

State of Oklahoma



**OKLAHOMA CLEAN WATER STATE REVOLVING
FUND LOAN ACCOUNT PROGRAM**

**ANNUAL FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015
AND INDEPENDENT AUDITOR'S REPORTS**

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2016 and 2015**

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INDEPENDENT AUDITOR'S REPORT

To the Members of the
Oklahoma Water Resources Board

Report on the Financial Statements

We have audited the accompanying financial statements of the Oklahoma Water Resources Board/Oklahoma Clean Water State Revolving Fund Loan Account Program (the "Program") as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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, 2016 and 2015, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2016, on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.



Edmond, Oklahoma
September 20, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Oklahoma Clean Water State Revolving Loan Fund Account Program's (the "Program") financial performance provides an overview of the Program's financial activities for the fiscal years ended June 30, 2016 and 2015. Please read it in conjunction with the Program's financial statements, which begin on page 11. The Oklahoma Water Resources Board (the "Board") administers the Program.

Program Highlights

- The Program made binding commitments for seven (7) new construction loans totaling approximately \$41.8 million.
- The Program funded four (4) projects for communities discharging to priority stream segments identified as threatened or impaired on the Impaired Waterbodies List (Section 303(d)) of Oklahoma's Integrated Water Quality Assessment Report. The total funding approved for these communities was approximately \$34.1 million.
- The Program saw seven (7) projects begin construction and five (5) projects complete construction and initiate operations.
- The Program approved two (2) projects to assist Oklahoma communities to attain compliance with the enforceable permit requirements of the Clean Water Act in order to protect the water quality of receiving streams and lakes.

Financial Highlights

- The Program experienced a net increase in the total dollar amount of outstanding loans in FY 2016. At June 30, 2016 there were 182 outstanding loans with a principal balance of \$481,453,878. At June 30, 2015 the Program had 187 loans with a balance of \$454,221,267.
- Ending Program net position increased from \$344,029,943 to \$357,479,768 between FY 2015 and FY 2016 with \$29,542,651 restricted for debt service. Ending Program net position increased from \$328,657,252 to \$344,029,943 between FY 2014 and FY 2015 with \$31,779,990 restricted for debt service.

Using This Annual Report

This annual report is presented in a format that substantially meets the presentation requirements of the Governmental Accounting Standards Board (GASB) in accordance with generally accepted accounting principles. The Program is accounted for and presented similar to, but not identical to, a special-purpose government engaged solely in business-type activities.

(Unaudited. See accompanying auditor's report.)

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The financial statements for the Program are presented after the Management’s Discussion and Analysis in this annual report and then followed by the footnotes in this order:

- Management’s Discussion and Analysis – that provides useful analysis that facilitates a better understanding of the Program’s financial condition and changes therein.
- Basic Financial Statements
 - Statements of Net Position
 - Statements of Revenues, Expenses and Changes in Net Position
 - Statements of Cash Flows
- Footnotes - that elaborate on the accounting principles used in the preparation of the financial statements and further explain financial statement elements.

A Financial Analysis of the Program

One of the most frequently asked questions about the Program’s finances is, “Has the overall financial condition improved, declined or remained steady over the past year?” The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Program as a whole and about its activities in a way that helps answer this question. The following tables present a condensed comparative presentation of net position and changes therein.

Oklahoma Water Resources Board
CWSRF Loan Account Program
Net Position

	Business-Type		
	Activities		
	June 30		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current assets	\$ 199,673,806	\$ 107,924,237	\$ 121,211,170
Non-current assets	483,726,083	461,129,430	447,620,835
Total assets	683,399,889	569,053,667	568,832,005
Current liabilities	21,567,163	15,368,562	15,674,136
Non-current liabilities and deferred inflows	300,981,871	209,655,162	224,500,617
Total liabilities and deferred inflows	322,549,034	225,023,724	240,174,753
Net position			
Restricted	29,542,651	31,779,990	34,517,147
Unrestricted	327,937,117	312,249,953	294,140,105
Total net position	\$ 357,479,768	\$ 344,029,943	\$ 328,657,252

The increase in total assets and total liabilities and deferred inflows is attributable to an increase in loans outstanding and the issuance of debt to fund the loans in FY 2016.

(Unaudited. See accompanying auditor’s report.)

