

**CALIFORNIA STATE WATER RESOURCES
CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
Sacramento, California**

**FINANCIAL STATEMENTS
and SINGLE AUDIT REPORTS**

June 30, 2023 and 2022



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INDEPENDENT AUDITORS' REPORT

Board of Directors
California State Water Resources Control Board
Water Pollution Control Revolving Fund
Sacramento, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of the California State Water Resources Control Board, Water Pollution Control Revolving Fund (Water Pollution Control Revolving Fund) as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Water Pollution Control Revolving Fund'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 business-type activities of the California State Water Resources Control Board, Water Pollution Control Revolving Fund as of June 30, 2023 and 2022, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the California State Water Resources Control Board 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.

Emphasis of Matter

As discussed in Note 1 – Definition of Reporting Entity, the basic financial statements of the Water Pollution Control Revolving Fund are intended to present the financial position, changes in financial position and cash flows of only that portion of the financial reporting entity of the California State Water Resources Control Board that is attributable to the transactions in the Water Pollution Control Revolving Fund. They do not purport to, and do not, present fairly the financial position of the California State Water Resources Control Board or the State of California as of June 30, 2023 and 2022, and the changes in their financial position and their cash flows, where applicable, for the years then ended, in conformity with the accounting principles generally accepted in the United State of America. Our opinion is not modified with respect to this matter.

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 Water Pollution Control Revolving Fund'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.

Auditors' 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 auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government 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 GAAS and *Government 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 Water Pollution Control Revolving Fund'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 Water Pollution Control Revolving Fund'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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

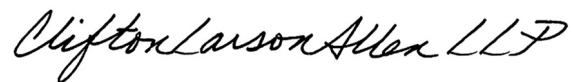
Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Water Pollution Control Revolving Fund's basic financial statements. The schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. 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.

Board of Directors
California State Water Resources Control Board
Water Pollution Control Revolving Fund

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2023, on our consideration of the Water Pollution Control Revolving Fund'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 solely 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 the effectiveness of the Water Pollution Control Revolving Fund's 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 Water Pollution Control Revolving Fund's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Bellevue, Washington
December 20, 2023

**California State Water Resources Control Board
Water Pollution Control Revolving Fund
State Revolving Fund Program**

Management's Discussion & Analysis

The following Management's Discussion and Analysis is a required supplement to the California State Water Resources Control Board's (State Water Board), Water Pollution Control Revolving Fund (Clean Water State Revolving Fund program) (CWSRF) financial statements. It describes and analyzes the financial position of the CWSRF providing an overview of the CWSRF's activities for the years ended June 30, 2023 and 2022. We encourage readers to consider the information presented here in conjunction with information that is in the financial statements and notes which follow this section.

Financial Highlights

- Net position increased by \$68.1 million to a total of \$4.64 billion in 2023, which was \$99.4 million less than the increase of \$167.5 million in 2022. The smaller increase in net position is a direct result of lower capital contributions during the year from the U.S. Environmental Protection Agency (EPA).
- Capital contributions decreased by \$102.3 million to \$61.8 million in 2023 as compared to \$164.1 million in 2022. The decrease in capital contributions was mostly a result of capital available from EPA capitalization grants for loan disbursements. Capital contributions from EPA capitalization grant funds that were forgiven decreased by \$3.4 million to \$23.8 million as compared to \$27.2 million in 2022.
- Cash and cash equivalents increased by \$183.6 million in 2023 as compared to a decrease of \$112 million in 2022. The increase in 2023 was mostly the result of an increase in cash from the issuance of the Series 2023 Revenue Bond.
- Loans receivable increased by \$367.7 million to \$5.32 billion in 2023 as compared to an increase of \$175.5 million in 2022. The larger increase in 2023 mostly reflects a decrease in early payoffs of loan receivables.
- On January 31, 2023, the CWSRF issued California Infrastructure and Economic Development Bank, Clean Water State Revolving Fund Revenue Bonds, Series 2023 for \$545.3 million at a premium of \$57.2 million. The Series 2023 Revenue Bonds were issued for the purpose of making financial assistance available to recipients for eligible projects.
- Restricted portion of net position is \$3.6 billion in 2023 as compared to \$3.1 billion in 2022. The increase in 2023 is mostly the result of pledging additional loans.

Using this Annual Financial Report

The financial statements included in this annual financial report are those of the CWSRF. As discussed in Note 1, Definition of Reporting Entity, the basic financial statements of the CWSRF are intended to present the financial position, changes in financial position, and cash flows of only that portion of the financial reporting entity of the State Water Board that is attributable to the transactions of the CWSRF. They do not purport to present the financial position of the State Water Board or the State of California (State) as of June 30, 2023 and 2022 and the change in their financial positions and their cash flows for the years then ended.

Overview of Financial Statements

This discussion and analysis is an introduction to the CWSRF financial statements and accompanying notes to financial statements. This report also contains required supplementary information and other supplementary information.

The financial statements of the CWSRF are presented as a special purpose government engaged only in business type activities - providing loans to other governmental entities. The statements provide both short-term and long-term information about the CWSRF's financial position, which assists the reader in assessing the CWSRF's economic condition at the end of the fiscal year. These statements are prepared using the accrual basis of accounting. The financial statements include the following three statements:

- The *Statements of Net Position* present information on all of the CWSRF's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position are expected to serve as a useful indicator of whether the financial position of the CWSRF is improving or deteriorating.
- The *Statements of Revenues, Expenses, and Changes in Net Position* present information which reflects how the CWSRF's net position changed during the past year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.
- The *Statements of Cash Flows* report the CWSRF's cash flows from operating activities, noncapital financing activities, and investing activities.

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes can be found immediately following the financial statements.

Net Position

In 2023, the CWSRF's net position continued to strengthen increasing by \$68.1 million, or 1.5%, to \$4.64 billion at June 30, 2023 as compared to an increase of \$167.5 million, or 3.8%, the previous year. The increase in net position was \$99.4 million lower than in the previous year, mostly reflecting the lower level of capital contributions from EPA capitalization grants.

A segment of the CWSRF's net position is subject to external restriction due to the debt service requirements of the Series 2016, 2017, 2018 and 2023 Revenue Bonds. Total restricted net position is comprised of restricted loans receivable, Revenue Bond liabilities, and repayments received. Restricted net position increased by \$502.1 million, or 16.2%, to \$3.6 billion in 2023 as compared to an increase of \$853.6 million, or 38.1%, to \$3.1 billion in 2022. The increase in 2023 and 2022 was primarily due to pledging additional loans.

The outstanding balance of restricted loans receivable that were pledged as security to the Series 2016, 2017, 2019 and 2023 Revenue Bond debt service was \$4.723 billion in 2023 and \$3.853 billion in 2022. The principal and interest received during the fiscal year from these loans is used to make the semi-annual debt service payments on the revenue bonds.

