

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

**FINANCIAL STATEMENTS
and SINGLE AUDIT REPORTS**

June 30, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the California State Water Resources Control Board, Water Pollution Control Revolving Fund (Water Pollution Control Revolving Fund), an enterprise fund of the State of California, as of and for the years ended June 30, 2016 and 2015, 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Board of Directors
California State Water Resources Control Board

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, 2016 and 2015, 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, 2016 and 2015, 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages IV to X and the Required Supplementary Information on page 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the California State Water Resources Control Board, Water Pollution Control Revolving Fund's basic financial statements. The schedule of 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 relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2016, 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 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 Water Pollution Control Revolving Fund’s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Greenwood Village, Colorado
October 6, 2016

**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, 2016 and 2015. 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 \$121.5 million to a total of \$3.9 billion in 2016, which was \$41 million less than the increase of \$163 million in 2015. The smaller increase in net position is a direct result of lower capital contributions during the year from the U.S. Environmental Protection Agency (EPA).
- Capital contributions decreased by \$56.7 million to \$74.7 million as compared to \$131.4 million in 2015. The decrease in capital contributions was mostly a result of capital available from EPA capitalization grants for loan disbursements. Capital contributions from EPA capitalization grant funds that were forgiven decreased by \$16 million to \$8 million as compared to \$24 million in 2015.
- Cash and cash equivalents increased by \$452 million in 2016 as compared to a decrease of \$37 million in 2015. The increase in 2016 was mostly the result of an increase in cash from the issuance of the Series 2016 Revenue Bond and several payoffs of loan receivables.
- Loans receivable increased by \$155 million to \$3.70 billion in 2016 and increased by \$188 million in 2015. The smaller increase in 2016 was primarily due to several payoffs of loan receivables.
- On April 28, 2016, the CWSRF issued California Infrastructure and Economic Development Bank, Clean Water State Revolving Fund Revenue Bonds, Series 2016 for \$410.7 million at a premium of \$91.2 million. The Series 2016 Revenue Bonds were issued for the purpose of making financial assistance available to recipients for eligible projects.
- Restricted portion of net position increased by \$1.3 billion to \$1.6 billion in 2016 as compared to a decrease of \$9.3 million in 2015. The increase in 2016 reflects the greater pledged loan requirements of the Series 2016 Revenue Bonds. The decrease in 2015 was due to the decrease in loan receivables for loans pledged to the Series 2012 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, 2016 and 2015 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, liabilities and deferred inflows 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 2016, the growth of the CWSRF's net position continued to strengthen increasing by \$121.5 million, or 3.2%, to \$3.9 billion at June 30, 2016 as compared to an increase of \$163 million, or 4.5%, the previous year. The increase in net position was \$41 million lower than in the previous year, mostly reflecting the lower level of capital contributions from EPA capitalization grants.

The current portion of the CWSRF's liabilities was \$28 million in 2016 and \$15 million in 2015. Current liabilities primarily correspond to continuing principal payments for the Series 2012 and Series 2016 Revenue Bonds. Noncurrent liabilities increased by \$477 million in 2016 as compared to a decrease of \$14 million in 2015. The increase in 2016 is a result of the issuance of the Series 2016 Revenue Bonds while the decrease in 2015 is the result of the ongoing principal payments of the Series 2012 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 and Series 2016 Revenue Bonds. The net position that is restricted increased in 2016 by \$1.3 billion to \$1.6 billion, or 377.7%, as compared to a decrease in 2015 of \$9.3 million to \$342 million, or 2.7%. The increase in 2016 was primarily due to an increase in pledged loan receivables to secure the issuance of the Series 2016 Revenue Bonds. The decrease in 2015 corresponds to the ongoing debt service payments.

Of the total restricted net position, \$1.567 billion in 2016 and \$305 million in 2015 represent the balance of outstanding loans that were pledged as security to the Series 2012 and Series 2016 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 \$40.9 million (\$32.7 million of principal and \$8.2 million of interest) in 2016 of which the debt service payment was \$14.3 million (\$13 million of principal and \$1.3 million of interest). In 2015, the CWSRF received total payments on pledged loans of \$26 million (\$20.7 million of principal and \$5.3 million of interest) of which the debt service payments were \$14.7 million (\$13 million of principal and \$1.7 million of interest) for the Series 2012 bonds.

