

**CONTROL BOARD  
WATER POLLUTION CONTROL REVOLVING FUND  
Sacramento, California**

**FINANCIAL STATEMENTS  
and SINGLE AUDIT REPORTS**

**June 30, 2017 and 2016**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
California State Water Resources Control Board  
Sacramento, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements 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 years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

As discussed in Note 1 - Definition of Reporting Entity, the basic financial statements of the California State Water Resources Control Board, 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 of the California State Water Resources Control Board, 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, 2017 and 2016, 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 States of America.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the California State Water Resources Control Board, Water Pollution Control Revolving Fund as of June 30, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

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

***Other Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the California State Water Resources Control Board, Water Pollution Control Revolving Fund's basic financial statements. The schedule 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*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2017, 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 result 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**

Greenwood Village, Colorado  
October 2, 2017

**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, 2017 and 2016. 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 \$113.1 million to a total of \$4 billion in 2017, which was \$8.4 million less than the increase of \$121.5 million in 2016. 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 \$8.9 million to \$65.8 million as compared to \$74.7 million in 2016. The decrease in capital contributions was mostly a result of less capital available from EPA capitalization grants for loan disbursements. Capital contributions from EPA capitalization grant funds that were forgiven decreased by \$3 million to \$5 million as compared to \$8 million in 2016.
- Cash and cash equivalents increased by \$308 million in 2017 as compared to an increase of \$452 million in 2016. The increase in 2017 was mostly the result of an increase in cash from the issuance of the Series 2017 Revenue Bond and several payoffs of loan receivables.
- Loans receivable increased by \$309 million to \$4 billion in 2017 and increased by \$155 million in 2016. The larger increase in 2017 mostly reflects an increase in loan disbursements.
- On March 23, 2017, the CWSRF issued California Infrastructure and Economic Development Bank, Clean Water State Revolving Fund Revenue Bonds, Series 2017 for \$450 million at a premium of \$79.5 million. The Series 2017 Revenue Bonds were issued for the purpose of making financial assistance available to recipients for eligible projects.
- Restricted portion of net position decreased by \$100 million to \$1.5 billion in 2017 as compared to an increase of \$1.3 billion in 2016. The decrease in 2017 reflects the decrease in notes receivables for loans pledged to the Series 2012, 2016 and 2017 Revenue Bonds as a result of repayments received and the related debt service payments. The increase in 2016 reflects the greater pledged loan requirements of the Series 2016 Revenue Bonds.

**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, 2017 and 2016 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 2017, the growth of the CWSRF's net position continued to strengthen increasing by \$113.1 million, or 2.9%, to \$4 billion at June 30, 2017 as compared to an increase of \$121.5 million, or 3.2%, the previous year. The increase in net position was \$8.4 million lower than in the previous year, mostly reflecting the lower level of capital contributions from EPA capitalization grants.

The current portion of the CWSRF's liabilities was \$57 million in 2017 and \$29 million in 2016. Current liabilities primarily correspond to continuing principal payments for the Series 2012, 2016 and 2017 Revenue Bonds. Noncurrent liabilities increased by \$481 million in 2017 as compared to an increase of \$476 million in 2016. The increase in 2017 is a result of the issuance of the Series 2017 Revenue Bonds while the increase in 2016 is the result of the issuance of the Series 2016 Revenue Bond.

A segment of the CWSRF's net position is subject to external restriction due to the debt service requirements of the Series 2012, 2016 and 2017 Revenue Bonds. The net position that is restricted decreased in 2017 by \$100 million to \$1.5 billion, or 6.1%, as compared to an increase in 2016 of \$1.3 billion to \$1.6 billion, or 377.7%. The decrease in 2017 was primarily due to several early payoffs of loan receivables and ongoing debt service payments. The increase in 2016 was primarily due to an increase in pledged loan receivables to secure the issuance of the Series 2016 Revenue Bonds.

Of the total restricted net position, \$1.377 billion in 2017 and \$1.567 billion in 2016 represent the balance of outstanding loans that were pledged as security to the Series 2012, 2016 and 2017 Revenue Bond debt service. 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 CWSRF received total payments on pledged loans of \$234.3 million (\$207.3 million of principal and \$27 million of interest) in 2017 of which the debt service payment was \$31.5 million (\$13 million of principal and \$18.5 million of interest). In 2016, the CWSRF received total payments on pledged loans of \$40.9 million (\$32.7 million of principal and \$8.2 million of interest) of which the debt service payments were \$14.3 million (\$13 million of principal and \$1.3 million of interest).