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Oklahoma Water Resources Board
CWSRF Loan Account Program
Revenues, Expenses, and Changes in Net Position

	Business-Type		
	Activities		
	Years Ended June 30,		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Revenues			
Loan program income, net	\$ 10,356,700	\$ 9,557,342	\$ 9,530,973
Other contributions	-	-	12,240
Investment interest income	2,360,347	1,900,334	2,316,787
Total revenues	<u>12,717,047</u>	<u>11,457,676</u>	<u>11,860,000</u>
Expenses			
Trustee fees	26,098	30,956	30,101
Administration expenses	-	50	-
Interest expense	8,622,685	6,794,892	9,255,257
Bond issuance costs	723,715	-	527,149
Total expenses	<u>9,372,498</u>	<u>6,825,898</u>	<u>9,812,507</u>
Net Income before transfers, grants and contributions	3,344,549	4,631,778	2,047,493
Federal grants	10,328,961	11,328,000	10,786,000
Federal grant principal forgiveness	(250,000)	(616,443)	(508,067)
Transfers from other programs	26,315	29,356	32,800
Increase in net position	<u>13,449,825</u>	<u>15,372,691</u>	<u>12,358,226</u>
Total net position - beginning	344,029,943	328,657,252	316,299,026
Total net position - ending	<u>\$ 357,479,768</u>	<u>\$ 344,029,943</u>	<u>\$ 328,657,252</u>

OWRB provided \$250,000 in principal forgiveness to borrowers in FY 16 compared to \$616,443 in FY 15. In addition, the Program received \$10,328,961 in net Federal Capitalization Grants in FY 2016 compared to \$11,328,000 in FY 2015. Interest expense increased due to the issuance of the 2015 bonds.

(Unaudited. See accompanying auditor's report.)

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Long- Term Debt

At year-end, the Program had \$319,461,871 in long-term debt outstanding, net of unamortized premium, which represents a \$100,180,032 or 45.7% increase from June 30, 2015 to June 30, 2016. Debt decreased \$14,503,218, or 6.2%, from 2014 to 2015. The Program's changes in long-term debt by type of debt are as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Beginning balances:			
2004 Serial bonds due April 1, 2014 to April 1, 2026, interest at 3.50% to 5.25%	\$ -	\$ -	\$ 82,685,000
2011 Serial bonds due April 1, 2014 to April 1, 2031, interest at 4.0% to 5.0%	66,765,000	71,615,000	76,275,000
2012 Serial bonds due April 1, 2014 to April 1, 2033, interest at 2.00% to 5.00%	83,875,000	85,885,000	86,505,000
2014A Serial bonds due April 1, 2015 to April 1, 2026, interest at 0.188% to 3.671%	49,070,000	55,560,000	
Unamortized premium	19,571,839	20,725,057	26,271,129
	<u>\$ 219,281,839</u>	<u>\$ 233,785,057</u>	<u>\$ 271,736,129</u>
Add: 2014A Serial bonds due April 1, 2015 to April 1, 2026, interest at 0.188% to 3.671%	-	-	55,560,000
Add: 2015 Serial bonds due April 1, 2017 to April 1, 2040, interest at 3.125% to 5.000%	100,620,000	-	-
Add: 2015 bond premium	14,375,840	-	-
Less: debt principal repayments	(13,345,000)	(13,350,000)	(5,280,000)
Less: debt refunded, net	-	-	(86,851,837)
Less: current amortization of premium	(1,470,808)	(1,153,218)	(1,379,235)
Ending balances	<u>\$ 319,461,871</u>	<u>\$ 219,281,839</u>	<u>\$ 233,785,057</u>
Amounts due in one year	18,480,000	13,345,000	13,350,000

See Note 6 to the financial statements for more detailed information on the Program's long-term debt and changes therein.

Economic Factors and Next Year's Outlook

As a result of the widespread need for water pollution control financing, and efforts by the OWRB to implement a "lower than market rate" loan program, we continue to receive responses from communities across the state requesting their projects be added to the five-year CWSRF Project Priority List. To date, eighteen (18) communities have made requests for eighteen (18) construction and water conservation projects in FY 2017 totaling over \$143.6 million. An additional \$181.6 million in projects have been requested through 2021.

Contacting the Program's Financial Management

This financial report is designed to provide the Board's accountability of the Program. If you have questions about this report or need additional financial information, contact the Financial Assistance Division of the Oklahoma Water Resources Board at 3800 N. Classen Blvd, Oklahoma City, OK 73118.