The remaining \$66.9 million of restricted net position in 2016 and \$37.3 million in 2015 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,		
	2016	2015	2014
ASSETS			
Cash and cash equivalents	\$ 731,798	\$ 279,374	\$ 316,552
Loans receivable	3,700,721	3,545,617	3,357,490
All other assets	24,341	20,075	22,734
Total assets	4,456,860	3,845,066	3,696,776
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	40	42	-
Total deferred outflows of resources	40	42	-
LIABILITIES			
Current liabilities	27,947	14,544	15,004
Noncurrent liabilities	508,954	32,024	44,897
Total liabilities	536,901	46,568	59,901
DEFERRED INFLOWS OF RESOURCES			
Related to Pensions	142	209	-
Total deferred inflows of resources	142	209	-
NET POSITION			
Restricted			
Debt service	66,876	37,320	25,975
Security for revenue bonds	1,567,358	304,797	325,460
Subtotal restricted assets	1,634,234	342,117	351,435
Unrestricted	2,285,623	3,456,214	3,285,440
Total net position	\$ 3,919,857	\$ 3,798,331	\$ 3,636,875

Changes in Net Position

Program revenue for the CWSRF in 2016 was \$57.6 million of which \$22.2 million is restricted for debt service. Program revenue in 2015 was \$55.6 million of which \$5.2 million was restricted for debt service. In 2016, program revenue increased by \$2.1 million or 3.75% and in 2015 increased by \$1.5 million or 2.66%. In 2016 and 2015, program revenue reflects an increase in outstanding receivables and the interest earned year over year on those receivables.

In 2016, general revenue was \$1.4 million, which was an increase of \$0.6 million or 75%, when compared to \$0.8 million in 2015. In 2015, general revenue decreased \$0.06 million or 7% compared to \$0.9 million in 2014. The increase in investment income during 2016 mostly reflects increased earnings that resulted from more cash on deposit while the decrease in investment income during 2015 mostly reflects reduced earnings that resulted from less cash on deposit.

Total expenses decreased by \$12.7 million in 2016 as compared to an increase of \$1.2 million in 2015. The decrease in 2016 was primarily due to a decrease in principal forgiveness expenses. The increase in 2015 was due to an increase in principal forgiveness expenses.

Administrative expenses decreased \$0.6 million to \$0.4 million in 2016 compared to 2015. Administrative expenses decreased \$0.7 million to \$1.1 million in 2015 compared to 2014. The reduction of administrative expenses charged to the CWSRF during 2016 and 2015 primarily reflects the use of the CWSRF Administration Fund instead of the CWSRF as the primary source of administrative funding. In 2016 and 2015, administrative expenses of \$8.7 million and \$8.5 million, respectively, were charged to the CWSRF Administration Fund.

Capital contributions to the CWSRF decreased by \$41 million, or 38%, in 2016 when compared to 2015. The decrease in 2016 was primarily due to a decrease in available contributions from EPA capitalization grants. In 2015, capital contributions increased by \$27 million, or 33% when compared to 2014. The increase in 2015 was due to an increase in loan disbursements made from capital contributions from EPA capitalization grants.

The CWSRF program received principal forgiveness funds from EPA capitalization grants of \$7.8 million and \$23.6 million, in 2016 and 2015, 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,		
	2016	2015	2014
Revenues			
Program revenues:			
Loan interest income	\$ 57,638	\$ 55,554	\$ 54,113
General revenues:			
Investment income	1,396	796	855
Total revenues	59,034	56,350	54,968
Expenses			
Program expenses:			
Administrative expenses	329	1,096	1,748
Capitalization Principal Forgiveness expense	7,792	23,629	21,666
Revenue bond interest expense	2,199	293	355
Revenue bond issuance costs	1,894	-	-
Total expenses	12,214	25,018	23,769
Increase in net position before contributions	46,820	31,332	31,199
Capital contributions:			
EPA capitalization grant	66,846	100,584	79,586
EPA capitalization grant Principal Forgiveness	7,792	23,629	21,666
EPA ARRA capitalization grant	-	-	1,034
State and other contributions	68	7,162	283
Subtotal capital contributions	74,706	131,375	102,569
Change in net position	121,526	162,707	133,768
Net position - beginning of year	3,798,331	3,636,875	3,503,107
Net position - Restatement	-	(1,251)	-
Net position - beginning of year (restated)	3,798,331	3,635,624	3,503,107
Net position - end of year	\$ 3,919,857	\$ 3,798,331	\$ 3,636,875

Budgetary Information

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

Debt Administration

The State Water Board administers a leveraged CWSRF program. The State Water Board maintains high bond ratings from Fitch (AAA), Moody's Investors Service (Aaa), and Standard and Poor's Ratings Services (AAA) on the CWSRF Series 2016 and 2012 Revenue Bonds. In 2016, the CWSRF issued Series 2016 Revenue Bonds for \$410.7 million at a premium of \$91.2 million. The Series 2016 Revenue Bonds were issued for the purpose of making financial assistance available to recipients for eligible projects. In 2012, the CWSRF issued Series 2012 Refunding Revenue Bonds for \$68.9 million at a premium of \$6.0 million. The Series 2012 Revenue Bonds were issued to refund the Series 2002 Revenue Bonds. As of June 30, 2016, outstanding bonds totaled \$530.8 million, an increase of \$485.9 million, compared to \$44.9 million last year as shown in Table 3. The increase in 2016 was due to the issuance of the Series 2016 Revenue Bonds. The decrease in 2015 was due primarily to the payment of the scheduled bond principal repayments for the Series 2012 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,		
	2016	2015	2014
Revenue bonds			
Bond principal	\$ 440,675	\$ 42,940	\$ 55,940
Bond premium	90,118	1,957	3,296
Total revenue bonds	\$ 530,793	\$ 44,897	\$ 59,236