The remaining \$157.6 million of restricted net position in 2017 and \$66.9 million in 2017 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.

**Table 1**

**Net Position**

(in thousands)

	June 30,		
	2017	2016	2015
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,039,972	\$ 731,798	\$ 279,374
Loans receivable	4,010,218	3,700,721	3,545,617
All other assets	28,525	24,341	20,075
<b>Total assets</b>	<b>5,078,715</b>	<b>4,456,860</b>	<b>3,845,066</b>
<b>LIABILITIES</b>			
Current liabilities	56,921	29,157	15,830
Noncurrent liabilities	988,785	507,846	30,905
<b>Total liabilities</b>	<b>1,045,706</b>	<b>537,003</b>	<b>46,735</b>
<b>NET POSITION</b>			
Restricted			
Debt service	157,601	66,876	37,320
Security for revenue bonds	1,376,682	1,567,358	304,797
Subtotal restricted assets	<b>1,534,283</b>	<b>1,634,234</b>	<b>342,117</b>
Unrestricted	2,498,726	2,285,623	3,456,214
<b>Total net position</b>	<b>\$ 4,033,009</b>	<b>\$ 3,919,857</b>	<b>\$ 3,798,331</b>



## Changes in Net Position

Program revenue for the CWSRF in 2017 was \$59.6 million of which \$25.3 million is restricted for debt service. Program revenue in 2016 was \$57.6 million of which \$22.2 million was restricted for debt service. In 2017, program revenue increased by \$2 million or 3.43% and in 2016 increased by \$2.1 million or 3.75%. In 2017 and 2016, program revenue reflects an increase in outstanding receivables and the interest earned year over year on those receivables.

In 2017, general revenue was \$6.0 million, which was an increase of \$4.6 million or 331%, when compared to \$1.4 million in 2016. In 2016, general revenue increased \$0.6 million or 75% compared to \$0.8 million in 2015. The increase in investment income during 2017 and 2016 mostly reflects increased earnings that resulted from more cash on deposit

Total expenses increased by \$6 million in 2017 as compared to a decrease of \$12.8 million in 2016. The increase in 2017 was primarily due to an increase in revenue bond expenses. The decrease in 2016 was primarily due to a decrease in principal forgiveness expenses.

Administrative expenses decreased \$1.2 million to -\$0.8 million in 2017 compared to 2016. Administrative expenses decreased \$0.8 million to \$0.3 million in 2016 compared to 2015. The reduction of administrative expenses charged to the CWSRF during 2017 and 2016 primarily reflects the use of the CWSRF Administration Fund instead of the CWSRF as the primary source of administrative funding. In 2017 and 2016, administrative expenses of \$9.2 million and \$8.7 million, respectively, were charged to the CWSRF Administration Fund.

Capital contributions to the CWSRF decreased by \$6 million, or 9%, in 2017 when compared to 2016. The decrease in 2017 was primarily due to a decrease in available contributions from EPA capitalization grants. In 2016, capital contributions decreased by \$41 million, or 38% when compared to 2015. The decrease in 2016 was due to a decrease in available contributions from EPA capitalization grants.

The CWSRF program received principal forgiveness funds from EPA capitalization grants of \$4.8 million and \$7.8 million, in 2017 and 2016, respectively. 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,		
	2017	2016	2015
<b>Revenues</b>			
Program revenues:			
Loan interest income	\$ 59,615	\$ 57,638	\$ 55,554
General revenues:			
Investment income	6,020	1,396	796
<b>Total revenues</b>	<b>65,635</b>	<b>59,034</b>	<b>56,350</b>
<b>Expenses</b>			
Program expenses:			
Administrative expenses	(844)	329	1,096
Capitalization Principal Forgiveness expense	4,790	7,792	23,629
Revenue bond interest expense	12,458	2,199	293
Revenue bond issuance costs	1,896	1,894	-
<b>Total expenses</b>	<b>18,300</b>	<b>12,214</b>	<b>25,018</b>
<b>Increase in net position before contributions</b>	<b>47,335</b>	<b>46,820</b>	<b>31,332</b>
<b>Capital contributions:</b>			
EPA capitalization grant	60,966	66,846	100,584
EPA capitalization grant Principal Forgiveness	4,790	7,792	23,629
State and other contributions	61	68	7,162
Subtotal capital contributions	<b>65,817</b>	<b>74,706</b>	<b>131,375</b>
<b>Change in net position</b>	<b>113,152</b>	<b>121,526</b>	<b>162,707</b>
<b>Net position - beginning of year</b>	<b>3,919,857</b>	<b>3,798,331</b>	<b>3,636,875</b>
Net position - Restatement	-	-	(1,251)
<b>Net position - beginning of year (restated)</b>	<b>3,919,857</b>	<b>3,798,331</b>	<b>3,635,624</b>
<b>Net position - end of year</b>	<b>\$ 4,033,009</b>	<b>\$ 3,919,857</b>	<b>\$ 3,798,331</b>

