

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

**FINANCIAL STATEMENTS
AS OF
JUNE 30, 2022 AND 2021
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, 2022 and 2021

<u>TABLE OF CONTENTS</u>	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS:	
Statements of Net Position	5
Statements of Revenues, Expenses and Changes in Net Position	6
Statements of Cash Flows	7
Notes to Financial Statements	8
SUPPLEMENTAL SCHEDULE INFORMATION	
Supplemental Combining Statement of Net Position Information- By Program Component	24
Supplemental Combining Statement of Revenues, Expenses and Changes in Net Position Information- By Program Component	25
Supplemental Combining Statement of Cash Flows Information- By Program Component	26

INDEPENDENT AUDITOR'S REPORT

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

Opinions

We have audited the accompanying financial statements of the Oklahoma Department of Environmental Quality/Oklahoma Drinking Water State Revolving Fund Loan Account Program (the "Program") as of and for the year ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

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, 2022 and 2021, 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.

Basis for Opinions

We conducted our audit 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Program and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Program's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Program's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Program's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Program's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are 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 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 combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2022 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.

Arledge & Associates, P.C.

Edmond, Oklahoma
September 19, 2022



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, 2022. Please read it in conjunction with the Program's financial statements, which begin on page 5. The Oklahoma Department of Environmental Quality ("ODEQ") administers the Program. ODEQ's primary activities include providing direct assistance and managing the coordination of the Program to meet the objectives of the Safe Drinking Water Act. Pursuant to an interagency agreement between ODEQ and the Oklahoma Water Resources Board (the "OWRB"), OWRB handles certain financial functions including originating, approving and servicing loans made to qualifying recipients.

FINANCIAL HIGHLIGHTS

- The Program's net position increased by over 2.8% from \$314,835,651 in FY-2021 to \$323,767,946 in FY-2022. 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 \$79,812,401 in the amount of outstanding loans. At June 30, 2022, the Program had 160 outstanding loans with a principal balance of \$662,905,990. At June 30, 2021, the Program had 152 outstanding loans with a principal balance of \$583,093,589.

PROGRAM HIGHLIGHTS

- During FY 2022, nineteen (19) construction loans, totaling approximately \$269.9 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 2022, we completed construction during the year on nine (9) projects totaling \$25 million.
- During FY 2022, we made binding commitments for twenty (20) new loans, totaling approximately \$270.4 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, 2022 and 2021**

	<u>ASSETS</u>	<u>2022</u>	<u>2021</u>
Current Assets:			
Cash	\$	103,941,575	\$ 58,834,616
Federal letter of credit payments receivable		585,743	499,502
Accrued interest on loans receivable		3,860,038	3,530,646
Other interest receivable		147,451	116,157
Loans receivable		31,939,759	26,524,265
Total current assets		<u>140,474,566</u>	<u>89,505,186</u>
Noncurrent Assets:			
Restricted cash		78,736,915	7,317,404
Restricted investments		13,047,856	16,358,334
Loans receivable, net of current portion and allowance for uncollectible loans of \$20,383 for 2022 and \$22,788 in 2021		630,966,231	556,569,324
Equipment, net		619,995	436,922
Total noncurrent assets		<u>723,370,997</u>	<u>580,681,984</u>
Total assets		<u>863,845,563</u>	<u>670,187,170</u>
	<u>LIABILITIES</u>		
Current Liabilities:			
Accounts payable		230,119	22,274
Due to Oklahoma Department of of Environmental Quality ("ODEQ")		990,930	918,907
Compensated absences		176,161	124,499
Interest payable		4,475,933	3,120,076
Current maturities of long-term debt		16,410,000	17,370,000
Total current liabilities		<u>22,283,143</u>	<u>21,555,756</u>
Noncurrent Liabilities:			
Compensated absences		75,497	53,357
Long-term debt, net of current maturities		449,795,000	290,215,000
Unamortized (discount)/premium		61,487,210	36,764,727
Total noncurrent liabilities		<u>511,357,707</u>	<u>327,033,084</u>
Total liabilities		<u>533,640,850</u>	<u>348,588,840</u>
	<u>DEFERRED INFLOW OF RESOURCES</u>		
Unamortized (gain/loss) on refunding		<u>6,436,767</u>	<u>6,762,679</u>
	<u>NET POSITION</u>		
Invested in capital assets, net of related debt		619,995	436,922
Restricted for loans and debt service		324,034,915	315,018,264
Unrestricted net position		<u>(886,964)</u>	<u>(619,535)</u>
Total net position	\$	<u>323,767,946</u>	\$ <u>314,835,651</u>

