

The Safe Drinking Water State Revolving Fund & Source Water Protection Program

USEPA Annual Report | 2014-2015

presented by

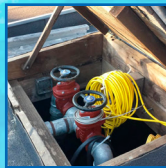
**CALIFORNIA ENVIRONMENTAL PROTECTION AGENCY
State Water Resources Control Board**

**Division of Financial Assistance
1001 I Street, Sacramento, CA 95814**



Our Vision

Abundant clean water for human uses
and environmental protection to sustain
California's future.



Our Mission

To preserve, enhance, and restore the quality of California's
water resources and drinking water for the protection of the
environment and public health, and to ensure proper water
resource allocation and efficient use, for the benefit of present
and future generations.



About the State and Regional Water Boards and Drinking Water Districts

The State Water Resources Control Board (State Water Board) was created in 1967. The mission of the State Water Board is to ensure the state’s water quality and to balance its beneficial uses. Its comprehensive authority over allocation, planning, and enforcement enables the State Water Board to protect California’s water quality and drinking water.

The State Water Board consists of five full-time salaried members, each filling a different specialty position. Each board member is appointed to a four-year term by the Governor and confirmed by the Senate.

There are 24 Drinking Water Districts throughout the state. The Drinking Water Districts issue permits to drinking water systems, inspect water systems, monitor drinking water quality, and set and enforce drinking water standards.

There are also nine Regional Water Quality Control Boards (Regional Water Boards). The Regional Water Boards develop and enforce water quality objectives and implement plans that protect the beneficial uses of the state’s waters, recognizing local differences in climate, topography, geology, and hydrology.

Each Regional Water Board has seven part-time Members, also appointed by the Governor and confirmed by the Senate. Regional Water Boards develop “basin plans” for their hydrologic areas, issue waste discharge permits, take enforcement action against violators, and monitor water quality.

Members and Executive Director

STATE WATER RESOURCES CONTROL BOARD



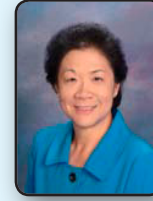
Felicia Marcus
BOARD CHAIR

Felicia Marcus is Chair of the State Water Resources Control Board. Before being appointed to the Water Board, she served in positions in government, the non-profit world, and the private sector. She was the Regional Administrator of the USEPA Region IX and headed the LA Department of Public Works. She was also the Western Director for the Natural Resources Defense Council (NRDC) and Executive VP/COO of the Trust for Public Land. Chair Marcus serves or has served in the past on many non-profit boards and Advisory Councils. She currently is an Obama Administration appointee to the Commission on Environmental Cooperation-Joint Public Advisory Council (US, Mexico, Canada).



Frances Spivy-Weber
BOARD VICE-CHAIR

Frances Spivy-Weber is Vice-Chair of the State Water Resources Control Board. Before being appointed to the Water Board, she served as Executive Director of the Mono Lake Committee. She also served as Director of international programs for the National Audubon Society, was a legislative assistant for the Animal Welfare Institute, and a member of the Bay-Delta Public Advisory Committee. Ms. Spivy-Weber currently serves as Chair of the Water Policy Center Advisory Council with the Public Policy Institute of California; Member of the Advisory Board of Syzergy; and Member of the Advisory Committee on Recycled Water and Direct Augmentation of Surface Waters and Feasibility of Direct Potable Reuse.



Tam M. Doduc
BOARD MEMBER

Tam Doduc serves as the civil engineer on the State Water Resources Control Board. Before being appointed to the Water Board, she served as Deputy Secretary at the California Environmental Protection Agency (CalEPA), where she directed the agency's environmental justice and external scientific peer review activities. She also coordinated environmental quality initiatives, and provided general oversight of children's environmental health programs. A licensed civil engineer, Ms. Doduc began her career as an environmental consultant and then joined the staff of the State Water Board, the California Air Resources Board, and then served as CalEPA's Assistant Secretary for Technology Certification and Assistant Secretary for Agriculture, Air and Chemical Programs.

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Steven Moore
BOARD MEMBER

Steven Moore was appointed to the State Water Resources Control Board in 2012. He previously served on the San Francisco Bay Regional Water Board from 2008-2012. Before joining the Water Board he was a civil engineer in Marin County. He has worked as an engineering consultant on a wide variety of water infrastructure projects, stream and wetland restoration projects, and Environmental Impact Reports throughout California, and in various clean water regulatory programs. He also served on the Federal Aquatic Nuisance Species Task Force. Mr. Moore was actively involved in the 2007 update of the San Francisco Bay Estuary's Comprehensive Conservation and Management Plan, focusing on drainage infrastructure renewal and pollution prevention.



