

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

**FINANCIAL STATEMENTS
AS OF
JUNE 30, 2013 AND 2012
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, 2013 and 2012**

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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, 2013 and 2012, 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. 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, 2013 and 2012, 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 23, 2013, 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.

Alledge & Associates, P.C.

Edmond, Oklahoma
September 23, 2013



STEVEN 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, 2013. 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 \$208,548,362 in FY 2012 to \$217,141,393 in FY 2013. The increase can be attributable to an increase in federal grant revenue retained to fund loans and a reduction in the amount of bad debt provision required in the current period compared to the prior period.
- The Program experienced an increase of \$38,946,117 in the amount of outstanding loans. At June 30, 2012 the Program had 124 outstanding loans with a principal balance of \$444,820,694. At June 30, 2013 the Program had 142 loans with a balance of \$483,766,811.

PROGRAM HIGHLIGHTS

- During FY 2013, 15 construction and 2 refinance loans, totaling approximately \$45.5 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 14 projects totaling \$45.6 million.
- Made binding commitments for 14 new loans, totaling approximately \$35.7 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, 2013 and 2012**

<u>ASSETS</u>	<u>2013</u>	<u>(Restated) 2012</u>
Current Assets:		
Cash	\$ 14,671,183	4,736,640
Federal letter of credit payments receivable	755,027	598,231
Accrued interest on loans receivable	4,095,299	3,782,711
Other interest receivable	324,603	249,713
Due from Drinking Water Admin Fund	469	469
Loans receivable	<u>70,059,312</u>	<u>17,967,676</u>
Total current assets	<u>89,905,893</u>	<u>27,335,440</u>
Noncurrent Assets:		
Restricted cash	20,654,084	69,985,894
Restricted investments	56,788,321	62,585,018
Loans receivable, net of current portion and allowance for uncollectible loans of \$4,273,353 in 2013 and \$4,705,372 in 2012	413,707,499	426,853,018
Equipment, net	<u>6,000</u>	<u>19,500</u>
Total noncurrent assets	<u>491,155,904</u>	<u>559,443,430</u>
Total assets	<u>581,061,797</u>	<u>586,778,870</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable	214,553	416,909
Due to Oklahoma Department of Environmental Quality ("ODEQ")	556,938	278,147
Compensated absences	17,689	30,609
Interest payable	3,941,899	3,728,898
Current maturities of long-term debt	<u>91,035,000</u>	<u>13,300,000</u>
Total current liabilities	<u>95,766,079</u>	<u>17,754,563</u>
Noncurrent Liabilities:		
Compensated absences	75,414	130,493
Long-term debt, net of current maturities	249,635,000	340,670,000
Unamortized (discount)/ premium	<u>18,443,911</u>	<u>19,675,452</u>
Total noncurrent liabilities	<u>268,154,325</u>	<u>360,475,945</u>
Total liabilities	<u>363,920,404</u>	<u>378,230,508</u>
<u>NET POSITION</u>		
Invested in capital assets, net of related debt	6,000	19,500
Restricted for loans and debt service	217,228,496	208,689,964
Unrestricted net liability	<u>(93,103)</u>	<u>(161,102)</u>
Total net position	<u>\$ 217,141,393</u>	<u>208,548,362</u>

See accompanying notes and independent auditor's report.

