	24,780	24,620
Federal National Mortgage Assoc.	894,200	-
Federal Home Loan Mortgage Corp.	2,379,200	73,239
Tennessee Valley Authority	1,117,501	1,166,209
Tennessee Valley Authority Coupon Strips	16,117,481	17,620,969
	<u>                    </u>	<u>                    </u>
Total restricted investments	\$ <u>24,550,581</u>	\$ <u>26,698,212</u>

6. BINDING COMMITMENTS

The OWRB, pursuant to an interagency agreement entered into between ODEQ and OWRB, approves funding of various 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. Binding commitments approved by the OWRB for which a loan agreement and promissory note have not been executed totaled \$2,120,000 and \$0 at June 30, 2017 and 2016, respectively.

OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
 OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

7. EQUIPMENT

A summary of changes to equipment is as follows:

	<u>Year ended 2017</u>		
	<u>June 30, 2016</u>	<u>Additions</u>	<u>June 30, 2017</u>
Equipment	\$ 865,302	134,253	\$ 999,555
Accumulated depreciation	<u>(780,571)</u>	<u>(41,267)</u>	<u>(821,838)</u>
Net	<u>\$ 84,731</u>	<u>92,986</u>	<u>\$ 177,717</u>

	<u>Year ended 2016</u>		
	<u>June 30, 2015</u>	<u>Additions</u>	<u>June 30, 2016</u>
Equipment	\$ 798,758	66,544	\$ 865,302
Accumulated depreciation	<u>(766,820)</u>	<u>(13,751)</u>	<u>(780,571)</u>
Net	<u>\$ 31,938</u>	<u>52,793</u>	<u>\$ 84,731</u>

8. LONG-TERM DEBT

Bonds Payable

On October 19, 2016, the Program issued State Revolving Fund Revenue Bonds, Series 2016 in the amount of \$90,000,000. The bonds are secured by the loans made to the local entities by the OWRB, investment income in the Drinking Water State Revolving Fund Account and monies held in the Debt Service Reserve Fund. These bonds were issued to provide low interest cost financing for Oklahoma Local governmental entities for acquiring, constructing, or improving their wastewater treatment systems, to reimburse the Program for amounts previously advanced to local governments, and to enable the Program to meet the State matching requirements in order to obtain Federal grants.

OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
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NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

8. LONG-TERM DEBT (Cont'd)

Bonds Payable (Cont'd)

On September 19, 2013, the Program issued State Revolving Fund Revenue Bonds, Series 2013A in the amount of \$41,410,000. The bonds are secured by the loans made to the local entities by the OWRB, investment income in the Drinking Water State Revolving Fund Account and monies held in the Debt Service Reserve Fund. These bonds were issued to provide low interest cost financing for Oklahoma Local governmental entities for acquiring, constructing, or improving their wastewater treatment systems, to reimburse the Program for amounts previously advanced to local governments, and to enable the Program to meet the State matching requirements in order to obtain Federal grants.

On September 19, 2013, the Program issued State Revolving Fund Revenue Bonds, Series 2013B in the amount of \$35,505,000. The bonds are secured by the loans made to the local entities by the OWRB, investment income in the Drinking Water State Revolving Fund Account and monies held in the Debt Service Reserve Fund. These bonds were issued to provide funds, together with certain other available moneys and investments, to retire the Program's Series 2003 Revenue Bonds, and to fund a debt service reserve fund.

On June 12, 2012, the Program issued State Revolving Fund Revenue Bonds, Series 2012A in the amount of \$49,395,000. The bonds are secured by the loans made to the local entities by the OWRB, investment income in the Drinking Water State Revolving Fund Account and monies held in the Debt Service Reserve Fund. 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 April 13, 2011, the Program issued State Revolving Fund Revenue Bonds, Series 2011 in the amount of \$57,910,000. The bonds are secured by the loans made to the local entities by the OWRB, investment income in the Drinking Water State Revolving Fund Account and monies held in the Debt Service Reserve Fund. 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 January 13, 2010, the Program issued State Revolving Fund Revenue Bonds, Series 2010 in the amount of \$94,460,000. The bonds are secured by the loans made to the local entities by the OWRB, investment income in the Drinking Water State Revolving Fund Account and monies held in the Debt Service Reserve Fund. 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.

OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
 OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM

NOTES TO FINANCIAL STATEMENTS  
 June 30, 2017 and 2016

8. LONG-TERM DEBT (Cont'd)

Bonds Payable (Cont'd)

On July 12, 2016, the Program defeased all of the outstanding Series 2010 bonds using available excess cash. The defeasance resulted in a difference between the net carrying amount of the old debt and defeasance cost of \$3,864,397. This difference, reported in the accompanying financial statements as a deferred outflow, is being charged to operations through the year 2019 using the straight line method.

Future debt service payments required by the Program's serial bonds as of June 30, 2017 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 10,405,000	10,662,647	21,067,647
2019	11,530,000	7,942,347	19,472,347
2020	10,815,000	7,397,910	18,212,910
2021	10,320,000	6,857,780	17,177,780
2022	8,960,000	6,312,674	15,272,674
2023-2027	62,685,000	24,458,213	87,143,213
2028-2032	48,060,000	16,212,400	64,272,400
2033-2037	45,655,000	7,882,287	53,537,287
2038-2042	30,420,000	2,548,775	32,968,775
2043	1,875,000	89,062	1,964,062
	<u>\$ 240,725,000</u>	<u>90,364,095</u>	<u>331,089,095</u>

In addition to their normal scheduled maturity dates as shown above, the bonds may also be redeemed at the option of the Board, in whole or part, as 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 2016, 2013A, 2012A, and 2011 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 note/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 issues. Management has estimated the arbitrage rebate liability at June 30, 2017 to be immaterial for the Series 2016, Series 2011, Series 2012A, and Series 2013A bonds.

OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
 OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM

NOTES TO FINANCIAL STATEMENTS  
 June 30, 2017 and 2016

8. LONG-TERM DEBT (Cont'd)

Bonds Payable (Cont'd)

Changes in long-term debt outstanding at June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Beginning Balances:		
Serial 2013B bonds due April 1, 2018 to April 1, 2025, interest at 2.195% to 4.116%	\$ 25,725,000	\$ 28,750,000
Serial 2013A bonds due April 1, 2018 to April 1, 2043, interest at 4.00% to 5.00%	37,005,000	39,220,000
Serial 2012A bonds due April 1, 2018 to April 1, 2042, interest at 3.00% to 5.00%	43,960,000	45,985,000
Serial 2011 bonds due April 1, 2018 to April 1, 2042, interest at 2.50% to 5.25%	52,785,000	54,115,000
Serial 2010 bonds due April 1, 2018 to April 1, 2032, interest at 2.75% to 5.00%	-	83,705,000
Unamortized (discount)/ premium	<u>16,794,555</u>	<u>17,575,636</u>
	<u>\$ 176,269,555</u>	<u>\$ 269,350,636</u>
Add: Serial 2016 bond due April 1, 2018 to April 1, 2041, interest at 3.00% to 5.00%	90,000,000	-
Add: 2016 Bond Premium	15,645,757	-
Less: Debt Repayments	(8,750,000)	(11,855,000)
Less: Current Amortization of Premium	<u>(6,312,631)</u>	<u>(781,081)</u>
Ending Balances:	<u>\$ 266,852,681</u>	<u>\$ 256,714,555</u>
Amounts due in one year	<u>\$ 10,405,000</u>	<u>\$ 89,195,000</u>

OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM

NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

9. COMMITMENTS AND CONTINGENCIES

The Program is exposed to various risks of loss related to torts, thefts of assets, efforts and omissions, injuries to employees while performing Program business, or acts of God. The Program maintains insurance through the State of Oklahoma Risk Management Division, which is included in the indirect costs charged to the Program. There have not been any claims against the Program since its inception in 1998.

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OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM

SUPPLEMENTAL COMBINING STATEMENT OF NET POSITION INFORMATION - BY PROGRAM COMPONENT  
June 30, 2017

	Set-Aside Funds					Totals
	Administrative	Program Management	Small Systems	Local Assistance and Other State Programs	Loan Fund	
<b><u>ASSETS</u></b>						
Current Assets:						
Cash	\$ -	-	-	-	43,378,434	43,378,434
Federal letter of credit payments receivable (payable)	(17,256)	243,766	68,949	176,341	-	471,800
Accrued interest on loans receivable	-	-	-	-	2,920,410	2,920,410
Other interest receivable	-	-	-	-	116,684	116,684
Loans receivable	-	-	-	-	21,290,816	21,290,816
Total current assets	<u>(17,256)</u>	<u>243,766</u>	<u>68,949</u>	<u>176,341</u>	<u>67,706,344</u>	<u>68,178,144</u>
Noncurrent Assets:						
Restricted Cash	-	-	-	-	26,630,876	26,630,876
Restricted investments	-	-	-	-	24,550,581	24,550,581
Loans receivable, net of current portion and allowance for uncollectible loans of \$97,271	-	-	-	-	406,677,551	406,677,551
Equipment, net	-	-	-	177,717	-	177,717
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>177,717</u>	<u>457,859,008</u>	<u>458,036,725</u>
Total assets	<u>(17,256)</u>	<u>243,766</u>	<u>68,949</u>	<u>354,058</u>	<u>525,565,352</u>	<u>526,214,869</u>
<b><u>DEFERRED OUTFLOW OF RESOURCES</u></b>						
Unamortized loss on defeasance	-	-	-	-	2,486,757	2,486,757
<b><u>LIABILITIES</u></b>						
Current Liabilities:						
Accounts payable	10	930	-	104,900	-	105,840
Due to (from) Oklahoma Department of Environmental Quality ("ODEQ")	(17,266)	242,836	68,949	71,441	-	365,960
Compensated absences	14,474	52,721	12,482	21,395	-	101,072
Interest Payable	-	-	-	-	2,665,662	2,665,662
Current maturities of long-term debt	-	-	-	-	10,405,000	10,405,000
Total current liabilities	<u>(2,782)</u>	<u>296,487</u>	<u>81,431</u>	<u>197,736</u>	<u>13,070,662</u>	<u>13,643,534</u>
Noncurrent Liabilities:						
Compensated absences	6,811	24,810	5,874	10,070	-	47,565
Long-term debt, net of current maturities	-	-	-	-	230,320,000	230,320,000
Unamortized (discount)/premium	-	-	-	-	26,127,681	26,127,681
Total noncurrent liabilities	<u>6,811</u>	<u>24,810</u>	<u>5,874</u>	<u>10,070</u>	<u>256,447,681</u>	<u>256,495,246</u>
Total liabilities	<u>4,029</u>	<u>321,297</u>	<u>87,305</u>	<u>207,806</u>	<u>269,518,343</u>	<u>270,138,780</u>
<b><u>NET POSITION</u></b>						
Invested in capital assets, net of related debt	-	-	-	177,717	-	177,717
Restricted for loans and debt service	-	-	-	-	258,533,766	258,533,766
Unrestricted net liability	<u>(21,285)</u>	<u>(77,531)</u>	<u>(18,356)</u>	<u>(31,465)</u>	<u>-</u>	<u>(148,637)</u>
Total net position	<u>\$ (21,285)</u>	<u>(77,531)</u>	<u>(18,356)</u>	<u>146,252</u>	<u>258,533,766</u>	<u>258,562,846</u>

OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
 OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM

SUPPLEMENTAL COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
 NET POSITION INFORMATION - BY PROGRAM COMPONENT

For the Year Ended June 30, 2017

	Set-Aside Funds					Totals
	Administrative	Program Management	Small Systems	Local Assistance and Other State Programs	Loan Fund	
<b>REVENUES</b>						
Operating revenues:						
Federal grants	\$ 550,735	1,467,196	256,506	1,469,614	-	3,744,051
Other revenue	-	-	-	-	8,348	8,348
Loan program income (net of recovery of \$40,198)	-	-	-	-	9,776,703	9,776,703
Total operating revenue	<u>550,735</u>	<u>1,467,196</u>	<u>256,506</u>	<u>1,469,614</u>	<u>9,785,051</u>	<u>13,529,102</u>
<b>EXPENSES</b>						
Operating expenses:						
Salaries and benefits	269,711	1,152,101	209,924	777,151	-	2,408,887
Professional services	218,000	9	-	164,720	-	382,729
Travel	1,439	11,800	2,545	29,710	-	45,494
Office	17	16,669	269	103,155	-	120,110
Equipment	-	-	-	26,324	-	26,324
Depreciation	-	-	-	41,267	-	41,267
Indirect costs	70,988	313,754	53,346	215,388	-	653,476
Other expense	9	844	144	-	-	997
Interest expense	-	-	-	-	9,256,422	9,256,422
Debt issuance expense	-	-	-	-	756,526	756,526
Trustee fees	-	-	-	-	15,142	15,142
Total operating expenses	<u>560,164</u>	<u>1,495,177</u>	<u>266,228</u>	<u>1,357,715</u>	<u>10,028,090</u>	<u>13,707,374</u>
Operating income (loss)	<u>(9,429)</u>	<u>(27,981)</u>	<u>(9,722)</u>	<u>111,899</u>	<u>(243,039)</u>	<u>(178,272)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Federal grants	-	-	-	-	7,822,673	7,822,673
Federal grants-Principal Forgiveness	-	-	-	-	(2,888,765)	(2,888,765)
Investment income	-	-	-	-	295,325	295,325
Interest income-invested cash balances	-	-	-	-	559,501	559,501
Net nonoperating revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,788,734</u>	<u>5,788,734</u>
Income (loss) before transfers	<u>(9,429)</u>	<u>(27,981)</u>	<u>(9,722)</u>	<u>111,899</u>	<u>5,545,695</u>	<u>5,610,462</u>
Transfers in - Drinking Water Treatment Loan Admin Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,381</u>	<u>63,381</u>
Increase (decrease) in net position	<u>(9,429)</u>	<u>(27,981)</u>	<u>(9,722)</u>	<u>111,899</u>	<u>5,609,076</u>	<u>5,673,843</u>
<b>NET POSITION</b>						
Net position, beginning of year	<u>(11,856)</u>	<u>(49,550)</u>	<u>(8,634)</u>	<u>34,353</u>	<u>252,924,690</u>	<u>252,889,003</u>
Net position, end of year	<u>\$ (21,285)</u>	<u>(77,531)</u>	<u>(18,356)</u>	<u>146,252</u>	<u>258,533,766</u>	<u>258,562,846</u>

OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM

SUPPLEMENTAL COMBINING STATEMENT OF CASH FLOWS INFORMATION - BY PROGRAM COMPONENT  
For the Year Ended June 30, 2017

	Set-Aside Funds					Totals
	Administrative	Program Management	Small Systems	Local Assistance and Other State Programs	Loan Fund	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Federal grant receipts	\$ 549,342	1,509,228	251,931	1,507,111	-	3,817,612
Collection of interest on loans to local governmental units	-	-	-	-	9,458,837	9,458,837
Payments to employees	(260,282)	(1,124,120)	(200,202)	(790,064)	-	(2,374,668)
Payments to other suppliers	(289,060)	(385,108)	(51,729)	(582,794)	(780,018)	(2,088,709)
Interest paid on debt	-	-	-	-	(8,768,086)	(8,768,086)
Net cash provided (used) by operating activities	-	-	-	134,253	(89,267)	44,986
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Proceeds from sale of bonds, net	-	-	-	-	105,645,757	105,645,757
Defeasance of debt	-	-	-	-	(89,733,731)	(89,733,731)
Principal paid on bonds	-	-	-	-	(8,750,000)	(8,750,000)
Federal grant receipts	-	-	-	-	4,933,908	4,933,908
Transfers in (out) - Drinking Water Treatment Loan Admin. Fund	-	-	-	-	(47,167)	(47,167)
Net cash provided (used) by noncapital financing activities	-	-	-	-	12,048,767	12,048,767
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Purchase of equipment	-	-	-	(134,253)	-	(134,253)
Net cash provided (used) by capital and related financing activities	-	-	-	(134,253)	-	(134,253)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Loans to local governmental units	-	-	-	-	(78,858,520)	(78,858,520)
Collection of principal on loans to local governmental units	-	-	-	-	17,834,655	17,834,655
Collection of principal on loans to local governmental units from federal grant proceeds	-	-	-	-	2,888,765	2,888,765
Interest on investments	-	-	-	-	295,325	295,325
Interest on invested cash balances	-	-	-	-	531,923	531,923
Sale (Purchase) of investments	-	-	-	-	2,147,631	2,147,631
Net cash provided (used) by investing activities	-	-	-	-	(55,160,221)	(55,160,221)
Net increase (decrease) in cash	-	-	-	-	(43,200,721)	(43,200,721)
Cash and cash equivalents, beginning of year	-	-	-	-	113,210,031	113,210,031
Cash and cash equivalents, end of year	\$ -	-	-	-	70,009,310	70,009,310
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>						
Operating income (loss)	\$ (9,429)	(27,981)	(9,722)	111,899	(243,039)	(178,272)
Adjustment to reconcile net operating income to net cash provided by operating activities:						
Depreciation	-	-	-	41,267	-	41,267
Amortization of bond premium and deferred loss on defeasance	-	-	-	-	489,343	489,343
Provision (recovery) for uncollectible loans	-	-	-	-	(40,198)	(40,198)
Changes in operating assets and liabilities:						
Decrease (Increase) in letter of credit payments receivable	1,393	42,032	(4,575)	37,497	-	76,347
Decrease (Increase) in interest receivable	-	-	-	-	(286,016)	(286,016)
Increase (Decrease) in accounts payable	(10)	36	-	(45,977)	-	(45,951)
Increase (Decrease) in due to/from ODEQ	(1,383)	(42,068)	4,575	8,480	-	(30,396)
Increase (Decrease) in compensated absences	9,429	27,981	9,722	(18,913)	-	28,219
Increase (Decrease) in other accrued liabilities	-	-	-	-	(8,350)	(8,350)
Increase (Decrease) in interest payable	-	-	-	-	(1,007)	(1,007)
Net cash provided (used) by operating activities	\$ -	-	-	134,253	(89,267)	44,986