The current portion of the CWSRF's liabilities was \$133 million in 2023 and \$123 million in 2022. Current liabilities primarily correspond to continuing principal payments for the Series 2016, 2017, 2018 and 2023 Revenue Bonds. Noncurrent liabilities increased by \$486.6 million to \$1.493 billion in 2023 as compared to a decrease of \$111.0 million to \$1.007 billion in 2022. The increase in 2023 was the result of the issuance of the Series 2023 Revenue Bonds while the decrease in 2022 was the result of the ongoing principal payments of the Series 2016, 2017, and 2018 Revenue Bonds.

The remaining \$500.1 million of restricted net position in 2023 and \$373.2 million in 2022 represent pledged loan repayments, which are restricted for future loan disbursements and/or debt service payments. Any excess of principal and interest received over the required debt service may be used for future loan disbursements and/or released from restriction in the event that certain criteria are met.

The CWSRF received total payments on pledged loans of \$219.5 million (\$189.8 million of principal and \$29.7 million of interest) in 2023 of which the debt service payment was \$144.0 million (\$92.8 million of principal and \$51.2 million of interest). In 2022, the CWSRF received total payments on pledged loans of \$377.8 million (\$354.8 million of principal and \$23.0 million of interest) of which the debt service payments were \$139.0 million (\$87.4 million of principal and \$51.6 million of interest).

Table 1**Net Position
(in thousands)**

	June 30,		
	2023	2022	2021
ASSETS			
Cash and cash equivalents	\$ 909,802	\$ 726,200	\$ 838,323
Loans receivable	5,322,055	4,954,308	4,778,828
All other assets	31,346	18,140	22,442
Total assets	6,263,203	5,698,648	5,639,593
LIABILITIES			
Current liabilities	133,203	123,342	120,802
Noncurrent liabilities	1,493,758	1,007,169	1,118,142
Total liabilities	1,626,961	1,130,511	1,238,944
NET POSITION			
Restricted			
Debt service	500,118	373,249	238,357
Security for revenue bonds	3,097,871	2,722,590	2,003,865
Subtotal restricted assets	3,597,989	3,095,839	2,242,222
Unrestricted	1,038,253	1,472,298	2,158,427
Total net position	\$ 4,636,242	\$ 4,568,137	\$ 4,400,649

Changes in Net Position

Program revenue for the CWSRF in 2023 was \$53.4 million of which \$47.3 million is restricted for debt service. Program revenue in 2022 was \$59.3 million of which \$33.9 million was restricted for debt service. In 2023, program revenue decreased by \$5.9 million or 9.9% and in 2022 decreased by \$3.3 million or 5.4%. In 2023 and 2022, program revenue reflects a decrease in the interest earned on outstanding receivables.

In 2023, general revenue was \$18.1 million, which was an increase of \$15.7 million or 656.1%, when compared to 2022. In 2022, general revenue was \$2.4 million, which was a decrease of \$1.6 million or 40.1% when compared to 2021. The 2023 increase mostly reflects higher earnings as a result of more cash on deposit and higher interest rates earned on those deposits, while the 2022 decrease mostly reflects reduced earnings as a result of lower interest rates earned on the cash on deposit.

Total expenses increased by \$6.8 million in 2023 and 2022. The increase in 2023 was primarily due to an increase in revenue bond and administrative expenses. The increase in 2022 was primarily due to an increase in principal forgiveness expenses.

In 2023, administrative expenses were \$2.6 million, which was an increase of \$2.0 million, or 311.9%, when compared to 2022. In 2022, administrative expenses were \$0.6 million, which was an increase of \$0.15 million, or 33.5%, when compared to 2021. In 2023, the CWSRF began using the six percent allowance from EPA capitalization grants for administrative expenses again.

Total capital contributions decreased by \$102.3 million, or 62.37% in 2023 when compared to 2022. In 2022, total capital contributions increased by \$145.6 million or 785% when compared to 2021.

In 2023, EPA capitalization grant contributions decreased by \$117.5 million when compared to 2022. In 2022, EPA capitalization grant contributions increased by \$136.3 million when compared to 2021. The 2023 decrease was primarily due to a decrease in available contributions from EPA capitalization grants for loan disbursements. The 2022 increase was primarily due to an increase in available contributions from EPA capitalization grants for loan disbursements.

In 2023, EPA capitalization grant contributions for principal forgiveness loans decreased by \$3.4 million when compared to 2022. In 2022, EPA capitalization grant contributions for principal forgiveness loans increased by \$9.2 million when compared to 2021. The 2023 decrease was primarily due to a decrease in principal forgiveness disbursements. The 2022 increase was primarily due to an increase in principal forgiveness disbursements. The loans made with these funds were forgiven as disbursed and must be repaid if certain loan conditions are not met.

Table 2**Changes in Net Position
(in thousands)**

	Year Ended June 30,		
	2023	2022	2021
Revenues			
Program revenues:			
Loan interest income	\$ 53,435	\$ 59,307	\$ 62,670
General revenues:			
Investment income	18,079	2,391	3,992
Total revenues	71,514	61,698	66,662
Expenses			
Program expenses:			
Administrative expenses	2,595	630	472
Capitalization Principal			
Forgiveness expense	23,769	27,171	17,995
Revenue bond interest expense	36,325	30,536	33,038
Revenue bond issuance costs	2,485	-	-
State match loan expense	-	-	30
Total expenses	65,174	58,337	51,535
Increase in net position before contributions	6,340	3,361	15,127
Capital contributions:			
EPA capitalization grant	19,357	136,871	491
EPA capitalization grant			
Principal Forgiveness	23,769	27,171	17,995
State and other contributions	18,639	85	59
Subtotal capital contributions	61,765	164,127	18,545
Change in net position	68,105	167,488	33,672
Net position - beginning of year	4,568,137	4,400,649	4,366,977
Net position - end of year	\$ 4,636,242	\$ 4,568,137	\$ 4,400,649

Budgetary Information

Under the California constitution, money may only be drawn from the treasury by a legal appropriation. The State Legislature authorized the CWSRF to operate under a continuous appropriation. Continuous appropriation authority means that no further appropriations are necessary to expend all funds deposited into the CWSRF. This has the effect of allowing funds to be expended as soon as they are deposited into the CWSRF rather than waiting for appropriation authority. Since the funds in the CWSRF can only be used for limited purposes, the continuous appropriation authority allows for expeditious expenditure of funds and maximizes the benefits to local entities.

Debt Administration

The State Water Board administers a leveraged CWSRF program. The State Water Board maintains high bond ratings from Fitch (AAA), Moody's Investors Service (Aaa), and Standard and Poor's Ratings Services (AAA) on the CWSRF Series 2016, 2017, 2018 and 2023 Revenue Bonds. The Series 2016, 2017, 2018 and 2023 Revenue Bonds were issued for the purpose of making financial assistance available to recipients for eligible projects.