Economic Conditions and Outlook

In 2016, new binding loan commitments were \$1.058 billion, a significant increase of 34% above the new commitments made in 2015. The higher level of financing activity reflects continued improvement in the general economic conditions along with CWSRF program improvements. In 2013, program procedures, policies, and financing terms were enhanced to make the program a more attractive choice compared to other financing options for publicly owned treatment works projects. A steady demand in CWSRF financing activity is anticipated in the near term.

Capitalization grant funds from EPA continue to be an important component of cash flows for financing activities. For the grant year 2016, the EPA allocated \$95 million to the CWSRF. The 2016 grant allocation is a reduction of 4% compared to the 2015 grant allocation of \$99 million. Presently available information indicates that the 2017 grant could be less than the 2016 grant by 24%.

Additionally, the CWSRF continues to maintain a large loan portfolio that generates significant program revenues for financing activity and administrative expenses. CWSRF program staff and its financial advisors continuously monitor the demand for new loans in order to be prepared to quickly sell a revenue bond if needed to meet required cash flows.

Although improving economic conditions has lowered the number of local entities experiencing strained revenue flows, the CWSRF diligently works with loan recipients to ensure full repayment of all loans.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
STATEMENTS OF NET POSITION
June 30, 2016 and 2015
(in thousands)

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 494,274	\$ 242,054
Cash and cash equivalents - Restricted	237,524	37,320
Receivables:		
Loan interest	23,488	18,805
Investment interest	772	214
Due from other funds and other governments	81	1,056
Loans receivable:		
Current portion	111,478	185,974
Current portion - Restricted	156,108	20,584
Total current assets	<u>1,023,725</u>	<u>506,007</u>
OTHER ASSETS		
Loans receivable:		
Noncurrent (net of allowance for bad debt)	2,021,885	3,054,846
Noncurrent - Restricted	1,411,250	284,213
Total other assets	<u>3,433,135</u>	<u>3,339,059</u>
TOTAL ASSETS	<u>4,456,860</u>	<u>3,845,066</u>
DEFERRED OUTFLOW OF RESOURCES		
Related to pensions	40	42
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Revenue bond interest payable	4,329	388
Unearned revenue	5	1
Due to other funds	49	163
Revenue bond cost of issuance payable	617	-
Revenue bonds payable	22,947	13,992
Total current liabilities	<u>27,947</u>	<u>14,544</u>
NONCURRENT LIABILITIES		
Revenue bonds payable	507,846	30,905
Pension liability	1,108	1,119
Total noncurrent liabilities	<u>508,954</u>	<u>32,024</u>
Total liabilities	<u>536,901</u>	<u>46,568</u>
DEFERRED INFLOW OF RESOURCES		
Related to pensions	142	209
NET POSITION		
Restricted for:		
Debt service	66,876	37,320
Security for revenue bonds	1,567,358	304,797
Unrestricted	2,285,623	3,456,214
Total net position	<u>\$ 3,919,857</u>	<u>\$ 3,798,331</u>

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

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2016 and 2015
(in thousands)

	<u>2016</u>	<u>2015</u>
OPERATING REVENUE		
Loan interest income	\$ 57,638	\$ 55,554
Total operating revenue	<u>57,638</u>	<u>55,554</u>
OPERATING EXPENSES		
Capitalization principal forgiveness	7,792	23,629
Personnel services	-	263
Other expenses	397	752
Pension expenses	(76)	77
Total operating expenses	<u>8,113</u>	<u>24,721</u>
INCOME FROM OPERATIONS	<u>49,525</u>	<u>30,833</u>
NONOPERATING REVENUE (EXPENSE)		
Net investment income	1,396	796
Revenue bond interest expense	(2,199)	(293)
Revenue bond fees	(8)	(4)
Revenue bond issuance costs	(1,894)	-
Total nonoperating revenue (expense)	<u>(2,705)</u>	<u>499</u>
INCOME BEFORE CONTRIBUTIONS	<u>46,820</u>	<u>31,332</u>
CONTRIBUTIONS		
EPA capitalization grant	66,846	100,584
EPA capitalization grant - Principal Forgiveness	7,792	23,629
EPA ARRA capitalization grant	-	-
State match revenue	68	7,162
Total contributions	<u>74,706</u>	<u>131,375</u>
CHANGE IN NET POSITION	121,526	162,707
NET POSITION - BEGINNING OF YEAR	3,798,331	3,636,875
NET POSITION - RESTATEMENT	-	(1,251)
NET POSITION - BEGINNING OF YEAR (RESTATED)	<u>3,798,331</u>	<u>3,635,624</u>
NET POSITION - END OF YEAR	<u>\$ 3,919,857</u>	<u>\$ 3,798,331</u>