## 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 2017, 2016 and 2012 Revenue Bonds. In 2017, the CWSRF issued Series 2017 Revenue Bonds for \$450 million at a premium of \$79.5 million. In 2016, the CWSRF issued Series 2016 Revenue Bonds for \$410.7 million at a premium of \$91.2 million. The Series 2017 and 2016 Revenue Bonds were issued for the purpose of making financial assistance available to recipients for eligible projects. In 2012, the CWSRF issued Series 2012 Refunding Revenue Bonds for \$68.9 million at a premium of \$6.0 million. The Series 2012 Revenue Bonds were issued to refund the Series 2002 Revenue Bonds.

As of June 30, 2017, outstanding bonds totaled \$1.035 billion, an increase of \$504.2 million, compared to \$530.8 million last year as shown in Table 3. The increase in 2017 was due to the issuance of the Series 2017 Revenue Bonds. The increase in 2016 was due to the issuance of the Series 2016 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,		
	2017	2016	2015
<b>Revenue bonds</b>			
Bond principal	\$ 877,735	\$ 440,675	\$ 42,940
Bond premium	157,251	90,118	1,957
<b>Total revenue bonds</b>	<b>\$ 1,034,986</b>	<b>\$ 530,793</b>	<b>\$ 44,897</b>

## **Economic Conditions and Outlook**

In 2017, new binding loan commitments (encumbrances) were \$1.378 billion, a significant increase of 34% above the new commitments made in 2016. The higher level of financing activity reflects continued improvement in the general economic conditions in California along with recent CWSRF program improvements to make the program a more attractive choice compared to other financing options for publicly owned treatment works projects. A steady demand in CWSRF financing activity is anticipated in the near term.

Capitalization grant funds from EPA continue to be an important component of cash flows for financing activities. For the grant year 2017, the EPA allocated \$94.6 million to the CWSRF. The 2017 grant allocation is a reduction of 1% compared to the 2016 grant allocation of \$95 million. Presently available information indicates that the 2018 grant will be approximately equal to the 2017 grant but could be lower as a result of ongoing congressional budget negotiations.

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 in order to be prepared to quickly sell a revenue bond if needed to meet required cash flows.

Although improving economic conditions has reduced the number of local entities experiencing strained revenue flows, the CWSRF diligently works with loan recipients to ensure full 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, Manager, Accounting Branch, Division of Administrative Services, P.O. Box 100, Sacramento, California 95812 or [Heather.Bell@waterboards.ca.gov](mailto: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, 2017 and 2016**  
(in thousands)

	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 596,396	\$ 494,274
Cash and cash equivalents - Restricted	443,576	237,524
Receivables:		
Loan interest	25,861	23,488
Investment interest	2,518	772
Due from other funds and other governments	146	81
Loans receivable:		
Current portion	128,271	111,478
Current portion - Restricted	100,385	156,108
Total current assets	1,297,153	1,023,725
<b>OTHER ASSETS</b>		
Loans receivable:		
Noncurrent (net of allowance for bad debt)	2,505,265	2,021,885
Noncurrent - Restricted	1,276,297	1,411,250
Total other assets	3,781,562	3,433,135
<b>TOTAL ASSETS</b>	5,078,715	4,456,860
 <b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Revenue bond interest payable	10,603	4,329
Unearned Revenue	18	5
Due to other funds	99	49
Revenue bond cost of issuance payable	-	617
Revenue bonds payable	46,201	22,947
Other liability	-	1,210
Total current liabilities	56,921	29,157
<b>NONCURRENT LIABILITIES</b>		
Revenue bonds payable	988,785	507,846
Total noncurrent liabilities	988,785	507,846
Total liabilities	1,045,706	537,003
 <b>NET POSITION</b>		
Restricted for:		
Debt service	157,601	66,876
Security for revenue bonds	1,376,682	1,567,358
Unrestricted	2,498,726	2,285,623
Total net position	\$ 4,033,009	\$ 3,919,857