(Unaudited. See accompanying auditor's report.)

**OKLAHOMA WATER RESOURCES BOARD
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BASIC FINANCIAL STATEMENTS

OKLAHOMA WATER RESOURCES BOARD
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Statements of Net Position – June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$53,013,193	\$30,525,522
Investments	110,158,564	43,368,039
Loans receivable	33,309,926	31,078,429
Interest receivable:		
Loans receivable	3,043,131	2,836,918
Other interest receivable	148,992	115,329
	<u>199,673,806</u>	<u>107,924,237</u>
Total current assets		
Noncurrent Assets:		
Loans receivable, net of current portion and allowance for uncollectible loans of \$0 in 2016 and \$268,895 in 2015	448,143,952	423,142,838
Restricted investments	29,542,651	31,779,990
Investments	6,039,480	6,206,602
	<u>483,726,083</u>	<u>461,129,430</u>
Total noncurrent assets		
Total assets	<u>683,399,889</u>	<u>569,053,667</u>
LIABILITIES:		
Current Liabilities:		
Accrued interest payable	3,080,153	2,016,292
Current maturities of long-term debt	18,480,000	13,345,000
Other accrued liabilities	6,931	7,220
Due to other programs	79	50
Total current liabilities	<u>21,567,163</u>	<u>15,368,562</u>
Noncurrent liabilities:		
Long-term debt, less current maturities and plus unamortized premium	300,981,871	205,936,839
	<u>300,981,871</u>	<u>205,936,839</u>
Total noncurrent liabilities		
Total liabilities	<u>322,549,034</u>	<u>221,305,401</u>
DEFERRED INFLOW OF RESOURCES:		
Deferred amount on refunding	<u>3,371,087</u>	<u>3,718,323</u>
NET POSITION:		
Restricted for debt service	29,542,651	31,779,990
Unrestricted	327,937,117	312,249,953
Total net position	<u>\$357,479,768</u>	<u>\$344,029,943</u>

See accompanying notes to the basic financial statements.

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Statements of Revenues, Expenses and Changes in Net Position – Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES:		
Loan program income {net of bad debt recovery of (\$268,895) and (\$20,528)} in 2016 and 2015, respectively	\$10,356,700	\$9,557,342
Total operating revenues	<u>10,356,700</u>	<u>9,557,342</u>
OPERATING EXPENSES:		
Trustee fees	26,098	30,956
Administration expenses	-	50
Interest expense	8,622,685	6,794,892
Bond issuance costs	723,715	-
Total operating expenses	<u>9,372,498</u>	<u>6,825,898</u>
OPERATING INCOME	984,202	2,731,444
NON-OPERATING REVENUES (EXPENSES):		
Federal grants and contracts	10,328,961	11,328,000
Federal grant principal forgiveness	(250,000)	(616,443)
Interest Income:		
Invested cash balances	300,520	608,003
Short-term investments	106,396	84,881
Long-term investments	178,891	206,026
Gain on Investments	1,774,540	1,001,424
Total net non-operating revenues	<u>12,439,308</u>	<u>12,611,891</u>
Net income before transfers	13,423,510	15,343,335
Transfers in - Clean Water Revolving Fund Loan Administrative Fund	<u>26,315</u>	<u>29,356</u>
Change in net position	13,449,825	15,372,691
Total net position - beginning	344,029,943	328,657,252
Total net position - ending	<u><u>\$357,479,768</u></u>	<u><u>\$344,029,943</u></u>

See accompanying notes to the basic financial statements.

