

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

**FINANCIAL STATEMENTS
and SINGLE AUDIT REPORTS**

June 30, 2020 and 2019

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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 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, 2020 and 2019, 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.

Board of Directors
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Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the California State Water Resources Control Board, Water Pollution Control Revolving Fund as of June 30, 2020 and 2019, 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.

Other Matters

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, 2020 and 2019, 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. Our opinion is not modified with respect to this matter.

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.

Board of Directors
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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 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*, is 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 was derived from and relates 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 December 15, 2020, 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

Greenwood Village, Colorado
December 15, 2020

**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, 2020 and 2019. 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 \$177.9 million to a total of \$4.4 billion in 2020, which was \$116.4 million more than the increase of \$61.5 million in 2019. The larger increase in net position is a direct result of higher capital contributions during the year from the U.S. Environmental Protection Agency (EPA).
- Capital contributions increased by \$122 million to \$155.9 million as compared to \$33.9 million in 2019. The increase 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 increased by \$1.7 million to \$23.1 million as compared to \$21.4 million in 2019.
- Cash and cash equivalents increased by \$52 million in 2020 as compared to a decrease of \$425 million in 2019. The increase in 2020 was mostly the result of an increase in early payoffs of loan receivables.
- Loans receivable increased by \$28 million to \$4.8 billion in 2020 and increased by \$400 million in 2019. The smaller increase in 2020 mostly reflects an increase in early payoffs of loan receivables.
- Restricted portion of net position increased by \$24.5 million to \$2.4 billion in 2020 as compared to a decrease of \$76 million in 2019. The increase in 2020 mostly reflects an increase in restricted cash due to early payoffs of loan receivables. The decrease in 2019 reflects the decrease in notes receivables for loans pledged to the Series 2012, 2016, 2017, and 2018 Revenue bonds as a result of repayments received and the related debt service payments.

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, 2020 and 2019 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 2020, the CWSRF's net position continued to strengthen increasing by \$177.9 million, or 4.2%, to \$4.4 billion at June 30, 2020 as compared to an increase of \$61.5 million, or 1.5%, the previous year. The increase in net position was \$116.4 million higher than in the previous year, mostly reflecting the higher level of capital contributions from EPA capitalization grants.

The current portion of the CWSRF's liabilities was \$119 million in 2020 and \$116 million in 2019. Current liabilities primarily correspond to continuing principal payments for the Series 2016, 2017 and 2018 Revenue Bonds. Noncurrent liabilities decreased by \$104.3 million in 2020 as compared to a decrease of \$100.4 million in 2019. The decrease in 2020 and 2019 is a result of the ongoing principal payments of the Series 2016, 2017, and 2018 Revenue Bonds.

A segment of the CWSRF's net position is subject to external restriction due to the debt service requirements of the Series 2012, 2016, 2017 and 2018 Revenue Bonds. The net position that is restricted increased in 2020 by \$24.5 million to \$2.4 billion, or 1.0%, as compared to a decrease in 2019 of \$76 million to \$2.3 billion, or 3.2%. The increase in 2020 was primarily due to an increase in early payoffs of pledged loan receivables. The decrease in 2019 was primarily due to ongoing debt service payments.

Of the total restricted net position, \$2.029 billion in 2020 and \$2.087 billion in 2019 represent the balance of outstanding loans that were pledged as security to the Series 2012, 2016, 2017 and 2018 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 \$532.8 million (\$507.0 million of principal and \$25.8 million of interest) in 2020 of which the debt service payment was \$136.4 million (\$77.1 million of principal and \$59.3 million of interest). In 2019, the CWSRF received total payments on pledged loans of \$189.2 million (\$155.6 million of principal and \$33.6 million of interest) of which the debt service payments were \$122.1 million (\$58.8 million of principal and \$63.3 million of interest).

