



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

**FINANCIAL STATEMENTS
AS OF
JUNE 30, 2020 AND 2019
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, 2020 and 2019

<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	23
Supplemental Combining Statement of Revenues, Expenses and Changes in Net Position Information- By Program Component	24
Supplemental Combining Statement of Cash Flows Information- By Program Component	25



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Oklahoma Department of Environmental Quality/Oklahoma Drinking Water State Revolving Fund Loan Program (the "Program") as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Program as of June 30, 2020 and 2019, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Program's basic financial statements. The supplemental combining financial statement information, as listed in the table of contents under Supplemental Schedule Information, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Program.

The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental combining financial statement information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2020 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 25, 2020

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, 2020. 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 7.8% from \$279,753,087 in FY-2019 to \$301,597,895 in FY-2020. The increase in net position is primarily attributable to an increase in federal grant revenue retained to fund loans.
- The Program experienced a decrease of \$41,748,085 in the amount of outstanding loans. At June 30, 2020, the Program had 145 outstanding loans with a principal balance of \$509,613,453. At June 30, 2019, the Program had 142 outstanding loans with a principal balance of \$551,361,538.

PROGRAM HIGHLIGHTS

- During FY 2020, fifteen (15) construction loans, totaling approximately \$171 million were made to correct deficiencies and achieve compliance with the national primary drinking water regulations or otherwise further public health protection objectives of the Safe Drinking Water Act (SWDA).
- Completed construction during the year on ten (10) projects totaling \$31.9 million.
- Made binding commitments for seventeen (17) new loans, totaling approximately \$167.4 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, 2020 and 2019**