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Statements of Cash Flows – Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Collections of interest on loans to local governmental units	\$9,881,592	\$9,390,800
Payments to other suppliers	(750,073)	(138,863)
Payments from other programs	-	(86,221)
Interest paid on debt	(9,376,868)	(8,401,843)
	<u>(245,349)</u>	<u>763,873</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in - Clean Water Revolving Fund Loan Administrative Fund	26,315	29,356
Federal grant receipts	10,078,961	10,711,557
Bond issue proceeds	100,620,000	-
Premium received on bonds issued	14,375,840	-
Principal paid on bonds/notes	(13,345,000)	(13,350,000)
	<u>111,756,116</u>	<u>(2,609,087)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans to local governmental units	(58,877,917)	(47,934,929)
Collections of principal on loans to local governmental units	31,664,201	29,990,059
Collections of principal on loans to local governmental units from federal grant proceeds	250,000	616,443
Interest on invested cash balances	300,520	608,003
Interest on short-term investments	106,398	84,882
Interest on long-term investments	145,227	1,219,392
Sale of long-term investments	4,179,000	3,164,575
Sale (Purchase) of short-term investments	(66,790,525)	10,085,139
	<u>(89,023,096)</u>	<u>(2,166,436)</u>
Net Cash Provided by (Used in) Investing Activities	<u>(89,023,096)</u>	<u>(2,166,436)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	22,487,671	(4,011,650)
Balances - beginning of the year	<u>30,525,522</u>	<u>34,537,172</u>
Balances - end of the year	<u>\$53,013,193</u>	<u>\$30,525,522</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	\$984,202	\$2,731,444
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Amortization of bond issuance premiums and deferred amount on refunding	(1,818,044)	(1,500,455)
Allowance for uncollectible loans	(268,895)	(20,528)
Change in assets and liabilities:		
Decrease (Increase) in interest receivable	(206,213)	(146,014)
Increase (Decrease) in other current liabilities	(289)	(107,857)
Increase (Decrease) in accrued interest payable	1,063,861	(106,496)
Increase (Decrease) in due to other funds	29	(86,221)
	<u>(\$245,349)</u>	<u>\$763,873</u>
Net Cash Provided by (Used in) Operating Activities	<u>(\$245,349)</u>	<u>\$763,873</u>
Non-cash Transactions:		
Federal principal forgiveness	<u>\$250,000</u>	<u>\$616,443</u>
Total Non Cash Transactions	<u>\$250,000</u>	<u>\$616,443</u>

See accompanying notes to the basic financial statements.

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Footnotes to the Basic Financial Statements:

1. Summary of Significant Accounting Policies

Reporting Entity

The Oklahoma Water Resources Board/Oklahoma Wastewater Facility Construction Revolving Loan Account Program (the "Program") was created pursuant to the 1987 Amendments (P.L. 100-4) to the "Clean Water Act" (P.L. 92-500) to provide a perpetual fund for financing the construction of wastewater treatment facilities for municipalities and other public entities. The Program funds loans with Federal grants, State matching funds, principal repayments, bond proceeds, and interest received on loans and invested cash balances. State matching funds are provided through State appropriations, issuance of notes payable and bond proceeds.

Administrative costs of the Oklahoma Water Resources Board ("OWRB") allocated to the Program may be reimbursed by the Program, limited to 4% of total cumulative Federal contributions or through fees assessed to each participating borrower at the rate of one-half of one percent per annum of the amount of each borrower's loan balance outstanding, and loan application fees. The fees paid by the participating borrowers are remitted directly to OWRB and, therefore, are not included in the accompanying financial statements.

The significant accounting principles and practices followed by the Program are presented below:

Basis of Accounting and Measurement Focus

The Program is accounted for and presented similar to, but not identical to, a special-purpose government engaged solely in business type activities.

The Program uses the accrual basis of accounting whereby expenses are recognized when the liability is incurred and revenues are recognized when earned.

The Program uses the economic resources measurement focus where all assets, deferred outflows, liabilities, deferred inflows, net position, revenues, expenses and transfers relating to the Program and net income and capital maintenance are measured.

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB").

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1. Summary of Significant Accounting Policies (cont'd)

Loans Receivable and Allowance for Uncollectible Loans

Loans receivable are stated at the amount of unpaid principal reduced by an allowance for uncollectible loans. The allowance for uncollectible loans is established through a provision for bad debts that is charged to expense. Loans receivable are charged against the allowance for uncollectible loans when management believes that the collectability of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans receivable that may become uncollectible, based on evaluations of the collectability of loans receivable. The evaluations take into consideration such factors as the borrowers' debt coverage ratio, review of specific problem loans receivable and current economic conditions that may affect the borrowers' ability to pay. Accrual of interest is discontinued on a loan receivable when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful.

Federal Letter of Credit Payments Receivable

Funding from Federal grants, which have been approved, is provided through a Federal letter of credit. Timing of deposits is specified by the terms of the grant. The Program draws on the available funds as necessary to fund loans. Letter of Credit Payment Receivables are recorded only when the required State match has been met and actual requests for loan draws have been received by the Program. When these events have occurred, the Program records the receivable and federal revenue for the amount of the loan request.