The remaining \$341.4 million of restricted net position in 2020 and \$258.3 million in 2019 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,		
	2020	2019	2018
ASSETS			
Cash and cash equivalents	\$ 844,214	\$ 791,849	\$ 1,217,225
Loans receivable	4,836,799	4,808,306	4,408,127
All other assets	30,277	34,395	32,805
Total assets	5,711,290	5,634,550	5,658,157
LIABILITIES			
Current liabilities	118,805	115,671	100,318
Noncurrent liabilities	1,225,508	1,329,849	1,430,322
Total liabilities	1,344,313	1,445,520	1,530,640
NET POSITION			
Restricted			
Debt service	341,425	258,323	211,650
Security for revenue bonds	2,028,780	2,087,404	2,210,416
Subtotal restricted assets	2,370,205	2,345,727	2,422,066
Unrestricted	1,996,772	1,843,303	1,705,451
Total net position	\$ 4,366,977	\$ 4,189,030	\$ 4,127,517

Changes in Net Position

Program revenue for the CWSRF in 2020 was \$66.6 million of which \$26 million is restricted for debt service. Program revenue in 2019 was \$67.2 million of which \$30.6 million was restricted for debt service. In 2020, program revenue decreased by \$0.6 million or 0.96% and in 2019 increased by \$3 million or 4.76%. In 2020, program revenue reflects a decrease in outstanding restricted receivables and the interest earned on those receivables. In 2019, program revenue reflects an increase in outstanding receivables and the interest earned year over year on those receivables.

In 2020, general revenue was \$14 million, which was a decrease of \$5.5 million or 28%, when compared to \$19.5 million in 2019. In 2019, general revenue increased \$6.6 million or 51% compared to \$12.9 million in 2018. The decrease in investment income during 2020 mostly reflects reduced earnings as a result of lower interest rates earned on the cash on deposit, while the increase in investment income during 2019 mostly reflects increased earnings as a result of higher interest rates earned on the cash on deposit.

Total expenses decreased by \$0.6 million in 2020 as compared to an increase of \$3.8 million in 2019. The decrease in 2020 was primarily due to a decrease in revenue bond expenses. The increase in 2019 was primarily due to an increase in revenue bond expenses.

Total capital contributions increased by \$122 million, or 359.6% in 2020 when compared to 2019. In 2019, total capital contributions decreased by \$38.9 million or 53.4% when compared to 2018.

In 2020, EPA capitalization grant contributions increased by \$120.3 million or 969% when compared to 2019. In 2019, EPA capitalization grant contributions decreased by \$33.8 million or 73% when compared to 2018. The 2020 increase was primarily due to an increase in available contributions from EPA capitalization grants. The 2019 decrease was primarily due to a decrease in available contributions from EPA capitalization grants.

In 2020, EPA capitalization grant contributions for principal forgiveness loans increased by \$1.7 million when compared to 2019. In 2019, EPA capitalization grant contributions for principal forgiveness loans decreased by \$5.1 million when compared to 2018. The 2020 increase was primarily due to an increase in principal forgiveness disbursements. The 2019 decrease was primarily due to a decrease 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,		
	2020	2019	2018
Revenues			
Program revenues:			
Loan interest income	\$ 66,600	\$ 67,243	\$ 64,185
General revenues:			
Investment income	14,027	19,585	12,950
Total revenues	80,627	86,828	77,135
Expenses			
Program expenses:			
Administrative expenses	257	506	393
Capitalization Principal Forgiveness expense	23,136	21,433	26,510
Revenue bond interest expense	35,270	37,313	26,587
Revenue bond issuance costs	-	-	1,951
Total expenses	58,663	59,252	55,441
Increase in net position before contributions	21,964	27,576	21,694
Capital contributions:			
EPA capitalization grant	132,782	12,420	46,261
EPA capitalization grant Principal Forgiveness	23,136	21,433	26,510
State and other contributions	65	84	43
Subtotal capital contributions	155,983	33,937	72,814
Change in net position	177,947	61,513	94,508
Net position - beginning of year	4,189,030	4,127,517	4,033,009
Net position - end of year	\$ 4,366,977	\$ 4,189,030	\$ 4,127,517

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 2018, 2017, 2016 and 2012 Revenue Bonds. In 2020 and 2019, the CWSRF did not issue additional revenue bonds. In 2018, the CWSRF issued Series 2018 Revenue Bonds for \$449 million at a premium of \$77.5 million. The Series 2018, 2017 and 2016 Revenue Bonds were issued for the purpose of making financial assistance available to recipients for eligible projects while the Series 2012 Revenue Bonds were issued to refund the Series 2002 Revenue Bonds.

