

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

**FINANCIAL STATEMENTS
AS OF
JUNE 30, 2021 AND 2020
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, 2021 and 2020

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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, 2021 and 2020, 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, 2021 and 2020, 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 13, 2021 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.

Arlodge & Associates, P.C.

September 13, 2021

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, 2021. 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 4.4% from \$301,568,515 in FY-2020 to \$314,835,651 in FY-2021. The increase in net position is primarily attributable to an increase in federal grant revenue retained to fund loans.
- The Program experienced a increase of \$73,480,136 in the amount of outstanding loans. At June 30, 2021, the Program had 152 outstanding loans with a principal balance of \$583,093,589. At June 30, 2020, the Program had 145 outstanding loans with a principal balance of \$509,613,453.

PROGRAM HIGHLIGHTS

- During FY 2021, seventeen (17) construction loans, totaling approximately \$262.2 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).
- During FY 2021, we completed construction during the year on twelve (12) projects totaling \$76 million.
- During FY 2021, we made binding commitments for sixteen (16) new loans, totaling approximately \$264.5 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, 2021 and 2020**

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
Current Assets:		
Cash	\$ 58,834,616	\$ 14,651,405
Federal letter of credit payments receivable	499,502	355,234
Accrued interest on loans receivable	3,530,646	3,201,085
Other interest receivable	116,157	91,863
Loans receivable	26,524,265	26,206,722
Total current assets	89,505,186	44,506,309
Noncurrent Assets:		
Restricted cash	7,317,404	19,124,414
Restricted investments	16,358,334	19,203,579
Loans receivable, net of current portion and allowance for uncollectible loans of \$22,788 in 2021 and \$25,000 in 2020	556,569,324	483,406,731
Equipment, net	436,922	551,896
Total noncurrent assets	580,681,984	522,286,620
Total assets	670,187,170	566,792,929
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable	22,274	51,870
Due to Oklahoma Department of Environmental Quality ("ODEQ")	918,907	875,361
Compensated absences	124,499	148,007
Interest payable	3,120,076	2,444,871
Current maturities of long-term debt	17,370,000	14,815,000
Total current liabilities	21,555,756	18,335,109
Noncurrent Liabilities:		
Compensated absences	53,357	63,431
Long-term debt, net of current maturities	290,215,000	214,475,000
Unamortized (discount)/premium	36,764,727	25,244,283
Total noncurrent liabilities	327,033,084	239,782,714
Total liabilities	348,588,840	258,117,823
<u>DEFERRED INFLOW OF RESOURCES</u>		
Unamortized (gain/loss) on refunding	6,762,679	7,088,591
<u>NET POSITION</u>		
Invested in capital assets, net of related debt	436,922	551,896
Restricted for loans and debt service	315,018,264	301,818,054
Unrestricted net position	(619,535)	(783,435)
Total net position	\$ 314,835,651	\$ 301,586,515

See accompanying notes and independent auditors report.

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

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
June 30, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
REVENUES		
Operating revenues:		
Federal grants	\$ 4,635,464	\$ 3,703,547
Loan program income	<u>12,077,696</u>	<u>12,405,849</u>
Total operating revenue	<u>16,713,160</u>	<u>16,109,396</u>
EXPENSES		
Operating expenses:		
Salaries and benefits	2,722,516	2,542,671
Professional services	829,439	595,389
Travel	54,711	93,892
Office	79,889	123,543
Equipment	4,757	20,101
Depreciation	150,866	172,310
Indirect costs	709,175	709,037
Other expense	35,185	659
Interest expense	9,910,925	9,278,006
Bad debt expense	22,788	8,101
Refunding Expense	-	20,906
Debt issuance costs	<u>643,822</u>	<u>232,140</u>
Total operating expenses	15,164,073	13,796,755
Operating income (loss)	<u>1,549,087</u>	<u>2,312,641</u>
NONOPERATING REVENUES (EXPENSES)		
Federal grants	9,805,181	5,341,551
Federal grants-principal forgiveness	(2,156,291)	(305,850)
Investment income	166,725	673,729
Interest income-invested cash balances	<u>762,434</u>	<u>1,004,535</u>
Net nonoperating revenues	<u>8,578,049</u>	<u>6,713,965</u>
Income (loss) before transfers	10,127,136	9,026,606
Transfers out - Oklahoma Water Resources Board	-	(5,313,178)
Transfers in (out) - Clean Water State Revolving Fund	-	15,000,000
Transfers in - Drinking Water Treatment Loan Admin Fund	<u>3,122,000</u>	<u>3,120,000</u>
Total Transfers	3,122,000	12,806,822
Increase (decrease) in net position	13,249,136	21,833,428
NET POSITION		
Net position, beginning of year	<u>301,586,515</u>	<u>279,753,087</u>
Net position, end of year	<u>\$ 314,835,651</u>	<u>\$ 301,586,515</u>

See accompanying notes and independent auditors report.