Federal Grant Income

Federal grant income represents contributions from the Environmental Protection Agency ("EPA") of the U.S. Federal Government. In the unlikely circumstance of termination of the Program, all Federal and State contributions are refundable to the respective governments upon liquidation of the Program's assets.

In accordance with the Consolidated Appropriations Act 2014, the State agreed to provide additional subsidization in the form of principal forgiveness, negative interest rate loans, or grants to eligible recipients for the 2014 Capitalization Grant. No additional subsidization was required for the 2015 Capitalization Grant awarded in FY 2016. For FY 2016 and 2015, the OWRB chose to give principal forgiveness in the amount of \$250,000 and \$616,443, respectively. During FY 2016 additional awards totaling \$750,000 were awarded but not drawn by the entities.

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1. Summary of Significant Accounting Policies (cont'd)

Bond Issue Premium

The Program's State Revolving Fund Revenue Bonds, Series 2011 were initially sold at a premium of \$9,167,991. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$458,400 was recorded in 2016 and 2015 and is included in interest expense in the accompanying statements of revenues, expenses, and changes in net position.

The Program's State Revolving Fund Revenue Bonds, Series 2012 were initially sold at a premium of \$14,172,391. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$694,818 was recorded in 2016 and 2015, and is included in interest expense in the accompanying statements of revenues, expenses, and changes in net position.

The Program's State Revolving Fund Revenue Bonds, Series 2015 were initially sold at a premium of \$14,375,840. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$317,590 was recorded in 2016, and is included in interest expense in the accompanying statements of revenues, expenses, and changes in net position.

Deferred Amount on Refunding

The Program's State Revolving Fund Revenue Bonds, Series 2014A, were used to refund the 2004 Series Revenue Bonds. The refunding resulted in a deferred inflow of \$4,166,837 which is being amortized over twelve years. Net amortization expense of \$347,236 was recorded in FY 2016 and 2015, and is included in interest expense in the accompanying statements of revenues, expense and changes in net position.

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.

Investments

Included in the total is \$29,542,651, which has been deposited into a Debt Service Reserve fund, pursuant to the bond indenture (See Note 5).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

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2. Cash Deposits and Investment Risk

Cash of \$53,013,193 and \$30,525,522 at June 30, 2016 and 2015 respectively, was on deposit in the State Treasurer's office's internal investment pool – *OK Invest*. Short-term investments of \$110,158,564 and \$43,368,039 at June 30, 2016 and 2015, respectively, were on deposit with the Program's trustee. The deposits are invested in the *Federated Treasury Obligations and the Goldman Sachs Financial SQ Treasury Obligation Fund Admin* 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 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 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 \$53,013,193 and \$30,525,522 in cash and cash equivalents on deposit with the State Treasurer as of June 30, 2016 and June 30, 2015, 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 accounts and are reported as cash equivalents.

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

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

- a. U.S. Treasury Bills, Notes and Bonds and U.S. Government Agency Securities with certain ratings and maturity limitations.
- b. Collateralized or insured certificates of deposit and other evidences of deposit issued by a bank, savings bank, savings and loan association or credit union located in the state.

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- 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 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 implemented GASB Statement No. 72, Fair Value Measurement and Application, during the fiscal year ended June 30, 2016. The Program categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

At June 30, 2016 and 2015, 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:

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<u>Type</u>	<u>Maturities</u>	<u>Credit Rating</u>	<u>Fair Value Hierarchy</u>	<u>Carrying Value</u>	
				2016	2015
OK Invest (State Treasurer)	on demand	Not rated.	N/A	\$ 53,013,193	\$ 30,525,522
Federated Treasury Obligations Fund SER Class	16 days	AAA	Level 1	25,768	15,330,635
Federated Government Obligations Tax Managed Fund	16 days	AAA	Level 1	96,596,160	2,837,227
Goldman Sachs Financial SQ Treasury Obligation Fund Admin		AAA		13,536,636	25,200,177
City of Lawton Municipal Bond	10/1/2028	Not rated.	Level 2	6,039,480	6,206,602
FHLMC	2017-2025	AA+	Level 2	4,954,147	4,949,874
FHLB	3/10/2023	AA+	Level 2	742,287	716,586
FHLMC - IO Strip	2018-2022	AA+	Level 2	1,006,579	963,264
FHLMC - Freddie Mac Int Strip	3/15/2025	AA+	Level 2	902,278	813,305
FNMA IO Strip	1/15/2026	AA+	Level 2	111,512	100,282
FNMA Interest Strip	3/23/2019	AA+	Level 2	383,063	368,572
AID Isreal Bonds	2016-2023	A+	Level 2	47,781	1,800,226
TennVal Authority IO Strip	2014-2026	AA+	Level 2	11,159,787	11,103,493
Tenn Val Authority CPN Strip	2015-2025	AA+	Level 2	10,235,217	10,964,388
Total				<u>\$ 198,753,888</u>	<u>\$ 111,880,153</u>