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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
REVENUES		
Operating revenues:		
Federal grants	\$ 4,666,993	\$ 4,635,464
Loan program income	<u>13,200,445</u>	<u>12,077,696</u>
Total operating revenue	<u>17,867,438</u>	<u>16,713,160</u>
EXPENSES		
Operating expenses:		
Salaries and benefits	2,693,492	2,722,516
Professional services	910,631	829,439
Travel	83,631	54,711
Office	161,840	79,889
Equipment	2,935	4,757
Depreciation	205,234	150,866
Hardware-Software	-	-
Indirect costs	622,559	709,175
Other expense	71,027	35,185
Interest expense	12,532,189	9,910,925
Bad debt expense	-	22,788
Debt issuance costs	<u>1,131,427</u>	<u>643,822</u>
Total operating expenses	18,414,965	15,164,073
Operating income (loss)	<u>(547,527)</u>	<u>1,549,087</u>
NONOPERATING REVENUES (EXPENSES)		
Federal grants	12,898,931	9,805,181
Federal grants-principal forgiveness	(5,159,150)	(2,156,291)
Gain on Refunding	1,792,672	-
Loss on Investments	(707,475)	-
Investment income	137,370	166,725
Interest income-invested cash balances	<u>726,512</u>	<u>762,434</u>
Net nonoperating revenues	<u>9,688,860</u>	<u>8,578,049</u>
Income (loss) before transfers	9,141,333	10,127,136
Transfers out - Oklahoma Water Resources Board	(760,638)	-
Transfers in - Drinking Water Treatment Loan Admin Fund	<u>551,600</u>	<u>3,122,000</u>
Total Transfers	(209,038)	3,122,000
Increase (decrease) in net position	8,932,295	13,249,136
NET POSITION		
Net position, beginning of year	<u>314,835,651</u>	<u>301,586,515</u>
Net position, end of year	<u>\$ 323,767,946</u>	<u>\$ 314,835,651</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, 2022 and 2021**

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Federal grant receipts	\$ 4,930,421	\$ 3,801,939
Collection of interest on loans to local governmental units	12,891,891	11,723,841
Payments to employees	(2,619,690)	(2,756,098)
Payments to suppliers	(1,922,424)	(1,009,949)
Interest paid on debt	(15,269,586)	(11,311,659)
Net cash provided (used) by operating activities	<u>(1,989,388)</u>	<u>448,074</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from bond issuance	228,543,273	108,270,470
Bond defeasance costs	(20,600,000)	-
Bond issuance cost	(1,131,427)	(643,822)
Principal paid on bonds	(19,780,000)	(16,705,000)
Federal grant receipts	7,739,781	7,648,890
Transfers in (out) - Oklahoma Water Resources Board	(760,638)	-
Transfers in (out) - Drinking Water Treatment Loan Administrative Fund	551,600	3,122,000
Net cash provided (used) by noncapital financing activities	<u>194,562,589</u>	<u>101,692,538</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of equipment	(388,307)	(35,892)
Net cash provided (used) in capital and related financing activities	<u>(388,307)</u>	<u>(35,892)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans to local governmental units	(142,545,098)	(102,108,795)
Collection of principal on loans to local governmental units	57,553,164	26,449,580
Collection of principal on loans to local governmental units from federal grant proceeds	5,159,150	2,156,291
Interest on investments	137,370	166,725
Interest on invested cash balances	726,512	762,434
Sale (Purchase) of investments	3,310,478	2,845,246
Net cash provided (used) by investing activities	<u>(75,658,424)</u>	<u>(69,728,519)</u>
Net increase (decrease in cash)	116,526,470	32,376,201
Cash and cash equivalents, beginning of year	66,152,020	33,775,819
Cash and cash equivalents, end of year	<u>\$ 182,678,490</u>	<u>\$ 66,152,020</u>
Reconciliation to Statement of Net Position:		
Cash	\$ 103,941,575	\$ 58,834,616
Restricted Cash	78,736,915	7,317,404
Total cash and cash equivalents	<u>\$ 182,678,490</u>	<u>\$ 66,152,020</u>
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (547,527)	\$ 1,549,087
Adjustment to reconcile net operating income (loss) to net cash provided by operating activities:		
Depreciation	205,234	150,866
Amortization of bond premium	(3,028,118)	(1,750,027)
Deferred amount on refunding	(325,912)	(325,912)
Loss on investment	(707,475)	-
Debt issuance cost	1,131,427	643,822
Provision (recovery) for uncollectable loans	20,383	22,788
Changes in operating assets and liabilities:		
Decrease (Increase) in letter of credit payments receivable	(149,032)	(833,525)
Decrease (Increase) in interest receivable	(360,686)	(353,855)
Increase (Decrease) in accounts payable	203,797	(29,596)
Increase (Decrease) in letter of credit payments payable	(11,522)	(77,180)
Increase(Decrease) in due to/from DEQ	150,386	809,982
Increase(Decrease) in compensated absences	73,800	(33,581)
Increase(Decrease) in interest payable	1,355,857	675,205
Net cash provided (used) by operating activities	<u>\$ (1,989,388)</u>	<u>\$ 448,074</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, 2022 and 2021

