



OKLAHOMA

Water Resources Board

OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM

**ANNUAL FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEARS ENDED JUNE 30, 2023 AND 2022
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, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

To the Members of the
Oklahoma Water Resources Board

Opinion

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 year ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Program, as of June 30, 2023 and 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Program and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Program's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2023, 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 15, 2023



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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, 2023 and 2022. 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 twenty-two (22) new construction, planning loans totaling approximately \$339.9 million.
- The Program funded fourteen (14) 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 \$243.1 million.
- The Program saw fifteen (15) projects begin construction and ten (10) projects complete construction and initiate operations.
- The Program approved four (4) 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

- Ending Program net position increased from \$424,670,169 to \$456,762,275 between FY 2022 and FY 2023 with \$9,126,002 restricted for debt service. Ending Program net position increased from \$409,453,127 to \$424,670,169 between FY 2021 and FY 2022 with \$11,585,021 restricted for debt service.
- At June 30, 2023 there were 222 outstanding loans with a principal balance of \$717,133,319. At June 30, 2022 the Program had 217 loans with a balance of \$650,524,978. At June 30, 2021 the Program had 202 loans with a balance of \$597,015,748.

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>2023</u>	<u>2022</u>	<u>2021</u>
Current assets	\$ 222,783,655	\$ 111,241,802	\$ 175,931,326
Non-current assets	681,155,173	619,762,388	572,193,726
Total assets	<u>903,938,828</u>	<u>731,004,190</u>	<u>748,125,052</u>
Current liabilities	25,286,436	31,044,749	31,266,773
Non-current liabilities	410,507,154	262,392,777	292,995,124
Total liabilities	<u>435,793,590</u>	<u>293,437,526</u>	<u>324,261,897</u>
Deferred inflows	<u>11,382,963</u>	<u>12,896,495</u>	<u>14,410,028</u>
Total liabilities and deferred inflows	<u>447,176,553</u>	<u>306,334,021</u>	<u>338,671,925</u>
Net position			
Restricted	9,126,002	11,585,021	14,727,943
Unrestricted	447,636,273	413,085,148	394,725,184
Total net position	<u>\$ 456,762,275</u>	<u>\$ 424,670,169</u>	<u>\$ 409,453,127</u>

In FY 2023, the increase in current assets is the result of an increase in cash and cash equivalents. The increase in non-current assets and total liabilities is the result of the issuance of the 2023 Bonds to fund new construction projects.

(Unaudited. See accompanying auditor’s report.)

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In FY 2022, the decrease in total assets and total liabilities, and the decrease in deferred inflows is attributable to the decrease in outstanding debt. The increase in non-current assets is attributable to the increase in loans to local communities.

	Business-Type		
	Activities		
	Years Ended June 30,		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Revenues			
Loan program income, net	\$ 12,636,098	\$ 12,365,647	\$ 11,182,375
Investment income	3,176,613	151,072	1,533,146
Total revenues	<u>15,812,711</u>	<u>12,516,719</u>	<u>12,715,521</u>
Expenses			
Interest expense	7,310,319	6,149,188	5,791,669
Other expenses	-	30,000	-
Bond issuance costs	900,782	-	661,332
Total expenses	<u>8,211,101</u>	<u>6,179,188</u>	<u>6,453,001</u>
Net Income before transfers, grants, forgiveness and contributions	7,601,610	6,337,531	6,262,520
Federal grants	31,898,084	10,076,067	8,568,006
Federal grant principal forgiveness	(7,407,588)	(1,264,036)	(1,534,047)
Transfers from other programs	-	67,480	-
Increase in net position	<u>32,092,106</u>	<u>15,217,042</u>	<u>13,296,479</u>
Total net position - beginning	424,670,169	409,453,127	396,156,648
Total net position - ending	<u>\$ 456,762,275</u>	<u>\$ 424,670,169</u>	<u>\$ 409,453,127</u>

OWRB provided \$7,407,588 in principal forgiveness to borrowers in FY 2023 compared to \$1,264,036 in FY 2022. In addition, the Program received \$31,898,084 in net Federal Capitalization Grants in FY 2023 compared to \$10,076,067 in FY 2022. The significant increase in federal grant revenue was provided by the Infrastructure Investment and Jobs Act known as the Bipartisan Infrastructure Law (BIL).

