

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

**FINANCIAL STATEMENTS  
AS OF  
JUNE 30, 2014 AND 2013  
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, 2014 and 2013**

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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, 2014 and 2013, 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 financial position of the Program as of June 30, 2014 and 2013, 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.

This 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 19, 2014, 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.

*Aledge & Associates, P.C.*

Edmond, Oklahoma  
September 19, 2014





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, 2014. Please read it in conjunction with the Program's financial statements, which begin on page 6. 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 4% from \$217,141,393 in FY-2013 to \$226,276,551 in FY-2014. The increase in net position can be attributed to an increase in the amount of bond issuance premium that was amortized during FY-2014 compared to FY-2013 associated with the retirement of the outstanding Series 2003 and Series 2004 bonds.
- The Program experienced a decrease of \$73,957,036 in the amount of outstanding loans due to the option of borrowers to payoff loans at the time of the Series 2003 and Series 2004 bond refundings. At June 30, 2014 the Program had 124 outstanding loans with a principal balance of \$409,809,775. At June 30, 2013 the Program had 142 loans with a balance of \$483,766,811.

### PROGRAM HIGHLIGHTS

- During FY 2014, seven (7) construction and zero (0) refinance loans, totaling approximately \$20 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 twelve (12) projects totaling \$81.2 million.
- Made binding commitments for eight (8) new loans, totaling approximately \$22 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. 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 REVENUES, EXPENSES AND CHANGES IN NET POSITION  
For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>REVENUES</b>		
Operating revenues:		
Federal grants	\$ 2,407,453	3,225,304
Loan program income (net of bad debt recovery of \$20,362 in 2014 and bad debt recovery of \$432,019 in 2013)	<u>12,392,436</u>	<u>14,316,776</u>
Total operating revenue	<u>14,799,889</u>	<u>17,542,080</u>
<b>EXPENSES</b>		
Operating expenses:		
Salaries and benefits	1,669,999	1,969,082
Professional services	233,841	673,429
Travel	37,567	39,268
Office	752	967
Depreciation	6,000	13,500
Indirect costs	476,981	438,016
Other expense	32,737	36,606
Interest expense	10,799,653	15,052,435
Debt issuance costs	707,951	-
Trustee fees	43,479	45,569
Total operating expenses	<u>14,008,960</u>	<u>18,268,872</u>
Operating income (loss)	<u>790,929</u>	<u>(726,792)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Federal grants	8,181,830	11,242,658
Federal grants-principal forgiveness	(2,104,324)	(5,252,063)
Investment income	1,959,236	3,150,153
Interest income-invested cash balances	290,721	150,996
Total nonoperating revenues	<u>8,327,463</u>	<u>9,291,744</u>
Income (loss) before transfers	9,118,392	8,564,952
Transfers in - Drinking Water Treatment Loan Administrative Fund	<u>16,766</u>	<u>28,079</u>
Increase in net position	9,135,158	8,593,031
<b>NET POSITION</b>		
Net position, beginning of year	<u>217,141,393</u>	<u>208,548,362</u>
Net position, end of year	\$ <u><u>226,276,551</u></u>	\$ <u><u>217,141,393</u></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, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Federal grant receipts	\$ 2,900,424	3,068,508
Collection of interest on loans to local governmental units	13,349,005	13,572,169
Payments to employees	(1,608,823)	(2,047,986)
Payments to suppliers	(2,045,700)	(1,146,515)
Interest paid on debt	(15,360,402)	(16,070,975)
Net cash provided (used) by operating activities	<u>(2,765,496)</u>	<u>(2,624,799)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from sale of bonds, net	80,233,051	-
Principal paid on bonds	(154,370,000)	(13,300,000)
Federal grant receipts	6,077,506	5,990,595
Transfers in - Drinking Water Treatment Loan Administrative Fund	16,766	28,079
Net cash provided (used) by noncapital financing activities	<u>(68,042,677)</u>	<u>(7,281,326)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Loans to local governmental units	(48,191,403)	(61,785,475)
Collection of principal on loans to local governmental units	120,064,477	18,019,314
Collection of principal on loans to local governmental units from federal grant proceeds	2,104,324	5,252,063
Interest on investments	2,199,783	3,089,843
Interest on invested cash balances	279,284	136,416
Sales of investments	28,129,426	5,796,697
Net cash provided (used) by investing activities	<u>104,585,891</u>	<u>(29,491,142)</u>
Net increase (decrease) in cash	33,777,718	(39,397,267)
Cash and cash equivalents, beginning of year	<u>35,325,267</u>	<u>74,722,534</u>
Cash and cash equivalents, end of year	<u>\$ 69,102,985</u>	<u>35,325,267</u>
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>		
Operating income (loss)	\$ 790,929	(726,792)
Adjustment to reconcile net operating income to net cash provided by operating activities:		
Depreciation	6,000	13,500
Bond issuance expense	-	-
Amortization of bond/note premium	(3,405,245)	(1,231,541)
Provision (recovery) for uncollectible loans	(20,362)	(432,019)
Changes in operating assets and liabilities:		
Decrease (Increase) in letter of credit payments receivable	492,971	(156,796)
Decrease (Increase) in interest receivable	976,931	(312,588)
Increase (Decrease) in accounts payable	(193,454)	(121,995)
Increase (Decrease) in due to/from ODEQ	(299,517)	278,791
Increase (Decrease) in compensated absences	44,424	(67,999)
Increase (Decrease) in other accrued liabilities	(2,669)	(80,361)
Increase (Decrease) in interest payable	(1,155,504)	213,001
Net cash provided (used) by operating activities	<u>\$ (2,765,496)</u>	<u>(2,624,799)</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, 2014 and 2013**