As of June 30, 2023, outstanding bonds totaled \$1.608 billion, an increase of \$489.9 million, when compared to \$1.118 billion in 2022 as shown in Table 3. The increase in 2023 was due to the issuance of the Series 2023 Revenue Bonds. The decrease in 2022 was primarily due to the ongoing principal payments for the Series 2016, 2017, and 2018 Revenue Bonds. The revenue bonds are backed by a pledge of specific revenue for which the annual collections are generally predictable.

Additional information on the CWSRF long-term debt can be found in Note 5, Long-Term Debt.

Table 3

**Outstanding Long-term Debt
(in thousands)**

	June 30,		
	2023	2022	2021
Revenue bonds			
Bond principal	\$ 1,446,105	\$ 993,605	\$ 1,080,980
Bond premium	161,957	124,537	144,529
Total revenue bonds	\$ 1,608,062	\$ 1,118,142	\$ 1,225,509

Economic Conditions and Outlook

In 2023, new binding loan commitments (encumbrances) were \$592 million which is a 51.5% decrease when compared to new commitments made in 2022. The lower level of financing activity in 2023 generally reflects a return to a more normal financing level following the higher financing level in 2022 to address the State Water Board's water quality priorities. The demand for CWSRF financing continues to reflect the need in California for additional infrastructure improvements and the generally positive capacity of wastewater agencies to finance those improvements. A strong demand for CWSRF financing continues to be anticipated in the near term.

Capitalization grant funds from EPA continue to be an important component of cash flows for financing activities. For grant year 2023, the EPA allocated \$53 million to the CWSRF which was a reduction of 36.1% when compared to the 2022 grant allocation of \$83 million. This reduction was largely the result of Congressionally directed spending on related projects that reduced the available grant funding for the state CWSRF programs. In addition to the 2023 base grant, EPA has allocated \$149 million under the "Bipartisan Infrastructure Law" (BIL) which was an increase of 17% when compared to the 2022 grant allocation of \$127 million. Presently available information indicates that the 2024 base grant may be similar or lower than the 2023 base grant, however the additional 2024 BIL grant is projected to be slightly higher than the 2023 BIL grant. The additional BIL capitalization will help California address the high demand for affordable wastewater infrastructure financing.

Additionally, the CWSRF continues to maintain a large loan portfolio that generates significant program revenues for financing activity and administrative expenses. CWSRF program staff and its financial advisors continuously monitor the demand for new loans and market conditions to determine their likely effects on the CWSRF and to be prepared to sell a revenue bond if needed to meet required cash flows and to ensure sufficient encumbrances and disbursement rates to promptly liquidate federal funds.

Economic conditions generally remained stable during 2023, although project costs and related CWSRF financings have been noticeably increasing due to inflationary market conditions. The CWSRF, however, continues to monitor the impacts associated with supply chain disruptions and price increases on local entities' revenues and to diligently work with and surveil loan recipients to ensure full and timely repayment of all loans.

Requests for Information

This financial report is designed to provide interested parties with a general overview of the CWSRF finances. Questions concerning the information provided in this report or requests for additional information should be addressed to Ms. Heather Bell, Accounting Administrator III, Accounting Branch, Division of Administrative Services, P.O. Box 100, Sacramento, California 95812 or Heather.Bell@waterboards.ca.gov.

BASIC FINANCIAL STATEMENTS

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
STATEMENTS OF NET POSITION
June 30, 2023 and 2022
(in thousands)

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 159,083	\$ 352,951
Cash and cash equivalents - Restricted	750,719	373,249
Receivables:		
Loan interest	19,492	16,903
Investment interest	7,008	1,223
Due from other funds and other governments	4,846	14
Loans receivable:		
Current portion	20,141	22,814
Current portion - Restricted	190,373	182,189
Total current assets	1,151,662	949,343
OTHER ASSETS		
Loans receivable:		
Noncurrent (net of allowance for bad debt)	578,758	1,078,398
Noncurrent - Restricted	4,532,783	3,670,907
Total other assets	5,111,541	4,749,305
TOTAL ASSETS	6,263,203	5,698,648
 LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Revenue bond interest payable	17,222	12,364
Unearned revenue	4	5
Due to other funds and other governments	1,673	-
Revenue bonds payable	114,304	110,973
Total current liabilities	133,203	123,342
NONCURRENT LIABILITIES		
Revenue bonds payable	1,493,758	1,007,169
Total noncurrent liabilities	1,493,758	1,007,169
Total liabilities	1,626,961	1,130,511
NET POSITION		
Restricted for:		
Debt service	500,118	373,249
Security for revenue bonds	3,097,871	2,722,590
Unrestricted	1,038,253	1,472,298
Total net position	\$ 4,636,242	\$ 4,568,137

The accompanying notes are an integral part of the financial statements.

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2023 and 2022
(in thousands)

	<u>2023</u>	<u>2022</u>
OPERATING REVENUE		
Loan interest income	\$ 53,435	\$ 59,307
Total operating revenue	<u>53,435</u>	<u>59,307</u>
OPERATING EXPENSES		
Capitalization Principal forgiveness	23,769	27,171
Personnel services	1,178	-
Other expenses	1,087	510
Total operating expenses	<u>26,034</u>	<u>27,681</u>
INCOME FROM OPERATIONS	<u>27,401</u>	<u>31,626</u>
NONOPERATING REVENUE (EXPENSE)		
Net investment income	18,079	2,391
Revenue bond interest expense	(36,325)	(30,536)
Revenue bond fees	(330)	(120)
Revenue bond issuance costs	(2,485)	-
Total nonoperating revenue (expense)	<u>(21,061)</u>	<u>(28,265)</u>
INCOME BEFORE CONTRIBUTIONS	<u>6,340</u>	<u>3,361</u>
CONTRIBUTIONS		
EPA capitalization grant	19,357	136,871
EPA capitalization grant - Principal Forgiveness	23,769	27,171
State match revenue	18,639	85
Total contributions	<u>61,765</u>	<u>164,127</u>
CHANGE IN NET POSITION	68,105	167,488
NET POSITION - BEGINNING OF YEAR	<u>4,568,137</u>	<u>4,400,649</u>
NET POSITION - END OF YEAR	<u>\$ 4,636,242</u>	<u>\$ 4,568,137</u>

The accompanying notes are an integral part of the financial statements.