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, 2022 and 2021

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, 2022 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 \$13,047,856 and \$16,358,334 at June 30, 2022 and June 30, 2021, 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, 2022 and 2021

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

Bond Issue Premium

The Program's State Revolving Fund Revenue Bonds Series 2021, Series 2020, Series 2018, and Series 2016 were initially sold at a premium of \$76,316,271. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$1,750,027 and \$4,820,790 was recorded in 2022 and 2021, 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, 2022 and 2021 was as follows:

Balance, July 1, 2021	\$ <u>7,774,022</u>	Balance, July 1, 2020	\$ <u>8,662,279</u>
Fee income	3,099,310	Fee income	2,739,915
Interest income	90,288	Interest income	101,679
Operating expenses	(461,674)	Operating expenses	(607,850)
Transfers	<u>(551,600)</u>	Transfers	<u>(3,122,001)</u>
Balance, June 30, 2022	\$ <u><u>9,950,346</u></u>	Balance, June 30, 2021	\$ <u><u>7,774,022</u></u>

Unrestricted Net Liability

The unrestricted net liability at June 30, 2022 and 2021, 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, 2022 and 2021

2. CASH DEPOSITS AND INVESTMENT RISK

Cash of \$103,941,575 and \$58,834,616 at June 30, 2022 and 2021 respectively, was on deposit in the State Treasurer's office's internal investment pool – *OK Invest*. Restricted cash of \$78,736,915 and \$7,317,404 at June 30, 2022 and 2021 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 \$103,941,575 and \$58,834,616 in cash and cash equivalents on deposit with the State Treasurer as of June 30, 2022 and June 30, 2021, 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, 2022 and 2021

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, 2022 and 2021

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

At June 30, 2022 and 2021, 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	
				2022	2021
OK Invest	On Demand	Not Rated	N/A	\$ 103,941,575	\$ 58,834,616
Federated Government Obligation Fund	16 days	AAAm	Level 1	73,770,315	5,353,822
Goldman Sach Fin. Sq. Treasury Oblig. Fund	16 days	AAAm	Level 1	4,966,599	1,963,582
Federal Farm Credit Bank	2022/2025	AA+	Level 2	2,020,903	2,837,628
Federal Home Loan Bank	2023	AA+	Level 2	654,043	694,239
Federal Loan Mortgage Corp. Int. Strips	2025	AA+	Level 2	2,688,969	2,848,034
Federal National Mortgage Assoc. Int. Strips	2022	AA+	Level 2	-	21,970
Tennessee Valley Authority	2021	AA+	Level 2	-	-
Tennessee Valley Authority Coupon Strips	2022/2025	AA+	Level 2	7,683,941	9,956,462
Sub-total				\$ 195,726,345	\$ 82,510,353
U.S. Treasury Notes	2020			-	-
				\$ 195,726,345	\$ 82,510,353
Reconciliation to Statement of Net Position					
			Cash	\$ 103,941,575	\$ 58,834,616
			Restricted Cash	78,736,915	7,317,404
			Restricted Investments	13,047,856	16,358,334
				\$ 195,726,346	\$ 82,510,353

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, 2022: 40% or \$78,736,915 is invested in government obligations money market mutual funds, 7% or \$13,047,856 is invested directly in fixed income securities, and 53% or \$103,941,575 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, 2022 and 2021**