ASSETS	2020	2019
Current Assets:		
Cash	\$ 14,651,405	\$ 30,215,957
Federal letter of credit payments receivable	355,234	728,718
Accrued interest on loans receivable	3,201,085	3,765,484
Other interest receivable	91,863	146,845
Loans receivable	<u>26,206,722</u>	<u>23,461,333</u>
Total current assets	<u>44,506,309</u>	<u>58,318,337</u>
Noncurrent Assets:		
Restricted Cash	19,124,414	8,819,845
Restricted investments	19,203,579	21,299,855
Loans receivable, net of current portion and allowance for uncollectible loans of \$25,000 in 2020 and \$16,900 in 2019	483,406,731	527,900,205
Equipment, net	<u>551,896</u>	<u>478,083</u>
Total noncurrent assets	<u>522,286,620</u>	<u>558,497,988</u>
 Total assets	 <u>566,792,929</u>	 <u>616,816,325</u>
 LIABILITIES		
Current Liabilities:		
Accounts payable	51,870	44,778
Due to Oklahoma Department of Environmental Quality ("ODEQ")	875,361	683,940
Compensated absences	148,007	108,892
Interest Payable	2,444,871	3,426,983
Current maturities of long-term debt	<u>14,815,000</u>	<u>14,960,000</u>
Total current liabilities	<u>18,335,109</u>	<u>19,224,593</u>
Noncurrent Liabilities:		
Compensated absences	63,431	46,675
Long-term debt, net of current maturities	214,475,000	283,885,000
Unamortized (discount)/premium	<u>25,244,283</u>	<u>33,906,970</u>
Total noncurrent liabilities	<u>239,782,714</u>	<u>317,838,645</u>
 Total liabilities	 <u>258,117,823</u>	 <u>337,063,238</u>
 DEFERRED INFLOW OF RESOURCES		
Unamortized (gain/loss) on refunding	<u>7,088,591</u>	<u>-</u>
 NET POSITION		
Invested in capital assets, net of related debt	551,896	478,083
Restricted for loans and debt service	301,818,054	279,430,571
Unrestricted net position	<u>(783,435)</u>	<u>(155,567)</u>
 Total net position	 <u>\$ 301,586,515</u>	 <u>\$ 279,753,087</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, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
REVENUES		
Operating revenues:		
Federal grants	\$ 3,703,547	\$ 4,036,546
Loan program income (net of bad debt recovery of \$0 in 2020 and \$186,164, in 2019)	12,405,849	12,630,980
Total operating revenue	<u>16,109,396</u>	<u>16,667,526</u>
EXPENSES		
Operating expenses:		
Salaries and benefits	2,542,671	2,249,600
Professional services	595,389	665,915
Travel	93,892	100,578
Office	123,543	64,776
Equipment	20,101	18,654
Depreciation	172,310	142,093
Indirect costs	709,037	646,260
Other expense	659	101,362
Interest expense	9,278,006	13,504,150
Bad debt expense	8,101	-
Refunding Expense	20,906	-
Debt issuance costs	232,140	-
Total operating expenses	<u>13,796,755</u>	<u>17,493,388</u>
Operating income (loss)	<u>2,312,641</u>	<u>(825,862)</u>
NONOPERATING REVENUES (EXPENSES)		
Federal grants	5,341,551	10,422,351
Federal grants-Principal Forgiveness	(305,850)	(1,034,021)
Investment income	673,729	1,655,037
Interest income-invested cash balances	1,004,535	1,745,986
Net nonoperating revenues	<u>6,713,965</u>	<u>12,789,353</u>
Income (loss) before transfers	9,026,606	11,963,491
Transfers out - Oklahoma Water Resources Board	(5,313,178)	-
Transfers in - Clean Water State Revolving Fund	15,000,000	-
Transfers in - Drinking Water Treatment Loan Admin Fund	3,120,000	493,600
Total Transfers	<u>12,806,822</u>	<u>493,600</u>
Increase (decrease) in net position	21,833,428	12,457,091
NET POSITION		
Net position, beginning of year	<u>279,753,087</u>	<u>267,295,996</u>
Net position, end of year	<u>\$ 301,586,515</u>	<u>\$ 279,753,087</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, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Federal grant receipts	\$ 4,077,031	\$ 4,281,112
Collection of interest on loans to local governmental units	12,970,247	11,908,423
Payments to employees	(2,486,800)	(2,233,665)
Payments to suppliers	(1,344,108)	(1,842,111)
Interest paid on debt	(11,703,126)	(14,251,446)
Net cash provided (used by operating activities)	<u>1,513,244</u>	<u>(2,137,687)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from refunding of bonds	28,210,000	-
Bond Issuance Cost	(232,140)	-
Transfer to escrow agent	(85,129,150)	-
Principal paid on bonds	(12,330,000)	(11,530,000)
Federal grant receipts	5,035,701	9,388,330
Transfers in (out) - Oklahoma Water Resources Board	(5,313,178)	-
Transfers in (out) Clean Water State Revolving Fund	15,000,000	-
Transfers in (out) - Drinking Water Treatment Loan Administrative Fund	3,120,000	493,600
Net cash provided (used) by noncapital financing activities	<u>(51,638,767)</u>	<u>(1,648,070)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of equipment	(246,123)	(205,336)
Net cash provided (used) in capital and related financing activities	<u>(246,123)</u>	<u>(205,336)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans to local governmental units	(87,002,617)	(95,796,731)
Collection of principal on loans to local governmental units	23,551,154	21,797,681
Refundings on loans receivable	104,893,698	-
Collection of principal on loans to local governmental units from federal grant proceeds	305,850	1,034,021
Interest on investments	673,729	1,653,130
Interest on invested cash balances	1,059,517	1,811,966
Sale (Purchase) of investments	1,630,332	1,316,815
Net cash provided (used) by investing activities	<u>45,111,663</u>	<u>(68,183,118)</u>
Net increase (decrease in cash)	(5,259,983)	(72,174,211)
Cash and cash equivalents, beginning of year	<u>39,035,802</u>	<u>111,210,013</u>
Cash and cash equivalents, end of year	<u>\$ 33,775,819</u>	<u>\$ 39,035,802</u>
Reconciliation to Statement of Net Position:		
Cash	\$ 14,651,405	\$ 30,215,957
Restricted Cash	<u>19,124,414</u>	<u>8,819,845</u>
Total cash and cash equivalents	<u>\$ 33,775,819</u>	<u>\$ 39,035,802</u>

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

Operating income (loss)	2,312,641	(825,862)
Adjustment to reconcile net operating income (loss) to net cash provided by operating activities:		
Depreciation	172,310	142,093
Loan Savings	20,907	-
Amortization of bond premium and deferred amount on refunding	(1,443,009)	(538,796)
Bond issuance cost	232,140	-
Transfer to escrow agent	-	-
Provision (recovery) for uncollectable loans	8,100	(186,164)
Changes in operating assets and liabilities:		
Decrease (Increase) in letter of credit payments receivable	373,484	244,566
Decrease (Increase) in interest receivable	564,399	(536,393)
Increase (Decrease) in accounts payable	7,092	2,245
Increase (Decrease) in due to/from DEQ	191,421	(246,811)
Increase (Decrease) in compensated absences	55,871	15,935
Increase (Decrease) in due other accrued liabilities	-	-
Increase (Decrease) in interest payable	(982,112)	(208,500)
Net cash provided (used) by operating activities	<u>1,513,244</u>	<u>(2,137,687)</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, 2020 and 2019

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, 2020 and 2019

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, 2020 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 \$19,203,579 and \$21,299,855 at June 30, 2020 and June 30, 2019, 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 ranging from three to nine years. The Program's policy is to capitalize individual asset purchases in excess of \$5,000.