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 20 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.

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013**

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

Federal Letter of Credit Payments Receivable

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.

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, 2014 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-2014. The amount has been set-aside into a Debt Service Reserve Fund. Restricted investments at June 30, 2013 represent the Series 2003 Revenue Bonds and the Series 2004 Revenue Bonds Debt Service Reserve fund. The Debt Service Reserve fund portion of restricted investments totals \$28,573,093 and \$55,782,840, at June 30, 2014 and June 30, 2013, respectively (See Note 5).

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013**

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

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.

Bond Issue Premium

The Program's State Revolving Fund Revenue Bonds, Series 2013A, Series 2012A, Series 2011, Series 2010, Series 2004 and Series 2003 were initially sold at a premium of \$29,663,981. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$3,405,245 and \$1,231,541 was recorded in 2014 and 2013, respectively, and is included in interest expense in the accompanying statements of revenues, expenses, and changes in net assets. Amortization expense for FY-2014 includes the remaining unamortized balances associated with the Series 2003 and Series 2004 Revenue Bonds, which were repaid during FY-2014.

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 Loan 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, 2014 and 2013 was as follows:

Balance, July 1, 2013	\$ <u>4,684,912</u>	Balance, July 1, 2012	\$ 2,751,427
Fee income	2,227,631	Fee income	2,331,356
Interest income	87,377	Interest income	55,339
Operating expenses	(371,216)	Operating expenses	(425,131)
Transfers	<u>(16,766)</u>	Transfers	<u>(28,079)</u>
Balance, June 30, 2014	\$ <u>6,611,938</u>	Balance, June 30, 2013	\$ <u>4,684,912</u>

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013**

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

Unrestricted Net Liability

The unrestricted net liability at June 30, 2014 and 2013, 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.

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 \$24,201,425 and \$14,671,183 at June 30, 2014 and 2013 respectively, was on deposit in the State Treasurer's office's internal investment pool – *OK Invest*. Restricted cash of \$44,901,560 and \$20,654,084 at June 30, 2014 and 2013 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.

*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.



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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014 and 2013**

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

- 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.