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2023 and 2022
(in thousands)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash paid to employees and vendors	\$ (592)	\$ (510)
Cash flows provided (required) by operating activities	(592)	(510)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Funds received from EPA capitalization grant	38,296	164,031
Funds received from the State of California	18,637	83
Proceeds from revenue bond issuance	602,511	-
Revenue bond issuance costs paid	(2,485)	-
Revenue bond fees paid	(330)	(120)
Principal paid on revenue bonds	(92,820)	(87,375)
Interest paid on revenue bonds	(51,238)	(51,597)
Cash flows provided (required) by noncapital financing activities	512,571	25,022
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received from interest on loans	34,174	50,193
Loans disbursed	(563,071)	(658,402)
Principal Forgiveness Disbursed	(23,769)	(27,171)
Principal received on loans receivable	211,995	496,997
Net investment income received	12,294	1,748
Net cash provided (required) by investing activities	(328,377)	(136,635)
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	183,602	(112,123)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	726,200	838,323
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 909,802	\$ 726,200
Reconciliation of operating income to net cash required by operating activities		
Income from operations	\$ 27,401	\$ 31,626
Adjustments to reconcile income from operations to net cash required by operating activities		
Construction period interest	(16,671)	(14,075)
Cash received from interest on loans	(34,174)	(50,193)
Loans disbursed	563,071	658,402
Principal Forgiveness Disbursed	23,769	27,171
Principal received on loans receivable	(211,995)	(496,997)
Effect of changes in operating assets and liabilities:		
Loans receivable	(351,077)	(161,401)
Loan interest receivable	(2,589)	4,957
Due to other funds	1,673	-
Net cash provided (required) by operating activities	\$ (592)	\$ (510)

The accompanying notes are an integral part of the financial statements.

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
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NOTE 1 - DEFINITION OF REPORTING ENTITY

The California State Water Resources Control Board, Water Pollution Control Revolving Fund (Fund) was established pursuant to Title VI of the Federal Clean Water Act of 1987 (Act). The Act established the State Revolving Fund (CWSRF) program to replace the construction grants program (Title II of the Act) to provide loans at reduced interest rates to finance the construction of publicly owned water pollution control facilities, non-point source pollution control projects, and estuary management plans. Instead of making grants to communities that pay for a portion of building wastewater treatment facilities, the CWSRF provides for low interest loans and/or subsidies in the form of principal forgiveness loans to finance the entire cost of qualifying projects. The CWSRF provides a flexible financing source that can be used for a variety of pollution control projects, including non-point source pollution control projects, and developing estuary conservation and management plans. Loans made must be repaid within 30 years or less. All repayments, including interest and principal, must remain in the Fund.

Since 1989, the Fund has been capitalized by a series of grants from the U.S. Environmental Protection Agency (EPA). States are required to provide matching funds between 0 and 20 percent of the Federal capitalization grant amount in order to receive the grants from the EPA.

As of June 30, 2023 and 2022, the EPA has awarded cumulative capitalization grant funding of \$3,405,837 and \$3,323,084, respectively to the State of California (State), for which the State is required to provide \$681,167 and \$664,617, respectively, of cumulative matching funding at 20 percent to the Fund. As of June 30, 2023, the EPA awarded the Bipartisan Infrastructure Law (BIL) grant funding of \$127,290 for which the State is required to provide \$12,279 of cumulative matching funding at 10 percent to the Fund. In February 2009, the EPA awarded \$280,285 in ARRA grant funding for which there is no State Match requirement.

The Fund is administered by the California State Water Resources Control Board (Board), a part of the California Environmental Protection Agency, through the Division of Financial Assistance (Program). The Board's primary responsibilities with the CWSRF include obtaining capitalization grants from the EPA, soliciting potential applicants, negotiating loan agreements with local communities, reviewing and approving disbursement requests from loan recipients, managing the loan repayments, and conducting inspection and engineering reviews to ensure compliance with all applicable laws, regulations, and program requirements. The Board consists of five member positions, which are appointed by the Governor and confirmed by the Senate.

The Board administers the CWSRF program by charging the Fund or the Administrative Fund for time spent on CWSRF activities by employees of the Board, and the Fund reimburses the State for such costs in the following month. The charges include the salaries and benefits of the employees, as well as indirect costs allocated to the Fund based on direct salary costs. Employees charging time to the Fund are covered by the benefits available to State employees. The Fund is also charged indirect costs through the cost allocation plan for general State expenses.

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NOTE 1 - DEFINITION OF REPORTING ENTITY (CONTINUED)

Reporting Entity

The Fund follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The activities of the Fund are included in the State's Annual Comprehensive Financial Report as an enterprise fund using the accrual basis of accounting.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Fund conform to generally accepted accounting principles as applicable to a governmental unit accounted for as a proprietary enterprise fund. The enterprise fund is used since the Fund's powers are related to those operated in a manner similar to a for profit business where an increase in net position is an appropriate determination of accountability.

Basis of Accounting

The Fund's records are maintained on the accrual basis of accounting. Under the accrual basis of accounting revenue is recognized when earned and expenses are recognized when the liability is incurred. Assets and liabilities associated with the operations of the Fund are included in the Statements of Net Position

Operating Revenues and Expenses

The Fund distinguishes between operating revenues and expenses and nonoperating items in the Statements of Revenues, Expenses and Changes in Net Position. Operating revenues and expenses generally result from carrying out the purpose of the Fund of providing low interest loans to communities and providing assistance for prevention programs and administration. Operating revenues consist of loan interest repayments from borrowers. Operating expenses include principal forgiveness, direct salary costs and benefits expenses, allocated indirect costs and bad debt allowance. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

In accordance with generally accepted accounting principles, monies received from the EPA and the State are recorded as capital contributions. In certain circumstances, local communities have contributed the State's matching share in exchange for reduced interest rate loans, as discussed in Note 4.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When both restricted and unrestricted resources are available for use, it is the Fund's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets

Under the California constitution, money may only be drawn from the Treasury by legal appropriation. The State Legislature authorized the CWSRF to operate under a continuous appropriation. Continuous appropriation authority means that no further appropriations are necessary to expend all funds deposited into the CWSRF. Therefore, the Fund operations are not included in California's annual budget.

Use of Estimates in Preparing Financial Statements

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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Nearly all monies of the Fund are deposited with the California State Treasurer's office, which is responsible for maintaining these deposits in accordance with California State law. The Fund considers all such deposits to be cash equivalents. According to State law, the Treasurer is responsible for maintaining the cash balances and investing excess cash of the Fund, as discussed in Note 3. Consequently, management of the Fund does not have any control over the investment of the excess cash. Investment earnings on these deposits are received quarterly. The statement of cash flows considers all funds deposited with the Treasurer to be cash or cash equivalents, regardless of actual maturities of the underlying investments.

Loans Receivable

Loans are funded by capitalization grants from the EPA, State matching funds, short term state matching loans, local contributions, revenue bond proceeds, loan repayments and fund earnings. Loans are advanced to local agencies on a cost reimbursement basis. Interest is calculated from the date that funds are advanced. After the final disbursement has been made, the loan agreement is adjusted for the actual amounts disbursed and interest accrued during the project period (Construction Period Interest). Loans are amortized over periods up to 30 years. Loan repayments must begin within one year of construction completion or one year from the initial loan disbursement, depending upon the type of loan agreement, and are made on an annual and semi-annual basis.