(Unaudited. See accompanying auditor's report.)

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Long- Term Debt

At year-end, the Program had \$431,377,154 in long-term debt outstanding, net of unamortized premium, which represents a \$140,104,377 or 48.1% increase from June 30, 2022. Debt decreased \$30,582,347, or 9.5%, from 2021 to 2022. The Program's changes in long-term debt by type of debt are as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Beginning balances:			
2014A Serial bonds due April 1, 2015 to April 1, 2026, interest at 0.188% to 3.671%	\$ 13,790,000	\$ 17,890,000	\$ 21,960,000
2015 Serial bonds due April 1, 2017 to April 1, 2040, interest at 2.00% to 5.00%	39,245,000	51,730,000	65,410,000
2019 Serial bonds due April 1, 2022 to April 1, 2033, interest at 1.73% to 2.77%	114,445,000	126,210,000	126,210,000
2020 Serial bonds due April 1, 2021 to April 1, 2040, interest at 1.73% to 2.77%	93,190,000	93,700,000	-
Unamortized premium	30,602,777	32,325,124	11,692,523
	<u>\$ 291,272,777</u>	<u>\$ 321,855,124</u>	<u>\$ 225,272,523</u>
Add: 2020 Serial bonds due April 1, 2021 to April 1, 2040, interest at 1.73% to 2.77%	-	-	100,000,000
Add: 2020 Serial bonds due April 1, 2025 to April 1, 2043, interest at 3.625% to 5.00%	150,000,000	-	-
Add: 2020 bond premium	-	-	21,828,220
Add: 2023 bond premium	21,071,209	-	-
Less: debt principal repayments	(28,880,000)	(28,860,000)	(24,050,000)
Less: current amortization of premium	(2,086,832)	(1,722,347)	(1,195,619)
Ending balances	<u>\$ 431,377,154</u>	<u>\$ 291,272,777</u>	<u>\$ 321,855,124</u>
Amounts due in one year	<u>\$ 20,870,000</u>	<u>\$ 28,880,000</u>	<u>\$ 28,860,000</u>

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 (PPL). With the increased funding available through the Bipartisan Infrastructure Law and additional subsidies available, there has been a significant increase in requests to be placed on the CWSRF PPL. To date, the OWRB has received 226 wastewater and water quality projects in FY 2024 totaling over \$593.8 million. An additional \$10.2 million in projects have been requested through FY 2025.

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.)