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, 2017 and 2016**  
(in thousands)

	<b>2017</b>	<b>2016</b>
<b>OPERATING REVENUE</b>		
Loan interest income	\$ 59,615	\$ 57,638
Total operating revenue	59,615	57,638
<b>OPERATING EXPENSES</b>		
Capitalization Principal forgiveness	4,790	7,792
Other expenses	(860)	321
Total operating expenses	3,930	8,113
<b>INCOME FROM OPERATIONS</b>	55,685	49,525
<b>NONOPERATING REVENUE (EXPENSE)</b>		
Net investment income	6,020	1,396
Revenue bond interest expense	(12,458)	(2,199)
Revenue bond fees	(16)	(8)
Revenue bond issuance costs	(1,896)	(1,894)
Total nonoperating revenue (expense)	(8,350)	(2,705)
<b>INCOME BEFORE CONTRIBUTIONS</b>	47,335	46,820
<b>CONTRIBUTIONS</b>		
EPA capitalization grant	60,966	66,846
EPA capitalization grant - Principal Forgiveness	4,790	7,792
State match revenue	61	68
Total contributions	65,817	74,706
<b>CHANGE IN NET POSITION</b>	113,152	121,526
<b>NET POSITION - BEGINNING OF YEAR</b>	3,919,857	3,798,331
<b>NET POSITION - END OF YEAR</b>	\$ 4,033,009	\$ 3,919,857

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, 2017 and 2016**  
(in thousands)

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash paid to employees and vendors	\$ (300)	\$ (510)
Cash flows provided (required) by operating activities	(300)	(510)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Funds received from EPA capitalization grant	65,746	75,585
Funds received from the State of California	53	96
Proceeds from revenue bond issuance	529,467	501,961
Revenue bond issuance costs paid	(2,513)	(1,277)
Revenue bond fees paid	(16)	(8)
Principal paid on revenue bonds	(12,940)	(13,000)
Interest paid on revenue bonds	(18,517)	(1,323)
Cash flows provided (required) by noncapital financing activities	561,280	562,034
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash received from interest on loans	46,018	39,250
Loans disbursed	(625,321)	(521,862)
Principal Forgiveness Disbursed	(4,790)	(7,792)
Principal received on loans receivable	327,013	380,466
Net investment income received	4,274	838
Net cash provided (required) by investing activities	(252,806)	(109,100)
<b>NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	308,174	452,424
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	731,798	279,374
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 1,039,972	\$ 731,798
<b>Reconciliation of operating income to net cash required by operating activities</b>		
Income from operations	\$ 55,685	\$ 49,525
Adjustments to reconcile income from operations to net cash required by operating activities		
Construction period interest	(11,237)	(13,708)
Cash received from interest on loans	(46,018)	(39,250)
Loans disbursed	625,274	521,862
Principal Forgiveness Disbursed	4,790	7,792
Principal received on loans receivable	(327,013)	(380,466)
Other expenses	(1,210)	(75)
Effect of changes in operating assets and liabilities:		
Loans receivable	(298,248)	(141,392)
Loan interest receivable	(2,373)	(4,684)
Due to other funds	50	(114)
Net cash provided (required) by operating activities	\$ (300)	\$ (510)

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



**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017 and 2016**  
(Dollar Amounts Expressed in Thousands)

**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 equal to 20 percent of the Federal capitalization grant amount in order to receive the grants from the EPA. As of June 30, 2017 and 2016, the EPA has awarded cumulative capitalization grant funding of \$2,771,615, and \$2,676,325, respectively to the State of California (State), for which the State is required to provide \$554,323 and \$535,265, respectively, of cumulative matching funding to the Fund. In addition, 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 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.

**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.

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**NOTE 1 - DEFINITION OF REPORTING ENTITY (CONTINUED)**

The activities of the Fund are included in the State's Comprehensive Annual 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.

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.

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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, 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.

**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 uncollectibility of the principal is probable. The allowance for bad debts was \$9,356 at June 30, 2017 and June 30, 2016.

**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 2016 amounts have been reclassified, where appropriate, to conform with the 2017 financial statement presentation.

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**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 Comprehensive Annual 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.

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, 2017 and 2016, the Fund’s cash deposits had a carrying balance of \$6 and \$6, respectively.