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

**STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Federal grant receipts	\$ 3,801,939	\$ 4,077,031
Collection of interest on loans to local governmental units	11,723,841	12,970,247
Payments to employees	(2,756,098)	(2,486,800)
Payments to suppliers	(1,009,949)	(1,344,108)
Interest paid on debt	(11,311,659)	(11,703,126)
Net cash provided (used by operating activities)	<u>448,074</u>	<u>1,513,244</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from bond issuance	108,270,470	-
Proceeds from refunding of bonds	-	28,210,000
Bond issuance cost	(643,822)	(232,140)
Transfer to escrow agent	-	(85,129,150)
Principal paid on bonds	(16,705,000)	(12,330,000)
Federal grant receipts	7,648,890	5,035,701
Transfers in (out) - Oklahoma Water Resources Board	-	(5,313,178)
Transfers in (out) - Clean Water State Revolving Fund	-	15,000,000
Transfers in (out) - Drinking Water Treatment Loan Administrative Fund	3,122,000	3,120,000
Net cash provided (used) by noncapital financing activities	<u>101,692,538</u>	<u>(51,638,767)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of equipment	(35,892)	(246,123)
Net cash provided (used) in capital and related financing activities	<u>(35,892)</u>	<u>(246,123)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans to local governmental units	(102,108,795)	(87,002,617)
Collection of principal on loans to local governmental units	26,449,580	23,551,154
Refundings on loans receivable	-	104,893,698
Collection of principal on loans to local governmental units from federal grant proceeds	2,156,291	305,850
Interest on investments	166,725	673,729
Interest on invested cash balances	762,434	1,059,517
Sale (Purchase) of investments	2,845,246	1,630,332
Net cash provided (used) by investing activities	<u>(69,728,519)</u>	<u>45,111,663</u>
Net increase (decrease in cash)	32,376,201	(5,259,983)
Cash and cash equivalents, beginning of year	<u>33,775,819</u>	<u>39,035,802</u>
Cash and cash equivalents, end of year	<u>\$ 66,152,020</u>	<u>\$ 33,775,819</u>
Reconciliation to Statement of Net Position:		
Cash	\$ 58,834,616	\$ 14,651,405
Restricted Cash	7,317,404	19,124,414
Total cash and cash equivalents	<u>\$ 66,152,020</u>	<u>\$ 33,775,819</u>
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 1,549,087	\$ 2,312,641
Adjustment to reconcile net operating income (loss) to net cash provided by operating activities:		
Depreciation	150,866	172,310
Loan savings	-	20,906
Amortization of bond premium	(1,750,027)	(1,443,009)
Deferred amount on refunding	(325,912)	-
Debt issuance cost	643,822	232,140
Provision (recovery) for uncollectable loans	22,788	8,101
Changes in operating assets and liabilities:		
Decrease (Increase) in letter of credit payments receivable	(833,525)	373,484
Decrease (Increase) in interest receivable	(353,855)	564,399
Increase (Decrease) in accounts payable	(29,596)	7,092
Increase (Decrease) in letter of credit payments payable	(77,180)	-
Increase (Decrease) in due to/from DEQ	809,982	191,421
Increase (Decrease) in compensated absences	(33,581)	55,871
Increase (Decrease) in due other accrued liabilities	-	-
Increase (Decrease) in interest payable	675,205	(982,112)
Net cash provided (used) by operating activities	<u>\$ 448,074</u>	<u>\$ 1,513,244</u>

See accompanying notes and independent auditors report.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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, 2021 and 2020

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, 2021 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 \$16,358,334 and \$19,203,579 at June 30, 2021 and June 30, 2020, 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. The useful life of software has been estimated at 3 years. The useful life of computers has been estimated at 3 to 5 years. The useful life of equipment has been estimated at 5 years. The useful life of furniture has been estimated at 9 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, 2021 and 2020