Concentration of Investment Credit Risk – neither the Program nor the bond indenture place any limit on the amount the Program may invest in any one issuer. The Program has the following concentration of credit risk at June 30, 2016: 48.61% or \$96,621,928 is invested in Federated Treasury money market funds, 6.81% or \$13,536,636 is invested in Goldman Sachs Financial SQ Treasury Obligation Admin Fund, 5.15% or \$10,235,217 invested in Tennessee Valley Authority CPN Strips, and 5.61% or \$11,159,787 is invested in Tennessee Valley Authority IO Strips, and 26.67% or \$53,013,193 is invested in OK Invest.

At June 30, 2015, the Program has the following concentration of credit risk 13.70% or \$15,330,635 is invested in Federated Treasury money market funds, 22.52% or \$25,200,177 is invested in Goldman Sachs Financial SQ Treasury Obligation Admin Fund, 9.80% or \$10,964,388 invested in Tennessee Valley Authority CPN Strips, and 9.92% or \$11,103,493 is invested in Tennessee Valley Authority IO Strips, and 27.28% or \$30,525,522 is invested in OK Invest.

3. Federal Letter of Credit Payments Receivable

A schedule of activity in the Federal letter of credit payments receivable account, as reflected in the accompanying statements of net position, for the years ended June 30, 2016 and 2015, is as follows:

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Balance, June 30, 2014	\$ -
Federal revenue recognized	11,328,000
Federal funds withdrawn	<u>(11,328,000)</u>
Balance, June 30, 2015	<u>\$ -</u>
Balance, June 30, 2015	\$ -
Federal revenue recognized	10,328,961
Federal funds withdrawn	<u>(10,328,961)</u>
Balance, June 30, 2016	<u>\$ -</u>

Of the Federal letter of credit payments withdrawn during the fiscal year ended June 30, 2016, \$10,078,961 was used to provide loans to borrowers, \$250,000 was used for debt forgiveness and no funds were used for administrative expenses.

Of the Federal letter of credit payments withdrawn during the fiscal year ended June 30, 2015, \$10,711,557 was used to provide loans to borrowers, \$616,443 was used for debt forgiveness and no funds were used for administrative expenses. As of June 30, 2015, the Program has no remaining EPA grant funding available.

4. Loans Receivable

The Program originates direct loans with communities utilizing several sources of funds including existing loan principal repayments, interest earnings, federal grants and bond funds. These loans are collateralized by various revenue sources including, but not limited to, user charges and sales taxes of the borrowers. These loans are made at 60% of the current market interest rate. At June 30, 2016 and 2015, there were \$460,260,645 and \$428,250,876, respectively, in loans outstanding, net of allowances. As of June 30, 2016, the Program had unexpended commitments to borrowers for additional loan funds in the amount of \$87,811,588.

Prior to FY-2007, the Board originated interim construction loans that would upon completion provide the borrowers the opportunity to refinance 40% of their outstanding interim loan balance on a long-term basis without interest. Such loans were collateralized by various revenue sources including, but not limited to, user charges and sales taxes of the borrowers. To avail themselves of this opportunity, the borrowers obtained funding for the remaining 60% of the outstanding loan from sources outside the Program. This is no longer an option for the Program. At June 30, 2016 and 2015, there were \$21,193,233 and \$25,970,391, respectively, in long-term interest-free loans outstanding, net of allowances.