As of June 30, 2020, outstanding bonds totaled \$1.330 billion, a decrease of \$100.4 million, compared to \$1.430 billion in 2019 as shown in Table 3. The decrease in 2020 and 2019 was due primarily to the ongoing principal payments for the Series 2018, 2017, and 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,		
	2020	2019	2018
Revenue bonds			
Bond principal	\$ 1,163,595	\$ 1,240,765	\$ 1,299,610
Bond premium	166,254	189,557	214,278
Total revenue bonds	\$ 1,329,849	\$ 1,430,322	\$ 1,513,888

Economic Conditions and Outlook

In 2020, new binding loan commitments (encumbrances) were \$732 million which is a 231% increase when compared to new commitments made in 2019. The increase in 2020 financing activity indicates a normalization of lending after implementation of California's new statewide Financial Information System, Fi\$Cal. There continues to be a significant demand for CWSRF financing which reflects the need in California for additional infrastructure improvements and the generally positive capacity of wastewater agencies to finance those improvements. 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 2020, the EPA allocated \$113 million to the CWSRF which was equal to the 2019 grant allocation. Presently available information indicates that the 2021 grant will be approximately equal to the 2020 grant, but this amount could change 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 and market conditions to determine their likely effects on the CWSRF and to be prepared to quickly sell a revenue bond if needed to meet required cash flows.

Economic conditions changed during 2020 due to the impacts associated with the COVID-19 virus. The CWSRF continues to monitor these impacts on local entities revenues and to diligently work with and surveil 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.

BASIC FINANCIAL STATEMENTS

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
STATEMENTS OF NET POSITION
June 30, 2020 and 2019
(in thousands)

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 502,789	\$ 481,553
Cash and cash equivalents - Restricted	341,425	310,296
Receivables:		
Loan interest	24,613	26,610
Investment interest	2,559	4,717
Due from other funds and other governments	3,105	3,068
Loans receivable:		
Current portion	84,983	107,067
Current portion - Restricted	156,656	281,146
Total current assets	1,116,130	1,214,457
OTHER ASSETS		
Loans receivable:		
Noncurrent (net of allowance for bad debt)	2,723,036	2,613,835
Noncurrent - Restricted	1,872,124	1,806,257
Total other assets	4,595,160	4,420,093
TOTAL ASSETS	5,711,290	5,634,550
 LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Revenue bond interest payable	14,461	15,190
Unearned revenue	3	-
Due to other funds	-	8
Revenue bonds payable	104,341	100,473
Total current liabilities	118,805	115,671
NONCURRENT LIABILITIES		
Revenue bonds payable	1,225,508	1,329,849
Total noncurrent liabilities	1,225,508	1,329,849
Total liabilities	1,344,313	1,445,520
 NET POSITION		
Restricted for:		
Debt service	341,425	258,323
Security for revenue bonds	2,028,780	2,087,404
Unrestricted	1,996,772	1,843,303
Total net position	\$ 4,366,977	\$ 4,189,030

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, 2020 and 2019
(in thousands)

	2020	2019
OPERATING REVENUE		
Loan interest income	\$ 66,600	\$ 67,243
Total operating revenue	66,600	67,243
OPERATING EXPENSES		
Capitalization Principal forgiveness	23,136	21,433
Other expenses	353	435
Total operating expenses	23,489	21,868
INCOME FROM OPERATIONS	43,111	45,375
NONOPERATING REVENUE (EXPENSE)		
Net investment income	14,027	19,585
Revenue bond interest expense	(35,270)	(37,313)
Revenue bond fees	96	(71)
Total nonoperating revenue (expense)	(21,147)	(17,799)
INCOME BEFORE CONTRIBUTIONS	21,964	27,576
CONTRIBUTIONS		
EPA capitalization grant	132,782	12,420
EPA capitalization grant - Principal Forgiveness	23,136	21,433
State match revenue	65	84
Total contributions	155,983	33,937
CHANGE IN NET POSITION	177,947	61,513
NET POSITION - BEGINNING OF YEAR	4,189,030	4,127,517
NET POSITION - END OF YEAR	\$ 4,366,977	\$ 4,189,030

