

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

**FINANCIAL STATEMENTS and REPORTS REQUIRED
BY THE SINGLE AUDIT ACT AMENDMENTS OF 1996**

June 30, 2013 and 2012

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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 California State Water Resources Control Board, Water Pollution Control Revolving Fund, an enterprise fund of the State of California, as of and for the years ended June 30, 2013 and 2012, 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 audits 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, 2013 and 2012, 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, 2013 and 2012, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages IV through XI 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 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 the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 September 25, 2013, on our consideration of the California State Water Resources Control Board, 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 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 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 California State Water Resources Control Board, Water Pollution Control Revolving Fund's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Denver, Colorado
September 25, 2013

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

Management's Discussion and 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, 2013 and 2012. 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

- In 2013, net position increased by \$191 million to a total of \$3.5 billion, which was \$43 million more than the increase of \$148 million in 2012. The increase in net position was primarily due to an increase in loan receivables, which was a direct result of higher capital contributions during the year from the U.S. Environmental Protection Agency (EPA).
- Capital contributions increased by \$36 million to \$142 million as compared to \$106 million in 2012. Capital contributions increased as a result of the capital available from EPA capitalization grants for loan disbursements.
- Capital contributions from the EPA American Recovery and Reinvestment Act (ARRA) of \$7 million and capitalization grant funds of \$33 million were forgiven.
- Cash and cash equivalents increased by \$108 million in 2013 as compared to an increase of \$6.5 million in 2012. The larger increase in 2013 was mostly the result of higher capital contributions from EPA capitalization grants for loan disbursements and the prepayment of a number of loan receivables.
- Loans receivable increased by \$41 million to \$3.18 billion in 2013 as compared to an increase of \$118 million in 2012. The smaller increase in 2013 reflects the prepayment of loan receivables and a lower amount of loan disbursements during 2013.
- On December 3, 2012, the CWSRF issued California Infrastructure and Economic Development Bank, Clean Water State Revolving Fund Refunding Revenue Bonds, Series 2012 for \$68.9 million at a premium of \$6.0 million. The Series 2012 Revenue Bonds along with restricted cash remaining from Series 2002 Revenue Bonds was used to refund Series 2002 Revenue Bonds.
- Restricted portion of net position increased by \$90 million to \$361 million in 2013 as compared to a decrease of \$81 million in 2012. The increase in 2013 reflects the greater pledged loan requirements of the Series 2012 revenue bonds. The decrease in 2012 was due to the decrease in notes receivables for loans pledged to the Series 2002 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, 2013 and 2012 and the change in their financial positions and their cash flows, where applicable, 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 and liabilities with the difference between the two 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

The CWSRF's net position indicates continued strong growth increasing by \$191 million, or 5.8%, to \$3.5 billion at June 30, 2013 as compared to an increase of \$148 million, or 4.7%, the previous year. The increase in net position was \$43 million higher than in the previous year. This primarily reflects the higher level of capital contributions for loans from EPA capitalization grants.

The current portion of the CWSRF's liabilities was \$15 million in 2013 and \$25 million in 2012. Current liabilities in 2013 primarily correspond to principal payments for the Series 2012 Revenue Bonds. In 2012, current liabilities primarily correspond to principal payments for Series 2002 Revenue Bonds. Noncurrent liabilities decreased \$34 million in 2013 and \$23 million in 2012. The decrease in 2013 reflects the refunding of the Series 2002 Revenue Bonds, while the decrease in 2012 reflects the ongoing principal payments of those same bonds.

A segment of the CWSRF's net position is subject to external restriction as to usage. The net position that is restricted increased in 2013 by \$90 million to \$361 million, or 33.2%, as compared to a decrease in 2012 of \$81 million to \$271 million, or 23.1%. The higher restricted amount corresponds to the greater pledged loan requirements of the Series 2012 revenue bonds compared to the Series 2002 bonds.

Of the total restricted net position, \$346 million in 2013 and \$238 million in 2012 represent the balance of outstanding loans that were pledged as security to Series 2012 and Series 2002 Revenue Bonds debt service, respectively. 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.

In 2013, the CWSRF received total payments on pledged loans of \$43.9 million (\$36.8 million of principal and \$7.1 million of interest). In 2013, debt service payments were \$0.7 million of interest for the Series 2012 bonds and \$25.6 million (\$22.9 million of principal and \$2.7 million of interest) for the Series 2002 bonds. In addition, the Series 2002 refunding debt service was \$92.5 million (\$91.8 million of principal and \$0.7 million of interest). In 2012, the CWSRF received total payments on pledged loans of \$74.1 million (\$66 million of principal and \$8.1 million of interest). The corresponding debt service payment for 2012 was \$30.2 million (\$24.3 million of principal and \$5.9 million of interest).