Debt Issuance Costs

Debt issuance costs are expensed as incurred.

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

NOTES TO FINANCIAL STATEMENTS
 June 30, 2020 and 2019

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

Bond Issue Premium

The Program's State Revolving Fund Revenue Bonds Series 2018, Series 2016, Series 2013A, Series 2012A, and Series 2011, were initially sold at a premium of \$39,332,674. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$8,662,687 and \$1,605,065 was recorded in 2020 and 2019, 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, 2020 and 2019 was as follows:

Balance, July 1, 2019	\$ <u>9,665,349</u>	Balance, July 1, 2018	\$ <u>7,971,776</u>
Fee income	2,596,376	Fee income	2,734,521
Interest income	173,978	Interest income	190,475
Operating expenses	(657,405)	Operating expenses	(793,787)
Transfers	<u>(3,116,019)</u>	Transfers	<u>(437,636)</u>
Balance, June 30, 2020	\$ <u>8,662,279</u>	Balance, June 30, 2019	\$ <u>9,665,349</u>

Unrestricted Net Liability

The unrestricted net liability at June 30, 2020 and 2019, 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.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CASH DEPOSITS AND INVESTMENT RISK

Cash of \$14,651,405 and \$30,215,957 at June 30, 2020 and 2019 respectively, was on deposit in the State Treasurer's office's internal investment pool – *OK Invest*. Restricted cash of \$19,124,414 and \$8,819,845 at June 30, 2020 and 2019 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 \$14,651,405 and \$30,215,957 in cash and cash equivalents on deposit with the State Treasurer as of June 30, 2020 and June 30, 2019, 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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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

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.

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.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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

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.

At June 30, 2020 and 2019, 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	
				2020	2019
OK Invest	On Demand	Not Rated	N/A	\$ 14,651,405	\$ 30,215,957
Federated Treasury Obligation Fund	16 days	AAA m	Level 1	-	1,067,185
Federated Government Obligations Fund	16 days	AAA m	Level 1	11,489,582	3,728,140
Goldman Sach Fin. Sq. Treasury Oblig. Fund		AAA m	Level 1	7,634,832	4,369,168
Federal Farm Credit Bank	2022/2025	AA+	Level 2	2,957,705	2,878,495
Federal Home Loan Bank	2023	AA+	Level 2	723,026	1,082,306
Federal Home Loan Mortgage Corp. Int. Strips	2025	AA+	Level 2	2,848,152	2,592,360
Federal National Mortgage Assoc. Int. Strips	2020/2022	AA+	Level 2	21,811	340,737
Tennessee Valley Authority	2021	AA+	Level 2	723,021	729,440
Tennessee Valley Authority Coupon Strips	2021/2025	AA+	Level 2	11,808,563	12,970,277
Sub-total				\$ 52,858,097	\$ 59,974,065
U.S. Treasury Notes	2020			121,301	361,592
				\$ 52,979,398	\$ 60,335,657
Reconciliation to Statement of Net Position					
			Cash	\$ 14,651,405	\$ 30,215,957
			Restricted cash	19,124,414	8,819,845
			Restricted investments	19,203,579	21,299,855
				\$ 52,979,398	\$ 60,335,657

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, 2020: 36% or \$19,124,414 is invested in government obligations money market mutual funds, 36% or \$19,203,579 is invested directly in fixed income securities, and 28% or \$14,651,405 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, 2020 and 2019

3. FEDERAL LETTERS OF CREDIT

Federal letters of credit ("LOC") balances at June 30, 2020 and 2019 are as follows:

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

	Year Ended June 30, 2019					
	Administrative	Program Management & Reserve	Small Systems	Local Assistance	Loan	Totals
LOC Available for draw	\$ 10,702,032	21,218,077	4,428,762	24,334,718	240,184,411	300,868,000
Grant available in 2019	629,880	1,574,700	314,940	2,362,050	10,865,430	15,747,000
LOC reprogrammed	-	-	-	-	-	-
Cumulative cash draws	11,095,269	22,099,210	4,615,272	25,421,190	247,900,447	311,131,388
LOC balance available for draw at June 30, 2019	\$ 236,643	693,567	128,430	1,275,578	3,149,394	5,483,612

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, 2020 and 2019

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, 2020 and from 0% to 3.50% at June 30, 2019.