3. FEDERAL LETTERS OF CREDIT

Federal letters of credit ("LOC") balances at June 30, 2022 and 2021 are as follows:

	Year Ended June 30, 2022					
	Administrative	Program Management & Reserve	Small Systems	Local Assistance	Loan	Totals
LOC Available for draw	\$ 12,579,912	\$ 25,912,777	\$ 5,367,702	\$ 31,376,768	\$ 272,577,841	\$ 347,815,000
Grant available in 2022	623,800	1,559,600	311,920	2,339,400	10,761,240	15,595,960
LOC reprogrammed	-	-	-	-	-	-
Cumulative cash draws	12,770,107	26,397,731	5,416,496	31,806,305	275,766,423	352,157,062
LOC balance available for draw at June 30, 2022	<u>\$ 433,605</u>	<u>\$ 1,074,646</u>	<u>\$ 263,126</u>	<u>\$ 1,909,863</u>	<u>\$ 7,572,658</u>	<u>\$ 11,253,898</u>

	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>

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, 2022 and 2021

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, 2022 and from 0% to 3.50% at June 30, 2021.

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, 2022, the Program made 8 loans to a borrower in this category.

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, 2022, the program made 15 loans to a borrower in this category.

In November 2021, DEQ Amended the SFY 2022 DWSRF Intended Use Plan (IUP) to increase the amount of subsidy available to systems in a plan to commit the remaining subsidy funds from previous capitalization grants. Each system that closed a loan during the second half of SFY 2022 was eligible for subsidy funds. For the period ending June 30, 2022, the program made 10 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, 2022 and 2021, the Program made 6 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, 2022 and 2021, principal payments of \$62,732,697 and \$28,628,659, respectively, had been received.

The allowance for loan losses at June 30, 2022 of 0,383 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, 2022 and 2021**

4. LOANS RECEIVABLE (Cont'd)

Loans receivable activity from July 1, 2020 to June 30, 2022, is as follows:

Balance, June 30, 2020	\$	509,613,453
Loan Disbursements		102,108,795
Loan Principal repayments and forgiveness		(28,628,659)
		<u>73,480,136</u>
Change in provision for uncollectable loans		<u>-</u>
Balance, June 30, 2021	\$	<u>583,093,589</u>
Loan Disbursements		142,545,098
Loan Principal repayments and forgiveness		(62,732,697)
		<u>79,812,401</u>
Change in provision for uncollectable loans		<u>-</u>
Balance, June 30, 2022	\$	<u>662,905,990</u>

5. RESTRICTED INVESTMENTS

A description of the restricted investments held at June 30, 2022 and 2021, is as follows:

<u>Type</u>	<u>2022</u>	<u>2021</u>
Federal Farm Credit Bank	\$ 2,020,903	\$ 2,837,629
Federal Home Loan Bank	654,043	694,239
Federal Loan Mortgage Corp. Int. Strips	2,688,969	2,848,034
Federal National Mortgage Assoc. Int. Strips	-	21,970
Tennessee Valley Authority Coupon Strips	7,683,941	9,956,462
	<u>\$ 13,047,856</u>	<u>\$ 16,358,334</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

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 \$0 at June 30, 2022 and 2021, respectively.

7. EQUIPMENT

A summary of changes to equipment is as follows:

Year ended 2022				
	June 30, 2021	Additions	Disposals	June 30, 2022
Equipment	\$ 1,812,981	388,307	-	\$ 2,201,288
Accumulated depreciation	(1,376,059)	(205,234)	-	(1,581,293)
Net	\$ 436,922	183,073	-	\$ 619,995

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

8. LONG-TERM DEBT

Bonds Payable

On December 22, 2021, the Program issued State Revolving Fund Revenue Bonds, Series 2021, in the amount of \$199,000,000. 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. The Program used \$24,581,196 of the proceeds together with other money to advance refund \$23,985,000 of outstanding principal of the 2013A Drinking Water State Revolving Fund bonds. The proceeds along with other available funds were placed in escrow to refund the bonds on December 14, 2021. As a result, the 2013A Series bonds are considered defeased and the liability for that bond has been removed from the Statement of Net Position. The remaining proceeds from the issue were used to issue debt from the OWRB's Drinking Water Loan Program.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,792,672. This difference, reported in the accompanying financial statements as a deferred inflow, is being charged to operations through the year 2043 using the straight line method. The Board completed the advance refunding to reduce its total debt service payments over the next twenty two years by \$1,065,459 and to obtain an economic gain (the difference between the present values of the old and new debt service payments) of \$7,473,559 for the DW Program.