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

<u>Investments</u>	<u>2017</u>	<u>2016</u>
Treasury/Trust Portfolio	<u>\$ 1,039,966</u>	<u>\$ 731,792</u>
Total cash deposits and investments	<u>\$ 1,039,972</u>	<u>\$ 731,798</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, 2017 and 2016, Comprehensive Annual Financial Reports for disclosure related to the risks applicable to the Portfolio.

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**NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)**

Cash deposits and investments are reflected on the June 30, 2017 and 2016 statement of net position as follows:

	<b>2017</b>	<b>2016</b>
Cash and cash equivalents	\$ 596,396	\$ 494,274
Cash and cash equivalents - Restricted	443,576	237,524
Total cash deposits and investments	<b>\$ 1,039,972</b>	<b>\$ 731,798</b>

Cash and investments in the amount of \$285,975 and \$170,648, representing unspent revenue bonds proceeds, at June 30, 2017 and 2016, respectively, were restricted for future loan disbursements. Additionally, cash and investments in the amount of \$157,601 and \$66,876 representing various reserve accounts required by the revenue bonds, at June 30, 2017 and 2016, 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 0.0 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, 2017 and 2016, the Fund had total binding commitments of \$10,355,713 and \$8,978,122, respectively, since program inception. As of June 30, 2017, the remaining commitment on these loans amounted to \$2,706,475, of which \$253,113 is federal funds. The federal loan commitments included capitalization funds of \$31,093, which will be forgiven. As of June 30, 2016, the remaining commitment on these loans amounted to \$1,958,948, of which \$241,349 is federal funds. The federal loan commitments included capitalization funds of \$10,761, 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, 2017 and 2016 the unpaid balance on all loans receivable outstanding amounted to \$4,010,218 and \$3,700,721, respectively.

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**NOTE 4 - LOANS RECEIVABLE (CONTINUED)**

Estimated maturities of the loans receivable and interest payments thereon, at June 30, 2017 are as follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2018	\$ 50,062	\$ 228,656	\$ 278,718
2019	47,739	232,192	279,931
2020	44,388	232,295	276,683
2021	41,058	231,710	272,768
2022	37,768	224,487	262,255
2023-2027	142,366	951,741	1,094,107
2028-2032	78,973	656,910	735,883
2033-2037	31,574	334,401	365,975
2038-2042	12,098	111,682	123,780
2043-2047	4,278	83,069	87,347
2048-2052	7	1,077	1,084
Total	<u>\$ 490,311</u>	<u>3,288,220</u>	<u>\$ 3,778,531</u>
Loans not yet in repayment		731,354	
Allowance for bad debt		(9,356)	
Total loans receivable		<u>\$ 4,010,218</u>	

**Restricted Loans Receivable**

At June 30, 2017 and 2016, \$1,376,682 and \$1,567,358, 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, 2017, the Fund received \$207,377 and \$26,944 of principal and interest, respectively, on these loans. During the year ended June 30, 2016, the Fund received \$32,738 and \$8,195 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).

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**NOTE 4 - LOANS RECEIVABLE (CONTINUED)**

The Fund had authorized a total of \$1,718,966 of local match loans as of June 30, 2017 and 2016. 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, 2017 and 2016. The remaining borrowers elected to repay the State match over a period of 20 or 30 years, in the amount of \$281,714 as of June 30, 2017 and 2016. As of June 30, 2017 and 2016, total local match loans outstanding, including the local match to be paid, amounted to \$652,685 and \$723,274, respectively. As of June 30, 2017 and 2016, the remaining State match to be repaid amounted to \$67,795 and \$80,195, 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, 2017 and 2016, respectively, the combined outstanding loan balances of these major local agencies represent approximately 19.31 and 15.8 percent of the total loans receivable.

<b><u>Borrower</u></b>	<b>2017</b>	
	<b><u>Authorized Loan Amount</u></b>	<b><u>Outstanding Loan Balance</u></b>
Los Angeles County Sanitation District (LACSD)	\$ 596,746	\$ 246,481
LACSD District #29	\$ 969	\$ 796
LACSD Santa Clarita	\$ 4,336	\$ 3,820
LACSD District #2	<u>\$ 41,511</u>	<u>\$ 38,219</u>
LACSD Total	<u>\$ 643,562</u>	<u>\$ 289,316</u>
Orange County Water District	\$ 316,725	\$ 233,010
Sacramento Regional County Sanitation District	<u>\$ 1,393,737</u>	<u>\$ 252,073</u>
	<u>\$ 2,354,024</u>	<u>\$ 774,399</u>
<b><u>Borrower</u></b>	<b>2016</b>	
	<b><u>Authorized Loan Amount</u></b>	<b><u>Outstanding Loan Balance</u></b>
Los Angeles County Sanitation District (LACSD)	\$ 596,746	\$ 322,299
LACSD District #29	\$ 969	\$ 839
LACSD Santa Clarita	\$ 4,336	\$ 4,012
LACSD District #2	<u>\$ 41,511</u>	<u>\$ 23,705</u>
LACSD Total	<u>\$ 643,562</u>	<u>\$ 350,855</u>
Orange County Water District	<u>\$ 316,725</u>	<u>\$ 233,800</u>
	<u>\$ 960,287</u>	<u>\$ 584,655</u>