Loans funded by principal forgiveness are advanced to local agencies on a cost reimbursement basis and forgiven as each disbursement occurs. Loan agreements require repayment of the forgiven loan if all program requirements are not met.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Bad Debts

The allowance for bad debts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Loans receivable are charged against the allowance for bad debts when management believes that the uncollectability of the principal is probable. The allowance for bad debts was \$9,356 at June 30, 2023 and 2022.

Due to Other Funds

Due to other funds represents amounts payable to other funds reported within the California State Water Resources Control Board that are not included in these financial statements.

Revenue Bond Issue Costs and Original Issue Premium

In accordance with GASB 65, revenue bond issue costs are expensed when incurred. Revenue bond original issue premium is being amortized over the term of the bonds using the effective interest method.

Reclassifications

For comparability, certain items previously reported in the June 30, 2022 financial statements have been reclassified to conform with the June 30, 2023 presentation. The reclassifications had no effect on the previously reported net position and do not constitute a prior period restatement.

NOTE 3 - CASH AND CASH EQUIVALENTS

The California State Treasurer's Office administers a pooled investment program for the State. This program enables the State Treasurer's Office to combine available cash from all funds and to invest cash that exceeds current needs. The necessary disclosures for the State's pooled investment program are included in the Annual Comprehensive Financial Report of the State of California.

Nearly all monies of the Fund are deposited with the State Treasurer's Office and are considered to be cash equivalents. The Treasurer is responsible for maintaining the cash balances in accordance with California laws, and excess cash is invested in California's Surplus Money Investment Fund, which is part of the Pooled Money Investment Account. The Treasurer is required to maintain a mix of investment portfolios in order to allow funds to be withdrawn at any time to meet normal operating needs, without prior notice or penalty.

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NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

The investments allowed by State statute, bond resolutions and investment policy resolutions restrict investments of the pooled investment program to investments in U.S. Government securities, negotiable certificates of deposit, bankers' acceptances, commercial paper, corporate bonds, bank notes, mortgage loans and notes, other debt securities, repurchase agreements, reverse repurchase agreements, equity securities, real estate, mutual funds, and other investments. The Fund's proportionate share of the investment income, based on the average daily balance for the period, is credited to the Fund quarterly. The Treasurer charges all funds of the State an administrative fee, which reduces the interest earned by each fund. All cash and investments are stated at fair value. Details of the investments can be obtained from the State Treasurer's Office.

At June 30, 2023 and 2022, the Fund's cash deposits had a carrying balance of \$6 and \$6,979 respectively.

Investments held by the State Treasurer are stated at fair value.

<u>Investments</u>	<u>2023</u>	<u>2022</u>
Treasury/Trust Portfolio	<u>\$ 909,796</u>	<u>\$ 719,221</u>
Total cash deposits and investments	<u>\$ 909,802</u>	<u>\$ 726,200</u>

The State Treasurer is responsible for investing funds of the Treasury/Trust Portfolio and managing the credit risk, custodial credit risk, concentration of credit risk, interest rate risk and foreign currency credit risk of the Portfolio. Refer to the State's Pooled Investments disclosure in the June 30, 2023 and 2022, Annual Comprehensive Financial Reports for disclosure related to the risks applicable to the Portfolio.

Cash deposits and investments are reflected on the June 30, 2023 and 2022 statements of net position as follows:

<u>Investments</u>	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 159,083	\$ 352,951
Cash and cash equivalents - Restricted	750,719	373,249
Total cash deposits and investments	<u>\$ 909,802</u>	<u>\$ 726,200</u>

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NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

As of June 30, 2023, cash and investments in the amount of \$250,601, representing unspent revenue bond proceeds, were restricted for future loan disbursements. Additionally, cash and investments in the amount of \$500,118 and \$373,249 representing various reserve accounts required by the revenue bonds, at June 30, 2023 and 2022, respectively, were restricted for future loan disbursements and debt service.

NOTE 4 - LOANS RECEIVABLE

Loans are made to qualified agencies for projects that meet the eligibility requirements of the Federal Clean Water Act of 1987 and any subsequent amendments. Loans are financed with capitalization grants, State match, local contributions, revenue bond proceeds and revolving loan funds. Interest rates vary between 0 percent and 4.0 percent and loans are repaid over 30 years or less starting one year after the project is completed. Interest rates are established in the original loan agreements and are generally 50 percent of the State's General Obligation Bond Rate at the time the loan agreement is prepared. Local match loans have an effective interest rate of 1.8 percent. Certain communities are offered special interest rates as low as 0.0 percent. Interest earned during the construction period is calculated from the date funds are disbursed until the project is completed.

As of June 30, 2023 and 2022, the Fund had total binding commitments of \$14,772,498 and \$14,180,668, respectively, since program inception. As of June 30, 2023, the remaining commitment on these loans amounted to \$3,424,804, of which \$258,455 is federal funds. The federal loan commitments included capitalization funds of \$167,777, which will be forgiven. As of June 30, 2022, the remaining commitment on these loans amounted to \$3,419,814, of which \$255,503 is federal funds. The federal loan commitments included capitalization funds of \$93,077, which will be forgiven. Principal forgiveness loans are forgiven as disbursed but must be repaid if the recipient fails to meet the program requirements.

At June 30, 2023 and 2022, the unpaid balance on all loans receivable outstanding amounted to \$5,331,411 and \$4,954,308, respectively.

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NOTE 4 - LOANS RECEIVABLE (CONTINUED)

Estimated maturities of the loans receivable and interest payments thereon, at June 30, 2023 are as follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2024	\$ 39,356	\$ 210,514	\$ 249,870
2025	38,031	214,876	252,907
2026	35,757	201,797	237,554
2027	33,721	191,920	225,641
2028	31,773	190,306	222,079
2029 - 2033	131,700	869,375	1,001,075
2034 - 2038	91,152	733,520	824,672
2039 - 2043	56,896	601,328	658,224
2044 - 2048	27,511	554,633	582,144
2049 - 2053	5,745	240,857	246,602
Total	<u>\$ 491,642</u>	<u>4,009,126</u>	<u>\$ 4,500,768</u>
Loans not yet in repayment		1,322,285	
Allowance for bad debt		(9,356)	
Total loans receivable		<u>\$ 5,322,055</u>	

Restricted Loans Receivable

At June 30, 2023 and 2022, \$4,723,156 and \$3,853,096, respectively, of loans receivable were pledged as security for the revenue bonds outstanding (see Note 5). The principal and interest received during the fiscal year from these loans is to be used to make the annual debt service payments on the revenue bonds. During the year ended June 30, 2023, the Fund received \$189,785 and \$29,661 of principal and interest, respectively, on these loans. During the year ended June 30, 2022, the Fund received \$354,773 and \$23,050 of principal and interest, respectively, on these same loans. Any excess of the principal and interest received over the debt service payments required may be used for future loan disbursements and/or released from restriction upon approval by the Trustee in the event certain requirements are met.