Not less than 20% up to a maximum of 30% of the annual federal grant must be used for principal forgiveness for projects meeting regionalization and consolidation criteria. For the period ending June 30, 2020 the Program made 5 loan to a borrower in this category and 3 loans in the period ending June 30, 2019 that have or will receive principal forgiveness.

At least 6% of the 2019 federal grant must be used for principal forgiveness for projects meeting disadvantaged criteria. For the period ending June 30, 2020 the program made 6 loans to a borrower in this category.

The Program also provides for extended loan terms to borrowers meeting the “disadvantaged” criteria. Loan terms can be extended to up to thirty years and not to exceed the useful life of the proposed project. For the periods ending June 30, 2020 and 2019, the Program made 8 and 9 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, 2020 and 2019, principal payments of \$128,767,603 and \$22,831,702, respectively, had been received.

The allowance for loan losses at June 30, 2020 of \$25,000 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, 2020 and 2019

4. LOANS RECEIVABLE (Cont'd)

Loans receivable activity from July 1, 2018 to June 30, 2020, is as follows:

Balance, June 30, 2018	\$ 478,210,345
Loan Disbursements	95,796,731
Loan Principal repayments and forgiveness	<u>(22,831,702)</u>
	551,175,374
Change in provision for uncollectable loans	<u>186,164</u>
Balance, June 30, 2019	\$ <u>551,361,538</u>
Loan Disbursements	87,002,617
Loan Principal repayments and forgiveness	<u>(128,767,603)</u>
	509,596,552
Change in provision for uncollectable loans	<u>16,901</u>
Balance, June 30, 2020	\$ <u><u>509,613,453</u></u>

5. RESTRICTED INVESTMENTS

A description of the restricted investments held at June 30, 2020 and 2019, is as follows:

	<u>2020</u>	<u>2019</u>
Federal Farm Credit Bank	\$ 2,957,705	\$ 2,878,495
Federal Home Loan Bank	723,026	1,082,306
Federal Home Loan Mortgage Corp. Int. Strips	2,848,152	2,592,360
Federal National Mortgage Assoc. Int. Strips	21,811	340,737
Tennessee Valley Authority	723,021	729,440
Tennessee Valley Authority Coupon Strips	11,808,563	12,970,277
U.S. Treasury Notes	121,301	361,592
Goldman Sach Fin. Sq. Treasury Oblig. Fund	-	344,648
	<u>\$ 19,203,579</u>	<u>\$ 21,299,855</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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 \$1,755,000 and \$11,000,000 at June 30, 2020 and 2019, respectively.

7. EQUIPMENT

A summary of changes to equipment is as follows:

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

	Year ended 2019			
	June 30, 2018	Additions	Disposals	June 30, 2019
Equipment	\$ 1,325,630	205,336	-	\$ 1,530,966
Accumulated depreciation	(910,790)	(142,093)	-	(1,052,883)
Net	\$ 414,840	63,243	-	\$ 478,083

8. LONG-TERM DEBT

Bonds Payable

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.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

8. LONG-TERM DEBT (Cont'd)

Bonds Payable (Cont'd)

On March 22, 2018, the Program issued State Revolving Fund Revenue Bonds, Series 2018 in the amount of \$80,055,000. The bonds are secured by the loans made to the local entities by the OWRB, investment income in the Drinking Water State Revolving Fund Account and monies held in the Debt Service Reserve Fund. These bonds were issued to provide low interest cost financing for Oklahoma Local governmental entities for acquiring, constructing, or improving their wastewater treatment systems, to reimburse the Program for amounts previously advanced to local governments, and to enable the Program to meet the State matching requirements in order to obtain Federal grants.

On October 19, 2016, the Program issued State Revolving Fund Revenue Bonds, Series 2016 in the amount of \$90,000,000. The bonds are secured by the loans made to the local entities by the OWRB, investment income in the Drinking Water State Revolving Fund Account and monies held in the Debt Service Reserve Fund. These bonds were issued to provide low interest cost financing for Oklahoma Local governmental entities for acquiring, constructing, or improving their wastewater treatment systems, to reimburse the Program for amounts previously advanced to local governments, and to enable the Program to meet the State matching requirements in order to obtain Federal grants.