Dorene D'Adamo
BOARD MEMBER

Dorene D'Adamo was appointed to the State Water Resources Control Board in 2013. She previously served on the California Air Resources Board where she was instrumental in the board's air quality and climate change programs and regulations. Ms. D'Adamo served in various capacities for Members of Congress from the San Joaquin Valley. She was also a representative on the CALFED team and Red Team for the development of UC Merced, and served in a variety of roles within California's criminal justice system. Currently she also serves on the board of the California Partnership for the San Joaquin Valley and on the Executive Committee of the Valley Coalition for UC Merced's Medical School.



Tom Howard
EXECUTIVE DIRECTOR

Thomas Howard has been employed with the State Water Resources Control Board for over 26 years. During that time, Mr. Howard has worked in many of the water quality and water rights programs at the Water Board. He was appointed Deputy Director at the Board in October 2000 and Executive Director in August 2010. Mr. Howard earned a bachelor's degree in chemistry at UC Berkeley, a master's degree in chemical engineering at UC Davis, and a master's degree in chemistry at the California Institute of Technology.

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I. INTRODUCTION

The California Drinking Water State Revolving Fund Program (DWSRF) presents its annual report for State Fiscal Year (SFY) 2014-15. The DWSRF program provided approximately \$118 million in low-cost funding for 24 new planning and construction projects to address drinking water issues. This report describes how the State Water Resources Control Board (State Water Board) implemented the objectives set in the SFY 2014-15 [Intended Use Plan](#) (IUP).



II. PROGRAM SUMMARY

The federal Safe Drinking Water Act (SDWA), as amended in 1996, authorized the creation of the national DWSRF program to assist public water systems achieve or maintain compliance with SDWA requirements and protect public health through the funding of drinking water infrastructure projects. Section 1452 of the SDWA grants the United States Environmental Protection Agency (USEPA) the authority to award Capitalization Grants to state DWSRF programs, which in turn provides low interest and subsidized funding for the projects. More information about the DWSRF program is located on the State Water Board DWSRF website at http://www.waterboards.ca.gov/drinking_water/services/funding/SRF.shtml.

The DWSRF program has promoted and protected the health and safety of Californians since its first Capitalization Grant awarded in 1998. Since the beginning of the program, public water systems have used DWSRF funding primarily to address drinking water quality and capacity issues, typically in response to compliance orders and enforcement actions by the Division of Drinking Water (DDW). The DWSRF program uses portions of the Capitalization Grant, known as set-asides, to provide services such as Small Water System Technical Assistance (SWSTA), and Technical, Managerial and Financial (TMF) capacity development assistance. Set-asides also subsidized the DDW Public Water System Supervision (PWSS) program and the implementation of a Source Water Protection (SWP) program.

As of June 30, 2015, the total funds available for eligible projects was \$2.08 billion. The DWSRF program has committed about 108 percent of all available funds to projects, most through executed binding commitments (funding agreements) and disbursed over 80 percent of those available funds. In addition, the DWSRF program has expended approximately 88 percent of its set-aside funds. Table 1 (page 2) shows the total DWSRF program activity.

The DWSRF program operates on a cash-flow basis. One part of the cash-flow management process is the continuous acceptance, review, and approval of new project funding applications. The IUP, which the DWSRF program updates yearly, forecasts projects that may receive funded in the fiscal year. The IUP is located on the State Water Board website at http://www.swrcb.ca.gov/drinking_water/services/funding/DWSRFIUP.shtml#Current.

The DWSRF program funds projects for both small water systems (populations less than 10,000) and large water systems (populations over 10,000). Figure 1 (page 9) shows the amount of funding awarded to small and large water systems in SFY 2014-15.

Table 1: Cumulative Program Activity¹

Construction and Planning Funding

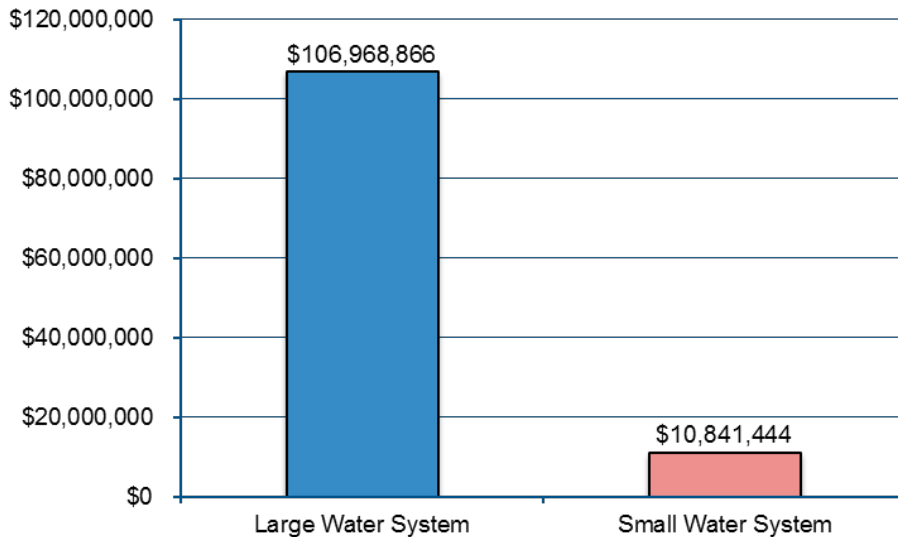
Activity	Life of Program
Number of Binding Commitments	379
Value of All Binding Commitments	\$2.204 billion ²
Disbursements and Expenditures	\$1.683 billion ²
Balance of Funding Agreements	\$521 million