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

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>(Restated) 2012</u>
REVENUES		
Operating revenues:		
Federal grants	\$ 3,225,304	4,242,363
Loan program income (net of bad debt recovery of \$432,019 in 2013 and bad debt expense of \$4,212,755 in 2012)	<u>14,316,776</u>	<u>8,852,618</u>
Total operating revenue	<u>17,542,080</u>	<u>13,094,981</u>
EXPENSES		
Operating expenses:		
Salaries and benefits	1,969,082	2,187,298
Professional services	673,429	399,671
Travel	39,268	52,779
Office	967	28,246
Depreciation	13,500	33,952
Indirect costs	438,016	502,484
Other expense	36,606	1,081,130
Interest expense	15,052,435	13,689,181
Debt issuance costs	-	441,664
Trustee fees	<u>45,569</u>	<u>40,966</u>
Total operating expenses	<u>18,268,872</u>	<u>18,457,371</u>
Operating income (loss)	<u>(726,792)</u>	<u>(5,362,390)</u>
NONOPERATING REVENUES (EXPENSES)		
Federal grants	11,242,658	6,224,829
Federal grants-principal forgiveness	(5,252,063)	(1,644,500)
Investment income	3,150,153	3,123,027
Interest income-invested cash balances	<u>150,996</u>	<u>67,894</u>
Total nonoperating revenues	<u>9,291,744</u>	<u>7,771,250</u>
Income (loss) before transfers	8,564,952	2,408,860
Transfers in - Clean Water State Revolving Fund Loan Account Program	-	3,000,000
Transfers in - Drinking Water Treatment Loan Administrative Fund	<u>28,079</u>	<u>4,236,700</u>
Increase in net position	8,593,031	9,645,560
NET POSITION		
Net position, beginning of year	<u>208,548,362</u>	<u>198,902,802</u>
Net position, end of year	<u>\$ 217,141,393</u>	<u>208,548,362</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, 2013 and 2012**

	<u>2013</u>	<u>(Restated) 2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Federal grant receipts	\$ 3,068,508	4,271,953
Collection of interest on loans to local governmental units	13,572,169	12,696,886
Payments to employees	(2,047,986)	(2,215,500)
Payments to suppliers	(1,146,515)	(2,133,380)
Interest paid on debt	<u>(16,070,975)</u>	<u>(14,669,876)</u>
Net cash provided (used) by operating activities	<u>(2,624,799)</u>	<u>(2,049,917)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from sale of bonds, net	-	56,572,422
Payments for debt issuance costs	-	(359,064)
Principal paid on bonds	(13,300,000)	(11,265,000)
Federal grant receipts	5,990,595	4,580,329
Transfers in - Drinking Water Treatment Loan Administrative Fund	28,079	4,236,700
Transfers in - Clean Water State Revolving Loan Program	-	3,000,000
Net cash provided (used) by noncapital financing activities	<u>(7,281,326)</u>	<u>56,765,387</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans to local governmental units	(61,785,475)	(63,851,237)
Collection of principal on loans to local governmental units	18,019,314	20,808,656
Collection of principal on loans to local governmental units from federal grant proceed	5,252,063	1,644,500
Interest on investments	3,089,843	3,129,663
Interest on invested cash balances	136,416	64,328
Sales of investments	<u>5,796,697</u>	<u>983,267</u>
Net cash provided (used) by investing activities	<u>(29,491,142)</u>	<u>(37,220,823)</u>
Net increase (decrease) in cash	(39,397,267)	17,494,647
Cash and cash equivalents, beginning of year	<u>74,722,534</u>	<u>57,227,887</u>
Cash and cash equivalents, end of year	<u>\$ 35,325,267</u>	<u>74,722,534</u>
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (726,792)	(5,362,390)
Adjustment to reconcile net operating income to net cash provided by operating activities:		
Depreciation	13,500	33,952
Bond issuance expense	-	441,664
Amortization of bond/note premium	(1,231,541)	(1,120,374)
Provision (recovery) for uncollectible loans	(432,019)	4,212,755
Changes in operating assets and liabilities:		
Decrease (Increase) in letter of credit payments receivable	(156,796)	29,590
Decrease (Increase) in interest receivable	(312,588)	(368,487)
Decrease (Increase) in other receivable	-	(469)
Increase (Decrease) in accounts payable	(121,995)	207,070
Increase (Decrease) in due to/from ODEQ	278,791	(236,660)
Increase (Decrease) in compensated absences	(67,999)	(28,202)
Increase (Decrease) in other accrued liabilities	(80,361)	1,955
Increase (Decrease) in interest payable	<u>213,001</u>	<u>139,679</u>
Net cash provided (used) by operating activities	<u>\$ (2,624,799)</u>	<u>(2,049,917)</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, 2013 and 2012

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, 2013 and 2012**

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 represent a portion of the Series 2003 Revenue Bonds and the Series 2004 Revenue Bonds temporarily invested pending their use in funding future loans plus additional funds set-aside into a Debt Service Reserve fund. The Debt Service Reserve fund portion of restricted investments totals \$55,782,840 at June 30, 2013. (See Note 5).