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

Bond Issue Premium

The Program's State Revolving Fund Revenue Bonds Series 2020, Series 2018, Series 2016, Series 2013A, Series 2012A, and Series 2011, were initially sold at a premium of \$52,134,071. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$1,606,865 and \$8,662,687 was recorded in 2021 and 2020, respectively, and is included in interest expense in the accompanying statements of revenues, expenses, and changes 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, 2021 and 2020 was as follows:

Balance, July 1, 2020	\$ <u>8,662,279</u>	Balance, July 1, 2019	\$ <u>9,665,349</u>
Fee income	2,739,915	Fee income	2,596,376
Interest income	101,679	Interest income	173,978
Operating expenses	(607,850)	Operating expenses	(657,405)
Transfers	<u>(3,122,001)</u>	Transfers	<u>(3,116,019)</u>
Balance, June 30, 2021	\$ <u>7,774,022</u>	Balance, June 30, 2020	\$ <u>8,662,279</u>

Unrestricted Net Liability

The unrestricted net liability at June 30, 2021 and 2020, 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.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

2. CASH DEPOSITS AND INVESTMENT RISK

Cash of \$58,834,616 and \$14,651,405 at June 30, 2021 and 2020 respectively, was on deposit in the State Treasurer's office's internal investment pool – *OK Invest*. Restricted cash of \$7,317,404 and \$19,124,414 at June 30, 2021 and 2020 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 \$58,834,616 and \$14,651,405 in cash and cash equivalents on deposit with the State Treasurer as of June 30, 2021 and June 30, 2020, 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 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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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

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.

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.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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

At June 30, 2021 and 2020, 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	
				2021	2020
OK Invest	On Demand	Not Rated	N/A	\$ 58,834,616	\$ 14,651,405
Federated Government Obligation Fund	16 days	AAAm	Level 1	5,353,822	11,489,582
Goldman Sach Fin. Sq. Treasury Oblig. Fund	16 days	AAAm	Level 1	1,963,582	7,634,832
Federal Farm Credit Bank	2022/2025	AA+	Level 2	2,837,629	2,957,705
Federal Home Loan Bank	2023	AA+	Level 2	694,239	723,026
Fedreal Loan Mortgage Corp. Int. Strips	2025	AA+	Level 2	2,848,034	2,848,152
Fedreal National Mortgage Assoc. Int. Strips	2022	AA+	Level 2	21,970	21,811
Tennessee Valley Authority	2021	AA+	Level 2	-	723,021
Tennessee Valley Authority Coupon Strips	2022/2025	AA+	Level 2	9,956,462	11,808,563
Sub-total				\$ 82,510,354	\$ 52,858,097
U.S. Treasury Notes	2020			-	121,301
				<u>\$ 82,510,354</u>	<u>\$ 52,979,398</u>
Reconciliation to Statement of Net Position					
			Cash	\$ 58,834,616	\$ 14,651,405
			Restricted Cash	7,317,404	19,124,414
			Restricted Investments	16,358,334	19,203,579
				<u>\$ 82,510,354</u>	<u>\$ 52,979,398</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, 2021: 9% or \$7,317,404 is invested in government obligations money market mutual funds, 20% or \$16,358,334 is invested directly in fixed income securities, and 71% or \$58,834,616 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, 2021 and 2020**

3. FEDERAL LETTERS OF CREDIT

Federal letters of credit ("LOC") balances at June 30, 2021 and 2020 are as follows:

		Year Ended June 30, 2021					
		Administrative	Program Management & Reserve	Small Systems	Local Assistance	Loan	Totals
LOC Available for draw	\$	11,955,912	24,352,777	5,055,702	29,036,768	261,813,841	332,215,000
Grant available in 2021		624,000	1,560,000	312,000	2,340,000	10,764,000	15,600,000
LOC reprogrammed		-	-	-	-	-	-
Cumulative cash draws		12,173,906	24,902,768	5,128,219	29,604,994	262,867,491	334,677,378
LOC balance available for draw at June 30, 2021	\$	<u>406,006</u>	<u>1,010,009</u>	<u>239,483</u>	<u>1,771,774</u>	<u>9,710,350</u>	<u>13,137,622</u>

		Year Ended June 30, 2020					
		Administrative	Program Management & Reserve	Small Systems	Local Assistance	Loan	Totals
LOC Available for draw	\$	11,331,912	22,792,777	4,743,702	26,696,768	251,049,841	316,615,000
Grant available in 2020		624,000	1,560,000	312,000	2,340,000	10,764,000	15,600,000
LOC reprogrammed		-	-	-	-	-	-
Cumulative cash draws		11,645,395	23,763,933	4,841,657	27,067,706	253,241,522	320,560,213
LOC balance available for draw at June 30, 2020	\$	<u>310,517</u>	<u>588,844</u>	<u>214,045</u>	<u>1,969,062</u>	<u>8,572,319</u>	<u>11,654,787</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, 2021 and 2020**

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 3.50% at June 30, 2021 and from 0% to 3.50% at June 30, 2020.