Set-Aside Funding

Set-Aside Amount	\$193.7 million ³
Set-Aside Expenditures	\$169.7 million ³
Balance of Set-Asides	\$24.1 million ³

Figure 2 (page 10) shows the number of funding agreements awarded to those systems and Figure 3 (page 10) shows the total dollar amount of the funding agreements by project category.

Figure 1: SFY 2014-15 Large/Small Water System Funding Distribution



4 Program activity includes matching funds provided by funding recipients.

5 Amount includes ARRA funds and excludes LEFA funds.

6 Amount includes LEFA funds.

Figure 2: SFY 2014-15 Number of Systems Funded

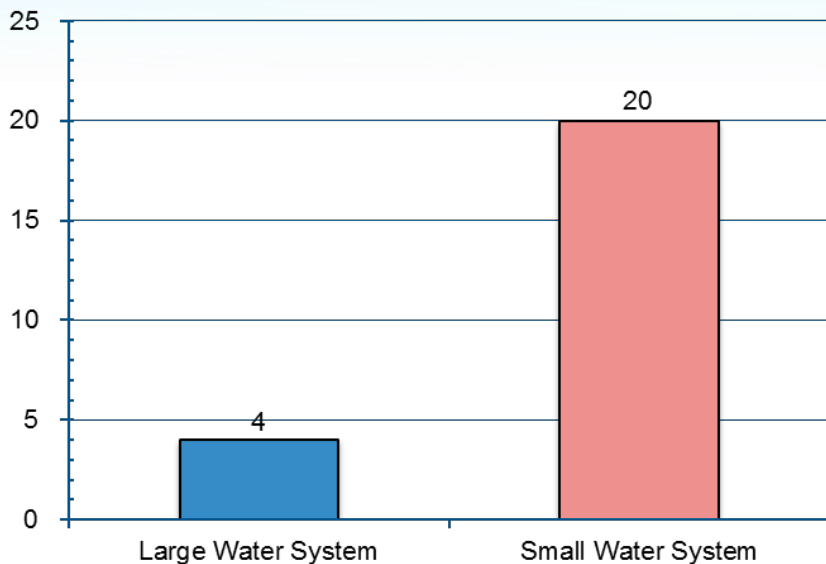
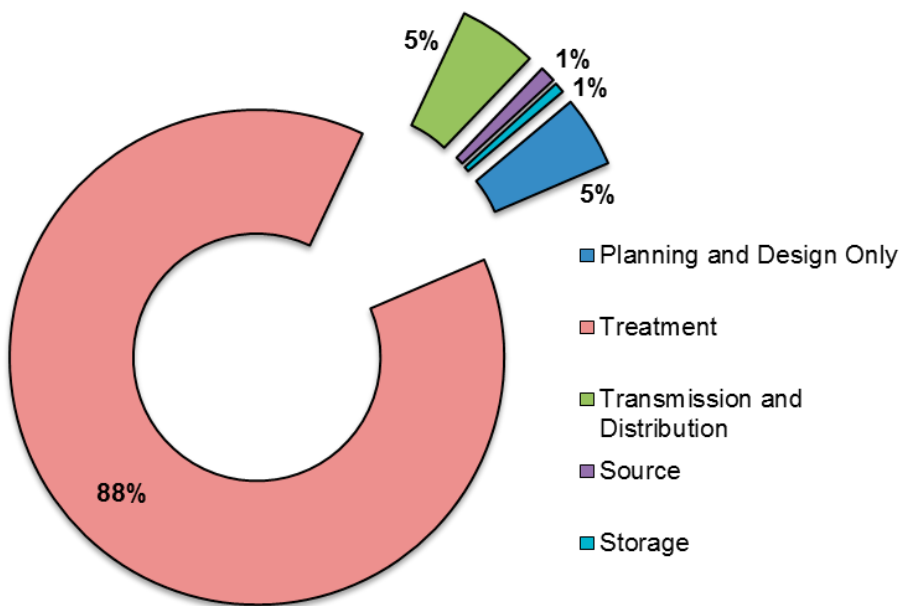


Figure 3: DWSRF SFY 2014-15 Funding By Project Category*



*Percentage based on total funding amounts for each category.