The remaining \$14 million of restricted net position in 2013 and \$33 million in 2012 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,		
	2013	2012	2011
ASSETS			
Cash and cash equivalents	\$ 376,642	\$ 268,664	\$ 262,142
Loans receivable	3,176,732	3,135,310	3,017,362
All other assets	24,351	26,691	28,052
Total assets	3,577,725	3,430,665	3,307,556
LIABILITIES			
Current liabilities	15,382	25,330	27,070
Noncurrent liabilities	59,236	93,194	116,686
Total liabilities	74,618	118,524	143,756
NET POSITION			
Restricted			
Debt service	14,157	32,567	47,850
Security for revenue bonds	346,377	238,166	304,195
Subtotal restricted assets	360,534	270,733	352,045
Unrestricted	3,142,573	3,041,408	2,811,755
Total net position	\$ 3,503,107	\$ 3,312,141	\$ 3,163,800

Changes in Net Position

CWSRF's 2013 program revenue was \$50.7 million of which \$6.1 million is restricted for debt service as compared to \$49.1 million in 2012 of which \$7 million was restricted for debt service. In 2013, program revenue increased by \$1.6 million or 3.26% as compared to an increase in 2012 of \$0.9 million or 1.76%. In 2013 and 2012, the increases in program revenue reflect stable levels of outstanding receivables year over year.

General revenue was \$1 million in 2013, which was a decrease of \$0.1 million or 13%, when compared to 2012. General revenue decreased \$0.3 million or 19% to \$1.1 million in 2012, when compared to 2011. During 2013 and 2012, the decrease in investment income was the result of lower interest earnings from the Surplus Money Investment Fund (SMIF). The lower earnings from SMIF were the result of lower interest rate yields.

Total expenses decreased \$5.4 million in 2013 as compared to a decrease of \$3 million in 2012. The decrease in 2013 was primarily due to a reduction in revenue bond interest expense, which was directly associated with the refunding of the Series 2002 bonds. In 2012, the decrease was primarily due to lower administrative expenses associated with the winding down of projects financed with one-time ARRA funding.

During 2013, administrative expenses decreased \$1.8 million to \$1.1 million. The decrease in 2013 was due to administrative expenses being charged to the CWSRF Administration Fund. In 2013, administrative expenses of \$7 million were charged to the CWSRF Administration Fund. In 2012, administrative expenses decreased \$2.0 million to \$2.9 million. The decrease in 2012 was primarily associated with lower costs related to the reduction in ARRA administration. In 2012, administrative expenses of \$4 million were charged to the CWSRF Administration Fund.

Capital contributions to the CWSRF increased by \$36 million, or 34%, in 2013 when compared to 2012. In 2012, capital contributions increased by \$20 million, or 23% when compared to 2011. The increases in 2013 and 2012 were due to increases in contributions from EPA capitalization grants.

The CWSRF program received principal forgiveness funds from EPA capitalization grants of \$39.7 million and \$33.8 million, in 2013 and 2012, 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,		
	2013	2012	2011
Revenues			
Program revenues:			
Loan interest income	\$ 50,680	\$ 49,080	\$ 48,231
General revenues:			
Investment income	962	1,103	1,354
Total revenues	51,642	50,183	49,585
Expenses			
Program expenses:			
Administrative expenses	1,078	2,860	4,891
EPA capitalization grant Principal Forgiveness	(32,529)	(21,571)	(11,425)
Capitalization Principal Forgiveness expenses	32,529	21,571	11,425
EPA ARRA grant Principal Forgiveness	(7,216)	(12,223)	(84,830)
ARRA Principal Forgiveness expenses	7,216	12,223	84,830
Revenue bond interest expense	533	4,984	5,996
Amortization of revenue bond issuance costs	888	55	66
Total expenses	2,499	7,899	10,953
Increase in net position before contributions	49,143	42,284	38,632
Capital contributions:			
EPA capitalization grant	138,008	84,513	31,104
EPA ARRA capitalization grant	3,637	21,337	55,007
State and other contributions	178	207	161
Subtotal capital contributions	141,823	106,057	86,272
Change in net position	190,966	148,341	124,904
Net position - beginning of year	3,312,141	3,163,800	3,038,896
Net position - end of year	\$ 3,503,107	\$ 3,312,141	\$ 3,163,800