At least 14% of the 2021 annual federal grant must be used for principal forgiveness for projects meeting health-based issues, regionalization, or consolidation criteria. For the period ending June 30, 2021, the Program made 8 loans to a borrower in this category. Not less than 20% up to a maximum of 30% of the 2020 annual federal grant must be used for projects meeting health-based issues, regionalization, or consolidate criteria and 3 loans in the period ending June 30, 2020 that have or will receive principal forgiveness.

At least 6% up to a maximum of 35% of the 2021 federal grant must be used for principal forgiveness for project meeting disadvantaged criteria. For the period ending June 30, 2021, the program made 10 loans to a borrower in this category. At least 6% up to a maximum of 35% of the 2020 federal grant must be used for principal forgiveness for projects meeting disadvantaged criteria. For the period ending June 30, 2020 the program made 6 loans to a borrower in this category.

The Program also provides for extended loan terms to borrowers meeting the “disadvantaged” criteria. Loan terms can be extended to up to thirty years and not to exceed the useful life of the proposed project. For the periods ending June 30, 2021 and 2020, the Program made 8 and 8 loans, 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, 2021 and 2020, principal payments of \$28,628,659 and \$128,767,603, respectively, had been received.

The allowance for loan losses at June 30, 2021 of \$22,788 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.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

4. LOANS RECEIVABLE (Cont'd)

Loans receivable activity from July 1, 2019 to June 30, 2021, is as follows:

Balance, June 30, 2019	\$	551,361,538
Loan Disbursements		87,002,617
Loan Principal repayments and forgiveness		<u>(128,767,603)</u>
		509,596,552
Change in provision for uncollectable loans		<u>16,901</u>
Balance, June 30, 2020	\$	<u>509,613,453</u>
Loan Disbursements		102,108,795
Loan Principal repayments and forgiveness		<u>(28,628,659)</u>
		583,093,589
Change in provision for uncollectable loans		<u>-</u>
Balance, June 30, 2021	\$	<u><u>583,093,589</u></u>

5. RESTRICTED INVESTMENTS

A description of the restricted investments held at June 30, 2021 and 2020, is as follows:

	<u>2021</u>	<u>2020</u>
Federal Farm Credit Bank	\$ 2,837,629	\$ 2,957,705
Federal Home Loan Bank	694,239	723,026
Federal Home Loan Mortgage Corp. Int. Strips	2,848,034	2,848,152
Federal National Mortgage Assoc. Int. Strips	21,970	21,811
Tennessee Valley Authority	-	723,021
Tennessee Valley Authority Coupon Strips	9,956,462	11,808,563
U.S. Treasury Notes	-	121,301
	<u>\$ 16,358,334</u>	<u>\$ 19,203,579</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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 \$0 and \$1,755,000 at June 30, 2021 and 2020, respectively.

7. EQUIPMENT

A summary of changes to equipment is as follows:

	Year ended 2021			
	June 30, 2020	Additions	Disposals	June 30, 2021
Equipment	\$ 1,777,089	35,892	-	\$ 1,812,981
Accumulated depreciation	(1,225,193)	(150,866)	-	(1,376,059)
Net	\$ 551,896	(114,974)	-	\$ 436,922

	Year ended 2020			
	June 30, 2019	Additions	Disposals	June 30, 2020
Equipment	\$ 1,530,966	246,123	-	\$ 1,777,089
Accumulated depreciation	(1,052,883)	(172,310)	-	(1,225,193)
Net	\$ 478,083	73,813	-	\$ 551,896

8. LONG-TERM DEBT

Bonds Payable

On October 22, 2020, the Program issued State Revolving Fund Revenue Bonds, Series 2020 in the amount of \$95,000,000. 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
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM**

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

8. LONG-TERM DEBT (Cont'd)

Bonds Payable (Cont'd)

On December 19, 2019 the Program issued State Revolving Fund Refunding Bonds, Series 2019 in the amount of \$154,420,000. A portion of the bonds, \$28,210,000, were issued together with certain other available moneys and investments to refund the \$48,545,000 of the State Revolving Fund Revenue Bonds, Series 2011A and \$36,890,000 of the State Revolving Fund Revenue Bonds, Series 2012B, and to pay the cost of issuance of the bonds. The remaining portion of the issue was used to refund bonds in the OWRB Clean Water Loan Program.