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, 2020 and 2019
(in thousands)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash paid to employees and vendors	\$ (361)	\$ (464)
Cash flows provided (required) by operating activities	(361)	(464)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Funds received from EPA capitalization grant	155,886	30,832
Funds received from the State of California	60	74
Revenue bond issuance costs paid	-	(247)
Revenue bond fees paid	96	(72)
Principal paid on revenue bonds	(77,170)	(58,845)
Interest paid on revenue bonds	(59,302)	(63,310)
Cash flows provided (required) by noncapital financing activities	19,570	(91,568)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received from interest on loans	54,216	54,201
Loans disbursed	(641,723)	(654,216)
Principal Forgiveness Disbursed	(23,136)	(21,433)
Principal received on loans receivable	627,614	268,533
Net investment income received	16,185	19,571
Net cash provided (required) by investing activities	33,156	(333,344)
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	52,365	(425,376)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	791,849	1,217,225
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 844,214	\$ 791,849
Reconciliation of operating income to net cash required by operating activities		
Income from operations	\$ 43,111	\$ 45,374
Adjustments to reconcile income from operations to net cash required by operating activities		
Construction period interest	(14,383)	(14,495)
Cash received from interest on loans	(54,216)	(54,201)
Loans disbursed	641,723	654,216
Principal Forgiveness Disbursed	23,136	21,433
Principal received on loans receivable	(627,614)	(268,533)
Effect of changes in operating assets and liabilities:		
Loans receivable	(14,107)	(385,685)
Loan interest receivable	1,997	1,456
Due to other funds	(8)	(29)
Net cash provided (required) by operating activities	\$ (361)	\$ (464)

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, 2020 and 2019
(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, 2020 and 2019, the EPA has awarded cumulative capitalization grant funding of \$3,095,794 and \$2,982,157, respectively to the State of California (State), for which the State is required to provide \$619,159 and \$ 596,431, 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 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.

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.

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019
(Dollar Amounts Expressed in Thousands)

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.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 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, 2020 and June 30, 2019.

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.

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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, 2020 and 2019, the Fund’s cash deposits had a carrying balance of \$18,680 and \$18, respectively.

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

<u>Investments</u>	<u>2020</u>	<u>2019</u>
Treasury/Trust Portfolio	<u>\$ 825,534</u>	<u>\$ 791,831</u>
Total cash deposits and investments	<u>\$ 844,214</u>	<u>\$ 791,849</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, 2020 and 2019, 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, 2020 and 2019 statements of net position as follows:

	2020	2019
Cash and cash equivalents	\$ 502,789	\$ 481,553
Cash and cash equivalents - Restricted	341,425	310,296
Total cash deposits and investments	\$ 844,214	\$ 791,849

Cash and investments in the amount of \$0.00 and \$51,973, representing unspent revenue bonds proceeds, at June 30, 2020 and 2019, respectively, were restricted for future loan disbursements. Additionally, cash and investments in the amount of \$341,291 and \$258,323 representing various reserve accounts required by the revenue bonds, at June 30, 2020 and 2019, 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, 2020 and 2019, the Fund had total binding commitments of \$11,962,051 and \$11,230,463, respectively, since program inception. As of June 30, 2020, the remaining commitment on these loans amounted to \$2,314,068, of which \$52,245 is federal funds. The federal loan commitments included capitalization funds of \$50,519, which will be forgiven. As of June 30, 2019, the remaining commitment on these loans amounted to \$2,254,007, of which \$42,032 is federal funds. The federal loan commitments included capitalization funds of \$37,746, 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, 2020 and 2019 the unpaid balance on all loans receivable outstanding amounted to \$4,836,799 and \$4,808,306, respectively.

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NOTE 4 - LOANS RECEIVABLE (CONTINUED)

Estimated maturities of the loans receivable and interest payments thereon, at June 30, 2020 are as follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2021	\$ 48,805	\$ 241,639	\$ 290,444
2022	46,487	238,479	284,966
2023	43,324	235,685	279,009
2024	40,211	215,229	255,440
2025	37,335	207,963	245,298
2026-2030	148,667	884,755	1,033,422
2031-2035	94,831	684,265	779,096
2036-2040	54,492	431,988	486,480
2041-2045	29,246	314,285	343,531
2046-2050	7,508	220,986	228,494
Total	<u>\$ 550,906</u>	<u>3,675,274</u>	<u>\$ 4,226,180</u>
Loans not yet in repayment		1,170,881	
Allowance for bad debt		(9,356)	
Total loans receivable		<u>\$ 4,836,799</u>	

Restricted Loans Receivable

At June 30, 2020 and 2019, \$2,028,779 and \$2,087,404, 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, 2020 the Fund received \$507,003 and \$25,828 of principal and interest, respectively, on these loans. During the year ended June 30, 2019 the Fund received \$155,638 and \$33,586 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)

As of June 30, 2020 and 2019, the Fund had authorized a total of \$1,758,966 and \$1,718,966, 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, 2020 and 2019. 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, 2020 and 2019. As of June 30, 2020 and 2019, total local match loans outstanding, including the local match to be paid, amounted to \$439,684 and \$512,209, respectively. As of June 30, 2020 and 2019 the remaining State match to be repaid amounted to \$38,054 and \$46,847, 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, 2020 and 2019, respectively, the combined outstanding loan balances of these major local agencies represent approximately 22.50 and 19.07 percent of the total loans receivable.