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 received a high bond rating from Fitch (AAA), Moody's Investors Service (Aaa), and Standard and Poor's Ratings Services (AAA) on its Revenue Bonds, Series 2012. Outstanding bonds at June 30, 2013 total \$73.9 million, a decrease of \$42.6 million, compared to \$116.5 million last year as shown in Table 3. The decrease was due to the refunding of Series 2002 bonds with the issuance of Series 2012 bonds in December 2012, along with restricted cash remaining from the Series 2002 bonds. The Series 2002 bonds issued in August 2002 were refunded to take advantage of the current more favorable interest rates. The Series 2002 bond proceeds were used for the purpose of financing additional CWSRF loans administered by the State Water Board for providing financial assistance to local governments for water pollution control projects. 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)**

	<u>2013</u>	<u>June 30, 2012</u>	<u>2011</u>
Revenue bonds			
Bond principal	\$ 68,940	\$ 114,695	\$ 138,980
Bond premium	4,915	1,779	2,445
Total revenue bonds	<u>\$ 73,855</u>	<u>\$ 116,474</u>	<u>\$ 141,425</u>

Economic Conditions and Outlook

In 2013, the CWSRF program revenues continued to support new loan financing activity and administrative expenses. Although the total amount of new loan commitments was below 2012, the number of new projects financed in 2013 was comparable to the level of financing activity of past years. The present low interest rate environment makes CWSRF loans less attractive to some borrowers and the protracted economic recovery has slowed the development of larger public works expenditures. The CWSRF program continued to improve its procedures in 2013 to provide attractive and efficient financing for publicly owned treatment works projects, and continues to evaluate its financing terms so it can be an attractive choice compared to other market options.

As a result of slowly improving economic conditions, the frequency of local entities experiencing strained revenue flows has diminished. To ensure that loans are repaid on time and in full, the CWSRF uses a variety of analysis and surveillance measures to reduce the possibility of non-payment. The CWSRF has worked closely with loan recipients with strained revenues to ensure dedicated sources of revenue are sufficient, and when necessary has restructured loans in consideration of available short term cash flows. The CWSRF maintains a small reserve for doubtful accounts. However by diligently working with loan recipients, the CWSRF anticipates full repayment of all loans.

For the grant year 2013, the EPA allocated \$95 million to the CWSRF. The 2013 grant allocation is a decrease of 6% compared to the 2012 grant allocation of \$101 million. The EPA is expected to award the 2013 capitalization grant in September 2013. Presently available information indicates that the 2014 grant could be less than 50% of the 2013 grant.

Although reduced capitalization funds from EPA affect the cash flow, the CWSRF has significant equity from loan receivables that can be used to provide funds for new loans if needed. As part of the 2012 refunding, State Water Board updated the revenue bond indenture to allow for a shortened time to market if there is a need to sell additional bonds. State Water Board staff continues to monitor the demand for new loans, and will work with its financial advisors on a revenue bond sale to meet required cash flows when needed.

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 Mr. Jerrel Bolds, Manager, Accounting Branch, Division of Administrative Services, P.O. Box 100, Sacramento, California 95812 or jerrel.bolds@waterboards.ca.gov.

BASIC FINANCIAL STATEMENTS

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
STATEMENTS OF NET POSITION
June 30, 2013 and 2012
(in thousands)

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 362,485	\$ 221,663
Cash and cash equivalents - Restricted	14,157	47,001
Receivables:		
Loan interest	22,466	24,686
Investment interest	237	257
Due from other funds and other governments	1,648	1,602
Loans receivable:		
Current portion	174,924	151,765
Current portion - Restricted	20,448	45,618
Unamortized revenue bond issuance costs	-	44
Total current assets	596,365	492,636
OTHER ASSETS		
Noncurrent unamortized revenue bond issuance costs	-	102
Loans receivable:		
Noncurrent (net of allowance for bad debt)	2,655,430	2,745,378
Noncurrent - Restricted	325,930	192,549
Total other assets	2,981,360	2,938,029
TOTAL ASSETS	3,577,725	3,430,665
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Revenue bond interest payable	566	1,339
Unearned Revenue	6	73
Due to other funds	191	486
Revenue bonds payable	14,619	23,432
Total current liabilities	15,382	25,330
NONCURRENT LIABILITIES		
Unearned Revenue	-	151
Revenue bonds payable	59,236	93,043
Total noncurrent liabilities	59,236	93,194
Total liabilities	74,618	118,524
NET POSITION		
Restricted for:		
Debt service	14,157	32,567
Security for revenue bonds	346,377	238,166
Unrestricted	3,142,573	3,041,408
Total net position	\$ 3,503,107	\$ 3,312,141

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, 2013 and 2012
(in thousands)