On March 22, 2018, the Program issued State Revolving Fund Revenue Bonds, Series 2018 in the amount of \$80,055,000. 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 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.

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.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

8. LONG-TERM DEBT (Cont'd)

Bonds Payable (Cont'd)

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. The Bonds were refunded in December 2019 with the issuance of Series 2019, State Revolving Fund Revenue Refunding Bonds.

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. The Bonds were refunded in December 2019 with the issuance of Series 2019, State Revolving Fund Revenue Refunding Bonds.

Future debt service payments required by the Program's serial bonds as of June 30, 2021 are as follows:

Year Ended June 30,	Principal	Interest	Total
2022	\$ 17,370,000	11,311,659	\$ 28,681,659
2023	19,800,000	12,473,945	32,273,945
2024	20,135,000	11,669,714	31,804,714
2025	19,695,000	10,735,137	30,430,137
2026	15,740,000	9,776,393	25,516,393
2027-2031	80,785,000	37,477,417	118,262,417
2032-2036	76,120,000	19,706,031	95,826,031
2037-2041	55,160,000	6,734,940	61,894,940
2042-2043	2,780,000	382,637	3,162,637
Total	\$ <u>307,585,000</u>	<u>120,267,874</u>	\$ <u>427,852,874</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 2020, 2018, 2016, and 2013A 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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

8. LONG-TERM DEBT (Cont'd)

Bonds Payable (Cont'd)

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, 2021 to be immaterial for the Series 2020, 2018, 2016, and Series 2013A bonds.

Changes in long-term debt outstanding at June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Beginning Balance:		
Serial 2019 bonds due April 1, 2020 to April 1, 2042, interest at 1.73% to 3.17%	28,210,000	28,210,000
Serial 2018 bonds due April 1, 2020 to April 1, 2038, interest at 3.38% to 5.00%	75,910,000	80,055,000
Serial 2016 bonds due April 1, 2020 to April 1, 2041, interest at 4.00% to 5.00%	87,500,000	88,500,000
Serial 2013B bonds due April 1, 2020 to April 1, 2025, interest at 2.71% to 4.12%	10,425,000	14,615,000
Series 2013A Bonds due April 1, 2020, to April 1, 2043, interest at 4.00% to 5.00%	27,245,000	30,240,000
Series 2012A Bonds due April 1, 2019 to April 1, 2042, interest at 3.00% to 5.00%	-	36,890,000
Series 2011 bonds due April 1, 2020 to April 1, 2042, interest at 3.00% to 5.25%	-	48,545,000
Unamortized premium	25,244,283	33,906,970
	\$ <u>254,534,283</u>	\$ <u>360,961,970</u>
Add: Serial 2020 bonds due April 1, 2021 to April 1, 2040, interest at 2.00% to 5.00%	95,000,000	-
Add: bond premium from series 2020 issuance	12,801,397	-
Less: debt principal repayments	(16,705,000)	(12,330,000)
Less: bond refundings	-	(92,654,678)
Less: current amortization of premium	(1,280,953)	(1,443,009)
Ending Balances:	\$ <u>344,349,727</u>	\$ <u>254,534,283</u>
Amounts due in one year	\$ <u>17,370,000</u>	\$ <u>14,815,000</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

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.

10. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 13, 2021, the date on which the financial statements were available to be issued.