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

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2016 and 2015
(in thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash paid to employees and vendors	\$ (510)	\$ (1,086)
Cash flows required by operating activities	(510)	(1,086)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Funds received from EPA capitalization grant	75,585	123,363
Funds received from the State of California	96	7,155
Proceeds from revenue bond issuance	501,961	-
Revenue bond issuance costs paid	(1,277)	-
Revenue bond fees paid	(8)	(4)
Principal paid on revenue bonds	(13,000)	(13,000)
Interest paid on revenue bonds	(1,323)	(1,713)
Cash flows provided by noncapital financing activities	562,034	115,801
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received from interest on loans	39,250	42,498
Loans disbursed	(521,862)	(372,294)
Principal Forgiveness Disbursed	(7,792)	(23,629)
Principal received on loans receivable	380,466	200,748
Net investment income received	838	784
Net cash required by investing activities	(109,100)	(151,893)
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	452,424	(37,178)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	279,374	316,552
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 731,798	\$ 279,374
Reconciliation of operating income to net cash required by operating activities		
Income from operations	\$ 49,525	\$ 30,833
Adjustments to reconcile income from operations to net cash required by operating activities		
Construction period interest	(13,708)	(16,582)
Cash received from interest on loans	(39,250)	(42,498)
Loans disbursed	521,862	372,294
Principal Forgiveness Disbursed	7,792	23,629
Principal received on loans receivable	(380,466)	(200,748)
Deferred outflows related to pension expense	(75)	35
Effect of changes in operating assets and liabilities:		
Loans receivable	(141,392)	(171,549)
Loan interest receivable	(4,684)	3,529
Due to other funds	(114)	(29)
Net cash required by operating activities	\$ (510)	\$ (1,086)

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, 2016 and 2015
(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, 2016 and 2015, the EPA has awarded cumulative capitalization grant funding of \$2,676,325, and \$2,576,562, respectively to the State of California (State), for which the State is required to provide \$535,265 and \$515,312, respectively, of cumulative matching funding to the Fund. In addition, in February 2009, the EPA awarded \$280,285 in ARRA grant funding for which there is no State Match requirement.

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

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

Reporting Entity

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

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.

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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

For the year ended June 30, 2016, the Fund adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, which is effective for financial statement periods beginning after June 15, 2015. GASB Statement No. 72 requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and the valuation techniques. The adoption of this standard had no impact on these financial statements.

Effective July 1, 2015, the Fund implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27. GASB 68 improves the accounting and financial reporting by state and local governments for pensions.

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, 2016 and June 30, 2015.

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.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Bond Issue Costs and Original Issue Premium

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

Reclassifications

For comparability, certain 2015 amounts have been reclassified, where appropriate, to conform with the 2016 financial statement presentation.

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, 2016 and 2015, the Fund’s cash deposits had a carrying balance of \$6 and \$4, respectively.

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

<u>Investments</u>	<u>2016</u>	<u>2015</u>
Treasury/Trust Portfolio	<u>\$ 731,792</u>	<u>\$ 279,370</u>
Total cash deposits and investments	<u>\$ 731,798</u>	<u>\$ 279,374</u>

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NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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, 2016 and 2015, Comprehensive Annual Financial Reports for disclosure related to the risks applicable to the Portfolio.

Cash deposits and investments are reflected on the June 30, 2016 and 2015 statement of net position as follows:

	2016	2015
Cash and cash equivalents	\$ 494,274	\$ 242,054
Cash and cash equivalents - Restricted	237,524	37,320
Total cash deposits and investments	<u>\$ 731,798</u>	<u>\$ 279,374</u>

Cash and investments in the amount of \$170,648 and \$0, representing unspent revenue bonds proceeds, at June 30, 2016 and 2015, respectively, were restricted for future loan disbursements. Additionally, cash and investments in the amount of \$66,876 and \$37,320 representing various reserve accounts required by the revenue bonds, at June 30, 2016 and 2015, respectively, were restricted for future loan disbursements and debt service.