	2013	2012
OPERATING REVENUE		
Loan interest income	\$ 50,680	\$ 49,080
Total operating revenue	50,680	49,080
OPERATING EXPENSES		
Personnel services	184	1,546
Other expenses	871	1,303
Total operating expenses	1,055	2,849
INCOME FROM OPERATIONS	49,625	46,231
NONOPERATING REVENUE (EXPENSE)		
Net investment income	962	1,103
EPA-capitalization grant - Principal Forgiveness	32,529	21,571
Capitalization Principal Forgiveness expense	(32,529)	(21,571)
EPA-ARRA capitalization grant - Principal Forgiveness	7,216	12,223
ARRA Principal Forgiveness expense	(7,216)	(12,223)
Revenue bond interest expense	(533)	(4,984)
Bond fees	(23)	(11)
Revenue bond issuance costs	(888)	(55)
Total nonoperating revenue (expense)	(482)	(3,947)
INCOME BEFORE CONTRIBUTIONS	49,143	42,284
CONTRIBUTIONS		
EPA capitalization grant	138,008	84,513
EPA - ARRA capitalization grant	3,637	21,337
State match revenue	178	207
Total contributions	141,823	106,057
CHANGE IN NET POSITION	190,966	148,341
NET POSITION - BEGINNING OF YEAR	3,312,141	3,163,800
NET POSITION - END OF YEAR	\$ 3,503,107	\$ 3,312,141

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, 2013 and 2012
(in thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from interest on loans	\$ 45,042	\$ 42,608
Loans disbursed	(288,089)	(325,435)
Principal received on loans receivable	254,306	212,559
Cash paid to employees and vendors	(1,349)	(2,777)
Cash flows provided (required) by operating activities	9,910	(73,045)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Funds received from EPA capitalization grant	181,310	142,273
Funds received from the State of California	211	163
Funds received from Bond Refunding	74,929	-
ARRA Principal Forgiveness	(7,216)	(12,223)
Principal Forgiveness	(32,529)	(21,571)
Bond fees paid	(766)	(11)
Principal paid on revenue bonds	(114,695)	(24,285)
Interest paid on revenue bonds	(4,159)	(5,943)
Cash flows provided by noncapital financing activities	97,085	78,403
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investment income received	982	1,165
Net cash provided by investing activities	982	1,165
NET INCREASE IN CASH AND CASH EQUIVALENTS	107,977	6,523
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	268,665	262,142
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 376,642	\$ 268,665
Reconciliation of operating income to net cash provided (required) by operating activities		
Income from operations	\$ 49,625	\$ 46,231
Adjustments to reconcile income from operations to net cash required by operating activities		
Construction period interest	(7,639)	(5,072)
Amortization of unearned revenue	(212)	(72)
Effect of changes in operating assets and liabilities:		
Loans receivable	(33,789)	(112,865)
Loan interest receivable	2,220	(1,339)
Due to other funds	(295)	72
Net cash provided (required) by operating activities	\$ 9,910	\$ (73,045)

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, 2013 and 2012
(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 (SRF) 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 SRF provides for low interest loans to finance the entire cost of qualifying projects. The SRF 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 20 years, or 30 years for qualifying disadvantaged communities and communities regionalizing their facilities. 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, 2013 and 2012, the EPA has awarded cumulative capitalization grant funding of \$2,380,800 and \$2,279,735, respectively to the State of California (State), for which the State is required to provide \$476,160 and \$455,947, 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 SRF include obtaining capitalization grants from the EPA, soliciting potential interested parties, negotiating loan agreements with local communities, reviewing and approving payment 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 SRF program by charging the Fund for time spent on SRF 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

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NOTE 1 - DEFINITION OF REPORTING ENTITY (CONTINUED)

pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The activities of the Fund are included in the State's 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

Implementation of New Standards

Effective July 1, 2012, the Fund implemented GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The Fund has already been following these standards.

Effective July 1, 2012, the Fund implemented the provisions of GASB No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*" (GASB No. 63) and early implemented the provisions of GASB No. 65, "*Items Previously Reported as Assets and Liabilities*" (GASB No. 65).

GASB No. 63 provides guidance for reporting deferred outflows and deferred inflows of resources as introduced and defined in GASB Concepts Statement No. 4 "*Elements of Financial Statements*" (Concepts Statement No. 4). Concepts Statement No. 4 defines a deferred outflow of resources as a consumption of net assets that is applicable to a future reporting period. A

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

deferred inflow of resources is defined as an acquisition of net assets applicable to a future reporting period. The impact on the Fund's financial statements has been to replace the term "net assets" with "net position".

GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets or liabilities. As a result of early implementing this GASB, the Fund has expensed the debt issuance costs on the 2012 Revenue Bond that prior to GASB 65 would have been capitalized. The impact of the pronouncement was considered as part of the refunding that occurred in December 2012. However, prior periods have not been restated as the change would not significantly impact the prior year's financial statement presentation.