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.
- 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, 2014 and 2013**

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

At June 30, 2014, the Program's investments in fixed income obligations and money market mutual funds had the following ratings and maturities:

Description	S & P		Fair Value	Maturities in Years			
	Credit Rating	Financial Institution		0-1	1-5	6-10	More than 10
OK Invest	Not rated.	State Treasurer	\$ 24,201,425	24,201,425			
Federated Treasury Obligations Fund	AAAm	BancFirst	8,827,193	8,827,193			
Federated Government Obligations Fund	AAAm	BancFirst	13,881,943	13,881,943			
Goldman Sach Fin. Sq. Treasury Oblig. Fund	AAAm	BancFirst	21,818,181	21,818,181			
Goldman Sach Fin. Sq. Federal Fund	AAAm	BancFirst	374,243	374,243			
Federal Farm Credit Bank	AA+	n/a	2,936,221	-	-	1,949,771	986,450
Federal Home Loan Bank	AA+	n/a	1,118,735	-	-	1,118,735	-
Federal Home Loan Mortgage Corp. Int. Strips	AA+	n/a	2,041,361	-	-	-	2,041,361
Federal National Mortgage Assoc. Int. Strips	AA+	n/a	1,028,273	-	724,930	303,343	-
Federal National Mortgage Assoc. Princ. Strips	AA+	n/a	23,734	-	23,734	-	-
Federal National Mortgage Assoc.	AA+	n/a	126,215	66,113	60,102	-	-
Federal Home Loan Mortgage Corp.	AA+	n/a	73,251	-	-	73,251	-
Tennessee Valley Authority	AA+	n/a	1,169,193	-	391,048	778,145	-
Tennessee Valley Authority Coupon Strips	AA+	n/a	19,947,697	1,965,970	7,393,716	7,363,203	3,224,808
U.S. Treasury Strip Principal Strip	AA+	n/a	108,413	-	108,413	-	-
Total			\$ 97,676,078	71,135,068	8,701,943	11,586,448	6,252,619

*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, 2014: 46% or \$44,901,560 is invested in government obligations money market mutual funds, 29% or \$28,573,093 is invested directly in fixed income securities, and 25% or \$24,201,425 is invested in OK Invest.

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.

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013**

**3. FEDERAL LETTERS OF CREDIT**

Federal letters of credit ("LOC") balances at June 30, 2014 and 2013 are as follows:

		Year Ended June 30, 2014					
		Administrative & ARRA Administrative	Program Management & Reserve	Small Systems	Local Assistance	Loan	Totals
LOC available for draw	\$	8,587,345	17,200,233	3,559,188	18,074,283	198,391,951	245,813,000
Cumulative cash draws		<u>8,488,011</u>	<u>15,641,459</u>	<u>3,323,201</u>	<u>16,693,827</u>	<u>196,177,680</u>	<u>240,324,178</u>
LOC balance available for draw at June 30, 2014	\$	<u>99,334</u>	<u>1,558,774</u>	<u>235,987</u>	<u>1,380,456</u>	<u>2,214,271</u>	<u>5,488,822</u>
		Year Ended June 30, 2013					
		Administrative & ARRA Administrative	Program Management & Reserve	Small Systems	Local Assistance	Loan	Totals
LOC available for draw	\$	8,168,825	16,153,933	3,349,928	17,027,983	190,649,331	235,350,000
Cumulative cash draws		<u>7,846,746</u>	<u>14,942,546</u>	<u>3,208,387</u>	<u>15,248,395</u>	<u>187,995,850</u>	<u>229,241,924</u>
LOC balance available for draw at June 30, 2013	\$	<u>322,079</u>	<u>1,211,387</u>	<u>141,541</u>	<u>1,779,588</u>	<u>2,653,481</u>	<u>6,108,076</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.

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013**

**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 4.01% at June 30, 2014 and 2013.

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, 2014 and 2013, the Program made loans that have or will receive principal forgiveness to three and nine 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, 2014 and 2013, principal payments of \$122,168,801 and \$23,271,377, respectively, had been received.