**OKLAHOMA DEPARTMENT OF  
ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER  
STATE REVOLVING FUND  
LOAN PROGRAM**

**SINGLE AUDIT REPORTS  
AND SUPPLEMENTARY SCHEDULES**

**JUNE 30, 2017**

**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

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

To the Directors of the  
Oklahoma Department of Environmental Quality  
Oklahoma Drinking Water State Revolving Fund Loan Program

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 Department of Environmental Quality/Oklahoma Drinking Water State Revolving Fund Loan Program (the “Program”) as of and for the year ended June 30, 2017, 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 26, 2017.

**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 Program'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 Program's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Arledge & Associates, P.C." in a cursive script.

Edmond, Oklahoma  
September 26, 2017



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM  
GUIDANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL  
AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

To the Directors of the  
Oklahoma Department of Environmental Quality  
Oklahoma Drinking Water State Revolving Fund Loan Program

**Report on Compliance for Each Major Federal Program**

We have audited the Oklahoma Department of Environmental Quality/Oklahoma Drinking Water State Revolving Fund Loan Program's (the "Program") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Program's major federal programs for the year ended June 30, 2017. The Program's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Program's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Program's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the Program's major federal program. However, our audit does not provide a legal determination of the Program's compliance.



### ***Opinion on Each Major Federal Program***

In our opinion, the Program complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

### **Report on Internal Control over Compliance**

Management of the Program is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Program's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

## Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Program as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements. We issued our report thereon dated September 26, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Arlidge & Associates, P.C.*

Edmond, Oklahoma  
September 26, 2017

**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Year Ended June 30, 2017**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Expenditures</u>	<u>Operating Expenditures</u>	<u>Loans Funded Subaward Amount</u>	<u>Loan Forgiveness Subaward Amount</u>
Environmental Protection Agency DWSRF Cluster: Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ 11,690,401	3,867,728	4,933,908	2,888,765
Total Federal Expenditures		\$ <u>11,690,401</u>	<u>3,867,728</u>	<u>4,933,908</u>	<u>2,888,765</u>

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Oklahoma Drinking Water State Revolving Fund Loan Program and is presented on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

**2. RECONCILIATION OF 2017 EXPENDITURES**

The 2017 expenditures are detailed as follows:

Loan forgiveness funded during 2017 from federal funds	\$ 2,888,765
Loans funded during 2017 from federal funds	4,933,908
Set-aside program expenditures per financial statements	3,802,961
Depreciation expense	(41,267)
Purchases of equipment	134,253
Fiscal year 2017 change in compensated absences	<u>(28,219)</u>
Total 2017 expenditures	\$ <u>11,690,401</u>

**3. OUTSTANDING LOANS RECEIVABLE**

At June 30, 2017, the Program's outstanding balance on loans receivable funded by federal awards and related matching funds was \$427,968,367, net of an allowance of \$97,271.

**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Year Ended June 30, 2017**

**SECTION I – SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:  
 Material weakness(es) identified?        yes   X   no  
 Significant deficiency(ies) identified        yes   X   none reported

Noncompliance material to financial statements noted?        yes   X   no

**Federal Awards**

Internal control over major federal programs:  
 Material weakness(es) identified?        yes   X   no  
 Significant deficiency(ies) identified?        yes   X   none reported

Type of auditor's report issued on compliance  
 for major federal programs: Unmodified

Any audit findings disclosed that are required  
 to be reported in accordance with  
 2 CFR 200.516(a)?        yes   X   no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.468	DWSRF Cluster - Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish  
 between Type A and Type B programs: \$       750,000      

Auditee qualified as low-risk auditee?   X   yes        no

**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Year Ended June 30, 2017**

SECTION II – FINANCIAL STATEMENT FINDINGS

Compliance Findings

*There are no findings requiring reporting under this section.*

Internal Control Findings

*There are no findings requiring reporting under this section.*

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Compliance Findings

*There are no findings requiring reporting under this section.*

Internal Control Findings

*There are no findings requiring reporting under this section.*