Operating Revenues and Expenses

The Fund distinguishes between operating revenues and expenses and non-operating 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 direct salary costs and benefits expenses, allocated indirect costs and bad debt allowance. All revenues and expenses not meeting this definition are reported as non-operating 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, except for principal forgiveness reported as non-operating revenue. 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 SRF to operate under a continuous appropriation. Continuous appropriation authority means that no further appropriations are necessary to expend all funds deposited into the SRF. 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 grants 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, 2013 and June 30, 2012.

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 INVESTMENTS

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, 2013 and 2012, the Fund's cash deposits had a carrying balance of \$3 and \$5, respectively.

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

<u>Investments</u>	<u>2013</u>	<u>2012</u>
Treasury/Trust Portfolio	<u>\$ 376,639</u>	<u>\$ 268,659</u>
Total cash deposits and investments	<u>\$ 376,642</u>	<u>\$ 268,664</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, 2013 and 2012, Comprehensive Annual Financial Reports for disclosure related to the risks applicable to the Portfolio.

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NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Cash deposits and investments are reflected on the June 30, 2013 and 2012 statement of net assets as follows:

	2013	2012
Cash and cash equivalents	\$ 362,485	\$ 221,663
Cash and cash equivalents - Restricted	14,157	47,001
Total cash deposits and investments	\$ 376,642	\$ 268,664

As of June 30, 2013, all revenue bond proceeds have been disbursed. Cash and investments in the amount of \$0 and \$235 representing investment earnings on unspent revenue bonds proceeds at June 30, 2013 and 2012, respectively, were restricted for future loan disbursements. As of June 30, 2013, cash and investments in the amount of \$14,157 representing various reserve accounts required by the revenue bonds were restricted for future loan disbursements and debt service. As of June 30, 2012, cash and investments in the amount of \$46,766, representing various reserve accounts required by the revenue bonds were restricted for 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. 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 20 or 30 years 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 commitment is made. 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, 2013 and 2012, the Fund had total binding commitments of \$6,643,750 and \$6,402,218, respectively, since program inception. As of June 30, 2013, the remaining commitment on these loans amounted to \$956,291, of which \$131,361 is federal funds. The federal loan commitments included ARRA federal funds of \$1,033, of which \$0 will be forgiven and capitalization funds of \$41,452 which will be forgiven. As of June 30, 2012, the remaining commitment on these loans amounted to \$1,041,070, of which \$169,655 is federal funds. The federal loan commitments included ARRA federal funds of \$11,887, of which \$8,920 will be forgiven and capitalization funds of \$54,346 which will be forgiven. Principal forgiveness loans are forgiven as disbursed, but must be repaid if the recipient fails to meet the program requirements.

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NOTE 4 - LOANS RECEIVABLE (CONTINUED)

At June 30, 2013 and 2012 the unpaid balance on all loans receivable outstanding amounted to \$3,176,726 and \$3,135,310, respectively.

Estimated maturities of the loans receivable and interest payments thereon, at June 30, 2013 are as follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2014	\$ 42,704	\$ 195,379	\$ 238,083
2015	42,250	197,093	239,343
2016	44,093	196,127	240,220
2017	40,451	194,757	235,208
2018	36,884	198,222	235,106
2019-2023	131,660	932,888	1,064,548
2024-2028	58,901	611,299	670,200
2029-2033	15,838	264,329	280,167
2034-2038	2,933	34,474	37,407
2039-2043	730	19,339	20,069
Total	<u>\$ 416,444</u>	<u>2,843,907</u>	<u>\$ 3,260,351</u>
Loans not yet in repayment		342,181	
Allowance for bad debt		(9,356)	
Total loans receivable		<u>\$ 3,176,732</u>	

Restricted Loans Receivable

At June 30, 2013 and 2012, \$346,378 and \$238,166, 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, 2013 the Fund received \$36,837 and \$7,104 of principal and interest, respectively, on these loans, and during the year ended June 30, 2012 the Fund received \$66,028 and \$8,074 of principal and interest, respectively, on these 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, 2013 and 2012, the Fund had authorized a total of \$1,720,176 and \$1,729,315, 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, 2013 and 2012. The remaining borrowers elected to repay the State match over a period of 20 or 30 years, in the amount of \$280,167 and \$277,291 as of June 30, 2013 and 2012, respectively. As of June 30, 2013 and 2012, total local match loans outstanding, including the local match to be paid, amounted to \$ 923,315 and \$974,023, respectively, and the remaining State match to be repaid amounted to \$123,492 and \$138,343, 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. The combined outstanding loan balances at June 30, 2013 and 2012 of these major local agencies represent approximately 18.1 and 18.4 percent, respectively, of the total loans receivable and are as follows:

<u>Borrower</u>	<u>2013</u>		<u>2012</u>
	<u>Authorized Loan Amount</u>	<u>Outstanding Loan Balance</u>	<u>Outstanding Loan Balance</u>
Los Angeles County Sanitation District	\$ 606,426	\$ 394,487	\$ 422,151
Eastern Municipal Water District	244,698	180,622	128,266
	<u>\$ 851,124</u>	<u>\$ 575,109</u>	<u>\$ 550,417</u>

NOTE 5 - LONG-TERM DEBT

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 interest of 2 to 4 percent. 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 2012 revenue bonds by the Fund, the Fund pledged in excess of \$394,000 of outstanding loans receivables of the Fund as security for the bonds (see Note 4). The principal and interest received during the fiscal year from these loans is to be used to make annual debt service payments on the revenue bonds. Any excess of the principal and interest received over the debt service payments required may be used for future loan disbursements and/or released from restriction upon approval by the Trustee in the event that certain requirements are met.

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NOTE 5 - LONG-TERM DEBT (CONTINUED)

On August 7, 2002, the Fund issued \$300,000 of California Infrastructure and Economic Development Bank, Clean Water State Revolving Fund Revenue Bonds, Series 2002, dated August 1, 2002, with interest of 3 to 5 percent. These serial bonds were due annually in varying amounts through 2018. The interest on the bonds was due semi-annually on April 1 and October 1. The bonds maturing on or after October 1, 2013 were subject to redemption prior to their respective stated maturities at the option of the Fund on any date on or after October 1, 2012 without call premium. The bonds were issued to provide funding for the issuance of additional revolving fund loans by the Fund.

At the time of issuance of the Series 2002 revenue bonds by the Fund, the Fund pledged in excess of \$850,000 of outstanding loans receivable of the Fund as security for the bonds (see Note 4). The principal and interest received during the fiscal year from these loans was to be used to make the annual debt service payments on the revenue bonds. Any excess of the principal and interest received over the debt service payments required and the required debt service reserve accounts could be released from restriction upon request of the Fund in the event certain requirements were met. On December 3, 2012, due to the refunding of the Series 2002 bonds, the outstanding loan receivables that were pledged as security were released from restriction.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 13,000	\$ 2,071	\$ 15,071
2015	13,000	1,713	14,713
2016	13,000	1,323	14,323
2017	12,940	868	13,808
2018	9,530	451	9,981
2019	7,470	131	7,601
	<u>\$ 68,940</u>	<u>\$ 6,557</u>	<u>\$ 75,497</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, 2012</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance June 30, 2013</u>	<u>Due Within One Year</u>
Series 2012 Revenue Bonds:					
Bond principal	\$ -	\$ 68,940	\$ -	\$ 68,940	\$ 13,000
Bond premium	-	5,989	1,074	4,915	1,619
	<u>-</u>	<u>\$ 74,929</u>	<u>\$ 1,074</u>	<u>73,855</u>	<u>\$ 14,619</u>
Less current portion:					
Bond principal	-			(13,000)	
Bond premium amortization	-			(1,619)	
Long-term portion	<u>\$ -</u>			<u>\$ 59,236</u>	
Series 2002 Revenue Bonds:					
Bond principal	\$ 114,695	\$ -	\$ 114,695	\$ -	\$ -
Bond premium	1,779	-	1,779	-	-
	<u>116,474</u>	<u>\$ -</u>	<u>\$ 116,474</u>	<u>-</u>	<u>\$ -</u>
Less current portion:					
Bond principal	(22,895)			-	
Bond premium amortization	(536)			-	
Long-term portion	<u>\$ 93,043</u>			<u>\$ -</u>	
	<u>Balance</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance</u>	<u>Due</u>
	<u>June 30,</u>			<u>June 30,</u>	<u>Within</u>
	<u>2011</u>			<u>2012</u>	<u>One Year</u>
Series 2002 Revenue Bonds:					
Bond principal	\$ 138,980	\$ -	\$ 24,285	\$ 114,695	\$ 22,895
Bond premium	2,445	-	666	1,779	536
	<u>141,425</u>	<u>\$ -</u>	<u>\$ 24,951</u>	<u>116,474</u>	<u>\$ 23,431</u>
Less current portion:					
Bond principal	(24,285)			(22,895)	
Bond premium amortization	(666)			(536)	
Long-term portion	<u>\$ 116,474</u>			<u>\$ 93,043</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, 2013 and 2012, the EPA has awarded cumulative capitalization grants of \$2,380,800 and \$2,279,735, respectively, to the State, of which \$2,329,930 and \$2,159,393, respectively, has been drawn, cumulatively, for loans and administrative expenses. The State has provided matching funds of \$346,719 and \$346,541, respectively.