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012**

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 2012A, Series 2011, Series 2010, Series 2004 and Series 2003 were initially sold at a premium of \$26,345,930. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$1,231,541 and \$1,120,374 was recorded in 2013 and 2012, respectively, and is included in interest expense in the accompanying statements of revenues, expenses, and changes in net assets.

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, 2013 and 2012 was as follows:

Balance, July 1, 2012	\$ 2,751,427	Balance, July 1, 2011	\$ 5,052,487
Fee income	2,331,356	Fee income	2,172,047
Interest income	55,339	Interest income	108,622
Operating expenses	(425,131)	Operating expenses	(345,029)
Transfers	(28,079)	Transfers	(4,236,700)
Balance, June 30, 2013	\$ 4,684,912	Balance, June 30, 2012	\$ 2,751,427

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012**

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

Unrestricted Net Liability

The unrestricted net liability at June 30, 2013 and 2012, 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 \$14,671,183 and \$4,736,640 at June 30, 2013 and 2012 respectively, was on deposit in the State Treasurer's office's internal investment pool – *OK Invest*. Restricted cash of \$20,654,084 and \$69,985,894 at June 30, 2013 and 2012 respectively, was on deposit with the Program's trustee. The deposits are invested in the *Federated Treasury Obligations* mutual fund.

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, 2013 and 2012

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, 2013 and 2012**

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

At June 30, 2013, the Program's investments in obligations not directly guaranteed by the U.S. Government and investments in money market mutual funds were rated as follows:

Description	Financial Institution	Amount	Average Maturity/ Due Date	Rating
OK Invest	State Treasurer	\$ 14,671,183	Less than 2 years	Not rated.
Federated Treasury Obligations Fund	BancFirst	\$ 20,654,084	28 days	AAAm
Transamerica Life Insurance and Annuity Co. - GIC	AEGON			See Note 5
Reserve Fund		\$ 29,981,760	4/1/2025	"
Revenue Fund		\$ 562,787	4/1/2025	"
Transamerica Occidental Life Insurance Company - GIC	AEGON			See Note 5
Reserve Fund		\$ 25,801,080	4/1/2027	"
Revenue Fund		\$ 442,694	4/1/2027	"

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: 62% or \$56,788,321 is invested in guaranteed investment agreements with Transamerica Occidental Life Insurance Co./Transamerica Life Insurance and Annuity Co.

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, 2013 and 2012**

3. FEDERAL LETTERS OF CREDIT

Federal letters of credit ("LOC") balances at June 30, 2013 and 2012 are as follows:

		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>
		Year Ended June 30, 2012					
		Administrative & ARRA Administrative	Program Management & Reserve	Small Systems	Local Assistance	Loan	Totals
LOC available for draw	\$	7,722,785	15,038,833	3,126,908	15,355,333	182,955,141	224,199,000
Cumulative cash draws		<u>7,583,887</u>	<u>13,993,288</u>	<u>3,085,350</u>	<u>13,515,041</u>	<u>176,753,192</u>	<u>214,930,758</u>
LOC balance available for draw at June 30, 2012	\$	<u>138,898</u>	<u>1,045,545</u>	<u>41,558</u>	<u>1,840,292</u>	<u>6,201,949</u>	<u>9,268,242</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, 2013 and 2012**

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 3.69% at June 30, 2013 and 2012.

Up to 30% of the federal grant can be used for principal forgiveness for communities meeting "disadvantaged" criteria. As of June 30, 2013 and 2012, no disadvantaged community loans were made. 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. During the years ended June 30, 2013 and 2012, principal payments of \$23,271,377 and \$22,453,156, respectively, had been received.

The allowance for loan losses at June 30, 2013 of \$4,273,353 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, 2011 to June 30, 2013, is as follows:

Balance, June 30, 2011	407,635,368
Loan disbursements	63,851,237
Loan principal repayments	(22,453,156)
Change in provision for uncollectible loans	<u>(4,212,755)</u>
Balance, June 30, 2012	444,820,694
Loan disbursements	61,785,475
Loan principal repayments	<u>(23,271,377)</u>
	483,334,792
Change in provision for uncollectible loans	<u>432,019</u>
Balance, June 30, 2013	<u><u>\$ 483,766,811</u></u>