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**NOTE 5 - LONG-TERM DEBT**

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.

On December 3, 2012, the Fund issued \$68,940 of California Infrastructure and Economic Development Bank, Clean Water State Revolving Fund Refunding Revenue Bonds, Series 2012, dated November 1, 2012, with coupon rates of 2 to 4 percent at a yield of .056%. These serial bonds are due annually in varying amounts through 2018. The interest on the bonds is due semi-annually on April 1 and October 1. The Series 2012 bonds shall not be subject to redemption prior to maturity. The bonds were issued to refund the Series 2002 Revenue Bonds.

At the time of issuance of the Master 2012 indenture and Series 2012 revenue bonds, the Fund pledged in excess of \$394,000 of the Fund's outstanding loan receivables as security for the bonds. The Fund pledged an additional \$1,228,000 of outstanding loan receivables at the time of issuance of the Series 2016 revenue bonds, for a total of \$1,622,000 pledged for security of 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.

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

**Series 2012**

**Year Ending June 30,**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 9,530	\$ 451	\$ 9,981
2019	7,470	131	7,601
	<u>\$ 17,000</u>	<u>\$ 582</u>	<u>\$ 17,582</u>



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**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

**Series 2016**

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 17,820	\$ 18,813	\$ 36,633
2019	21,010	18,166	39,176
2020	29,715	17,314	47,029
2021	30,885	16,072	46,957
2022	32,430	14,534	46,964
2023-2027	141,915	49,843	191,758
2028-2032	92,490	21,859	114,349
2033-2036	44,470	4,203	48,673
	<u>\$ 410,735</u>	<u>\$ 160,804</u>	<u>\$ 571,539</u>

**Series 2017**

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ -	\$ 22,208	\$ 22,208
2019	30,365	21,117	51,482
2020	37,965	19,764	57,729
2021	24,565	18,412	42,977
2022	25,725	17,165	42,890
2023-2027	162,425	61,535	223,960
2028-2032	112,565	26,705	139,270
2033-2037	56,390	6,827	63,217
	<u>\$ 450,000</u>	<u>\$ 193,733</u>	<u>\$ 643,733</u>

**Combined**

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 27,350	\$ 41,472	\$ 68,822
2019	58,845	39,414	98,259
2020	67,680	37,078	104,758
2021	55,450	34,484	89,934
2022	58,155	31,699	89,854
2023-2027	304,340	111,378	415,718
2028-2032	205,055	48,564	253,619
2033-2037	100,860	11,030	111,890
	<u>\$ 877,735</u>	<u>\$ 355,119</u>	<u>\$ 1,232,854</u>

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**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

The detail of the Fund's long-term debt is as follows:

	<b>Balance June 30, 2016</b>	<b>Issuances</b>	<b>Retirements</b>	<b>Balance June 30, 2017</b>	<b>Due Within One Year</b>
<b>Series 2017 Revenue Bonds:</b>					
Bond principal	\$ -	\$ 450,000	\$ -	\$ 450,000	\$ -
Bond premium	-	79,467	2,327	77,140	9,010
	<u>-</u>	<u>\$ 529,467</u>	<u>\$ 2,327</u>	<u>527,140</u>	<u>\$ 9,010</u>
Less current portion:					
Bond principal	-			-	
Bond premium amortization	-			(9,010)	
Long-term portion	<u>\$ -</u>			<u>\$ 518,130</u>	
<b>Series 2016 Revenue Bonds:</b>					
Bond principal	\$ 410,735	\$ -	\$ -	\$ 410,735	\$ 17,820
Bond premium	89,153	-	9,388	79,765	9,549
	<u>499,888</u>	<u>\$ -</u>	<u>\$ 9,388</u>	<u>490,500</u>	<u>\$ 27,369</u>
Less current portion:					
Bond principal	-			(17,820)	
Bond premium amortization	(9,388)			(9,549)	
Long-term portion	<u>\$ 490,500</u>			<u>\$ 463,131</u>	
<b>Series 2012 Revenue Bonds:</b>					
Bond principal	\$ 29,940	\$ -	\$ 12,940	\$ 17,000	\$ 9,530
Bond premium	965	-	619	346	292
	<u>30,905</u>	<u>\$ -</u>	<u>\$ 13,559</u>	<u>17,346</u>	<u>\$ 9,822</u>
Less current portion:					
Bond principal	(12,940)			(9,530)	
Bond premium amortization	(619)			(292)	
Long-term portion	<u>\$ 17,346</u>			<u>\$ 7,524</u>	