In addition, as of June 30, 2013, the EPA has awarded the ARRA grant of \$280,285 to the fund for which there is no State matching requirements. As of June 30, 2013 and June 30, 2012, \$279,252, of which \$161,006 was for principal forgiveness and \$268,398, of which \$153,790 was for principal forgiveness, respectively, has been drawn cumulatively (See Note 4).

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, 2013 and 2012, the borrowers had contributed \$282,463 and \$279,587, respectively, which qualify as meeting the State's matching requirement.

Table 1 summarizes the EPA capitalization grants awarded, amounts drawn on each grant as of June 30, 2013 and 2012, and balances available for future loans as of June 30, 2013. Table 2 summarizes the state match amounts paid by the state and local entities as of June 30, 2013 and 2012. As of June 30, 2013 and 2012, the state match required is \$465,986 and \$431,879, respectively. As of June 30, 2013 and 2012, the state match available for potential future state match is \$163,196 and \$194,249, respectively.

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NOTE 6 - CAPITAL CONTRIBUTIONS (CONTINUED)

TABLE 1

Year	Grant Award	Funds Drawn As of June 30, 2011	Funds Drawn During Year Ended June 30, 2012	Funds Drawn As of June 30, 2012	Funds Drawn During Year Ended June 30, 2013	Funds Drawn As of June 30, 2013	Available for Loans as of June 30, 2013
1989-2008	\$ 1,979,775	\$ 1,979,775	\$ -	\$ 1,979,775	\$ -	\$ 1,979,775	\$ -
2009	48,668	47,947	721	48,668	-	48,668	-
2010	145,721	25,587	75,868	101,455	44,266	145,721	-
2011	105,571	-	29,495	29,495	76,076	105,571	-
2012	101,065	-	-	-	50,195	50,195	50,870
	<u>\$ 2,380,800</u>	<u>\$ 2,053,309</u>	<u>\$ 106,084</u>	<u>\$ 2,159,393</u>	<u>\$ 170,537</u>	<u>\$ 2,329,930</u>	<u>\$ 50,870</u>
2008-ARRA	280,285	234,839	33,559	268,398	10,854	279,252	1,033
	<u>\$ 2,661,085</u>	<u>\$ 2,288,148</u>	<u>\$ 139,643</u>	<u>\$ 2,427,791</u>	<u>\$ 181,391</u>	<u>\$ 2,609,182</u>	<u>\$ 51,903</u>

TABLE 2

	State Match Paid As of June 30, 2011	State Match Paid During Year Ended June 30, 2012	State Match Paid As of June 30, 2012	State Match Paid During Year Ended June 30, 2013	State Match Paid As of June 30, 2013
State Disbursed	\$ 346,334	\$ 207	\$ 346,541	\$ 178	\$ 346,719
Local Disbursed	277,377	2,210	279,587	2,876	282,463
	<u>\$ 623,711</u>	<u>\$ 2,417</u>	<u>\$ 626,128</u>	<u>\$ 3,054</u>	<u>\$ 629,182</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 SRF program.

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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:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Administrative fee collected	<u>\$ 7,655</u>	<u>\$ 8,320</u>
Operating expenses incurred	<u>\$ 6,980</u>	<u>\$ 4,003</u>

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:

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Grant fee collected	<u>\$ 8,498</u>	<u>\$ 7,337</u>
Grants disbursed	<u>\$ 1,141</u>	<u>\$ 881</u>

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, 2013 and 2012, Comprehensive Annual Financial Reports.

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012
(Dollar Amounts Expressed in Thousands)

NOTE 8 - RETIREMENT PLAN

Plan Description

All of the employees of the Fund participate in the California Public Employees' Retirement System (CalPERS), which is included in the State of California's Comprehensive Annual Financial Report as a pension trust fund. CalPERS administers the Public Employees' Retirement Fund (PERF). PERF is an agent multiple-employer defined benefit retirement plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Departments and agencies within the State of California, including the Fund, are in a cost-sharing arrangement in which all risks and costs are shared proportionately by participating State agencies. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for this plan. This report may be obtained by writing California Public Employees' Retirement System, Central Supply, P.O. Box 942715, Sacramento, California 94229-2715.

The pension plan provides retirement benefits, survivor benefits, and death and disability benefits based upon the employee's years of credited service, age and final compensation.

Vesting occurs after five or ten years of credited services depending on the benefit tier. Employees who retire at or after age 50 with five or more years of service are entitled to a retirement benefit, payable monthly for the remainder of their lives. Benefit provisions and all other requirements are established by State statute.