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012**

5. RESTRICTED INVESTMENTS

A description of the restricted investments held at June 30, 2013 and 2012, is as follows:

	<u>2013</u>	<u>2012</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	32,068,529
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	2,784,816
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	27,272,516
Guaranteed investment with Transamerica Occidental Life Insurance Co. pursuant to an investment agreement, 4.40%, maturing April 1, 2027 (restricted for revenue fund).	<u>442,694</u>	<u>459,157</u>
Total restricted investments \$	<u>56,788,321</u>	<u>62,585,018</u>

The agreements with Transamerica Occidental Life Insurance Co./Transamerica Life Insurance and Annuity Co. ("Transamerica"), are uninsured and non-collateralized so long as Transamerica maintains certain specified credit ratings. If these credit ratings are not maintained, Transamerica is required to collateralize the investment agreement sufficient to maintain an S & P or Moody's rating of "AA-" or "Aa3", respectively, on the contract. The S & P credit rating for Transamerica at June 30, 2013 was AA-. The investment is carried at cost, which approximates fair value.

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 \$7,775,000 at June 30, 2013 and 2012, respectively.

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012**

7. EQUIPMENT

A summary of changes to equipment is as follows:

		<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>

		<u>Year ended 2012</u>		
		<u>June 30,</u> <u>2011</u>	<u>Additions</u>	<u>June 30,</u> <u>2012</u>
Equipment	\$	763,271	-	763,271
Accumulated depreciation		<u>(709,819)</u>	<u>(33,952)</u>	<u>(743,771)</u>
Net	\$	<u>53,452</u>	<u>(33,952)</u>	<u>19,500</u>

8. LONG-TERM DEBT

Bonds Payable

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.

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012**

8. LONG-TERM DEBT (Cont'd)

Bonds Payable (Cont'd)

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.

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 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.

Subsequent to year end, all of the outstanding Series 2003 bonds were called for redemption at par on October 1, 2013.

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012**

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, 2013 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 91,035,000	13,919,081	104,954,081
2015	10,055,000	11,505,679	21,560,679
2016	10,445,000	11,144,168	21,589,168
2017	10,975,000	10,682,026	21,657,026
2018	11,700,000	10,288,489	21,988,489
2019-2023	60,955,000	43,606,111	104,561,111
2024-2028	73,805,000	27,786,119	101,591,119
2029-2033	43,240,000	11,999,056	55,239,056
2034-2038	17,710,000	4,757,725	22,467,725
2039-2042	10,750,000	1,091,338	11,841,338
	<u>\$ 340,670,000</u>	<u>146,779,792</u>	<u>487,449,792</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 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, 2013 to be immaterial for the Series 2003, Series 2004, Series 2010, Series 2011 and Series 2012A bonds.

The Drinking Water State Revolving Fund Loan Program bonds share in an aggregate debt service reserve with the Clean Water State Revolving Fund Loan Program. At June 30, 2013, the aggregate debt service reserves totaled \$63,364,876, of which \$25,801,080 is reflected in the accompanying statements of net assets.

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012**

8. LONG-TERM DEBT (Cont'd)

Bonds Payable (Cont'd)

Long-term debt outstanding at June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
BONDS PAYABLE:		
Serial 2012A bonds due April 1, 2014 to April 1, 2042, interest at 3.00% to 5.00%	\$ 49,240,000	49,395,000
Serial 2011 bonds due April 1, 2014 to April 1, 2042, interest at 2.00% to 5.25%	56,680,000	57,910,000
Serial 2010 bonds due April 1, 2014 to April 1, 2032, interest at 2.25% to 5.00%	89,555,000	92,160,000
Serial 2004 bonds due April 1, 2014 to April 1, 2027, interest at 3.50% to 5.25%	63,300,000	66,910,000
Serial 2003 Bonds due April 1, 2014 to April 1, 2025, interest at 3.90% to 5.25% (See above. Called for redemption on October 1, 2013)	81,895,000	87,595,000
Total Bonds Payable	<u>340,670,000</u>	<u>353,970,000</u>
Current maturities	(91,035,000)	(13,300,000)
Unamortized (discount)/ premium	<u>18,443,911</u>	<u>19,675,452</u>
Long-term debt, net of unamortized (discount)/ premium	<u>\$ 268,078,911</u>	<u>360,345,452</u>

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012**

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, 2013 and 2012 and subsequent periods are summarized as follows:

	<u>FY-2013</u>	<u>FY-2012</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, 2013, 2012 and 2011 were \$230,126, \$255,563, and \$308,917, 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.