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**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

	<u>Balance June 30, 2015</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance June 30, 2016</u>	<u>Due Within One Year</u>
<b>Series 2016 Revenue Bonds:</b>					
Bond principal	\$ -	\$ 410,735	\$ -	\$ 410,735	\$ -
Bond premium	-	91,226	2,073	89,153	9,388
	<u>-</u>	<u>\$ 501,961</u>	<u>\$ 2,073</u>	<u>499,888</u>	<u>\$ 9,388</u>
Less current portion:					
Bond principal	-			-	
Bond premium amortization	-			(9,388)	
Long-term portion	<u>\$ -</u>			<u>\$ 490,500</u>	
<b>Series 2012 Revenue Bonds:</b>					
Bond principal	\$ 42,940	\$ -	\$ 13,000	\$ 29,940	\$ 12,940
Bond premium	1,957	-	992	965	619
	<u>44,897</u>	<u>\$ -</u>	<u>\$ 13,992</u>	<u>30,905</u>	<u>\$ 13,559</u>
Less current portion:					
Bond principal	(13,000)			(12,940)	
Bond premium amortization	(992)			(619)	
Long-term portion	<u>\$ 30,905</u>			<u>\$ 17,346</u>	

**NOTE 6 - CAPITAL CONTRIBUTIONS**

The Fund is capitalized by annual grants from the EPA. The State must also contribute an amount equal to 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, 2017 and 2016, the EPA has awarded to the State cumulative capitalization grants of \$2,771,615 and \$2,676,325, respectively. As of June 30, 2017 and 2016, the State has drawn, cumulatively \$2,695,788 and \$2,630,033, respectively, for loans and administrative expenses. The State has provided matching funds of \$354,293 and \$354,232, respectively.

In addition, as of June 30, 2017, the EPA awarded the ARRA grant of \$280,285 to the fund for which \$161,006 was for principal forgiveness (See Note 4). There were no State matching requirements for the grant, which was fully drawn as of June 30, 2014.

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, 2017 and 2016, the borrowers had contributed \$284,010, which qualifies as meeting the State's matching requirement.

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(Dollar Amounts Expressed in Thousands)

**NOTE 6 - CAPITAL CONTRIBUTIONS (CONTINUED)**

Table 1 summarizes the EPA capitalization grants awarded, amounts drawn on each grant as of June 30, 2017 and 2016, and balances available for future loans as of June 30, 2017. Table 2 summarizes the state match amounts paid by the state and local entities as of June 30, 2017 and 2016. As of June 30, 2017 and 2016, the state match required is \$539,158 and \$526,006, respectively. As of June 30, 2017 and 2016, the state match available for potential future state match is \$99,145 and \$112,236, respectively.

**TABLE 1**

Year	Grant Award	Funds Drawn		Funds Drawn		Available for Loans as of June 30, 2017
		As of June 30, 2015	During Year Ended June 30, 2016	As of June 30, 2016	During Year Ended June 30, 2017	
1989-2013	\$ 2,476,285	\$ 2,476,285	\$ -	\$ 2,476,285	\$ -	\$ 2,476,285
2014	100,277	79,110	21,167	100,277	-	100,277
2015	99,763	-	53,471	53,471	46,292	99,763
2016	95,290	-	-	-	19,464	19,464
	<u>\$ 2,771,615</u>	<u>\$ 2,555,395</u>	<u>\$ 74,638</u>	<u>\$ 2,630,033</u>	<u>\$ 65,756</u>	<u>\$ 2,695,789</u>
2008-ARRA	280,285	280,285	-	280,285	-	280,285
	<u>\$ 3,051,900</u>	<u>\$ 2,835,680</u>	<u>\$ 74,638</u>	<u>\$ 2,910,318</u>	<u>\$ 65,756</u>	<u>\$ 2,976,074</u>