The allowance for loan losses at June 30, 2014 of \$4,252,991 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, 2012 to June 30, 2014, is as follows:

Balance, June 30, 2012	444,820,694
Loan disbursements	61,785,475
Loan principal repayments	(23,271,377)
Change in provision for uncollectible loans	<u>432,019</u>
Balance, June 30, 2013	483,766,811
Loan disbursements	48,191,403
Loan principal repayments	(122,168,801)
Change in provision for uncollectible loans	<u>409,789,413</u>
Balance, June 30, 2014	<u><u>\$ 409,809,775</u></u>

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013**

**5. RESTRICTED INVESTMENTS**

A description of the restricted investments held at June 30, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Guaranteed investment with Transamerica Life Insurance and Annuity Co. pursuant to an investment agreement, 4.80%, maturing April 1, 2025 (restricted for reserve fund). \$	-	29,981,760
Guaranteed investment with Transamerica Life Insurance and Annuity Co. pursuant to an investment agreement, 4.80%, maturing April 1, 2025 (restricted for revenue fund).	-	562,787
Guaranteed investment with Transamerica Occidental Life Insurance Co. pursuant to an investment agreement, 4.61%, maturing April 1, 2027 (restricted for reserve fund).	-	25,801,080
Guaranteed investment with Transamerica Occidental Life Insurance Co. pursuant to an investment agreement, 4.40%, maturing April 1, 2027 (restricted for revenue fund).	-	442,694
Federal Farm Credit Bank	2,936,221	-
Federal Home Loan Bank	1,118,735	-
Federal Home Loan Mortgage Corp. Int. Strips	2,041,361	-
Federal National Mortgage Assoc. Int. Strips	1,028,273	-
Federal National Mortgage Assoc. Princ. Strips	23,734	-
Federal National Mortgage Assoc.	126,215	-
Federal Home Loan Mortgage Corp.	73,251	-
Tennessee Valley Authority	1,169,193	-
Tennessee Valley Authority Coupon Strips	19,947,697	-
U.S. Treasury Strip Principal Strip	108,413	-
	<u>28,573,093</u>	<u>56,788,321</u>
Total restricted investments \$	<u>28,573,093</u>	<u>56,788,321</u>

The investment agreements with Transamerica Occidental Life Insurance Co./Transamerica Life Insurance and Annuity Co. ("Transamerica"), were redeemed at par during FY-2014 and the proceeds were used to fund the retirement of the outstanding 2003 & 2004 Series Revenue bonds and to fund the Series 2013B Debt Service Reserve fund.

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**NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013**

**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 \$470,000 and \$0 at June 30, 2014 and 2013, respectively.

**7. EQUIPMENT**

A summary of changes to equipment is as follows:

		<u>Year ended 2014</u>		
		<u>June 30,</u> <u>2013</u>	<u>Additions</u>	<u>June 30,</u> <u>2014</u>
Equipment	\$	763,271	-	763,271
Accumulated depreciation		<u>(757,271)</u>	<u>(6,000)</u>	<u>(763,271)</u>
Net	\$	<u>6,000</u>	<u>(6,000)</u>	<u>-</u>

		<u>Year ended 2013</u>		
		<u>June 30,</u> <u>2012</u>	<u>Additions</u>	<u>June 30,</u> <u>2013</u>
Equipment	\$	763,271	-	763,271
Accumulated depreciation		<u>(743,771)</u>	<u>(13,500)</u>	<u>(757,271)</u>
Net	\$	<u>19,500</u>	<u>(13,500)</u>	<u>6,000</u>

**8. LONG-TERM DEBT**

**Bonds Payable**

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,



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**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014 and 2013**

8. LONG-TERM DEBT (Cont'd)

Bonds Payable (Cont'd)

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.

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**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014 and 2013**

8. LONG-TERM DEBT (Cont'd)

Bonds Payable (Cont'd)

On October 26, 2004, the Program issued State Revolving Fund Revenue Bonds, Series 2004 in the amount of \$83,405,000. 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. 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 Clean Water State Revolving Fund Loan Account Program for similar purposes related to its wastewater treatment facilities projects.

On April 1, 2014, the outstanding balance of the Series 2004 Revenue bonds were redeemed at par.

On October 29, 2003, the Program issued Drinking Water State Revolving Fund Revenue Bonds, Series 2003, in the amount of \$122,910,000. 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. The proceeds from the Series 2003 Bonds are to be used to provide program loans, pay cost of issuance, finance a portion of the state matching funds requirement, and pay interest on the bonds during the period when financed projects are under construction.

On October 1, 2013, the outstanding balance of the Series 2003 Revenue bonds were redeemed at par.