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012**

11. ADOPTION OF NEW ACCOUNTING STANDARDS / RECLASSIFICATIONS

During the current period, the Program implemented the provisions of Governmental Accounting Standards Board (GASB) Statement Number 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and Statement Number 65 – *Items Previously Reported as Assets and Liabilities*.

The adoption of Statement 63 had the effect of changing the previous “statement of net assets” to a “statement of net position”.

The adoption of Statement 65 requires that bond issuance costs be expensed when incurred rather than capitalized and amortized over the life of the related debt. As a result, the fiscal year 2012 financial statements have been restated to reflect the effects of the adoption of Statement 63 and conform to the current year presentation.

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, 2013

	Set-Aside Funds						Totals	
	Administrative	Program Management	Small Systems	Local Assistance and Other State Programs	ARRA Admin	Program Mgmt Reserve		Loan Fund
ASSETS								
Current Assets:								
Cash	\$ -	-	-	-	-	-	14,671,183	14,671,183
Federal letter of credit payments receivable	168,305	312,579	56,662	217,481	-	-	-	755,027
Accrued interest on loans receivable	-	-	-	-	-	-	4,095,299	4,095,299
Other interest receivable	-	-	-	-	-	-	324,603	324,603
Due from Drinking Water Admin Fund	-	-	-	-	-	-	469	469
Loans receivable	-	-	-	-	-	-	70,059,312	70,059,312
Total current assets	168,305	312,579	56,662	217,481	-	-	89,150,866	89,905,893
Noncurrent Assets:								
Restricted Cash	-	-	-	-	-	-	20,654,084	20,654,084
Restricted investments	-	-	-	-	-	-	56,788,321	56,788,321
Loans receivable, net of current portion and allowance for uncollectible loans of \$4,273,353	-	-	-	-	-	-	413,707,499	413,707,499
Equipment, net	-	-	-	6,000	-	-	-	6,000
Total noncurrent assets	-	-	-	6,000	-	-	491,149,904	491,155,904
Total assets	168,305	312,579	56,662	223,481	-	-	580,300,770	581,061,797
LIABILITIES								
Current Liabilities:								
Accounts payable	180,000	-	-	18,089	-	-	16,464	214,553
Due to (from) Oklahoma Department of Environmental Quality ("ODEQ")	(11,695)	312,579	56,662	199,392	-	-	-	556,938
Compensated absences	1,536	8,212	920	7,021	-	-	-	17,689
Interest Payable	-	-	-	-	-	-	3,941,899	3,941,899
Current maturities of long-term debt	-	-	-	-	-	-	91,035,000	91,035,000
Total current liabilities	169,841	320,791	57,582	224,502	-	-	94,993,363	95,766,079
Noncurrent Liabilities:								
Compensated absences	6,551	35,010	3,923	29,930	-	-	-	75,414
Long-term debt, net of current maturities	-	-	-	-	-	-	249,635,000	249,635,000
Unamortized (discount)/premium	-	-	-	-	-	-	18,443,911	18,443,911
Total noncurrent liabilities	6,551	35,010	3,923	29,930	-	-	268,078,911	268,154,325
Total liabilities	176,392	355,801	61,505	254,432	-	-	363,072,274	363,920,404
NET POSITION								
Invested in capital assets, net of related debt	-	-	-	6,000	-	-	-	6,000
Restricted for loans and debt service	-	-	-	-	-	-	217,228,496	217,228,496
Unrestricted net liability	(8,087)	(43,222)	(4,843)	(36,951)	-	-	-	(93,103)
Total net position	\$ (8,087)	(43,222)	(4,843)	(30,951)	-	-	217,228,496	217,141,393