NOTE 4 - LOANS RECEIVABLE

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

As of June 30, 2016 and 2015, the Fund had total binding commitments of \$8,978,122 and \$7,951,852, respectively, since program inception. As of June 30, 2016, the remaining commitment on these loans amounted to \$1,958,948, of which \$241,349 is federal funds. The federal loan commitments included capitalization funds of \$10,761, which will be forgiven. As of June 30, 2015, the remaining commitment on these loans amounted to \$1,462,332, of which \$331,586 is federal funds. The federal loan commitments included capitalization funds of \$17,531, 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, 2016 and 2015, the unpaid balance on all loans receivable outstanding amounted to \$3,700,721 and \$3,545,617, respectively. Estimated maturities of the loans receivable and interest payments thereon are as follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2017	\$ 45,574	\$ 267,586	\$ 313,160
2018	42,546	218,948	261,494
2019	39,367	217,555	256,922
2020	36,259	217,424	253,683
2021	33,176	216,601	249,777
2022-2026	121,653	932,483	1,054,136
2027-2031	61,764	627,932	689,696
2032-2036	18,341	303,539	321,880
2037-2041	1,698	43,228	44,926
2042-2046	153	5,309	5,462
Total	<u>\$ 400,531</u>	<u>3,050,605</u>	<u>\$ 3,451,136</u>
Loans not yet in repayment		659,472	
Allowance for bad debt		(9,356)	
Total loans receivable		<u>\$ 3,700,721</u>	

Restricted Loans Receivable

At June 30, 2016 and 2015, \$1,567,358 and \$304,797, 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, 2016, the Fund received \$32,738 and \$8,195 of principal and interest, respectively, on these loans. During the year ended June 30, 2015, the Fund received \$20,663 and \$5,330 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).

The Fund had authorized a total of \$1,718,966 of local match loans as of June 30, 2016 and 2015. 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, 2016 and 2015. The remaining borrowers elected to repay the State match over a period of 20 or 30 years, in the amount of \$281,714 and \$281,264 as of June 30, 2016 and 2015, respectively. As of June 30, 2016 and 2015, total local match loans outstanding, including the local match to be paid, amounted to \$723,274 and \$792,279, respectively. As of June 30, 2016 and 2015, the remaining State match to be repaid amounted to \$80,195 and \$93,462, respectively.

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NOTE 4 - LOANS RECEIVABLE (CONTINUED)

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, 2016 and 2015 of these major local agencies represent approximately 15.8 and 23.5 percent, respectively, of the total loans receivable and are as follows:

	2016	
<u>Borrower</u>	<u>Authorized Loan Amount</u>	<u>Outstanding Loan Balance</u>
Los Angeles County Sanitation District (LACSD)	\$ 596,746	\$ 322,299
LACSD District #29	969	839
LACSD Santa Clarita	4,336	4,012
LACSD District #2	41,511	23,705
LACSD Total	<u>643,562</u>	<u>350,855</u>
 Orange County Water District	 316,725	 233,800
	<u>\$ 960,287</u>	<u>\$ 584,655</u>
	 2015	
<u>Borrower</u>	<u>Authorized Loan Amount</u>	<u>Outstanding Loan Balance</u>
Los Angeles County Sanitation District (LACSD)	\$ 599,296	\$ 348,081
LACSD District #29	969	881
LACSD Santa Clarita	4,336	4,201
LACSD District #2	41,511	16,568
LACSD Total	<u>646,112</u>	<u>369,731</u>
 Eastern Municipal Water District	 243,572	 233,121
Orange County Water District	308,093	230,319
	<u>\$ 1,197,777</u>	<u>\$ 833,171</u>

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NOTE 5 - LONG-TERM DEBT

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. 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. 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 2016 revenue bonds by the Fund, the Fund pledged in excess of \$1,622,000 of the Fund's outstanding loan receivables as security for the bonds. At the time of issuance of the Series 2012 revenue bonds by the Fund, the Fund pledged in excess of \$394,000 of the Fund's outstanding loans receivables 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)

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

Series 2012

Year Ending June 30,

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 12,940	\$ 868	\$ 13,808
2018	9,530	451	9,981
2019	7,470	131	7,601
	<u>\$ 29,940</u>	<u>\$ 1,450</u>	<u>\$ 31,390</u>

Series 2016

Year Ending June 30,

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 17,649	\$ 17,649
2018	17,820	18,813	36,633
2019	21,010	18,166	39,176
2020	29,715	17,314	47,029
2021	30,885	16,072	46,957
2022-2026	152,830	56,996	209,826
2027-2031	98,085	26,618	124,703
2032-2036	60,390	6,825	67,215
	<u>\$ 410,735</u>	<u>\$ 178,453</u>	<u>\$ 589,188</u>