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A schedule of activity of loans receivable for the years ended June 30, 2016 and 2015, is as follows:

Net Balance, June 30, 2014	\$	436,872,311
Loan disbursements		47,934,929
Principal repayments and forgiveness		<u>(30,606,502)</u>
		454,200,738
Change in allowance for uncollectible loans		<u>20,529</u>
Net Balance, June 30, 2015		454,221,267
Loan disbursements		58,877,917
Principal repayments and forgiveness		<u>(31,914,201)</u>
		481,184,983
Change in allowance for uncollectible loans		<u>268,895</u>
Net Balance, June 30, 2016	\$	<u><u>481,453,878</u></u>

5. Restricted Investments

A description of the restricted investments held at June 30, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
FHLMC - Federal Home Loan Morg Corp maturities from March 2017 to October 2019	\$ 4,954,147	\$ 4,949,874
FHLB - Federal Home Loan Bank maturity March 15, 2025	742,287	716,586
maturities from March 15, 2018 to March 15, 2022	1,006,579	963,264
FHLMC - Federal Home Loan Mtg Corp Int Strip maturity March 15, 2025	902,278	813,305
FNMA - Federal National Mtg Assoc. IO Strip maturity January 15, 2026	111,512	100,282
FNMA - Federal National Mtg Assoc. Interest Strip maturity March 23, 2019	383,063	368,572
AID-Israel Bonds maturity March 15, 2016 and February 15, 2023	47,781	1,800,226
Tennessee Valley Authority IO Strips maturities September 15, 2022 to March 15, 2026	11,159,787	11,103,493
Tennessee Valley Authority CPN Strips maturities from March 15, 2017 to March 15, 2024	<u>10,235,217</u>	<u>10,964,388</u>
Total restricted investments	<u><u>\$ 29,542,651</u></u>	<u><u>\$ 31,779,990</u></u>

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6. Long-Term Debt

Bonds Payable

On October 26, 2004, the Program issued State Revolving Fund Revenue Bonds, Series 2004 in the amount of \$121,075,000. 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 Drinking Water State Revolving Fund Loan Program for similar purposes related to its drinking water treatment facilities projects. The Bonds were refunded in March 2014 with the issuance of the Series 2014A State Revolving Fund Revenue Bonds.

On April 13, 2011, the Program issued State Revolving Fund Revenue Bonds, Series 2011A in the amount of \$85,000,000. 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 23, 2012, the Program issued State Revolving Fund Revenue Bonds, Series 2012B in the amount of \$86,505,000. 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 March 20, 2014, the Program issued State Revolving Fund Revenue Bonds, Taxable Series 2014A in the amount of \$55,560,000. These bonds were issued together with certain other available moneys and investments to refund the \$82,685,000 outstanding principal amount of the Board's Revolving Fund Revenue Bonds, Series 2004, to fund a debt service reserve fund for the bonds through the transfer of a portion of reserve funds held for the 2004 Revenue Bonds, and to pay cost of issuance of the bonds.

On December 17, 2015, the Program issued State Revolving Fund Revenue Bonds, Series 2015 in the amount of \$100,620,000. 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.

Future debt service payments required by the Program's outstanding bonds as of June 30, 2016 are as follows:

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6. Long-Term Debt (cont'd)

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$18,480,000	\$1,235,541	\$19,715,541
2018	19,510,000	11,701,211	31,211,211
2019	21,995,000	11,018,137	33,013,137
2020	25,000,000	10,226,810	35,226,810
2021	25,815,000	9,173,774	34,988,774
2022-2026	89,190,000	30,002,900	119,192,900
2027-2031	61,185,000	13,073,560	74,258,560
2032-2036	22,555,000	2,202,638	24,757,638
2037-2040	3,240,000	309,600	3,549,600
Total	<u>\$286,970,000</u>	<u>\$88,944,171</u>	<u>\$375,914,171</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 in part, at 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 2004, 2011A, and 2012B 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 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 issue. Management of the Program believes that any arbitrage liability, which exists at June 30, 2016, is immaterial.

Pursuant to the 2014A Bond Indenture, the Clean Water State Revolving Fund Loan Program must maintain a debt service reserve fund. At June 30, 2016, the debt service reserves totaled \$31,779,990.