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

SUPPLMENTAL SCHEDULE INFORMATION

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

SUPPLEMENT COMBINING STATEMENT OF NET POSITION INFORMATION - BY PROGRAM COMPONENT
June 30, 2021

	Set Aside Funds				Loan Fund	Totals
	Administrative	Program Management	Small Systems	Local Assistance and Other State Programs		
ASSETS						
Current Assets:						
Cash	\$ -	-	-	-	58,834,616	58,834,616
Federal letter of credit payments receivable	25,782	1,767,626	-	-	-	1,793,408
Due from Oklahoma Department of Environmental Quality ("ODEQ")	-	-	766,436	322,618	-	1,089,054
Accrued interest on loans receivable	-	-	-	-	3,530,646	3,530,646
Other interest receivable	-	-	-	-	116,157	116,157
Loans receivable	-	-	-	-	26,524,265	26,524,265
Total current assets	25,782	1,767,626	766,436	322,618	89,005,684	91,888,146
Noncurrent Assets:						
Restricted cash	-	-	-	-	7,317,404	7,317,404
Restricted investments	-	-	-	-	16,358,334	16,358,334
Loans receivable, net of current portion and allowance for uncollectible loans of \$22,788 in 2021 and \$25,000 in 2020	-	-	-	-	556,569,324	556,569,324
Equipment, net	-	217,848	-	219,074	-	436,922
Total noncurrent assets	-	217,848	-	219,074	580,245,062	580,681,984
Total assets	25,782	1,985,474	766,436	541,692	669,250,746	672,570,130
LIABILITIES						
Current Liabilities:						
Accounts payable	-	8,051	-	14,223	-	22,274
Federal letter of credit payments payable	-	-	766,437	527,469	-	1,293,906
Due to Oklahoma Department of Environmental Quality ("ODEQ")	25,782	1,982,179	-	-	-	2,007,961
Compensated absences	19,615	37,561	14,044	53,279	-	124,499
Interest payable	-	-	-	-	3,120,076	3,120,076
Current maturities of long-term debt	-	-	-	-	17,370,000	17,370,000
Total current liabilities	45,397	2,027,791	780,481	594,971	20,490,076	23,938,716
Noncurrent Liabilities:						
Compensated absences	8,406	16,097	6,019	22,835	-	53,357
Long-term debt, net of current maturities	-	-	-	-	290,215,000	290,215,000
Unamortized (discount)/premium	-	-	-	-	36,764,727	36,764,727
Total noncurrent liabilities	8,406	16,097	6,019	22,835	326,979,727	327,033,084
Total liabilities	53,803	2,043,888	786,500	617,806	347,469,803	350,971,800
DEFERRED INFLOW OF RESOURCES						
Unamortized (gain/loss) on refunding	-	-	-	-	6,762,679	6,762,679
NET POSITION						
Invested in capital assets, net of related debt	-	217,848	-	219,074	-	436,922
Restricted for loans and debt service	-	-	-	-	315,018,264	315,018,264
Unrestricted net position	(28,021)	(276,262)	(20,064)	(295,188)	-	(619,535)
Total net position	\$ (28,021)	(58,414)	(20,064)	(76,114)	315,018,264	314,835,651

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

SUPPLEMENTAL COMBINING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
NET POSITION INFORMATION - BY PROGRAM COMPONENT
For the Year Ended June 30, 2021

	Set Aside Funds					Totals
	Administrative	Program Management	Small Systems	Local Assistance and Other State Programs	Loan Fund	
REVENUES						
Operating revenues:						
Federal grants	\$ 542,249	1,189,768	288,979	2,614,468	-	4,635,464
Loan program income	-	-	-	-	12,077,696	12,077,696
Total operating revenue	<u>542,249</u>	<u>1,189,768</u>	<u>288,979</u>	<u>2,614,468</u>	<u>12,077,696</u>	<u>16,713,160</u>
EXPENSES						
Operating expenses:						
Salaries and benefits	257,572	829,874	224,565	1,410,505	-	2,722,516
Professional services	216,750	-	-	612,689	-	829,439
Travel	108	8,787	4,944	40,872	-	54,711
Office	-	7,360	-	72,529	-	79,889
Equipment	-	4,757	-	-	-	4,757
Depreciation	-	36,332	-	114,534	-	150,866
Indirect costs	66,694	225,908	58,223	358,350	-	709,175
Other expense	48	27,159	7	7,971	-	35,185
Interest expense	-	-	-	-	9,910,925	9,910,925
Bad debt expense	-	-	-	-	22,788	22,788
Refunding expense	-	-	-	-	-	-
Debt issuance costs	-	-	-	-	643,822	643,822
Total operating expenses	<u>541,172</u>	<u>1,140,177</u>	<u>287,739</u>	<u>2,617,450</u>	<u>10,577,535</u>	<u>15,164,073</u>
Operating income (loss)	<u>1,077</u>	<u>49,591</u>	<u>1,240</u>	<u>(2,982)</u>	<u>1,500,161</u>	<u>1,549,087</u>
NONOPERATING REVENUES (EXPENSES)						
Federal grants	-	-	-	-	9,805,181	9,805,181
Federal grants-principal forgiveness	-	-	-	-	(2,156,291)	(2,156,291)
Investment income	-	-	-	-	166,725	166,725
Interest income-invested cash balances	-	-	-	-	762,434	762,434
Net nonoperating revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,578,049</u>	<u>8,578,049</u>
Income (loss) before transfers	1,077	49,591	1,240	(2,982)	10,078,210	10,127,136
Transfers out - Oklahoma Water Resources Board	-	-	-	-	-	-
Transfers out - Clean Water State Revolving Fund	-	-	-	-	-	-
Transfers in - Drinking Water Treatment Loan Admin Fund	-	-	-	-	3,122,000	3,122,000
Total Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,122,000</u>	<u>3,122,000</u>
Increase (decrease) in net position	1,077	49,591	1,240	(2,982)	13,200,210	13,249,136
NET POSITION						
Net position, beginning of year	<u>(29,098)</u>	<u>(108,005)</u>	<u>(21,304)</u>	<u>(73,132)</u>	<u>301,818,054</u>	<u>301,586,515</u>
Net position, end of year	\$ <u>(28,021)</u>	<u>(58,414)</u>	<u>(20,064)</u>	<u>(76,114)</u>	<u>315,018,264</u>	<u>314,835,651</u>