On September 19, 2013, the Program issued State Revolving Fund Revenue Bonds, Series 2013A in the amount of \$41,410,000. The bonds are secured by the loans made to the local entities by the OWRB, investment income in the Drinking Water State Revolving Fund Account and monies held in the Debt Service Reserve Fund. These bonds were issued to provide low interest cost financing for Oklahoma Local governmental entities for acquiring, constructing, or improving their wastewater treatment systems, to reimburse the Program for amounts previously advanced to local governments, and to enable the Program to meet the State matching requirements in order to obtain Federal grants.

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

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,

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

8. LONG-TERM DEBT (Cont'd)

Bonds Payable (Cont'd)

or improving their wastewater treatment systems and to enable the Program to meet the State matching requirements in order to obtain Federal grants. The Bonds were refunded in December 2019 with the issuance of Series 2019, State Revolving Fund Revenue Refunding Bonds.

On April 13, 2011, the Program issued State Revolving Fund Revenue Bonds, Series 2011 in the amount of \$57,910,000. The bonds are secured by the loans made to the local entities by the OWRB, investment income in the Drinking Water State Revolving Fund Account and monies held in the Debt Service Reserve Fund. These bonds were issued to provide low interest cost financing for Oklahoma Local governmental entities for acquiring, constructing, or improving their wastewater treatment systems and to enable the Program to meet the State matching requirements in order to obtain Federal grants. The Bonds were refunded in December 2019 with the issuance of Series 2019, State Revolving Fund Revenue Refunding Bonds.

Future debt service payments required by the Program's serial bonds as of June 30, 2020 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 14,815,000	9,634,358	\$ 24,449,358
2022	15,560,000	9,779,484	25,339,484
2023	16,395,000	9,099,370	25,494,370
2024	16,560,000	8,385,639	24,945,639
2025	15,945,000	7,621,312	23,566,312
2026-2029	58,440,000	28,462,296	86,902,296
2030-2035	50,470,000	16,061,168	66,531,168
2036-2040	33,760,000	6,111,846	39,871,846
2041-2043	7,345,000	778,814	8,123,814
Total	\$ <u>229,290,000</u>	<u>95,934,288</u>	\$ <u>325,224,288</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 2018, 2016, and 2013A bonds to be tax-exempt, the Board must comply with certain provisions of the Internal Revenue Code, as amended. One provision requires that the arbitrage earnings (defined as the excess of the amount earned on all nonpurpose investments over the amount which would have been earned if the 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, 2020 to be immaterial for the Series 2018, 2016, and Series 2013A bonds.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

8. LONG-TERM DEBT (Cont'd)

Bonds Payable (Cont'd)

Changes in long-term debt outstanding at June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Beginning Balance:		
Serial 2018 bonds due April 1, 2020 to April 1, 2038, interest at 3.38% to 5.00%	80,055,000	80,055,000
Serial 2016 bonds due April 1, 2020 to April 1, 2041, interest at 4.00% to 5.00%	88,500,000	89,500,000
Serial 2013B bonds due April 1, 2020 to April 1, 2025, interest at 2.71% to 4.12%	14,615,000	18,755,000
Series 2013A Bonds due April 1, 2020, to April 1, 2043, interest at 4.00% to 5.00%	30,240,000	32,995,000
Series 2012A Bonds due April 1, 2019 to April 1, 2042, interest at 3.00% to 5.00%	36,890,000	39,050,000
Series 2011 bonds due April 1, 2020 to April 1, 2042, interest at 3.00% to 5.25%	48,545,000	50,020,000
Unamortized premium	33,906,970	35,512,035
	<u>\$ 332,751,970</u>	<u>\$ 345,887,035</u>
Add: Serial 2019 bonds due April 1, 2020 to April 1, 2042, interest at 1.73% to 3.17%	28,210,000	-
Add:		-
Less: Debt Repayments, inclusive of \$7,219,678 of unamortized premium for 2020 and \$0 for 2019	(12,330,000)	(11,530,000)
Less: Bond refundings	(92,654,678)	-
Less: Current Amortization of premium	(1,443,009)	(1,605,065)
Ending Balances:	<u>\$ 254,534,283</u>	<u>\$ 332,751,970</u>
Amounts due in our year	<u>\$ 14,815,000</u>	<u>\$ 14,960,000</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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.