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.

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

8. LONG-TERM DEBT (Cont'd)

Bonds Payable (Cont'd)

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. These bonds were defeased in December 2021.

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

On June 12, 2012, the Program issued State Revolving Fund Revenue Bonds, Series 2012A in the amount of \$49,395,000. The bonds are secured by the loans made to the local entities by the OWRB, investment income in the Drinking Water State Revolving Fund Account and monies held in the Debt Service Reserve Fund. These bonds were issued to provide low interest cost financing for Oklahoma Local governmental entities for acquiring, constructing, or improving their wastewater treatment systems and to enable the Program to meet the State matching requirements in order to obtain Federal grants. The Bonds were refunded in December 2019 with the issuance of Series 2019, State Revolving Fund Revenue Refunding Bonds.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

8. LONG-TERM DEBT (Cont'd)

Bonds Payable (Cont'd)

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, 2022 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 16,410,000	\$ 17,894,945	\$ 34,304,945
2024	20,525,000	17,129,868	37,654,868
2025	22,715,000	16,117,774	38,832,774
2026	19,800,000	15,047,438	34,847,438
2027	18,825,000	14,186,789	33,011,789
2028-2032	102,730,000	57,168,912	159,898,912
2033-2037	102,265,000	35,641,870	137,906,870
2034-2042	78,145,000	21,854,223	99,999,223
2043-2048	57,250,000	16,184,463	73,434,463
2049-2051	27,540,000	2,677,750	30,217,750
Total	\$ <u>466,205,000</u>	\$ <u>213,904,032</u>	\$ <u>680,109,032</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 2021, 2020, 2018, and 2016 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, 2022 to be immaterial for the Series 2021, 2020, 2018, and 2016 bonds.

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021**

8. LONG-TERM DEBT (Cont'd)

Bonds Payable (Cont'd)

Changes in long-term debt outstanding at June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Beginning Balance:		
Series 2020 bonds due April 1, 2021 to April 1, 2040, interest at 2.00% to 5.00%	\$ 93,110,000	\$ 95,000,000
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%	69,455,000	75,910,000
Serial 2016 bonds due April 1, 2020 to April 1, 2041, interest at 4.00% to 5.00%	86,500,000	87,500,000
Serial 2013B bonds due April 1, 2020 to April 1, 2025, interest at 2.71% to 4.12%	6,325,000	10,425,000
Series 2013A Bonds due April 1, 2020, to April 1, 2043, interest at 4.00% to 5.00%	23,985,000	27,245,000
Unamortized premium	36,764,727	38,045,680
	<u>\$ 344,349,727</u>	<u>\$ 362,335,680</u>
Add: Serial 2021 bonds due April 1, 2022 to April 1, 2051, interest at 1.75% to 5.00%	199,000,000	-
Add: bond premium from series 2021 issuance	29,543,273	-
Less: debt principal repayments	(19,780,000)	(16,705,000)
Less: bond defeasance	(20,600,000)	-
Less: current amortization of premium	(4,820,790)	(1,280,953)
Ending Balances:	<u>\$ 527,692,210</u>	<u>\$ 344,349,727</u>
Amounts due in one year	<u>\$ 16,410,000</u>	<u>\$ 17,370,000</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

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 19, 2022, 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, 2022