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, 2013

	Set-Aside Funds						Totals	
	Administrative	Program Management	Small Systems	Local Assistance and Other State Programs	ARRA Admin	Program Mgmt Reserve		Loan Fund
REVENUES								
Operating revenues:								
Federal grants	\$ 391,013	962,758	103,453	1,778,985	(5,017)	(5,888)	-	3,225,304
Loan program income (net of recovery of \$432,019)	-	-	-	-	-	-	14,316,776	14,316,776
Total operating revenue	<u>391,013</u>	<u>962,758</u>	<u>103,453</u>	<u>1,778,985</u>	<u>(5,017)</u>	<u>(5,888)</u>	<u>14,316,776</u>	<u>17,542,080</u>
EXPENSES								
Operating expenses:								
Salaries and benefits	120,773	751,614	83,590	1,024,010	(5,017)	(5,888)	-	1,969,082
Professional services	214,000	-	-	459,429	-	-	-	673,429
Travel	6,433	12,187	86	20,562	-	-	-	39,268
Office	101	54	-	812	-	-	-	967
Depreciation	-	-	-	13,500	-	-	-	13,500
Indirect costs	33,341	165,105	18,046	221,524	-	-	-	438,016
Other expense	2,056	19,434	-	15,053	-	-	63	36,606
Interest expense	-	-	-	-	-	-	15,052,435	15,052,435
Trustee fees	-	-	-	-	-	-	45,569	45,569
Total operating expenses	<u>376,704</u>	<u>948,394</u>	<u>101,722</u>	<u>1,754,890</u>	<u>(5,017)</u>	<u>(5,888)</u>	<u>15,098,067</u>	<u>18,268,872</u>
Operating income (loss)	<u>14,309</u>	<u>14,364</u>	<u>1,731</u>	<u>24,095</u>	<u>-</u>	<u>-</u>	<u>(781,291)</u>	<u>(726,792)</u>
NONOPERATING REVENUES (EXPENSES)								
Federal grants	-	-	-	-	-	-	11,242,658	11,242,658
Federal grants-Principal Forgiveness	-	-	-	-	-	-	(5,252,063)	(5,252,063)
Investment income	-	-	-	-	-	-	3,150,153	3,150,153
Interest income-invested cash balances	-	-	-	-	-	-	150,996	150,996
Net nonoperating revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,291,744</u>	<u>9,291,744</u>
Income (loss) before transfers	<u>14,309</u>	<u>14,364</u>	<u>1,731</u>	<u>24,095</u>	<u>-</u>	<u>-</u>	<u>8,510,453</u>	<u>8,564,952</u>
Transfers in - Drinking Water Treatment Loan Admin Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,079</u>	<u>28,079</u>
Increase (decrease) in net position	<u>14,309</u>	<u>14,364</u>	<u>1,731</u>	<u>24,095</u>	<u>-</u>	<u>-</u>	<u>8,538,532</u>	<u>8,593,031</u>
NET POSITION								
Net position, beginning of year, restated	<u>(22,396)</u>	<u>(57,586)</u>	<u>(6,574)</u>	<u>(55,046)</u>	<u>-</u>	<u>-</u>	<u>208,689,964</u>	<u>208,548,362</u>
Net position, end of year	<u>\$ (8,087)</u>	<u>(43,222)</u>	<u>(4,843)</u>	<u>(30,951)</u>	<u>-</u>	<u>-</u>	<u>217,228,496</u>	<u>217,141,393</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, 2013