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**NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013**

8. LONG-TERM DEBT (Cont'd)

Bonds Payable (Cont'd)

Future debt service payments required by the Program's serial bonds as of June 30, 2014 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 11,440,000	11,317,141	22,757,141
2016	11,855,000	11,060,556	22,915,556
2017	12,145,000	10,666,677	22,811,677
2018	13,390,000	10,312,392	23,702,392
2019	14,120,000	9,841,648	23,961,648
2020-2024	69,190,000	40,449,995	109,639,995
2025-2029	61,325,000	25,579,076	86,904,076
2030-2034	41,110,000	11,850,863	52,960,863
2035-2039	18,175,000	4,778,350	22,953,350
2040-2042	10,465,000	1,069,150	11,534,150
	<u>\$ 263,215,000</u>	<u>136,925,848</u>	<u>400,140,848</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 2013A, 2012A, 2011, 2010, Series 2004 and Series 2003 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, 2014 to be immaterial for the Series 2003, Series 2004, Series 2010, Series 2011, Series 2012A, and Series 2013A bonds.

Prior to the redemption of the Series 2004 Revenue Bond Series, the Drinking Water State Revolving Fund Loan Program bonds shared in an aggregate debt service reserve with the Clean Water State Revolving Fund Loan Program. During FY-2014, the aggregate debt service reserve funds, along with other monies, were used to retire all of the outstanding Series 2004 Revenue bonds. At June 30, 2014, the aggregate debt service reserves totaled \$0.

**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY  
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**NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013**

8. LONG-TERM DEBT (Cont'd)

Bonds Payable (Cont'd)

Long-term debt outstanding at June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
<b>BONDS PAYABLE:</b>		
Serial 2013B bonds due April 1, 2015 to April 1, 2025, interest at 0.643% to 4.116%	\$ 31,755,000	-
Serial 2013A bonds due April 1, 2015 to April 1, 2043, interest at 3.00% to 5.00%	41,410,000	-
Serial 2012A bonds due April 1, 2015 to April 1, 2042, interest at 3.00% to 5.00%	47,945,000	49,240,000
Serial 2011 bonds due April 1, 2015 to April 1, 2042, interest at 2.00% to 5.25%	55,415,000	56,680,000
Serial 2010 bonds due April 1, 2015 to April 1, 2032, interest at 2.25% to 5.00%	86,690,000	89,555,000
Serial 2004 bonds due April 1, 2014 to April 1, 2027, interest at 3.50% to 5.25% (See above. Redeemed on April 1, 2014)	-	63,300,000
Serial 2003 Bonds due April 1, 2014 to April 1, 2025, interest at 3.90% to 5.25% (See above. Redeemed on October 1, 2013)	-	81,895,000
	<hr/>	<hr/>
Total Bonds Payable	263,215,000	340,670,000
Current maturities	(11,440,000)	(91,035,000)
Unamortized (discount)/ premium	<u>18,356,717</u>	<u>18,443,911</u>
Long-term debt, net of unamortized (discount)/ premium	<u>\$ 270,131,717</u>	<u>268,078,911</u>

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

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013**

**9. PENSION PLAN**

As provided by State law, the Program participates in the Oklahoma Public Employees Retirement System (the "System"), a component unit of the State of Oklahoma. This system covers substantially all State and county employees and extends to local entities if they elect to participate. The System is a multiemployer, cost-sharing plan.

The Retirement Plan, administered by the System, is a defined benefit, contributory plan that provides participants with retirement, death and disability benefits. Pension benefit provisions were established by statute, and benefit provisions are amended by the State Legislature. Cost-of-living adjustments are provided to plan members and beneficiaries at the discretion of the State Legislature.

A separately issued independent audit report for the plan may be obtained by writing:

Oklahoma Public Employees Retirement Plan  
5801 N. Broadway Extension, Suite 400  
Oklahoma City, Oklahoma 73118

The contribution rates for the plan are established by the State Legislature and are not based on an actuarial calculation which is performed to determine the adequacy of the rate.