Combined

Year Ending June 30,

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 12,940	\$ 18,517	\$ 31,457
2018	27,350	19,264	46,614
2019	28,480	18,297	46,777
2020	29,715	17,314	47,029
2021	30,885	16,072	46,957
2022-2026	152,830	56,996	209,826
2027-2031	98,085	26,618	124,703
2032-2036	60,390	6,825	67,215
	<u>\$ 440,675</u>	<u>\$ 179,903</u>	<u>\$ 620,578</u>

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NOTE 5 - LONG-TERM DEBT (CONTINUED)

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

	Balance			Balance	Due Within
	June 30, 2015	Issuances	Retirements	June 30, 2016	One Year
Series 2016 Revenue Bonds:					
Bond principal	\$ -	\$ 410,735	\$ -	\$ 410,735	\$ -
Bond premium	-	91,226	2,073	89,153	9,388
	<u>-</u>	<u>\$ 501,961</u>	<u>\$ 2,073</u>	<u>499,888</u>	<u>\$ 9,388</u>
Less current portion:					
Bond principal	-			-	
Bond premium amortization	-			(9,388)	
Long-term portion	<u>\$ -</u>			<u>\$ 490,500</u>	
Series 2012 Revenue Bonds:					
Bond principal	\$ 42,940	\$ -	\$ 13,000	\$ 29,940	\$ 12,940
Bond premium	1,957	-	992	965	619
	<u>44,897</u>	<u>\$ -</u>	<u>\$ 13,992</u>	<u>30,905</u>	<u>\$ 13,559</u>
Less current portion:					
Bond principal	(13,000)			(12,940)	
Bond premium amortization	(992)			(619)	
Long-term portion	<u>\$ 30,905</u>			<u>\$ 17,346</u>	
	Balance			Balance	Due Within
	June 30, 2014	Issuances	Retirements	June 30, 2015	One Year
Series 2012 Revenue Bonds:					
Bond principal	\$ 55,940	\$ -	\$ 13,000	\$ 42,940	\$ 13,000
Bond premium	3,296	-	1,339	1,957	992
	<u>59,236</u>	<u>\$ -</u>	<u>\$ 14,339</u>	<u>44,897</u>	<u>\$ 13,992</u>
Less current portion:					
Bond principal	(13,000)			(13,000)	
Bond premium amortization	(1,339)			(992)	
Long-term portion	<u>\$ 44,897</u>			<u>\$ 30,905</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, 2016 and 2015, the EPA has awarded to the State cumulative capitalization grants of \$2,676,325 and \$2,576,562, respectively. As of June 30, 2016 and 2015, the State has drawn, cumulatively \$2,630,033 and \$2,555,395, respectively, for loans and administrative expenses. The State has provided matching funds of \$354,232 and \$354,164, respectively.

In addition, as of June 30, 2016, 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, 2016 and 2015, the borrowers had contributed \$284,010 and \$283,560, 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, 2016 and 2015, and balances available for future loans as of June 30, 2016. Table 2 summarizes the state match amounts paid by the state and local entities as of June 30, 2016 and 2015. As of June 30, 2016 and 2015, the state match required is \$526,006 and \$511,079, respectively. As of June 30, 2016 and 2015, the state match available for potential future state match is \$112,236 and \$126,645, respectively.

TABLE 1

Year	Grant Award	Funds Drawn As of June 30, 2014	Funds Drawn During Year Ended June 30, 2015	Funds Drawn As of June 30, 2015	Funds Drawn During Year Ended June 30, 2016	Funds Drawn As of June 30, 2016	Available for Loans as of June 30, 2016
1989-2012	\$ 2,380,800	\$ 2,380,800	\$ -	\$ 2,380,800	\$ -	\$ 2,380,800	\$ -
2013	95,485	50,381	45,104	95,485	-	95,485	-
2014	100,277	-	79,110	79,110	21,167	100,277	-
2015	99,763	-	-	-	53,471	53,471	46,292
	<u>2,676,325</u>	<u>2,431,181</u>	<u>124,214</u>	<u>2,555,395</u>	<u>74,638</u>	<u>2,630,033</u>	<u>46,292</u>
2008-ARRA	280,285	280,285	-	280,285	-	280,285	-
	<u>\$ 2,956,610</u>	<u>\$ 2,711,466</u>	<u>\$ 124,214</u>	<u>\$ 2,835,680</u>	<u>\$ 74,638</u>	<u>\$ 2,910,318</u>	<u>\$ 46,292</u>

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NOTE 6 - CAPITAL CONTRIBUTIONS (CONTINUED)

TABLE 2

	State Match Paid as of June 30, 2014	State Match Paid During Year Ended June 30, 2015	State Match Paid as of June 30, 2015	State Match Paid During Year Ended June 30, 2016	State Match Paid as of June 30, 2016
State Disbursed	\$ 347,002	\$ 7,162	\$ 354,164	\$ 68	\$ 354,232
Local Disbursed	283,360	200	283,560	450	284,010
	<u>\$ 630,362</u>	<u>\$ 7,362</u>	<u>\$ 637,724</u>	<u>\$ 518</u>	<u>\$ 638,242</u>