	Set Aside Funds						
	Administrative	Program Management	Small Systems	Local Assistance and Other State Programs	Loan Fund	Totals	
<u>ASSETS</u>							
Current Assets:							
Cash	\$ -	\$ -	\$ -	\$ -	\$ 103,941,575	\$ 103,941,575	
Federal letter of credit payments receivable	-	1,529,980	-	-	-	1,529,980	
Due from Oklahoma Department of Environmental Quality ("ODEQ")	13,547	-	766,141	236,067	-	1,015,755	
Accrued interest on loans receivable	-	-	-	-	3,860,038	3,860,038	
Other interest receivable	-	-	-	-	147,451	147,451	
Loans receivable	-	-	-	-	31,939,759	31,939,759	
Total current assets	13,547	1,529,980	766,141	236,067	139,888,823	142,434,558	
Noncurrent Assets:							
Restricted cash	-	-	-	-	78,736,915	78,736,915	
Restricted investments	-	-	-	-	13,047,856	13,047,856	
Loans receivable, net of current portion and allowance for uncollectible loans of \$20,383 for 2022 and \$22,788 in 2021	-	-	-	-	630,966,231	630,966,231	
Equipment, net	-	501,028	-	118,967	-	619,995	
Total noncurrent assets	-	501,028	-	118,967	722,751,002	723,370,997	
Total assets	13,547	2,031,008	766,141	355,034	862,639,825	865,805,555	
<u>LIABILITIES</u>							
Current Liabilities:							
Accounts payable	2,024	35,309	-	192,786	-	230,119	
Federal letter of credit payments payable	11,522	-	766,142	166,573	-	944,237	
Due to Oklahoma Department of Environmental Quality ("ODEQ")	-	2,006,685	-	-	-	2,006,685	
Compensated absences	22,142	58,008	21,209	74,802	-	176,161	
Interest payable	-	-	-	-	4,475,933	4,475,933	
Current maturities of long-term debt	-	-	-	-	16,410,000	16,410,000	
Total current liabilities	35,688	2,100,002	787,351	434,161	20,885,933	24,243,135	
Noncurrent Liabilities:							
Compensated absences	9,490	24,860	9,089	32,058	-	75,497	
Long-term debt, net of current maturities	-	-	-	-	449,795,000	449,795,000	
Unamortized (discount)/premium	-	-	-	-	61,487,210	61,487,210	
Total noncurrent liabilities	9,490	24,860	9,089	32,058	511,282,210	511,357,707	
Total liabilities	45,178	2,124,862	796,440	466,219	532,168,143	535,600,842	
<u>DEFERRED INFLOW OF RESOURCES</u>							
Unamortized (gain/loss) on refunding	-	-	-	-	6,436,767	6,436,767	
<u>NET POSITION</u>							
Invested in capital assets, net of related debt	-	501,028	-	118,967	-	619,995	
Restricted for loans and debt service	-	-	-	-	324,034,915	324,034,915	
Unrestricted net position	(31,631)	(594,882)	(30,299)	(230,152)	-	(886,964)	
Total net position	\$ (31,631)	\$ (93,854)	\$ (30,299)	\$ (111,185)	\$ 324,034,915	\$ 323,767,946	

See accompanying notes to the financial statements

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, 2022

	Set Aside Funds					Totals
	Administrative	Program Management	Small Systems	Local Assistance and Other State Programs	Loan Fund	
REVENUES						
Operating revenues:						
Federal grants	\$ 558,897	\$ 1,257,317	\$ 288,572	\$ 2,562,207	\$ -	\$ 4,666,993
Loan program income	-	-	-	-	13,200,445	13,200,445
Total operating revenue	<u>558,897</u>	<u>1,257,317</u>	<u>288,572</u>	<u>2,562,207</u>	<u>13,200,445</u>	<u>17,867,438</u>
EXPENSES						
Operating expenses:						
Salaries and benefits	276,240	863,566	238,006	1,315,680	-	2,693,492
Professional services	219,627	6,649	-	684,355	-	910,631
Travel	533	8,072	6,025	69,001	-	83,631
Office	-	92,583	-	69,257	-	161,840
Equipment	-	2,935	-	-	-	2,935
Depreciation	-	98,077	-	107,157	-	205,234
Indirect costs	65,855	196,723	54,539	305,442	-	622,559
Other expense	252	24,152	237	46,386	-	71,027
Interest expense	-	-	-	-	12,532,189	12,532,189
Debt issuance costs	-	-	-	-	1,131,427	1,131,427
Total operating expenses	<u>562,507</u>	<u>1,292,757</u>	<u>298,807</u>	<u>2,597,278</u>	<u>13,663,616</u>	<u>18,414,965</u>
Operating income (loss)	<u>(3,610)</u>	<u>(35,440)</u>	<u>(10,235)</u>	<u>(35,071)</u>	<u>(463,171)</u>	<u>(547,527)</u>
NONOPERATING REVENUES (EXPENSES)						
Federal grants	-	-	-	-	12,898,931	12,898,931
Federal grants-principal forgiveness	-	-	-	-	(5,159,150)	(5,159,150)
Gain on Refunding	-	-	-	-	1,792,672	1,792,672
Loss on Investments	-	-	-	-	(707,475)	(707,475)
Investment income	-	-	-	-	137,370	137,370
Interest income-invested cash balances	-	-	-	-	726,512	726,512
Net nonoperating revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,688,860</u>	<u>9,688,860</u>
Income (loss) before transfers	(3,610)	(35,440)	(10,235)	(35,071)	9,225,689	9,141,333
Transfers out - Oklahoma Water Resources Board	-	-	-	-	(760,638)	(760,638)
Transfers in - Drinking Water Treatment Loan Admin Fund	-	-	-	-	551,600	551,600
Total Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(209,038)</u>	<u>(209,038)</u>
Increase (decrease) in net position	(3,610)	(35,440)	(10,235)	(35,071)	9,016,651	8,932,295
NET POSITION						
Net position, beginning 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>
Net position, end of year	<u>\$ (31,631)</u>	<u>\$ (93,854)</u>	<u>\$ (30,299)</u>	<u>\$ (111,185)</u>	<u>\$ 324,034,915</u>	<u>\$ 323,767,946</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, 2022