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, 2020

	Set Aside Funds				Loan Fund	Totals
	Administrative	Program Management	Small Systems	Local Assistance and Other State Programs		
ASSETS						
Current Assets:						
Cash	\$ -	-	-	-	14,651,405	14,651,405
Federal letter of credit payments receivable (payable)	12,044	864,420	83,419	-	-	959,883
Due from Oklahoma Department of Environmental Quality ("ODEQ")	-	-	-	314,388	-	314,388
Accrued interest on loans receivable	-	-	-	-	3,201,085	3,201,085
Other interest receivable	-	-	-	-	91,863	91,863
Loans receivable	-	-	-	-	26,206,722	26,206,722
Total current assets	12,044	864,420	83,419	314,388	44,151,075	45,425,346
Noncurrent Assets:						
Restricted Cash	-	-	-	-	19,124,414	19,124,414
Restricted investments	-	-	-	-	19,203,579	19,203,579
Loans receivable, net of current portion and allowance for uncollectible loans of \$25,000 in 2020 and \$16,900 in 2019	-	-	-	-	483,406,731	483,406,731
Equipment, net	-	225,288	-	326,608	-	551,896
Total noncurrent assets	-	225,288	-	326,608	521,734,724	522,286,620
Total assets	12,044	1,089,708	83,419	640,996	565,885,799	567,711,966
LIABILITIES						
Current Liabilities:						
Accounts payable	-	1,078	-	50,792	-	51,870
Federal letter of credit payments payable	-	-	-	604,649	-	604,649
Due to Oklahoma Department of Environmental Quality ("ODEQ")	12,045	1,094,285	83,419	-	-	1,189,749
Compensated absences	20,368	71,645	14,913	41,081	-	148,007
Interest Payable	-	-	-	-	2,444,871	2,444,871
Current maturities of long-term debt	-	-	-	-	14,815,000	14,815,000
Total current liabilities	32,413	1,167,008	98,332	696,522	17,259,871	19,254,146
Noncurrent Liabilities:						
Compensated absences	8,729	30,705	6,391	17,606	-	63,431
Long-term debt, net of current maturities	-	-	-	-	214,475,000	214,475,000
Unamortized (discount)/premium	-	-	-	-	25,244,283	25,244,283
Total noncurrent liabilities	8,729	30,705	6,391	17,606	239,719,283	239,782,714
Total liabilities	41,142	1,197,713	104,723	714,128	256,979,154	259,036,860
DEFERRED INFLOW OF RESOURCES						
Unamortized (gain/loss) on refunding	-	-	-	-	7,088,591	7,088,591
NET POSITION						
Invested in capital assets, net of related debt	-	225,288	-	326,608	-	551,896
Restricted for loans and debt service	-	-	-	-	301,818,054	301,818,054
Unrestricted net liability	(29,098)	(333,293)	(21,304)	(399,740)	-	(783,435)
Total net position	\$ (29,098)	(108,005)	(21,304)	(73,132)	301,818,054	301,586,515