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BASIC FINANCIAL STATEMENTS

OKLAHOMA WATER RESOURCES BOARD
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Statements of Net Position – June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$171,141,311	\$62,137,695
Loans receivable	47,711,819	45,415,791
Interest receivable:		
Loans receivable	3,719,820	3,611,898
Other interest receivable	210,705	76,418
Total current assets	<u>222,783,655</u>	<u>111,241,802</u>
Noncurrent Assets:		
Loans receivable, net of current portion	669,421,500	605,109,187
Restricted investments	9,126,002	11,585,021
Investments	2,607,671	3,068,180
Total noncurrent assets	<u>681,155,173</u>	<u>619,762,388</u>
Total assets	<u>903,938,828</u>	<u>731,004,190</u>
LIABILITIES:		
Current Liabilities:		
Accrued interest payable	4,416,436	2,164,749
Current maturities of long-term debt	20,870,000	28,880,000
Total current liabilities	<u>25,286,436</u>	<u>31,044,749</u>
Noncurrent liabilities:		
Long-term debt, less current maturities and plus unamortized premium	410,507,154	262,392,777
Total noncurrent liabilities	<u>410,507,154</u>	<u>262,392,777</u>
Total liabilities	<u>435,793,590</u>	<u>293,437,526</u>
DEFERRED INFLOW OF RESOURCES:		
Deferred amount on refunding	<u>11,382,963</u>	<u>12,896,495</u>
NET POSITION:		
Restricted for debt service	9,126,002	11,585,021
Unrestricted	447,636,273	413,085,148
Total net position	<u>\$456,762,275</u>	<u>\$424,670,169</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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES:		
Loan program income (net of bad debt expense of \$0 and (\$87,724) in 2023 and 2022, respectively	\$12,636,098	\$12,365,647
Total operating revenues	<u>12,636,098</u>	<u>12,365,647</u>
OPERATING EXPENSES:		
Administration expenses	-	30,000
Interest expense	7,310,319	6,149,188
Bond issuance costs	900,782	-
Total operating expenses	<u>8,211,101</u>	<u>6,179,188</u>
OPERATING INCOME	4,424,997	6,186,459
NON-OPERATING REVENUES (EXPENSES):		
Federal grants and contracts	31,898,084	10,076,067
Federal grant principal forgiveness	(7,407,588)	(1,264,036)
Investment Income:		
Invested cash balances	904,364	803,177
Short-term investments revenue	2,121,253	7,427
Long-term investments revenue	163,523	132,620
Gain (loss) on investments	(12,527)	(792,152)
Total net non-operating revenues	<u>27,667,109</u>	<u>8,963,103</u>
Net income before transfers	32,092,106	15,149,562
Transfers in - Clean Water Revolving Fund Loan Administrative Fund	<u>-</u>	<u>67,480</u>
Change in net position	32,092,106	15,217,042
Total net position - beginning	424,670,169	409,453,127
Total net position - ending	<u><u>\$456,762,275</u></u>	<u><u>\$424,670,169</u></u>

See accompanying notes to the basic financial statements.

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Statements of Cash Flows – Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Collections of interest on loans to local governmental units	\$12,528,175	\$12,141,041
Payments to other suppliers	-	(30,000)
Interest paid on debt	(8,658,995)	(9,627,092)
	<u>3,869,180</u>	<u>2,483,949</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in - Clean Water Revolving Fund Loan Administrative Fund	-	67,480
Federal grant receipts	31,898,084	10,076,067
Bond issue proceeds	150,000,000	-
Bond issuance cost	(900,782)	-
Principal paid on bonds/notes	(28,880,000)	(28,860,000)
Premium on bonds issued	21,071,209	-
	<u>173,188,511</u>	<u>(18,716,453)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans to local governmental units	(118,650,850)	(97,435,423)
Collections of principal on loans to local governmental units	44,634,921	42,749,881
Interest on invested cash balances	904,364	803,177
Interest on short-term investments	2,111,120	6,313
Interest on long-term investments	26,842	219,111
Sale of long-term investments	2,919,528	2,988,999
	<u>(68,054,075)</u>	<u>(50,667,942)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	109,003,616	(66,900,446)
Balances - beginning of the year	<u>62,137,695</u>	<u>129,038,141</u>
Balances - end of the year	<u>\$171,141,311</u>	<u>\$62,137,695</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$4,424,997	\$6,186,459
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization of bond issuance premiums and deferred amount on refunding	(3,600,364)	(3,235,880)
Bond issuance cost	900,782	-
Allowance for uncollectible loans	-	(87,724)
Change in assets and liabilities:		
Decrease (Increase) in interest receivable	(107,922)	(156,882)
Decrease (Increase) in other receivable	-	20,000
Increase (Decrease) in accrued interest payable	2,251,687	(242,024)
	<u>\$3,869,180</u>	<u>\$2,483,949</u>
Net Cash Provided by Operating Activities	<u>\$3,869,180</u>	<u>\$2,483,949</u>
Non-cash Transactions:		
Federal principal forgiveness	<u>\$7,407,588</u>	<u>\$1,264,036</u>
Total Non Cash Transactions	<u>\$7,407,588</u>	<u>\$1,264,036</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 Wastewater Facility Construction Revolving Loan Account Program (the "Program"), Title 82 Oklahoma Statutes, Sections 1085.51 et seq., was created pursuant to the 1987 Amendment (P.L. 100-4) to the "Federal Clean Water Act" (P.L. 92-500) set apart from all other Oklahoma Water Resources Board accounts and programs to be permanent and perpetual; not subject to fiscal year limitations. The Program was created to provide a fund for financing the construction of water quality projects 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, the issuance of revenue notes, bond proceeds, or other funds.