Local Match Loans

The Fund has offered reduced interest rates on loans to recipients that have agreed to contribute funds that can be used to match federal contributions. In order to obtain one of these loans, the local agency contributes one-sixth or 16.7 percent of the total loan principal. The borrower then repays 100 percent of the loan principal including the contributed amount (see Note 6).

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
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NOTE 4 - LOANS RECEIVABLE (CONTINUED)

Local Match Loans (Continued)

As of June 30, 2023 and 2022, the Fund had authorized a total of \$1,744,882 and \$1,744,882, respectively, of local match loans. From these authorizations, certain borrowers elected to remit the State match at the time the loan was awarded in the amount of \$2,296 as of June 30, 2023 and 2022. The remaining borrowers elected to repay the State match over a period of 20 or 30 years, in the amount of \$287,767 and \$287,203, as of June 30, 2023 and 2022, respectively. As of June 30, 2023 and 2022, total local match loans outstanding, including the local match to be paid, amounted to \$262,555 and \$307,368, respectively. As of June 30, 2023 and 2022, the remaining State match to be repaid amounted to \$24,681 and \$28,599, respectively.

Loans to Major Local Agencies

The Fund has made loans to the following major local agencies. The aggregate outstanding loan balances for each of these agencies exceeds 5 percent of total loans receivable. As of June 30, 2023 and 2022, respectively, the combined outstanding loan balances of these major local agencies represent approximately 24.11 and 17.30 percent of the total loans receivable.

	2023	
<u>Borrower</u>	<u>Authorized Loan Amount</u>	<u>Outstanding Loan Balance</u>
Sacramento Regional County Sanitation District	\$ 1,303,400	\$ 851,113
San Francisco, PUC of the City and County of	567,277	434,385
	\$ 1,870,677	\$ 1,285,498
	2022	
<u>Borrower</u>	<u>Authorized Loan Amount</u>	<u>Outstanding Loan Balance</u>
Sacramento Regional County Sanitation District	\$ 1,393,289	\$ 857,189
	\$ 1,393,289	\$ 857,189

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NOTE 5 - LONG-TERM DEBT

On January 31, 2023, the Fund issued \$545,320 of California Infrastructure and Economic Development Bank, Clean Water State Revolving Fund Revenue bonds, Series 2023, dated January 1, 2023 with coupon rates of 4 to 5 percent at a yield of 2.98%. These serial bonds are due annually in varying amounts through 2047. The interest on the bonds is due semi-annually on April 1 and October 1. The bonds maturing on or after October 1, 2033 are subject to redemption prior to their respective stated maturities at the option of the Fund on any date on or after October 1, 2032. The bonds were issued to provide funding for the issuance of additional revolving fund loans by the Fund.

On March 8, 2018, the Fund issued \$449,225 of California Infrastructure and Economic Development Bank, Clean Water State Revolving Fund Revenue Bonds, Series 2018, dated February 1, 2018 with coupon rates of 5 percent at a yield of 2.57%. These serial bonds are due annually in varying amounts through 2048. The interest on the bonds is due semi-annually on April 1 and October 1. The bonds maturing on or after October 1, 2028 are subject to redemption prior to their respective stated maturities at the option of the Fund on any date on or after April 1, 2028. The bonds were issued to provide funding for the issuance of additional revolving fund loans by the Fund.

On March 23, 2017, the Fund issued \$450,000 of California Infrastructure and Economic Development Bank, Clean Water State Revolving Fund Revenue Bonds, Series 2017, dated March 1, 2017 with coupon rates of 2 to 5 percent at a yield of 2.24%. These serial bonds are due annually in varying amounts through 2036. The interest on the bonds is due semi-annually on April 1 and October 1. The bonds maturing on or after October 1, 2027 are subject to redemption prior to their respective stated maturities at the option of the Fund on any date on or after April 1, 2027. The bonds were issued to provide funding for the issuance of additional revolving fund loans by the Fund.

On April 28, 2016, the Fund issued \$410,735 of California Infrastructure and Economic Development Bank, Clean Water State Revolving Fund Revenue Bonds, Series 2016, dated April 1, 2016 with coupon rates of 2.5 to 5 percent at a yield of 1.57%. These serial bonds are due annually in varying amounts through 2035. The interest on the bonds is due semi-annually on April 1 and October 1. The bonds maturing on or after October 1, 2026 are subject to redemption prior to their respective stated maturities at the option of the Fund on any date on or after April 1, 2026. The bonds were issued to provide funding for the issuance of additional revolving fund loans by the Fund.

At issuance or when required, the Fund has pledged the necessary portion of outstanding loans as security for all outstanding bonds (see Note 4). The principal and interest received during the fiscal year from these loans is to be used to make annual debt service payments on the revenue bonds. Any excess of the principal and interest received over the debt service payments required may be used for future loan disbursements and/or released from restriction upon approval by the Trustee in the event that certain requirements are met.

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NOTE 5 - LONG-TERM DEBT (CONTINUED)

On May 9, 2019, the California State Water Resources Control Board Safe Drinking Water State Revolving Fund (DWSRF) issued 2019 Revenue Bond Series in the amount of \$83,920 dated April 1, 2019, for the purpose of financing a portion of the DWSRF program to provide financial assistance to local governments for safe drinking water projects. The payments of principal, premium, if any, and interest on the Series 2019 Bonds are secured by payments made under the April 1, 2019 Amended and Restated Master Payment and Pledge Agreement. The master pledge agreement includes pledges for outstanding loans from both the CWSRF and DWSRF outstanding loans as security for the bonds. CWSRF would only be obligated in the event that DWSRF would not be able to make their bond payments.