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

STATEMENTS OF CASH FLOWS - BY PROGRAM COMPONENT
 For the Year Ended June 30, 2021

	Set Aside Funds					Totals
	Administrative	Program Management	Small Systems	Local Assistance and Other State Programs	Loan Fund	
CASH FLOWS FROM OPERATING ACTIVITIES						
Federal grant receipts	\$ 528,511	\$ 286,562	\$ 372,398	\$ 2,614,468	\$ -	\$ 3,801,939
Collection of interest on loans to local governmental units	-	-	-	-	11,723,841	11,723,841
Payments to employees	(258,648)	(878,566)	(225,806)	(1,393,078)	-	(2,756,098)
Payments to suppliers	(269,863)	620,896	(146,592)	(1,214,390)	-	(1,009,949)
Interest paid on debt	-	-	-	-	(11,311,659)	(11,311,659)
Net cash provided (used by operating activities)	-	28,892	-	7,000	412,182	448,074
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from bond issuance	-	-	-	-	108,270,470	108,270,470
Bond Issuance Cost	-	-	-	-	(643,822)	(643,822)
Principal paid on bonds	-	-	-	-	(16,705,000)	(16,705,000)
Federal grant receipts	-	-	-	-	7,648,890	7,648,890
Transfers in (out) - Clean Water State Revolving Fund	-	-	-	-	-	-
Transfers in (out) - Drinking Water Treatment Loan Administrative Fund	-	-	-	-	3,122,000	3,122,000
Net cash provided (used) by noncapital financing activities	-	-	-	-	101,692,538	101,692,538
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase of equipment	-	(28,892)	-	(7,000)	-	(35,892)
Net cash provided (used) in capital and related financing activities	-	(28,892)	-	(7,000)	-	(35,892)
CASH FLOWS FROM INVESTING ACTIVITIES						
Loans to local governmental units	-	-	-	-	(102,108,795)	(102,108,795)
Collection of principal on loans to local governmental units	-	-	-	-	26,449,580	26,449,580
Collection of principal on loans to local governmental units from federal grant proceeds	-	-	-	-	2,156,291	2,156,291
Interest on investments	-	-	-	-	166,725	166,725
Interest on invested cash balances	-	-	-	-	762,434	762,434
Sale (Purchase) of investments	-	-	-	-	2,845,246	2,845,246
Net cash provided (used) by investing activities	-	-	-	-	(69,728,519)	(69,728,519)
Net increase (decrease in cash)	-	-	-	-	32,376,201	32,376,201
Cash and cash equivalents, beginning of year	-	-	-	-	33,775,819	33,775,819
Cash and cash equivalents, end of year	\$ -	\$ -	\$ -	\$ -	\$ 66,152,020	\$ 66,152,020
Reconciliation to Statement of Net Position:						
Cash	\$ -	\$ -	\$ -	\$ -	\$ 58,834,616	\$ 58,834,616
Restricted Cash	-	-	-	-	7,317,404	7,317,404
Total cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ 66,152,020	\$ 66,152,020