The Program makes contributions to the plan on behalf of its employees based on their gross salaries earned (excluding overtime) for the fiscal year ended June 30. The contribution rates in effect for the years ended June 30, 2014 and 2013 and subsequent periods are summarized as follows:

	<u>FY-2014</u>	<u>FY-2013</u>
Program	16.5%	16.5%
Program Employees	3.5%	3.5%

Contributions to the plan by the Program for the three years ended June 30, 2014, 2013 and 2012 were \$176,572, \$230,126, and \$255,563, respectively. These contributions represent 100% of the contribution required.

**10. 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, 2014

	Set-Aside Funds					Totals
	Administrative	Program Management	Small Systems	Local Assistance and Other State Programs	Loan Fund	
<b>ASSETS</b>						
Current Assets:						
Cash	\$ -	-	-	-	24,201,425	24,201,425
Federal letter of credit payments receivable (payable)	(3,112)	95,175	69,856	100,137	-	262,056
Accrued interest on loans receivable	-	-	-	-	3,118,368	3,118,368
Other interest receivable	-	-	-	-	95,493	95,493
Due from Clean Water Revolving Loan Fund	-	-	-	-	86,271	86,271
Loans receivable	-	-	-	-	19,171,095	19,171,095
Total current assets	<u>(3,112)</u>	<u>95,175</u>	<u>69,856</u>	<u>100,137</u>	<u>46,672,652</u>	<u>46,934,708</u>
Noncurrent Assets:						
Restricted Cash	-	-	-	-	44,901,560	44,901,560
Restricted investments	-	-	-	-	28,573,093	28,573,093
Loans receivable, net of current portion and allowance for uncollectible loans of \$4,252,991	-	-	-	-	390,638,680	390,638,680
Equipment, net	-	-	-	-	-	-
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>464,113,333</u>	<u>464,113,333</u>
Total assets	<u>(3,112)</u>	<u>95,175</u>	<u>69,856</u>	<u>100,137</u>	<u>510,785,985</u>	<u>511,048,041</u>
<b>LIABILITIES</b>						
Current Liabilities:						
Accounts payable	-	3,716	-	919	13,795	18,430
Due to (from) Oklahoma Department of Environmental Quality ("ODEQ")	(3,112)	91,459	69,856	99,218	-	257,421
Compensated absences	6,135	11,316	2,130	28,552	-	48,133
Interest Payable	-	-	-	-	2,786,395	2,786,395
Current maturities of long-term debt	-	-	-	-	11,440,000	11,440,000
Total current liabilities	<u>3,023</u>	<u>106,491</u>	<u>71,986</u>	<u>128,689</u>	<u>14,240,190</u>	<u>14,550,379</u>
Noncurrent Liabilities:						
Compensated absences	11,394	21,016	3,958	53,026	-	89,394
Long-term debt, net of current maturities	-	-	-	-	251,775,000	251,775,000
Unamortized (discount)/premium	-	-	-	-	18,356,717	18,356,717
Total noncurrent liabilities	<u>11,394</u>	<u>21,016</u>	<u>3,958</u>	<u>53,026</u>	<u>270,131,717</u>	<u>270,221,111</u>
Total liabilities	<u>14,417</u>	<u>127,507</u>	<u>75,944</u>	<u>181,715</u>	<u>284,371,907</u>	<u>284,771,490</u>
<b>NET POSITION</b>						
Invested in capital assets, net of related debt	-	-	-	-	-	-
Restricted for loans and debt service	-	-	-	-	226,414,078	226,414,078
Unrestricted net liability	<u>(17,529)</u>	<u>(32,332)</u>	<u>(6,088)</u>	<u>(81,578)</u>	<u>-</u>	<u>(137,527)</u>
Total net position	<u>\$ (17,529)</u>	<u>(32,332)</u>	<u>(6,088)</u>	<u>(81,578)</u>	<u>226,414,078</u>	<u>226,276,551</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, 2014