The Fund's long-term debt will mature as follows:

Series 2016

Year Ending June 30,

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 33,710	\$ 11,278	\$ 44,988
2025	29,295	9,753	39,048
2026	23,190	8,490	31,680
2027	21,515	7,382	28,897
2028	21,530	6,310	27,840
2029-2033	83,610	17,457	101,067
2034-2038	31,820	2,295	34,115
	<u>\$ 244,670</u>	<u>\$ 62,965</u>	<u>\$ 307,635</u>

Series 2017

Year Ending June 30,

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 41,590	\$ 14,144	\$ 55,734
2025	41,100	12,088	53,188
2026	27,395	10,381	37,776
2027	25,145	9,073	34,218
2028	28,425	7,737	36,162
2029-2033	97,450	21,455	118,905
2034-2038	43,080	4,340	47,420
	<u>\$ 304,185</u>	<u>\$ 79,218</u>	<u>\$ 383,403</u>

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NOTE 5 - LONG-TERM DEBT (CONTINUED)

Series 2018

Year Ending June 30,

	Principal	Interest	Total
2024	\$ 18,950	\$ 17,123	\$ 36,073
2025	18,335	16,191	34,526
2026	26,775	15,063	41,838
2027	28,395	13,684	42,079
2028	25,040	12,348	37,388
2029-2033	112,235	43,376	155,611
2034-2038	64,945	21,367	86,312
2039-2043	27,450	10,949	38,399
2044-2048	28,450	3,902	32,352
2049-2053	1,355	33	1,388
	<u>\$ 351,930</u>	<u>\$ 154,036</u>	<u>\$ 505,966</u>

Series 2023

Year Ending June 30,

	Principal	Interest	Total
2024	\$ -	\$ 24,003	\$ 24,003
2025	4,585	23,888	28,473
2026	13,475	23,437	36,912
2027	14,145	22,747	36,892
2028	14,855	22,022	36,877
2029-2033	86,175	97,898	184,073
2034-2038	109,985	73,615	183,600
2039-2043	136,285	47,219	183,504
2044-2048	165,815	17,101	182,916
	<u>\$ 545,320</u>	<u>\$ 351,930</u>	<u>\$ 897,250</u>

Combined

Year Ending June 30,

	Principal	Interest	Total
2024	\$ 94,250	\$ 66,548	\$ 160,798
2025	93,315	61,920	155,235
2026	90,835	57,371	148,206
2027	89,200	52,886	142,086
2028	89,850	48,417	138,267
2029-2033	379,470	180,186	559,656
2034-2038	249,830	101,617	351,447
2039-2043	163,735	58,168	221,903
2044-2048	194,265	21,003	215,268
2049-2053	1,355	33	1,388
	<u>\$ 1,446,105</u>	<u>\$ 648,149</u>	<u>\$ 2,094,254</u>

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NOTE 5 - LONG-TERM DEBT (CONTINUED)

The detail of the Fund's long-term debt for the years ended June 30, 2023 and 2022, respectively, is as follows:

	Balance June 30, 2022	Issuances	Retirements	Balance June 30, 2023	Due Within One Year
Bond principal	\$ 993,605	\$ 545,320	\$ 92,820	\$ 1,446,105	\$ 94,250
Bond premium	124,537	57,191	19,771	161,957	20,054
	<u>\$ 1,118,142</u>	<u>\$ 602,511</u>	<u>\$ 112,591</u>	<u>1,608,062</u>	<u>\$ 114,304</u>
	Balance June 30, 2021	Issuances	Retirements	Balance June 30, 2022	Due Within One Year
Bond principal	\$ 1,080,980	\$ -	\$ 87,375	\$ 993,605	\$ 92,820
Bond premium	144,528	-	19,991	124,537	18,153
	<u>\$ 1,225,508</u>	<u>\$ -</u>	<u>\$ 107,366</u>	<u>1,118,142</u>	<u>\$ 110,973</u>

NOTE 6 - CAPITAL CONTRIBUTIONS

The Fund is capitalized by annual grants from the EPA. The State must also contribute between 0 and 20 percent of the federal capitalization amount. The State's matching contribution has been provided through the appropriation of State resources as well as through the use of loans from the Water Reclamation program.

As of June 30, 2023 and 2022, the EPA has awarded cumulative capitalization grants of \$3,405,837 and \$3,323,084, respectively. As of June 30, 2023 and 2022, the State has drawn, cumulatively \$3,178,114 and \$3,141,925, respectively, for loans and administrative expenses. As of June 30, 2023, the EPA has awarded cumulative BIL capitalization grants of \$127,290. As of June 30, 2023, the State has drawn, cumulatively \$6,937 for loans and administrative expenses. The ARRA capitalization grant of \$280,285 which was fully drawn as of June 30, 2014.

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NOTE 6 - CAPITAL CONTRIBUTIONS (CONTINUED)

As of June 30, 2023 and 2022, the State has provided matching funds of \$423,270 and \$404,631, respectively. As discussed in Note 4, certain borrowers have contributed funds that can be used to match federal contributions in exchange for reduced interest rate loans. The EPA allows the State to include amounts provided by borrowers under certain local matching loans in meeting the State's statutory matching obligation. As of June 30, 2023 and 2022, the borrowers had contributed \$290,066 and \$289,499 which qualifies as meeting the State's matching requirement, respectively.

Table 1 summarizes the EPA capitalization grants awarded, amounts drawn on each grant as of June 30, 2023 and 2022, and balances available for future loans as of June 30, 2023. Table 2 summarizes the state match amounts paid by the state and local entities as of June 30, 2023 and 2022. As of June 30, 2023 and 2022, the state match required for capitalization grants awarded is \$693,896 and \$664,617, respectively. As of June 30, 2023 and 2022, the state match available for potential future state match is \$19,440 and \$29,513, respectively.

TABLE 1

Year	Grant Award	Funds Drawn as of June 30, 2021	Funds Drawn During Year Ended June 30, 2022	Funds Drawn as of June 30, 2022	Funds Drawn During Year Ended June 30, 2023	Funds Drawn as of June 30, 2023	Available for Loans as of June 30, 2023
1989-2017	\$ 2,866,297	\$ 2,866,297	\$ -	\$ 2,866,297	\$ -	\$ 2,866,297	\$ -
2018	114,792	109,955	4,837	114,792	-	114,792	-
2019	113,637	563	113,074	113,637	-	113,637	-
2020	113,653	-	45,845	45,845	34,931	80,776	32,877
2021	113,637	-	286	286	173	459	113,178
2022	82,753	-	-	-	1,085	1,085	81,668
	<u>\$ 3,404,769</u>	<u>\$ 2,976,815</u>	<u>\$ 164,042</u>	<u>\$ 3,140,857</u>	<u>\$ 36,189</u>	<u>\$ 3,177,046</u>	<u>\$ 227,723</u>
In-kind (Direct Payment)							
Made by EPA	1,068	1,068	-	1,068	-	1,068	-
	<u>\$ 3,405,837</u>	<u>\$ 2,977,883</u>	<u>\$ 164,042</u>	<u>\$ 3,141,925</u>	<u>\$ 36,189</u>	<u>\$ 3,178,114</u>	<u>\$ 227,723</u>
2022-BIL AE	127,290	-	-	-	6,937	6,937	120,353
	<u>\$ 3,533,127</u>	<u>\$ 2,977,883</u>	<u>\$ 164,042</u>	<u>\$ 3,141,925</u>	<u>\$ 43,126</u>	<u>\$ 3,185,051</u>	<u>\$ 348,076</u>
2008-ARRA	280,285	280,285	-	280,285	-	280,285	-
	<u>\$ 3,813,412</u>	<u>\$ 3,258,168</u>	<u>\$ 164,042</u>	<u>\$ 3,422,210</u>	<u>\$ 43,126</u>	<u>\$ 3,465,336</u>	<u>\$ 348,076</u>