Restricted Funds

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

Administrative Fund

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

	June 30, 2016	June 30, 2015
Administrative fee collected	<u>\$ 6,887</u>	<u>\$ 7,056</u>
Operating expenses incurred	<u>\$ 8,681</u>	<u>\$ 8,531</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:

	June 30, 2016	June 30, 2015
Grant fee collected	<u>\$ 11,098</u>	<u>\$ 9,497</u>
Grants disbursed	<u>\$ 7,392</u>	<u>\$ 7,693</u>

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015
(Dollar Amounts Expressed in Thousands)

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, 2016 and 2015, Comprehensive Annual Financial Reports.

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 and survivor 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 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

Contributions

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, 2016, 2015 and 2014, were 25.150%, 24.280% and 21.203%, respectively, for State Miscellaneous First Tier and 25.278%, 24,237% and 21.355%, 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.

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by the employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
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(Dollar Amounts Expressed in Thousands)**

NOTE 8 - RETIREMENT PLAN (CONTINUED)

The actual contribution amount is based on the statutorily required contribution as outlined in Government Code Section 20683.2, which dictates that any excess employer contributions due to increased employee contributions must be allocated to the unfunded liability. Contributions to the plan were \$40 for the year ended June 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the Fund reported a liability of \$1,108 for its proportionate share of the State's net pension liability. The net pension liability was measured as of June 30, 2015 and was based on the Fund's pensionable compensation as a percentage of the State's total pensionable compensation. At June 30, 2015, the Fund's proportionate share was .002%.

At June 30, 2015, the Fund reported a liability of \$1,119 for its proportionate share of the State's net pension liability. The net pension liability was measured as of June 30, 2014 and was based on the Fund's pensionable compensation as a percentage of the State's total pensionable compensation. At June 30, 2014, the Fund's proportionate share was .004%.

For the years ended June 30, 2016 and 2015, the Fund recognized pension expense of \$(76) and \$77, respectively. At June 30, 2016 and 2015, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions for the following sources:

	<u>June 30, 2016</u>		<u>June 30, 2015</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 142	\$ -	\$ 209
Fund contributions subject to the measurement date	40	-	42	-
	<u>\$ 40</u>	<u>\$ 142</u>	<u>\$ 42</u>	<u>\$ 209</u>

The \$40 reported as deferred outflows of resources related to pensions resulting from the Fund contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

Year Ending June 30,

2017	\$ 35
2018	35
2019	36
2020	36
	<u>\$ 142</u>

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
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NOTE 8 - RETIREMENT PLAN (CONTINUED)

Actuarial Assumptions

For the measurement period ended June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. The June 30, 2014 and June 30, 2015 total pension liabilities were based on the following actuarial assumptions:

Discount rate	7.65%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.65% , net of pension plan investment and administrative expenses; includes inflation

The mortality table was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study that can be obtained via the internet at www.calpers.ca.gov under Forms and Publications.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increases, mortality and retirement rates. The Experience Study report can be obtained via the internet at www.calpers.ca.gov under Forms and Publications.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years.

Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both the short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation show was adopted by the board effective July 1, 2014.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015
(Dollar Amounts Expressed in Thousands)**

NOTE 8 - RETIREMENT PLAN (CONTINUED)

<u>Asset Class</u>	<u>Target Allocation (%)</u>	<u>Real Return Years 1-10 (%) ⁽¹⁾</u>	<u>Real Return Years 11+ (%) ⁽²⁾</u>
Global Equity	51	5.25	5.71
Global Fixed Income	19	0.99	2.43
Inflation Sensitive	6	0.45	3.36
Private Equity	10	6.83	6.95
Real Estate	10	4.50	5.13
Infrastructure and Forestland	2	4.50	5.09
Liquidity	2	-0.55	-1.05
Total	<u>100</u>		

⁽¹⁾ An expected inflation of 2.5% used for this period

⁽²⁾ An expected inflation of 3.0% used for this period

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of plans, the tests revealed the assets would not run out. Therefore, the current 7.65% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65% is applied to all plans in the Public Employees' Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained via the internet at www.calpers.ca.gov under the GASB 68 section.