	Set Aside Funds					
	Administrative	Program Management	Small Systems	Local Assistance and Other State Programs	Loan Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES						
Federal grant receipts	\$ 584,679	\$ 1,494,963	\$ 288,572	\$ 2,562,207	\$ -	\$ 4,930,421
Collection of interest on loans to local governmental units	-	-	-	-	12,891,891	12,891,891
Payments to employees	(272,629)	(834,356)	(227,771)	(1,284,934)	-	(2,619,690)
Payments to suppliers	(312,050)	(279,350)	(60,801)	(1,270,223)	-	(1,922,424)
Interest paid on debt	-	-	-	-	(15,269,586)	(15,269,586)
Net cash provided (used by operating activities)	-	381,257	-	7,050	(2,377,695)	(1,989,388)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from bond issuance	-	-	-	-	228,543,273	228,543,273
Proceeds from refunding of bonds	-	-	-	-	(20,600,000)	-
Bond Issuance Cost	-	-	-	-	(1,131,427)	(1,131,427)
Principal paid on bonds	-	-	-	-	(19,780,000)	(19,780,000)
Federal grant receipts	-	-	-	-	7,739,781	7,739,781
Transfers in (out) - Drinking Water Treatment Loan Administrative Fund	-	-	-	-	551,600	551,600
Net cash provided (used) by noncapital financing activities	-	-	-	-	194,562,589	194,562,589
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase of equipment	-	(381,257)	-	(7,050)	-	(388,307)
Net cash provided (used) in capital and related financing activities	-	(381,257)	-	(7,050)	-	(388,307)
CASH FLOWS FROM INVESTING ACTIVITIES						
Loans to local governmental units	-	-	-	-	(142,545,098)	(142,545,098)
Collection of principal on loans to local governmental units	-	-	-	-	57,553,164	57,553,164
Collection of principal on loans to local governmental units from federal grant proceeds	-	-	-	-	5,159,150	5,159,150
Interest on investments	-	-	-	-	137,370	137,370
Interest on invested cash balances	-	-	-	-	726,512	726,512
Sale (Purchase) of investments	-	-	-	-	3,310,478	3,310,478
Net cash provided (used) by investing activities	-	-	-	-	(75,658,424)	(75,658,424)
Net increase (decrease in cash)	-	-	-	-	116,526,470	116,526,470
Cash and cash equivalents, beginning of year	-	-	-	-	66,152,020	66,152,020
Cash and cash equivalents, end of year	\$ -	\$ -	\$ -	\$ -	\$ 182,678,490	\$ 182,678,490
Reconciliation to Statement of Net Position:						
Cash	\$ -	\$ -	\$ -	\$ -	\$ 103,941,575	\$ 103,941,575
Restricted Cash	-	-	-	-	78,736,915	78,736,915
Total cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ 182,678,490	\$ 182,678,490
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating income (loss)	\$ (3,610)	\$ (35,440)	\$ (10,235)	\$ (35,071)	\$ (463,171)	\$ (547,527)
Adjustment to reconcile net operating income (loss) to net cash provided by operating activities:						
Depreciation	-	98,077	-	107,157	-	205,234
Amortization of bond premium	-	-	-	-	(3,028,118)	(3,028,118)
Amortization of gain from refunding	-	-	-	-	(325,912)	(325,912)
Loss on Investment	-	-	-	-	(707,475)	(707,475)
Debt issuance cost	-	-	-	-	1,131,427	1,131,427
Provision (recovery) for uncollectable loans	-	-	-	-	20,383	20,383
Changes in operating assets and liabilities:						
Decrease (Increase) in letter of credit payments receivable	(25,782)	237,646	-	(360,896)	-	(149,032)
Decrease (Increase) in interest receivable	-	-	-	-	(360,686)	(360,686)
Increase (Decrease) in accounts payable	(2,024)	27,258	-	178,563	-	203,797
Increase (Decrease) in letter of credit payments payable	(11,522)	-	-	-	-	(11,522)
Increase(Decrease) in due to/from DEQ	39,329	24,506	-	86,551	-	150,386
Increase(Decrease) in compensated absences	3,609	29,210	10,235	30,746	-	73,800
Increase(Decrease) in interest payable	-	-	-	-	1,355,857	1,355,857
Net cash provided (used) by operating activities	\$ -	\$ 381,257	\$ -	\$ 7,050	\$ (2,377,695)	\$ (1,989,388)