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, 2020

	Set Aside Funds					Totals
	Administrative	Program Management	Small Systems	Local Assistance and Other State Programs	Loan Fund	
REVENUES						
Operating revenues:						
Federal grants	\$ 563,346	1,642,820	238,021	1,259,360	-	3,703,547
Loan program income	-	-	-	-	12,405,849	12,405,849
Total operating revenue	<u>563,346</u>	<u>1,642,820</u>	<u>238,021</u>	<u>1,259,360</u>	<u>12,405,849</u>	<u>16,109,396</u>
EXPENSES						
Operating expenses:						
Salaries and benefits	281,124	1,276,978	190,078	794,491	-	2,542,671
Professional services	215,875	3,800	-	375,714	-	595,389
Travel	6,353	34,255	2,541	50,743	-	93,892
Office	867	42,420	41	80,215	-	123,543
Equipment	-	5,656	-	14,445	-	20,101
Depreciation	-	36,332	-	135,978	-	172,310
Indirect costs	74,648	358,319	51,640	224,430	-	709,037
Other expense	-	1,073	-	(414)	-	659
Interest expense	-	-	-	-	9,278,006	9,278,006
Bad debt expense	-	-	-	-	8,101	8,101
Refunding Expense	-	-	-	-	20,906	20,906
Debt issuance costs	-	-	-	-	232,140	232,140
Total operating expenses	<u>578,867</u>	<u>1,758,833</u>	<u>244,300</u>	<u>1,675,602</u>	<u>9,539,153</u>	<u>13,796,755</u>
Operating income (loss)	<u>(15,521)</u>	<u>(116,013)</u>	<u>(6,279)</u>	<u>(416,242)</u>	<u>2,866,696</u>	<u>2,312,641</u>
NONOPERATING REVENUES (EXPENSES)						
Federal grants	-	-	-	-	5,341,551	5,341,551
Federal grants-Principal Forgiveness	-	-	-	-	(305,850)	(305,850)
Investment income	-	-	-	-	673,729	673,729
Interest income-invested cash balances	-	-	-	-	1,004,535	1,004,535
Net nonoperating revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,713,965</u>	<u>6,713,965</u>
Income (loss) before transfers	(15,521)	(116,013)	(6,279)	(416,242)	9,580,661	9,026,606
Transfers out - Oklahoma Water Resources Board	-	-	-	-	(5,313,178)	(5,313,178)
Transfers in - Clean Water State Revolving Fund	-	-	-	-	15,000,000	15,000,000
Transfers in - Drinking Water Treatment Loan Admin Fund	-	-	-	-	3,120,000	3,120,000
Total Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,806,822</u>	<u>12,806,822</u>
Increase (decrease) in net position	(15,521)	(116,013)	(6,279)	(416,242)	22,387,483	21,833,428
NET POSITION						
Net position, beginning of year	<u>(13,577)</u>	<u>8,008</u>	<u>(15,025)</u>	<u>343,110</u>	<u>279,430,571</u>	<u>279,753,087</u>
Net position, end of year	\$ <u>(29,098)</u>	<u>(108,005)</u>	<u>(21,304)</u>	<u>(73,132)</u>	<u>301,818,054</u>	<u>301,586,515</u>

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, 2020

	Set Aside Funds					Totals
	Administrative	Program Management	Small Systems	Local Assistance and Other State Programs	Loan Fund	
CASH FLOWS FROM OPERATING ACTIVITIES						
Federal grant receipts	\$ 550,126	1,664,718	226,385	1,635,802	-	4,077,031
Collection of interest on loans to local governmental units	-	-	-	-	12,970,247	12,970,247
Payments to employees	(265,604)	(1,249,830)	(183,799)	(787,567)	-	(2,486,800)
Payments to suppliers	(284,522)	(236,478)	(42,586)	(780,522)	-	(1,344,108)
Interest paid on debt	-	-	-	-	(11,703,126)	(11,703,126)
Net cash provided (used by operating activities)	-	178,410	-	67,713	1,267,121	1,513,244
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from refunding of bonds	-	-	-	-	28,210,000	28,210,000
Bond Issuance Cost	-	-	-	-	(232,140)	(232,140)
Transfer to escrow agent	-	-	-	-	(85,129,150)	(85,129,150)
Principal paid on bonds	-	-	-	-	(12,330,000)	(12,330,000)
Federal grant receipts	-	-	-	-	5,035,701	5,035,701
Transfers in (out) - Oklahoma Water Resources Board	-	-	-	-	(5,313,178)	(5,313,178)
Transfers in (out) Clean Water State Revolving Fund	-	-	-	-	15,000,000	15,000,000
Transfers in (out) - Drinking Water Treatment Loan Administrative Fund	-	-	-	-	3,120,000	3,120,000
Net cash provided (used) by noncapital financing activities	-	-	-	-	(51,638,767)	(51,638,767)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase of equipment	-	(178,410)	-	(67,713)	-	(246,123)
Net cash provided (used) in capital and related financing activities	-	(178,410)	-	(67,713)	-	(246,123)
CASH FLOWS FROM INVESTING ACTIVITIES						
Loans to local governmental units	-	-	-	-	(87,002,617)	(87,002,617)
Collection of principal on loans to local governmental units	-	-	-	-	23,551,154	23,551,154
Refundings on loans receivable	-	-	-	-	104,893,698	104,893,698
Collection of principal on loans to local governmental units from federal grant proceeds	-	-	-	-	305,850	305,850
Interest on investments	-	-	-	-	673,729	673,729
Interest on invested cash balances	-	-	-	-	1,059,517	1,059,517
Sale (Purchase) of investments	-	-	-	-	1,630,332	1,630,332
Net cash provided (used) by investing activities	-	-	-	-	45,111,663	45,111,663
Net increase (decrease in cash)	-	-	-	-	(5,259,983)	(5,259,983)
Cash and cash equivalents, beginning of year	-	-	-	-	39,035,802	39,035,802
Cash and cash equivalents, end of year	\$ -	\$ -	-	-	33,775,819	33,775,819