	Set-Aside Funds					Totals
	Administrative	Program Management	Small Systems	Local Assistance and Other State Programs	Loan Fund	
<b>REVENUES</b>						
Operating revenues:						
Federal grants	\$ 469,848	481,509	128,008	1,328,088	-	2,407,453
Loan program income (net of recovery of \$20,362)	-	-	-	-	12,392,436	12,392,436
Total operating revenue	<u>469,848</u>	<u>481,509</u>	<u>128,008</u>	<u>1,328,088</u>	<u>12,392,436</u>	<u>14,799,889</u>
<b>EXPENSES</b>						
Operating expenses:						
Salaries and benefits	196,384	330,184	100,342	1,043,089	-	1,669,999
Professional services	214,000	3,847	-	15,994	-	233,841
Travel	8,188	8,582	-	20,797	-	37,567
Office	382	-	-	370	-	752
Depreciation	-	-	-	6,000	-	6,000
Indirect costs	55,820	99,785	28,911	292,465	-	476,981
Other expense	4,516	28,221	-	-	-	32,737
Interest expense	-	-	-	-	10,799,653	10,799,653
Debt issuance costs	-	-	-	-	707,951	707,951
Trustee fees	-	-	-	-	43,479	43,479
Total operating expenses	<u>479,290</u>	<u>470,619</u>	<u>129,253</u>	<u>1,378,715</u>	<u>11,551,083</u>	<u>14,008,960</u>
Operating income (loss)	<u>(9,442)</u>	<u>10,890</u>	<u>(1,245)</u>	<u>(50,627)</u>	<u>841,353</u>	<u>790,929</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Federal grants	-	-	-	-	8,181,830	8,181,830
Federal grants-Principal Forgiveness	-	-	-	-	(2,104,324)	(2,104,324)
Investment income	-	-	-	-	1,959,236	1,959,236
Interest income-invested cash balances	-	-	-	-	290,721	290,721
Net nonoperating revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,327,463</u>	<u>8,327,463</u>
Income (loss) before transfers	(9,442)	10,890	(1,245)	(50,627)	9,168,816	9,118,392
Transfers in - Drinking Water Treatment Loan Admin Fund	-	-	-	-	16,766	16,766
Increase (decrease) in net position	(9,442)	10,890	(1,245)	(50,627)	9,185,582	9,135,158
<b>NET POSITION</b>						
Net position, beginning of year	<u>(8,087)</u>	<u>(43,222)</u>	<u>(4,843)</u>	<u>(30,951)</u>	<u>217,228,496</u>	<u>217,141,393</u>
Net position, end of year	<u>\$ (17,529)</u>	<u>(32,332)</u>	<u>(6,088)</u>	<u>(81,578)</u>	<u>226,414,078</u>	<u>226,276,551</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, 2014

	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	\$ 641,265	698,913	114,814	1,445,432	-	2,900,424
Collection of interest on loans to local governmental units	-	-	-	-	13,349,005	13,349,005
Payments to employees	(186,942)	(341,074)	(82,345)	(998,462)	-	(1,608,823)
Payments to other suppliers	(454,323)	(357,839)	(32,469)	(446,970)	(754,099)	(2,045,700)
Interest paid on debt	-	-	-	-	(15,360,402)	(15,360,402)
Net cash provided (used) by operating activities	-	-	-	-	(2,765,496)	(2,765,496)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Proceeds from sale of bonds, net	-	-	-	-	80,233,051	80,233,051
Principal paid on bonds	-	-	-	-	(154,370,000)	(154,370,000)
Federal grant receipts	-	-	-	-	6,077,506	6,077,506
Transfers in - Drinking Water Treatment Loan Admin. Fund	-	-	-	-	16,766	16,766
Net cash provided (used) by noncapital financing activities	-	-	-	-	(68,042,677)	(68,042,677)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Loans to local governmental units	-	-	-	-	(48,191,403)	(48,191,403)
Collection of principal on loans to local governmental units	-	-	-	-	120,064,477	120,064,477
Collection of principal on loans to local governmental units from federal grant proceeds	-	-	-	-	2,104,324	2,104,324
Interest on investments	-	-	-	-	2,199,783	2,199,783
Interest on invested cash balances	-	-	-	-	279,284	279,284
Sale (Purchase) of investments	-	-	-	-	28,129,426	28,129,426
Net cash provided (used) by investing activities	-	-	-	-	104,585,891	104,585,891
Net increase (decrease) in cash	-	-	-	-	33,777,718	33,777,718
Cash and cash equivalents, beginning of year	-	-	-	-	35,325,267	35,325,267
Cash and cash equivalents, end of year	\$ -	-	-	-	69,102,985	69,102,985
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>						
Operating income (loss)	\$ (9,442)	10,890	(1,245)	(50,627)	841,353	790,929
Adjustment to reconcile net operating income to net cash provided by operating activities:						
Depreciation	-	-	-	6,000	-	6,000
Amortization of bond/note premium	-	-	-	-	(3,405,245)	(3,405,245)
Provision (recovery) for uncollectible loans	-	-	-	-	(20,362)	(20,362)
Changes in operating assets and liabilities:						
Decrease (Increase) in letter of credit payments receivable	171,417	217,404	(13,194)	117,344	-	492,971
Decrease (Increase) in interest receivable	-	-	-	-	976,931	976,931
Increase (Decrease) in accounts payable	(180,000)	3,716	-	(17,170)	-	(193,454)
Increase (Decrease) in due to/from ODEQ	8,583	(221,120)	13,194	(100,174)	-	(299,517)
Increase (Decrease) in compensated absences	9,442	(10,890)	1,245	44,627	-	44,424
Increase (Decrease) in other accrued liabilities	-	-	-	-	(2,669)	(2,669)
Increase (Decrease) in interest payable	-	-	-	-	(1,155,504)	(1,155,504)
Net cash provided (used) by operating activities	\$ -	-	-	-	(2,765,496)	(2,765,496)