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

**SINGLE AUDIT REPORTS
AND SUPPLEMENTARY SCHEDULES**

JUNE 30, 2022

**OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY
OKLAHOMA DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM
June 30, 2022**

TABLE OF CONTENTS

PAGE

SINGLE AUDIT REPORTS AND SUPPLEMENTARY SCHEDULES:

**Reports related to financial statements of the reporting entity
Required by GAO Government Auditing Standards:**

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	1-2
--	-----

Reports related to Federal Assistance Programs Required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance):

Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance and Report on Schedule of Expenditures of Federal Awards	3-5
Schedule of Expenditures of Federal Awards	6
Notes to the Schedule of Expenditures of Federal Awards	7
Schedule of Findings and Questioned Costs	8-9
Summary Schedule of Prior Audit Findings and Questioned Costs	10

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 Loan Account Program (the "Program") as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated September 19, 2022.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Arledge & Associates, P.C.

Edmond, Oklahoma
September 19, 2022



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

Opinion on 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, 2022. 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.

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, 2022.

Basis for Opinion on Each Major Federal Program

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"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Program and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Program's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Program's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Program's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Program's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Program's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Program's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Program's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 a 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items to be material weaknesses.

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 audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on The Program's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Program's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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, 2022, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements. We issued our report thereon dated September 19, 2022 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.

Edmond, Oklahoma
September 19, 2022



**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, 2022**

Federal Grantor/Program or Cluster Title	Federal AL Number	Total Expenditure	Operating Expenditure	Loans Funded Subaward Amount	Loan Forgiveness Subaward Amount
<i>Environmental Protection Agency</i>					
DWSRF Cluster:					
Capitalization Grants for Drinking Water State Revolving Funds	66.468	\$ <u>23,336,032</u>	<u>5,008,224</u>	<u>13,168,658</u>	<u>5,159,150</u>
Total Federal Expenditures		<u>23,336,032</u>	<u>5,008,224</u>	<u>13,168,658</u>	<u>5,159,150</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 (“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”).

The Program did not use the 10% de minimis indirect cost rate. The Program used a 24.17% negotiated indirect cost rate from the United States Environmental Protection Agency.

2. RECONCILIATION OF 2022 EXPENDITURES

The 2022 expenditures are detailed as follows:

Loan forgiveness funded during 2022 from federal funds	\$ 5,159,150
Loans funded during 2022 from federal funds	13,168,658
Set-aside program expenditures per financial statements	4,751,349
Depreciation expense	(205,234)
Purchases of equipment	388,307
Fiscal year 2022 change in compensated absences	<u>73,802</u>
Total 2022 expenditures	<u>\$ 23,336,032</u>

3. OUTSTANDING LOANS RECEIVABLE

At June 30, 2022, the Program's outstanding balance on loans receivable funded by federal awards and related matching funds was \$662,905,990, net of an allowance of \$20,383.

**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, 2022**

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>AI 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, 2022**

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

A. Internal Control

None to report for the audit period

B. Compliance Findings

None to report for the audit period

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

A. Internal Control

None to report for the audit period

B. Compliance Findings

None to report for the audit period

**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, 2022**

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

A. Internal Control

None to report for the audit period

B. Compliance Findings

None to report for the audit period

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

A. Internal Control

None to report for the audit period

B. Compliance Findings

None to report for the audit period