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").

Federal Grant Revenue

Federal grant income represents contributions from the Environmental Protection Agency ("EPA") of the U.S. Federal Government. Funding from Federal grants, which have been awarded, is provided through a Federal letter of credit. The timing of deposits is specified by the terms of the grant. The Program draws on the available funds as necessary to fund loans. Revenues are recorded only when the required State match has been met and actual

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requests for loan draws have been received by the Program. 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 Capitalization Grant Conditions, the State agreed to provide additional subsidization in the form of principal forgiveness, negative interest rate loans, or grants to eligible recipients when required by EPA. The 2022 Capitalization Grant awarded in FY 2023 had a 20% required additional subsidization amount totaling \$1,869,800 which was all awarded as principal forgiveness during the fiscal year. The 2021 Capitalization Grant awarded in FY 2022 had a 10% required additional subsidization amount totaling \$1,283,700 which was all awarded as principal forgiveness during the fiscal year.

During FY 2023, additional funding was provided through the Infrastructure and Jobs Act known as the Bipartisan Infrastructure Law General Supplemental grant (BIL). The 2022 BIL General Supplemental grant required 49% to be available in the form of forgiveness of principal which totaled \$7,045,710. The 2022 BIL Emerging Contaminants grant requires 100% in subsidy which totaled \$755,000 during fiscal year 2023.

Bond Issue Premium

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 \$591,432 was recorded in both 2023 and 2022, respectively, 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 2020 were initially sold at a premium of \$21,828,220. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$1,130,916 was recorded in 2023 and 2022, respectively, 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 2023 were initially sold at a premium of \$21,071,209. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$364,484 was recorded in 2023, 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 of \$347,237 was recorded in both FY 2023 and 2022, 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 2019, were used to refund the 2011 and 2012 Series Revenue Bonds. The refunding resulted in a deferred inflow of \$14,524,566 which is being amortized over thirteen years. Net amortization of \$1,166,295

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was recorded in FY 2023 and 2022, respectively, and is included in interest expense in the accompanying statements of revenues, expenses, 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 \$9,126,002 and \$11,585,021 in FY 23 and FY 22, respectively, 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.

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through September 15, 2023, the date the financial statements were available to be issued and determined that no subsequent events have occurred that require adjustment to or disclosure in the financial statements.

2. Cash Deposits and Investment Risk

Cash of \$88,136,611 and \$38,362,338 at June 30, 2023 and 2022 respectively, was deposited in the State Treasurer's office's internal investment pool – *OK Invest*. Short-term investments of \$83,004,700 and \$23,775,357 at June 30, 2023 and 2022, respectively, were on deposit with the Program's trustee. The deposits are invested in the *Federated Hermes Government Obligation Tax Managed Fund* money market mutual funds in FY 2023 and FY 2022.

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.

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Of the \$88,136,611 and \$38,362,338 in cash and cash equivalents on deposit with the State Treasurer as of June 30, 2023 and June 30, 2022, 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 Annual Comprehensive 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 evidence 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 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 evidence 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.

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d. Investment agreements with entities maintaining a rating in the top two categories by a nationally recognized municipal bond rating agency.

The Program categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based 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, 2023 and 2022, 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:

<u>Type</u>	<u>Maturities</u>	<u>Credit Rating</u>	<u>Fair Value Hierarchy</u>	<u>Carrying Value</u>	
				<u>2023</u>	<u>2022</u>
OK Invest (State Treasurer)	on demand	Not rated	N/A	\$ 88,136,611	\$ 38,362,338
Federated Hermes Government Obligations Tax Managed Fund	16 days	AAA	Level 1	83,004,700	23,775,357
City of Lawton Municipal Bond	10/1/2028	Not rated	Level 2	2,607,671	3,068,180
FHLB	3/10/2023	AA+	Level 2	-	623,622
FHLMC - IO Strip	2020-2022	AA+	Level 2	-	-
FHLMC - Freddie Mac Int Strip	3/15/2025	AA+	Level 2	989,216	994,109
FNMA IO Strip	1/15/2026	AA+	Level 2	122,977	123,763
AID Israel Bonds	2/15/2023	A+	Level 2	-	53,056
TennVal Authority IO Strip	2020-2026	AA+	Level 2	5,219,620	5,796,661
Tenn Val Authority CPN Strip	2020-2025	AA+	Level 2	2,794,189	3,993,810
Total				<u>\$ 182,874,984</u>	<u>\$ 76,790,896</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. At June 30, 2023, the Program has the following concentration of credit risk: 45.39% or \$83,004,700 is invested in Federated Treasury money market funds, 2.85% or \$5,219,620 invested in Tennessee Valley Authority IO Strips, and 1.53% or \$2,794,189 is invested in Tennessee Valley Authority CPN Strips, and 48.20% or \$88,136,611 is invested in OK Invest.

The Program has the following concentration of credit risk at June 30, 2022: 30.96% or \$23,775,357 is invested in Federated Treasury money market funds, 7.55% or \$5,796,661 invested in Tennessee Valley Authority IO Strips, and 5.20% or \$3,993,810 is invested in Tennessee Valley Authority CPN Strips, and 49.96% or \$38,362,338 is invested in OK Invest

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3. Federal Letter of Credit Payments

A schedule of activity in the Federal letter of credit payments, as reflected in the accompanying statements of net position, for the years ended June 30, 2023 and 2022, is as follows:

Balance, June 30, 2021	\$	-
Federal revenue recognized		10,076,067
Federal funds withdrawn		(10,076,067)
Balance, June 30, 2022	\$	-
Federal revenue recognized		31,898,084
Federal funds withdrawn		(31,898,084)
Balance, June 30, 2023	\$	-

Of the Federal letter of credit payments withdrawn during the fiscal year ended June 30, 2023, \$24,490,496 was used to provide loans to borrowers, \$7,407,588 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, 2022, \$8,812,031 was used to provide loans to borrowers, \$1,264,036 was used for debt forgiveness and no funds were used for administrative expenses.

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. The interest rate on these loans are made at approximately 60% of Municipal Market Daily AAA scale spot rates through maturity plus 40 to 76 basis points depending on the duration of the loan. The interest rate is calculated around 10 days prior to closing. At June 30, 2023 and 2022, there were \$717,133,319 and \$650,524,978, respectively, in loans outstanding. There were no loans approved but not closed at June 30, 2023.

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

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an option for the Program. At June 30, 2023 and 2022, there were \$1,343,825 and \$3,444,647, respectively, in long-term interest-free loans outstanding.

A schedule of activity of loans receivable for the years ended June 30, 2023 and 2022, is as follows:

Net Balance, June 30, 2021	\$	597,015,748
Loan disbursements		97,435,423
Principal repayments and forgiveness		(44,013,917)
		650,437,254
Change in allowance for uncollectible loans		87,724
Net Balance, June 30, 2022		650,524,978
Loan disbursements		118,650,850
Principal repayments and forgiveness		(52,042,509)
Net Balance, June 30, 2023	\$	717,133,319

5. Restricted Investments

A description of the restricted investments held at June 30, 2023 and 2022, is as follows:

	<u>2023</u>	<u>2022</u>
FHLB - Federal Home Loan Bank maturity March 15, 2023	\$ -	\$ 623,622
FHLMC - Federal Home Loan Mtg Corp Int Strip maturity March 15, 2025	989,216	994,109
FNMA - Federal National Mtg Assoc. maturity January 15, 2026	122,977	123,763
AID-Israel Bonds maturity February 15, 2023	-	53,056
Tennessee Valley Authority IO Strips maturities September 15, 2022 to March 15, 2026	5,219,620	5,796,661
Tennessee Valley Authority CPN Strips maturities from March 15, 2023 to March 15, 2025	2,794,189	3,993,810
Total restricted investments	\$ 9,126,002	\$ 11,585,021

6. Long-Term Debt

Bonds Payable

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.