**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)
TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating income (loss)	\$	1,077	\$	49,591	\$	1,240	\$	(2,982)	\$	1,500,161	\$	1,549,087
Adjustment to reconcile net operating income (loss) to net cash provided by operating activities:												
Depreciation		-		36,332		-		114,534		-		150,866
Amortization of bond premium		-		-		-		-		(1,750,027)		(1,750,027)
Deferred amount on refunding		-		-		-		-		(325,912)		(325,912)
Debt issuance cost		-		-		-		-		643,822		643,822
Provision (recovery) for uncollectable loans		-		-		-		-		22,788		22,788
Changes in operating assets and liabilities:												
Decrease (Increase) in letter of credit payments receivable		(13,738)		(903,206)		83,419		-		-		(833,525)
Decrease (Increase) in interest receivable		-		-		-		-		(353,855)		(353,855)
Increase (Decrease) in accounts payable		-		6,973		-		(36,569)		-		(29,596)
Increase (Decrease) in letter of credit payments payable		-		-		-		(77,180)		-		(77,180)
Increase(Decrease) in due to/from DEQ		13,737		887,894		(83,419)		(8,230)		-		809,982
Increase(Decrease) in compensated absences		(1,076)		(48,692)		(1,240)		17,427		-		(33,581)
Increase(Decrease) in interest payable		-		-		-		-		675,205		675,205
Net cash provided (used) by operating activities	\$	-	\$	28,892	\$	-	\$	7,000	\$	412,182	\$	448,074

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

**SINGLE AUDIT REPORTS
AND SUPPLEMENTARY SCHEDULES**

JUNE 30, 2021

**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, 2021, 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 13, 2021

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.

Arlidge & Associates, P.C.

September 13, 2021



**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, 2021. 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, 2021.

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, 2021, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements. We issued our report thereon dated September 13, 2021 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.

Arledge & Associates, P.C.

September 13, 2021

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2021**

<u>Federal Grantor/Program or Cluster 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>
<i>Environmental Protection Agency</i>					
DWSRF Cluster:					
Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ 16,466,628	4,505,146	9,805,191	2,156,291
Total Federal Expenditures		<u>16,466,628</u>	<u>4,505,146</u>	<u>9,805,191</u>	<u>2,156,291</u>

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

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 2021 EXPENDITURES

The 2021 expenditures are detailed as follows:

Loan forgiveness funded during 2021 from federal funds	\$	2,156,291
Loans funded during 2021 from federal funds		9,805,191
Set-aside program expenditures per financial statements		4,586,538
Depreciation expense		(150,866)
Purchases of equipment		35,892
Fiscal year 2021 change in compensated absences		<u>33,582</u>
Total 2021 expenditures	\$	<u>16,466,628</u>

3. OUTSTANDING LOANS RECEIVABLE

At June 30, 2021, the Program's outstanding balance on loans receivable funded by federal awards and related matching funds was \$583,093,589, net of an allowance of \$22,788.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2021**

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	<u>Unmodified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	_____ yes	<u> X </u> no
Significant deficiency(ies) identified	_____ yes	<u> X </u> none reported
Noncompliance material to financial statements noted?	_____ yes	<u> X </u> no

Federal Awards

Internal control over major federal programs:		
Material weakness(es) identified?	_____ yes	<u> X </u> no
Significant deficiency(ies) identified?	_____ yes	<u> X </u> none reported
Type of auditor's report issued on compliance for major federal programs:	<u>Unmodified</u>	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____ yes	<u> X </u> 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:	\$ <u>750,000</u>
Auditee qualified as low-risk auditee?	<u> X </u> yes _____ no

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2021**

Section II--Findings Required to be Reported in Accordance with the *Government Auditing Standards*:

A. Internal Control

No matters were reported

B. Compliance Findings

No matters were reported.

Findings Required to be Reported in Accordance with the Uniform Guidance:

A. Internal Control

No matters were reported

B. Compliance Findings

No matters were reported.

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2021**

Section II--Findings Required to be Reported in Accordance with the *Government Auditing Standards*:

C. Internal Control

No matters were reported

D. Compliance Findings

No matters were reported.

Findings Required to be Reported in Accordance with the Uniform Guidance:

C. Internal Control

No matters were reported

D. Compliance Findings

No matters were reported.