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022
(Dollar Amounts Expressed in Thousands)**

NOTE 6 - CAPITAL CONTRIBUTIONS (CONTINUED)

TABLE 2

	State Match Paid As of June 30, 2021	State Match Paid During Year Ended June 30, 2022	State Match Paid As of June 30, 2022	State Match Paid During Year Ended June 30, 2023	State Match Paid As of June 30, 2023
State Disbursed	\$ 404,546	\$ 85	\$ 404,631	\$ 18,639	\$ 423,270
Local Disbursed	286,822	2,677	289,499	567	290,066
	<u>\$ 691,368</u>	<u>\$ 2,762</u>	<u>\$ 694,130</u>	<u>\$ 19,206</u>	<u>\$ 713,336</u>

Restricted Funds

State matching funds for the 1993 capitalization grant and portions of the 1994 and 1995 capitalization grants were provided by the transfer of \$34,316 of outstanding loans and loan interest earned from California Water Reclamation Loan Fund. In 2006, an additional \$3,545 of outstanding loans and loan interest was transferred to the Fund for future match requirements. Repayments of these loans are restricted for future water reclamation loans that are eligible under the CWSRF program.

Administrative Fund

In January 2008, legislation in the State of California became effective which allows CWSRF to collect a service charge on loans which will be used for administrative costs. The fees collected and the expenses incurred are not included in the accompanying financial statements. Revenue collected and expenses incurred for the administrative fund are as follows:

	June 30, 2023	June 30, 2022
Administrative fee collected	\$ 15,021	\$ 11,560
Operating expenses incurred	\$ 8,980	\$ 12,319

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022
(Dollar Amounts Expressed in Thousands)**

NOTE 6 - CAPITAL CONTRIBUTIONS (CONTINUED)

Small Community Grant Fund

In September 2008, legislation in the State of California became effective which allows CWSRF to collect an annual charge on loans which will be used to assist Small Disadvantaged Communities. The fees collected and the expenses incurred are not included in the accompanying financial statements. Revenue collected and expenses incurred for the grant fund are as follows:

	June 30, 2023	June 30, 2022
Grant fee collected	\$ 10,183	\$ 8,870
Grants disbursed	\$ 5,543	\$ 4,168

NOTE 7 - RISK MANAGEMENT

The Fund participates in the State of California’s Risk Management Program. The State has elected, with a few exceptions, to be self-insured against loss or liability. There have been no significant reductions in insurance coverage from the prior year. In addition, settled claims have not exceeded insurance coverage in the last three fiscal years. Refer to the State’s Risk Management disclosure in the June 30, 2023 and 2022 Annual Comprehensive Financial Reports.

NOTE 8 - NET POSITION

Governmental Accounting Standards Board Statement provides for three components of net position: net investment in capital assets, restricted and unrestricted. As of June 30, 2023 and 2022, the Fund had no net position invested in capital assets.

Restricted net position includes net position that is restricted for use, either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. At June 30, 2023 and 2022, the Fund had restricted net position of \$500,118 and \$373,249, respectively, representing amounts received from borrower loan repayments on pledged loans. As of June 30, 2023 and 2022, the security for revenue bonds was \$3,097,871 and \$2,722,590, respectively, representing loans receivable pledged as security for the revenue bonds less the revenue bond liability outstanding at year end. (see Note 5).

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022
(Dollar Amounts Expressed in Thousands)

NOTE 8 - NET POSITION (CONTINUED)

Unrestricted net position consists of net position that does not meet the definition of invested in capital assets or restricted. Although the Fund reports unrestricted net position on the face of the statements of net position, unrestricted net position is to be used by the Fund for the payment of obligations incurred by the Fund in carrying out its statutory powers and duties and is to remain in the Fund.

This information is an integral part of the accompanying financial statements.

SINGLE AUDIT REPORTS

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2023**

<u>Grantor and Program Title</u>	<u>Federal Assistance Listing Number</u>	<u>Federal Expenditures</u>	<u>Subrecipients</u>
<u>U.S. Environmental Protection Agency</u>			
Direct Programs:			
Capitalization Grants for State Revolving Funds	66.458	\$ 225,701,977	\$ 223,535,632
		<u>\$ 225,701,977</u>	<u>\$ 223,535,632</u>

See notes to schedule of expenditures of federal awards.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2023**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (Schedule) includes the grant activity as prescribed by Federal Funding Accountability and Transparency Act (FFATA) assistance agreements of the California State Water Resources Control Board, Water Pollution Control Revolving Fund (Fund) under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures

Expenditures reported on the Schedule are presented on the accrual basis of accounting and are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made, in the normal course of business, to amounts reported as expenditures in prior years. The Fund has elected not to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3 - LOANS TO SUBRECIPIENTS

The FFATA assistance agreements related to the Capitalization Grants for Clean Water State Revolving Fund Assistance Listing number 66.458 include \$223,535,632 of expenditures that were disbursed as loan awards to qualifying subrecipients, which includes \$4,000,000 of principal forgiveness loans.



**INDEPENDENT AUDITORS' 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***

Board of Directors
California State Water Resources Control Board
Water Pollution Control Revolving Fund
Sacramento, California

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 business-type activities of the California State Water Resources Control Board, Water Pollution Control Revolving Fund (Water Pollution Control Revolving Fund), an enterprise fund of the State of California, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Water Pollution Control Revolving Fund's basic financial statements, and have issued our report thereon dated December 20, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Water Pollution Control Revolving Fund's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Water Pollution Control Revolving Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of Water Pollution Control Revolving Fund's internal control.

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

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

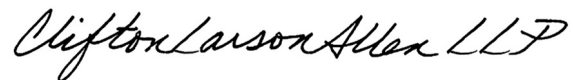
Board of Directors
California State Water Resources Control Board
Water Pollution Control Revolving Fund

Report on Compliance and Other Matters

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

Purpose of This Report

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



CliftonLarsonAllen LLP

Bellevue, Washington
December 20, 2023



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
California State Water Resources Control Board
Water Pollution Control Revolving Fund
Sacramento, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited California State Water Resources Control Board, Water Pollution Control Revolving Fund's (Water Pollution Control Revolving Fund) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Water Pollution Control Revolving Fund's major federal programs for the year ended June 30, 2023. Water Pollution Control Revolving Fund's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Water Pollution Control Revolving Fund's complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditors' Responsibilities for the Audit of Compliance

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

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Water Pollution Control Revolving Fund's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Water Pollution Control Revolving Fund's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Water Pollution Control Revolving Fund's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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.



CliftonLarsonAllen LLP

Bellevue, Washington
December 20, 2023



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