	Set-Aside Funds							Totals
	Administrative	Program Management	Small Systems	Local Assistance and Other State Programs	ARRA Admin	Program Mgmt Reserve	Loan Fund	
CASH FLOWS FROM OPERATING ACTIVITIES								
Federal grant receipts	\$ 262,859	835,046	123,037	1,733,354	-	114,212	-	3,068,508
Collection of interest on loans to local governmental units	-	-	-	-	-	-	13,572,169	13,572,169
Payments to employees	(135,082)	(765,978)	(85,321)	(1,061,605)	-	-	-	(2,047,986)
Payments to other suppliers	(127,777)	(69,068)	(37,716)	(671,749)	-	(114,212)	(125,993)	(1,146,515)
Interest paid on debt	-	-	-	-	-	-	(16,070,975)	(16,070,975)
Net cash provided (used) by operating activities	-	-	-	-	-	-	(2,624,799)	(2,624,799)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Principal paid on bonds	-	-	-	-	-	-	(13,300,000)	(13,300,000)
Federal grant receipts	-	-	-	-	-	-	5,990,595	5,990,595
Transfers in - Drinking Water Treatment Loan Admin. Fund	-	-	-	-	-	-	28,079	28,079
Net cash provided (used) by noncapital financing activities	-	-	-	-	-	-	(7,281,326)	(7,281,326)
CASH FLOWS FROM INVESTING ACTIVITIES								
Loans to local governmental units	-	-	-	-	-	-	(61,785,475)	(61,785,475)
Collection of principal on loans to local governmental units	-	-	-	-	-	-	18,019,314	18,019,314
Collection of principal on loans to local governmental units from federal grant proceeds	-	-	-	-	-	-	5,252,063	5,252,063
Interest on investments	-	-	-	-	-	-	3,089,843	3,089,843
Interest on invested cash balances	-	-	-	-	-	-	136,416	136,416
Sale (Purchase) of investments	-	-	-	-	-	-	5,796,697	5,796,697
Net cash provided (used) by investing activities	-	-	-	-	-	-	(29,491,142)	(29,491,142)
Net increase (decrease) in cash	-	-	-	-	-	-	(39,397,267)	(39,397,267)
Cash and cash equivalents, beginning of year	-	-	-	-	-	-	74,722,534	74,722,534
Cash and cash equivalents, end of year	\$ -	-	-	-	-	-	35,325,267	35,325,267
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:								
Operating income (loss)	\$ 14,309	14,364	1,731	24,095	-	-	(781,291)	(726,792)
Adjustment to reconcile net operating income to net cash provided by operating activities:								
Depreciation	-	-	-	13,500	-	-	-	13,500
Amortization of bond/note premium	-	-	-	-	-	-	(1,231,541)	(1,231,541)
Provision (recovery) for uncollectible loans	-	-	-	-	-	-	(432,019)	(432,019)
Changes in operating assets and liabilities:								
Decrease (Increase) in letter of credit payments receivable	(128,154)	(127,712)	19,584	(45,631)	5,017	120,100	-	(156,796)
Decrease (Increase) in interest receivable	-	-	-	-	-	-	(312,588)	(312,588)
Increase (Decrease) in accounts payable	105,832	(506)	-	(113,109)	-	(114,212)	-	(121,995)
Increase (Decrease) in due to/from ODEQ	22,322	128,218	(19,584)	158,740	(5,017)	(5,888)	-	278,791
Increase (Decrease) in compensated absences	(14,309)	(14,364)	(1,731)	(37,595)	-	-	-	(67,999)
Increase (Decrease) in other accrued liabilities	-	-	-	-	-	-	(80,361)	(80,361)
Increase (Decrease) in interest payable	-	-	-	-	-	-	213,001	213,001
Net cash provided (used) by operating activities	\$ -	-	-	-	-	-	(2,624,799)	(2,624,799)

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

**SINGLE AUDIT REPORTS
AND SUPPLEMENTARY SCHEDULES**

JUNE 30, 2013

**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, 2013, 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 23, 2013.

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.

Alledge & Associates, P.C.

Edmond, Oklahoma
September 23, 2013



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, 2013. 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, 2013.

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.

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, 2013, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements. We issued our report thereon dated September 23, 2013, 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.

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.

Aledge & Associates, P.C.

Edmond, Oklahoma
September 23, 2013

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013**

<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	\$ 14,467,962	3,225,304	5,990,595	5,252,063
Total Federal Expenditures		\$ <u>14,467,962</u>	<u>3,225,304</u>	<u>5,990,595</u>	<u>5,252,063</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 2013 EXPENDITURES

The 2013 expenditures are detailed as follows:

Loan forgiveness funded during 2013 from federal funds	\$ 5,252,063
Loans funded during 2013 from federal funds	5,990,595
Set-aside program expenditures per financial statements	3,170,805
Depreciation expense	(13,500)
Fiscal year 2013 change in compensated absences	<u>67,999</u>
Total 2013 expenditures	\$ <u>14,467,962</u>

3. OUTSTANDING LOANS RECEIVABLE

At June 30, 2013, the Program's outstanding balance on loans receivable funded by federal awards and related matching funds was \$483,766,811 net of an allowance of \$4,273,353.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

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: Unqualified

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: \$ 434,039

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, 2013**

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.