Long-term debt outstanding at June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Beginning balances:		
2011A Serial bonds due April 1, 2014 to April 1, 2031, interest at 4.0% to 5.0%	\$ 66,765,000	\$ 71,615,000
2012B Serial bonds due April 1, 2014 to April 1, 2033, interest at 2.00% to 5.00%	83,875,000	85,885,000
2014A Serial bonds due April 1, 2015 to April 1, 2026, interest at 0.188% to 3.671%	49,070,000	55,560,000
Unamortized premium	19,571,839	20,725,057
	<u>\$ 219,281,839</u>	<u>\$ 233,785,057</u>
Add: 2015 Serial bonds due April 1, 2017 to April 1, 2040, interest at 2.00% to 5.00%	100,620,000	-
Add: 2015 bond premium	14,375,840	-
Less: debt principal repayments	(13,345,000)	(13,350,000)
Less: debt refunded, net	-	-
Less: current amortization of premium	(1,470,808)	(1,153,218)
Ending balances	<u>\$ 319,461,871</u>	<u>\$ 219,281,839</u>
Amounts due in one year	18,480,000	13,345,000

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Advance Refunding

On March 20, 2014, the Board issued the \$55,560,000 Series 2014A Taxable State Revolving Fund Revenue Bonds with an interest rate of 0.188% to 3.671% together with other money to current refund the \$82,685,000 outstanding principal amount of the Board's Revolving Fund Revenue Bonds, Series 2004. The proceeds along with other available funds were used to refund the outstanding bonds on April 1, 2014. As a result, the 2004 Series bonds are considered to be paid in full and the liability for those bonds has been removed from the Statement of Net Position.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$4,166,837. This difference, reported in the accompanying financial statements as a deferred inflow, is being charged to operations through the year 2023 using the straight line method. The Board completed the advance refunding to reduce its total debt service payments over the next twelve years by \$35,207,942 and to obtain an economic gain (the difference between the present values of the old and new debt service payments) of \$8,263,471.

7. Binding Commitments

During the year ended June 30, 2016, the OWRB voted to approve funding of various borrower 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. There was one loan application approved by the OWRB for which a loan agreement and promissory note had not been executed totaling \$6,700,000 at June 30, 2016.

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OKLAHOMA CLEAN WATER
STATE REVOLVING FUND
LOAN ACCOUNT PROGRAM**

**SINGLE AUDIT REPORTS
AND SUPPLEMENTARY SCHEDULES**

JUNE 30, 2016

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT 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 Members of the
Oklahoma Water Resources Board
Oklahoma Clean Water State Revolving Fund Loan Account 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 Water Resources Board/Oklahoma Clean Water State Revolving Fund Loan Account Program (the "Program"), as of and for the year ended June 30, 2016, 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 20, 2016.

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

Arledge & Associates, P.C.

Edmond, Oklahoma
September 20, 2016



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED THE UNIFORM GUIDANCE**

To the Members of the
Oklahoma Water Resources Board
Oklahoma Clean Water State Revolving Fund Loan Account Program

Report on Compliance for Each Major Federal Program

We have audited The Oklahoma Water Resources Board/Oklahoma Clean Water State Revolving Fund Loan Account 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, 2016. The Program's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Program's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Program complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control over compliance.

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

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

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

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

We have audited the financial statements of the Program as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements. We issued our report thereon dated September 20, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Arlidge & Associates, P.C.

Edmond, Oklahoma
September 20, 2016

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2016**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Expenditures</u>	<u>Operating Expenditures</u>	<u>Loans Funded Subaward Amount</u>	<u>Loan Forgiveness Subaward Amount</u>
Environmental Protection Agency CWSRF Cluster: Capitalization Grants for Clean Water State Revolving Funds	66.458	\$ 10,328,961	-	10,078,961	250,000
		<hr/>	<hr/>	<hr/>	<hr/>
Total Federal Expenditures		\$ <u>10,328,961</u>	<u>-</u>	<u>10,078,961</u>	<u>250,000</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 Clean Water State Revolving Fund Loan Account Program and is presented on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

2. OUTSTANDING LOANS RECEIVABLE

At June 30, 2016, the Program's outstanding balance on loans receivable funded by federal awards and related matching funds was \$481,453,878, net of an allowance of \$0.

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2016

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

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

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

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

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

Any audit findings disclosed that are required
 to be reported in accordance with
 the Uniform Guidance? _____ yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.458	CWSRF Cluster - Capitalization Grants for Clean Water State Revolving Funds

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

Auditee qualified as low-risk auditee? _____ yes X no

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016**

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.