<u>Borrower</u>	2020	
	Authorized Loan Amount	Outstanding Loan Balance
Los Angeles County Sanitation District (LACSD)	\$ 550,496	\$ 181,774
LACSD District #29	969	662
LACSD Santa Clarita	4,336	3,223
LACSD District #2	72,369	69,119
LACSD Total	628,170	254,778
Sacramento Regional County Sanitation District	1,399,081	833,271
	\$ 2,027,251	\$ 1,088,049
<u>Borrower</u>	2019	
	Authorized Loan Amount	Outstanding Loan Balance
Los Angeles County Sanitation District (LACSD)	\$ 561,196	\$ 205,136
LACSD District #29	969	708
LACSD Santa Clarita	4,336	3,425
LACSD District #2	72,369	71,772
LACSD Total	638,870	281,041
Sacramento Regional County Sanitation District	1,400,079	635,892
	\$ 2,038,949	\$ 916,933

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NOTE 5 - LONG-TERM DEBT

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.

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 .058%. 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 Series 2018 revenue bond, the Fund increased the pledged pool by \$671 million to \$2.293 billion of the Fund's outstanding loans as security for all outstanding bonds when compared to the Series 2016 pledged pool of \$1.622 billion (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 even 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>
2021	\$ 30,885	\$ 16,072	\$ 46,957
2022	32,430	14,534	46,964
2023	34,205	12,940	47,145
2024	33,710	11,278	44,988
2025	29,295	9,753	39,048
2026-2030	104,485	31,669	136,154
2031-2035	67,180	10,014	77,194
2036	10,000	250	10,250
	<u>\$ 342,190</u>	<u>\$ 106,510</u>	<u>\$ 448,700</u>

Series 2017

Year Ending June 30,

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 24,565	\$ 18,412	\$ 42,977
2022	25,725	17,165	42,890
2023	27,195	15,849	43,044
2024	41,590	14,144	55,734
2025	41,100	12,088	53,188
2026-2030	128,890	38,740	167,630
2031-2035	71,005	13,070	84,075
2036-2037	21,600	1,176	22,776
	<u>\$ 381,670</u>	<u>\$ 130,644</u>	<u>\$ 512,314</u>

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NOTE 5 - LONG-TERM DEBT (CONTINUED)

Series 2018

Year Ending June 30,

	Principal	Interest	Total
2021	\$ 27,165	\$ 21,308	\$ 48,473
2022	29,220	19,898	49,118
2023	31,420	18,382	49,802
2024	18,950	17,123	36,073
2025	18,335	16,191	34,526
2026-2030	134,085	61,749	195,834
2031-2035	89,740	33,353	123,093
2036-2040	44,305	15,930	60,235
2041-2045	27,765	8,188	35,953
2046-2049	18,750	1,502	20,252
	<u>\$ 439,735</u>	<u>\$ 213,624</u>	<u>\$ 653,359</u>

Combined

Year Ending June 30,

	Principal	Interest	Total
2021	\$ 82,615	\$ 55,792	\$ 138,407
2022	87,375	51,597	138,972
2023	92,820	47,171	139,991
2024	94,250	42,545	136,795
2025	88,730	38,032	126,762
2026-2030	367,460	132,158	499,618
2031-2035	227,925	56,437	284,362
2036-2040	75,905	17,356	93,261
2041-2045	27,765	8,188	35,953
2046-2049	18,750	1,502	20,252
	<u>\$ 1,163,595</u>	<u>\$ 450,778</u>	<u>\$ 1,614,373</u>

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NOTE 5 - LONG-TERM DEBT (CONTINUED)