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

**SINGLE AUDIT REPORTS  
AND SUPPLEMENTARY SCHEDULES**

**JUNE 30, 2014**

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

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**Arledge**  
& Associates, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

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, 2014, 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 19, 2014.

**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.

*Arledge & Associates, P.C.*

Edmond, Oklahoma  
September 19, 2014



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
OMB CIRCULAR A-133

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 Circular A-133 Compliance Supplement* that could have a direct and material effect on the Program's major federal program for the year ended June 30, 2014. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Program's major federal programs 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 each major federal program. However, our audit does not provide a legal determination of The Oklahoma Department of Environmental Quality/Oklahoma Drinking Water State Revolving Fund Loan Program's compliance.

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

In our opinion, The Oklahoma Department of Environmental Quality/Oklahoma Drinking Water State Revolving Fund Loan 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, 2014.

### **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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



## **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the Program as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements. We issued our report thereon dated September 19, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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.

*Aledge & Associates, P.C.*

Edmond, Oklahoma  
September 19, 2014

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2014**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Operating Expenditures</u>	<u>Loans Funded Subaward Amount</u>	<u>Loan Forgiveness Subaward Amount</u>
Environmental Protection Agency Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ 10,589,283	2,407,453	6,077,506	2,104,324
Total Federal Expenditures		\$ <u>10,589,283</u>	<u>2,407,453</u>	<u>6,077,506</u>	<u>2,104,324</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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**2. RECONCILIATION OF 2014 EXPENDITURES**

The 2014 expenditures are detailed as follows:

Loan forgiveness funded during 2014 from federal funds	\$ 2,104,324
Loans funded during 2014 from federal funds	6,077,506
Set-aside program expenditures per financial statements	2,457,877
Depreciation expense	(6,000)
Fiscal year 2014 change in compensated absences	<u>(44,424)</u>
Total 2014 expenditures	\$ <u>10,589,283</u>

**3. OUTSTANDING LOANS RECEIVABLE**

At June 30, 2014, the Program's outstanding balance on loans receivable funded by federal awards and related matching funds was \$409,809,775, net of an allowance of \$4,252,991.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2014**

**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  
 not considered to be material weakness(es)?        yes   X   none reported

Noncompliance material to financial statements noted?        yes   X   no

**Federal Awards**

Internal control over major programs:  
 Material weakness(es) identified?        yes   X   no  
 Significant deficiency(ies) identified  
 not considered to be material weakness(es)?        yes   X   none reported

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

Any audit findings disclosed that are required  
 to be reported in accordance with  
 Circular A-133, Section .510(a)?        yes   X   no

Identification of major programs:

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

Dollar threshold used to distinguish  
 between Type A and Type B programs: \$       317,678      

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, 2014**

**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.*