Funding Policy

The Fund is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the PERF Board of Administration. The required contribution rates for the years ended June 30, 2013, 2012 and 2011, were 20.503%, 18.175% and 17.528%, respectively, for State Miscellaneous First Tier and 20.457%, 17.025% and 16.442%, respectively, for State Miscellaneous Second Tier. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Contributions, annual pension costs and trend information attributable to employees of the Fund for the fiscal year ended June 30, 2013, 2012 and 2011, are not determinable at the Fund level. However, this information is reported at a statewide level in the State of California's Comprehensive Annual Financial Report.

Post-Employment Benefits Other than Pension

In addition to the pension benefits provided by the State, the State also provides post-retirement health care benefits, in accordance with Section 22754(g) of the State Government Code, to all employees who retire from the State on or after attaining certain age and length of service requirements. The post-retirement health care benefits are funded by the State's General Fund

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012
(Dollar Amounts Expressed in Thousands)

NOTE 8 - RETIREMENT PLAN (CONTINUED)

on a pay-as-you-go basis. Refer to the State's Post-Employment Benefits Other than Pension disclosure in the June 30, 2013 and June 30, 2012 Comprehensive Annual Financial Reports for disclosure.

NOTE 9 - NET POSITION

Governmental Accounting Standards Board Statement No. 34 provides for three components of net assets: invested in capital assets, net of related debt, restricted and unrestricted. Governmental Accounting Standards Board Statement No 63 reclassifies net assets as net position, however the three components remain unchanged. As of June 30, 2013 and 2012, the Fund had no net investment 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, 2013 and 2012, the Fund had restricted net position of \$14,157 and \$32,567, respectively, representing amounts received from borrower loan repayments on pledged loans. As of June 30, 2013 and 2012 pledged loans restricted for future bond debt service payments were \$346,378 and \$238,166, 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, net of related debt 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 are to remain in the Fund.

NOTE 10 - LITIGATION

There are two lawsuits pending in regard to the Fund in which the Board is involved. Board management and its legal counsel estimate that the potential claims against the Board not covered by the State of California's Risk Management Program resulting from such litigation would be insignificant.

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

**REPORTS REQUIRED BY THE
SINGLE AUDIT ACT AMENDMENTS OF 1996**

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013**

<u>Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U.S. Environmental Protection Agency</u>		
Direct Programs:		
Capitalization Grants for State Revolving Funds	66.458	\$ 170,536,556 (*)
ARRA Capitalization Grant for State Revolving Funds	66.458	10,853,764 (*)
		<u>\$ 181,390,320</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, 2013**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity, under the accrual basis of accounting, of the California State Water Resources Control Board, Water Pollution Control Revolving Fund. The information in this schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

NOTE 2 - LOANS TO SUBRECIPIENTS

Capitalization Grants for Clean Water State Revolving Fund CFDA# 66.458 include \$169,636,553 of expenditures that were disbursed as loan awards to qualifying subrecipients, which includes \$32,529,065 of principal forgiveness loans.

ARRA Capitalization Grant for Clean Water State Revolving Fund CFDA# 66.458 includes \$10,853,764 of expenditures that were disbursed as loan awards to qualifying subrecipients, which includes \$7,216,436 of principal forgiveness loans.



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**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***

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 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, 2013, and the related notes to the financial statements, which collectively comprise the Water Pollution Control Revolving Fund's basic financial statements, and have issued our report thereon dated September 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Water Pollution Control Revolving Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the Water Pollution Control Revolving Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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.

A handwritten signature in cursive script that reads "Clifton Larson Allen LLP".

Greenwood Village, Colorado
September 25, 2013



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Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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 Circular A-133 Compliance Supplement* that could have a direct and material effect on each of CWSRF-SAWater Pollution Control Revolving Funds major federal programs for the year ended June 30, 2013. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2013.

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 OMB Circular A-133, 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 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 result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

Greenwood Village, Colorado
September 25, 2013

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
 WATER POLLUTION CONTROL REVOLVING FUND
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2013**

PART I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified
 Internal control over financial reporting:
 Material weakness(es) identified? _____ yes ✓ 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 section 510 (a)
 of OMB Circular A-133? _____ yes ✓ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
66.458	Capitalization Grants for State Revolving Funds
66.458	ARRA 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

There were no findings required to be reported under generally accepted *Government Auditing Standards*.

PART III - FINDINGS RELATED TO FEDERAL AWARDS

There were no findings required to be reported under OMB *Circular A-133*.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2013**

There were no prior audit findings required to be reported under generally accepted government auditing standards or OMB *Circular A-133*.