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

	<u>Balance June 30, 2019</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance June 30, 2020</u>	<u>Due Within One Year</u>
Series 2018 Revenue Bonds:					
Bond principal	\$ 449,225	\$ -	\$ 9,490	\$ 439,735	\$ 27,165
Bond premium	68,939	-	6,619	62,320	6,278
	<u>518,164</u>	<u>\$ -</u>	<u>\$ 16,109</u>	<u>502,055</u>	<u>\$ 33,443</u>
Less current portion:					
Bond principal	(9,490)			(27,165)	
Bond premium amortization	(6,619)			(6,278)	
Long-term portion	<u>\$ 502,055</u>			<u>\$ 468,612</u>	
Series 2017 Revenue Bonds:					
Bond principal	\$ 419,635	\$ -	\$ 37,965	\$ 381,670	\$ 24,565
Bond premium	59,592	-	7,954	51,638	7,428
	<u>479,227</u>	<u>\$ -</u>	<u>\$ 45,919</u>	<u>433,308</u>	<u>\$ 31,993</u>
Less current portion:					
Bond principal	(37,965)			(24,565)	
Bond premium amortization	(7,954)			(7,428)	
Long-term portion	<u>\$ 433,308</u>			<u>\$ 401,315</u>	
Series 2016 Revenue Bonds:					
Bond principal	\$ 371,905	\$ -	\$ 29,715	\$ 342,190	\$ 30,885
Bond premium	61,026	-	8,730	52,296	8,019
	<u>432,931</u>	<u>\$ -</u>	<u>\$ 38,445</u>	<u>394,486</u>	<u>\$ 38,904</u>
Less current portion:					
Bond principal	(29,715)			(30,885)	
Bond premium amortization	(8,730)			(8,019)	
Long-term portion	<u>\$ 394,486</u>			<u>\$ 355,582</u>	

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NOTE 5 - LONG-TERM DEBT (CONTINUED)

	<u>Balance June 30, 2018</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance June 30, 2019</u>	<u>Due Within One Year</u>
Series 2018 Revenue Bonds:					
Bond principal	\$ 449,225	\$ -	\$ -	\$ 449,225	\$ 9,490
Bond premium	75,879	-	6,940	68,939	6,619
	<u>525,104</u>	<u>\$ -</u>	<u>\$ 6,940</u>	518,164	<u>\$ 16,109</u>
Less current portion:					
Bond principal	-			(9,490)	
Bond premium amortization	(6,940)			(6,619)	
Long-term portion	<u>\$ 518,164</u>			<u>\$ 502,055</u>	
Series 2017 Revenue Bonds:					
Bond principal	\$ 450,000	\$ -	\$ 30,365	\$ 419,635	\$ 37,965
Bond premium	68,130	-	8,538	59,592	7,954
	<u>518,130</u>	<u>\$ -</u>	<u>\$ 38,903</u>	479,227	<u>\$ 45,919</u>
Less current portion:					
Bond principal	(30,365)			(37,965)	
Bond premium amortization	(8,538)			(7,954)	
Long-term portion	<u>\$ 479,227</u>			<u>\$ 433,308</u>	
Series 2016 Revenue Bonds:					
Bond principal	\$ 392,915	\$ -	\$ 21,010	\$ 371,905	\$ 29,715
Bond premium	70,216	-	9,190	61,026	8,730
	<u>463,131</u>	<u>\$ -</u>	<u>\$ 30,200</u>	432,931	<u>\$ 38,445</u>
Less current portion:					
Bond principal	(21,010)			(29,715)	
Bond premium amortization	(9,190)			(8,730)	
Long-term portion	<u>\$ 432,931</u>			<u>\$ 394,486</u>	
Series 2012 Revenue Bonds:					
Bond principal	\$ 7,470	\$ -	\$ 7,470	\$ -	\$ -
Bond premium	54	-	54	-	-
	<u>7,524</u>	<u>\$ -</u>	<u>\$ 7,524</u>	-	<u>\$ -</u>
Less current portion:					
Bond principal	(7,470)			-	
Bond premium amortization	(54)			-	
Long-term portion	<u>\$ -</u>			<u>\$ -</u>	

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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, 2020 and 2019, the EPA has awarded to the State cumulative capitalization grants of \$3,095,794 and \$ 2,982,157, respectively. As of June 30, 2020 and 2019, the State has drawn, cumulatively \$2,959,397 and \$ 2,803,480, respectively, for loans and administrative expenses. The State has provided matching funds of \$354,486 and \$354,421, respectively.

In addition, as of June 30, 2020, 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, 2020 and 2019, the borrowers had contributed \$284,010, which qualifies as meeting the State's matching requirement.