**TABLE 2**

	State Match Paid		State Match Paid		State Match Paid As of June 30, 2017
	As of June 30, 2015	During Year Ended June 30, 2016	As of June 30, 2016	During Year Ended June 30, 2017	
State Disbursed	\$ 354,164	\$ 68	\$ 354,232	\$ 61	\$ 354,293
Local Disbursed	283,560	450	284,010	-	284,010
	<u>\$ 637,724</u>	<u>\$ 518</u>	<u>\$ 638,242</u>	<u>\$ 61</u>	<u>\$ 638,303</u>

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD  
WATER POLLUTION CONTROL REVOLVING FUND  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016  
(Dollar Amounts Expressed in Thousands)**

**NOTE 6 - CAPITAL CONTRIBUTIONS (CONTINUED)**

**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:

	<b>June 30, 2017</b>	<b>June 30, 2016</b>
Administrative fee collected	\$ 5,851	\$ 6,887
Operating expenses incurred	\$ 9,205	\$ 8,681

**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 Disadvantage 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:

	<b>June 30, 2017</b>	<b>June 30, 2016</b>
Grant fee collected	\$ 10,039	\$ 11,098
Grants disbursed	\$ 3,602	\$ 7,392

**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, 2017 and 2016, Comprehensive Annual Financial Reports.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017 and 2016**  
(Dollar Amounts Expressed in Thousands)

**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, 2017 and 2016, 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, 2017 and 2016, the Fund had restricted net position of \$157,601 and \$66,876, respectively, representing amounts received from borrower loan repayments on pledged loans. As of June 30, 2017 and 2016 pledged loans restricted for future bond debt service payments were \$1,376,682 and \$1,567,358, respectively, representing loans receivable pledged as security for the revenue bonds (see Note 5).

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.

## **SINGLE AUDIT REPORTS**

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD  
WATER POLLUTION CONTROL REVOLVING FUND  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2017**

<u>Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	<u>Subrecipients</u>
<b><u>U.S. Environmental Protection Agency</u></b>			
Direct Programs:			
Capitalization Grants for State Revolving Funds	66.458	\$ 65,755,709 (*)	\$ 65,450,474
		<u>\$ 65,755,709</u>	<u>\$ 65,450,474</u>

(\*) Tested as a Major Program

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, 2017**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity 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, 2017. 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**

Capitalization Grants for Clean Water State Revolving Fund CFDA# 66.458 include \$65,450,474 of expenditures that were disbursed as loan awards to qualifying subrecipients, which includes \$4,789,526 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 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, 2017, and the related notes to the financial statements, which collectively comprise Water Pollution Control Revolving Fund's basic financial statements, and have issued our report thereon dated October 2, 2017.

**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) to determine the 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 may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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**

Greenwood Village, Colorado  
October 2, 2017



# CliftonLarsonAllen

## 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**

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 described 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, 2017. 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.

### ***Management's Responsibility***

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

### ***Auditors' Responsibility***

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

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

**Opinion on Each Major Federal Program**

In our opinion, Water Pollution Control Revolving Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

**Report on Internal Control Over Compliance**

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



**CliftonLarsonAllen LLP**

Greenwood Village, Colorado  
October 2, 2017

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD  
WATER POLLUTION CONTROL REVOLVING FUND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2017**

**PART I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?  yes  no

Significant deficiency(ies) identified not considered to be material weaknesses?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

**Federal Awards**

Internal control over major program:

Material weakness(es) identified?  yes  no

Significant deficiency(ies) identified not considered to be material weaknesses?  yes  none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  yes  no

Identification of major programs:

**CFDA Number(s)**  
66.458

**Name of Federal Program or Cluster**  
Capitalization Grants for State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs: \$1,972,671

Auditee qualified as low-risk auditee?  yes  no

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD  
WATER POLLUTION CONTROL REVOLVING FUND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Year Ended June 30, 2017**

**PART II - FINDINGS RELATED TO FINANCIAL STATEMENTS**

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

**PART III - FINDINGS RELATED TO FEDERAL AWARDS**

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD  
WATER POLLUTION CONTROL REVOLVING FUND  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
Year Ended June 30, 2017**

**PART IV - PRIOR YEAR FINDINGS**

There were no prior year audit findings required to be reported under *Government Auditing Standards* or 2 CFR 200.516(a).