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

	Set Aside Funds					Totals
	Administrative	Program Management	Small Systems	Local Assistance and Other State Programs	Loan Fund	
Operating income (loss)	\$ (15,521)	\$ (116,013)	\$ (6,279)	\$ (416,242)	\$ 2,866,696	\$ 2,312,641
Adjustment to reconcile net operating income (loss) to net cash provided by operating activities:						
Depreciation	-	36,332	-	135,978	-	172,310
Loan Savings	-	-	-	-	20,907	20,907
Amortization of bond premium and deferred amount on refunding	-	-	-	-	(1,443,009)	(1,443,009)
Bond issuance cost	-	-	-	-	232,140	232,140
Transfer to escrow agent	-	-	-	-	-	-
Provision (recovery) for uncollectable loans	-	-	-	-	8,100	8,100
Changes in operating assets and liabilities:						
Decrease (Increase) in letter of credit payments receivable	(13,220)	21,898	(11,636)	376,442	-	373,484
Decrease (Increase) in interest receivable	-	-	-	-	564,399	564,399
Increase (Decrease) in accounts payable	-	1,078	-	6,014	-	7,092
Increase(Decrease) in due to/from DEQ	13,221	207,967	11,636	(41,403)	-	191,421
Increase(Decrease) in compensated absences	15,520	27,148	6,279	6,924	-	55,871
Increase(Decrease) in due other accrued liabilities	-	-	-	-	-	-
Increase(Decrease) in interest payable	-	-	-	-	(982,112)	(982,112)
Net cash provided (used) by operating activities	\$ -	\$ 178,410	\$ -	\$ 67,713	\$ 1,267,121	\$ 1,513,244

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

**SINGLE AUDIT REPORTS
AND SUPPLEMENTARY SCHEDULES**

JUNE 30, 2020

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

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

**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

Schedule of Expenditures of Federal Awards 6

Schedule of Findings and Questioned Costs 7



**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Oklahoma Department of Environmental Quality/Oklahoma Drinking Water State Revolving Fund Loan Program (the “Program”) as of and for the year ended June 30, 2020, 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 25, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Program’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Program’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Program’s internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Program's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Arledge & Associates, P.C.

Edmond, Oklahoma
September 25, 2020



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited the Oklahoma Department of Environmental Quality/Oklahoma Drinking Water State Revolving Fund Loan Program's (the "Program") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Program's major federal programs for the year ended June 30, 2020. The Program's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Program's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Program's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Program complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of the Program is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Program's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control over compliance.

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

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

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

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

We have audited the financial statements of the Program as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements. We issued our report thereon dated September 25, 2020, 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 25, 2020

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2020**

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Total Expenditures	Operating Expenditures	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	\$ 9,661,891	\$ 4,320,340	\$ 5,035,701	\$ 305,850
Total Federal Expenditures		\$ 9,661,891	\$ 4,320,340	\$ 5,035,701	\$ 305,850

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Oklahoma Drinking Water State Revolving Fund Loan Program and is presented on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

2. RECONCILIATION OF 2020 EXPENDITURES

The 2020 expenditures are detailed as follows:

Loan forgiveness funded during 2020 from federal fund	\$ 305,850.00
Loans funded during 2020 from federal funds	5,035,700.00
Set-aside program expenditures per financial statements	4,302,399.00
Depreciation expense	(172,310.00)
Purchases of equipment	246,123.00
Fiscal year 2020 change in compensated absences	<u>(55,871.00)</u>
Total 2020 expenditures	<u>9,661,891.00</u>

3. OUTSTANDING LOANS RECEIVABLE

At June 30, 2020, the Program's outstanding balance on loans receivable funded by federal awards and related matching funds was \$509,613,453, net of an allowance of \$25,000.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2020**

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 yes X none reported
Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major federal programs:
Material weakness(es) identified? yes X no
Significant deficiency(ies) identified? yes X none reported
Type of auditor's report issued on compliance
for major federal programs: Unmodified
Any audit findings disclosed that are required
to be reported in accordance with
2 CFR 200.516(a)? yes X no

Identification of major federal programs:

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

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

Auditee qualified as low-risk auditee? X yes no

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2020**

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

A. Internal Control

No matters were reported

B. Compliance Findings

No matters were reported.

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

A. Internal Control

No matters were reported

B. Compliance Findings

No matters were reported.