According to paragraph 68 of the GASB 68, the long-term discount rate should be determined net of plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. Administrative expenses are assumed to be 15 basis points. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

Sensitivity of the Fund's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Fund's share of the net pension liability as of the measurement date, calculated using the discount rate of 7.65%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate (dollars in thousands):

	<u>Discount Rate -1% (6.65%)</u>	<u>Current Discount Rate (7.65%)</u>	<u>Discount Rate +1% (8.65%)</u>
Fund's Net Pension Liability	\$ 1,565	\$ 1,108	\$ 725

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015
(Dollar Amounts Expressed in Thousands)

NOTE 8 - RETIREMENT PLAN (CONTINUED)

Pension Plan Fiduciary Net Position

As of June 30, 2015, the Plan's fiduciary net position was \$68.1 billion. Detailed information about the plan's net position is available via the internet at www.calpers.ca.gov under Forms and Publications.

Payable to the Pension Plan

At June 30, 2016 and 2015, the Fund did not report a payable related to pension contributions.

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 on a pay-as-you-go basis. Refer to the State's Post-Employment Benefits Other than Pension disclosure in the June 30, 2016 and June 30, 2015 Comprehensive Annual Financial Reports for disclosure.

NOTE 9 - 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, 2016 and 2015, 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, 2016 and 2015, the Fund had restricted net position of \$66,876 and \$37,320, respectively, representing amounts received from borrower loan repayments on pledged loans. As of June 30, 2016 and 2015 pledged loans restricted for future bond debt service payments were \$1,567,358 and \$304,797, 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 is to remain in the Fund.

NOTE 10 - LITIGATION

There is one lawsuit 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.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015
(Dollar Amounts Expressed in Thousands)**

NOTE 11 - RESTATEMENTS

Accounting and Financial Reporting for Pensions as required by implementation of GASB 68 and GASB 71 resulted in a restatement decreasing Net Position as of June 30, 2014 by \$1,251.

Net Position, June 30, 2014, as previously reported	\$ 3,636,875
Cumulative affect of application of GASB 68 and 71, Net Pension Liability	(1,251)
Net Position, June 30, 2014, as Restated	<u>\$ 3,635,624</u>

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

REQUIRED SUPPLEMENTARY INFORMATION

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE FUND'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AND FUND'S CONTRIBUTIONS
Year Ended June 30, 2016**

Schedule of the Fund's Proportionate Share of the Net Pension Liability

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Fund's proportion of the net pension liability	0.002%	0.004%	0.004%
Fund's proportionate share of the net pension liability	\$ 1,107,946	\$ 1,119,654	\$ 1,343,280
Fund's covered-employee payroll	413,397	431,602	*
Fund's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	268.01%	252.17%	*
Fund's proportionate share of the Plan fiduciary net position as a percentage of the total pension liability	70.68%	73.39%	*

Schedule of the Fund's Contributions

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Fund's contractually required contribution	\$ 40,020	\$ 42,275	\$ 92,291
Fund's contribution in relation to the contractually required contributions	<u>40,020</u>	<u>42,275</u>	<u>92,291</u>
Fund's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund's covered-employee payroll	**	413,397	431,602
Fund's contribution as a percentage of covered-employee payroll	**	10.23%	21.38%

* The amount presented for each fiscal year was determined at June 30 of the prior year based on the measurement date of the plan. Information earlier than 2014 was not available.

** This information is not available to the Fund as of the date of this report.

SINGLE AUDIT REPORTS

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2016**

<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	\$ 74,638,297 (*)	\$ 74,300,536
		<u>\$ 74,638,297</u>	<u>\$ 74,300,536</u>

(*) Tested as a Major Program

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2016**

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, 2016. 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 reported on the accrual basis of accounting. Such expenditures are recognized following the cost principals contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Clean Water State Revolving Fund of the California State Water Resources Control Board has elected not to use the 10-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 \$74,300,536 of expenditures that were disbursed as loan awards to qualifying subrecipients, which includes \$7,791,856 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, 2016, and the related notes to the financial statements, which collectively comprise Water Pollution Control Revolving Fund's basic financial statements, and have issued our report thereon dated October 6, 2016

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 Water Pollution Control Revolving Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of Water Pollution Control Revolving Fund's internal control.

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Greenwood Village, Colorado
October 6, 2016



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

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, 2016. 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 the Water Pollution Control Revolving Fund's major federal program 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 its major federal program for the year ended June 30, 2016.

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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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



CliftonLarsonAllen LLP

Greenwood Village, Colorado
October 6, 2016

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016**

PART I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes no

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

Noncompliance material to financial statements
noted? yes no

Federal Awards

Internal control over major program:

Material weakness(es) identified? yes no

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

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

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

Identification of major programs:

CFDA Number(s)
66.458

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

Dollar threshold used to distinguish between
Type A and Type B programs: \$2,239,149

Auditee qualified as low-risk auditee? yes no

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2016**

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, 2016**

PART IV – PRIOR YEAR FINDINGS

Finding 2015-001

During this year's testing, we determined that corrective action was implemented. No similar findings noted during the current year.