Table 1 summarizes the EPA capitalization grants awarded, amounts drawn on each grant as of June 30, 2020 and 2019, and balances available for future loans as of June 30, 2020. Table 2 summarizes the state match amounts paid by the state and local entities as of June 30, 2020 and 2019. As of June 30, 2020 and 2019, the state match required is \$591,879 and \$560,696, respectively. As of June 30, 2020 and 2019, the state match available for potential future state match is \$46,617 and \$77,735, respectively.

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NOTE 6 - CAPITAL CONTRIBUTIONS (CONTINUED)

TABLE 1

Year	Grant Award	Funds Drawn As of June 30, 2018	Funds Drawn During Year Ended June 30, 2019	Funds Drawn As of June 30, 2019	Funds Drawn During Year Ended June 30, 2020	Funds Drawn As of June 30, 2020	Available for Loans as of June 30, 2020
1989-2015	\$ 2,676,325	\$ 2,676,325	\$ -	\$ 2,676,325	\$ -	\$ 2,676,325	\$ -
2016	95,290	92,104	3,186	95,290	-	95,290	-
2017	94,682	130	30,262	30,392	64,290	94,682	-
2018	114,792	-	405	405	91,360	91,765	23,027
2019	113,637	-	-	-	267	267	113,370
	<u>\$ 3,094,726</u>	<u>\$ 2,768,559</u>	<u>\$ 33,853</u>	<u>\$ 2,802,412</u>	<u>\$ 155,917</u>	<u>\$ 2,958,329</u>	<u>\$ 136,397</u>
In-kind (Direct Payment)							
Made by EPA	1,068	1,068	-	1,068	-	1,068	-
	<u>\$ 3,095,794</u>	<u>\$ 2,769,627</u>	<u>\$ 33,853</u>	<u>\$ 2,803,480</u>	<u>\$ 155,917</u>	<u>\$ 2,959,397</u>	<u>\$ 136,397</u>
2008-ARRA	280,285	280,285	-	280,285	-	280,285	-
	<u>\$ 3,376,079</u>	<u>\$ 3,049,912</u>	<u>\$ 33,853</u>	<u>\$ 3,083,765</u>	<u>\$ 155,917</u>	<u>\$ 3,239,682</u>	<u>\$ 136,397</u>

TABLE 2

	State Match Paid As of June 30, 2018	State Match Paid During Year Ended June 30, 2019	State Match Paid As of June 30, 2019	State Match Paid During Year Ended June 30, 2020	State Match Paid As of June 30, 2020
State Disbursed	\$ 354,337	\$ 84	\$ 354,421	\$ 65	\$ 354,486
Local Disbursed	284,010	-	284,010	-	284,010
	<u>\$ 638,347</u>	<u>\$ 84</u>	<u>\$ 638,431</u>	<u>\$ 65</u>	<u>\$ 638,496</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.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019
(Dollar Amounts Expressed in Thousands)**

NOTE 6 - CAPITAL CONTRIBUTIONS (CONTINUED)

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, 2020	June 30, 2019
Administrative fee collected	\$ 11,334	\$ 9,132
Operating expenses incurred	\$ 8,208	\$ 9,261

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:

	June 30, 2020	June 30, 2019
Grant fee collected	\$ 5,862	\$ 8,006
Grants disbursed	\$ 9,761	\$ 12,041

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, 2020 and 2019, Comprehensive Annual Financial Reports.

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2020 and 2019
(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, 2020 and 2019, 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, 2020 and 2019, the Fund had restricted net position of \$341,425 and \$258,323, respectively, representing amounts received from borrower loan repayments on pledged loans. As of June 30, 2020 and 2019 pledged loans restricted for future bond debt service payments were \$2,028,779 and \$2,087,404, 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.

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, 2020**

<u>Grantor and Program Title</u>	<u>Federal CFDA 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	\$ 155,917,328 (*)	\$ 155,592,497
		<u>\$ 155,917,328</u>	<u>\$ 155,592,497</u>

(*) Tested as a Major Program

See notes to the 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, 2019**

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, 2020. 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 \$155,592,497 of expenditures that were disbursed as loan awards to qualifying subrecipients, which includes \$23,135,616 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, 2020, 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 December 15, 2020.

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.

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

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 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

Greenwood Village, Colorado
December 15, 2020



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, 2020. 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, 2020.

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.

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

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

CliftonLarsonAllen LLP

Greenwood Village, Colorado
December 15, 2020

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2020**

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

Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000

Auditee qualified as low-risk auditee? yes no

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, 2020**

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).