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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.

On December 19, 2019, the Program issued State Revolving Fund Refunding Revenue Bonds, Taxable Series 2019 in the amount of \$154,420,000. A portion of the bonds, \$126,210,000, were issued together with certain other available moneys and investments to refund the \$45,860,000 of the State Revolving Fund Revenue Bonds, Series 2011A and \$76,645,00 of the State Revolving Fund Revenue Bonds, Series 2012B, and to pay cost of issuance of the bonds. The remaining portion of the issue was used to refund bonds in the OWRB Drinking Water Loan Program.

On December 17, 2020, the Program issued State Revolving Fund, Series 2020A in the amount of \$100,000,000. 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 February 23, 2023, the Program issued State Revolving Fund, Series 2023 in the amount of \$150,000,000. 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.

Future debt service payments required by the Program's outstanding bonds as of June 30, 2023 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 20,870,000	\$ 15,503,098	\$ 36,373,098
2025	23,740,000	14,168,558	37,908,558
2026	24,445,000	13,348,650	37,793,650
2027	25,965,000	12,382,517	38,347,517
2028	24,885,000	11,423,269	36,308,269
2029-2033	119,545,000	43,125,664	162,670,664
2034-2038	83,015,000	22,076,614	105,091,614
2039-2043	59,325,000	6,408,457	65,733,457
Total	<u>\$ 381,790,000</u>	<u>\$ 138,436,827</u>	<u>\$ 520,226,827</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 2015 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

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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, 2023, 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, 2023, the debt service reserves totaled \$9,155,907.

Long-term debt outstanding at June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Beginning balances:		
2014A Serial bonds due April 1, 2015 to April 1, 2026, interest at 0.188% to 3.671%	\$ 13,790,000	\$ 17,890,000
2015 Serial bonds due April 1, 2017 to April 1, 2040, interest at 2.00% to 5.00%	39,245,000	51,730,000
2019 Serial bonds due April 1, 2022 to April 1, 2033, interest at 1.73% to 2.77%	114,445,000	126,210,000
2020 Serial bonds due April 1, 2021 to April 1, 2040, interest at 1.73% to 2.77%	93,190,000	93,700,000
Unamortized premium	30,602,777	32,325,124
	<u>\$ 291,272,777</u>	<u>\$ 321,855,124</u>
Add: 2023A Serial bonds due April 1, 2025 to April 1, 2043, interest at 3.625% to 5.00%	150,000,000	-
Add: 2023 bond premium	21,071,209	
Less: debt principal repayments	(28,880,000)	(28,860,000)
Less: current amortization of premium	(2,086,832)	(1,722,347)
Ending balances	<u>\$ 431,377,154</u>	<u>\$ 291,272,777</u>
Amounts due in one year	\$ 20,870,000	\$ 28,880,000

Advance Refunding

On December 19, 2019, the Board issued the \$154,420,000 Series 2019 Taxable State Revolving Fund Revenue Refunding Bonds with an interest rate of 1.73% to 2.77%. The Program used \$126,210,000 of the proceeds together with other money to advance refund the \$45,860,000 and \$76,645,000 outstanding principal amount of the State Revolving Fund Revenue Bonds, Series 2011A and 2012B, respectively, and to pay cost of issuance of the bonds. The proceeds along with other available funds were placed in escrow to refund the bonds on April 1, 2021. As a result, the 2011A and 2012B Series bonds are considered defeased and the liability for those bonds has been removed from the Statement of Net Position. The remaining proceeds from the issue were used to refund debt in the OWRB's Drinking Water Loan Program.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$14,521,156. This difference, reported in the accompanying financial statements as a deferred inflow, is being charged to operations through the year 2033 using the straight-line method. The Board completed the advance refunding to reduce its total debt service payments over the next thirteen years by \$12,852,145 and to obtain an economic gain (the difference between the present values of the old and new debt service payments) of \$8,738,550 for the CW Program.

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7. Binding Commitments

During the year ended June 30, 2023, 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 were no loans that were approved but not funded at June 30, 2023.