III. PROGRAM GOALS AND FINANCIAL RESULTS

A. SHORT-TERM GOALS

This section describes the DWSRF program's efforts to meet the following short-term goals in SFY 2014-15.

1. Apply for and accept the FFY 2014 Capitalization Grant

The California Department of Public Health (CDPH) submitted the FFY 2014 DWSRF Capitalization Grant application on June 17, 2014. The USEPA awarded the grant on September 19, 2014.

2. Provide 20-30 percent of the 2014 Capitalization Grant as additional subsidy to DWSRF recipients

The State Water Board provided \$13,912,066 in principal forgiveness to DWSRF funding recipients, including additional principal forgiveness to prior year funding recipients. It assigned the principal forgiveness to available additional subsidy authority for prior year Capitalization Grants as well as the 2014 Capitalization Grant (Table 2, page 22). As a result, approximately 14 percent of the 2014 Capitalization Grant was committed as additional subsidy to eligible recipients in SFY 2014-15. The State Water Board intends to provide the remaining 16 percent of the 2014 Capitalization Grant as additional subsidy in SFY 2015-16.

3. Provide 15 percent of cumulative available DWSRF funds to small water systems

The State Water Board provided \$10.8 million in new DWSRF funding to small water systems in SFY 2014-15, totaling \$294.3 million over the life of the program (approximately 13.3 percent). Similar to SFY 2013-14, the DWSRF program awarded over 80 percent of all funding agreements to small water systems. Providing assistance to small water systems typically requires more time and resources, generally due to limited TMF capacity.

The State Water Board continues to commit the majority of its DWSRF personnel resources to assisting small water systems. Two new units, under the Office of Sustainable Water Solutions established by the Governor, are focusing on the needs of small water systems with less than 200 connections by providing additional assistance through third-party contracts and aid with DWSRF applications. Small water systems often lack the readiness to begin a construction project, demonstrating a need for feasibility analysis, plans and specifications, environmental

documentation, and certain technical, managerial and financial qualifiers. As a result, the DWSRF program committed planning funds to such small systems to assist in the preparation for a construction project. This has contributed to an increase in small water system funded, in support of the program's goals.

4. Update the DWSRF Operating Agreement with USEPA

The DWSRF program focused its staff resources, in large part, on the development of the Policy for Implementing the Drinking Water State Revolving Fund (DWSRF Policy), as well as the completion of the SFY 2015-16 IUP and Proposition 1 (Prop 1) drinking water guidelines. As a result, the State Water Board delayed updating the DWSRF Operational Agreement in SFY 2014-15. The DWSRF program intends to begin the updating process in SFY 2015-16.

5. Position the DWSRF program to facilitate drought relief

The DWSRF program was successfully positioned to facilitate drought relief efforts with the use of set-aside funds. The DWSRF Local Assistance Set-Aside provided funding for state operational costs to support the Public Water System Drought Emergency Response (PWSDER) program within the Division of Financial Assistance (DFA). The PWSDER program received a \$15 million California State General Fund appropriation to fund drought emergency drinking water

related projects. Set-asides funded DFA staff reviews of PWSDER funding requests. It also funded personnel costs within DFA to coordinate with DDW in managing emergency projects, including the review of claims for reimbursement within the program. DWSRF State Program Management set-asides also funded the state operation costs of DDW's drought relief efforts within the PWSS program by providing technical assistance to public water systems in coordination with other federal, state and local agencies. Exhibit J (page 87) shows drought emergency drinking water projects funded under the PWSDER program.

Finally, the DWSRF program also provided \$1,250,000 in drought emergency funding to Groveland Community Services District for a new water filtration system at a new source due to California's drought.

6. Continue addressing USEPA Notice of Non-Compliance

On April 19, 2013, the USEPA issued a Notice of Non-Compliance to CDPH, the department formerly with primacy over the DWSRF program, in accordance with the USEPA grant regulation 40 CFR §35.3585. USEPA determined that CDPH "had not timely and efficiently committed and expended funds in the DWSRF, nor employed adequate financial resources to operate the DWSRF in a sound financial manner..." Per the Notice of Non Compliance, on July 12, 2013, CDPH submitted to USEPA a Corrective Action Plan (CAP), which

the USEPA approved on July 23, 2013.

On July 1, 2014, the State Water Board assumed primacy over the DWSRF program and the CAP and satisfied all but one CAP requirement scheduled for completion in SFY 2014-15. In a letter to USEPA Region IX, dated June 1, 2015, the State Water Board explained that it would not fulfill the requirements of CAP Item 22 by its deadline due to a shortfall in project disbursements. The State Water Board further noted that it would satisfy the requirement by no later than January 1, 2016.

In a response letter dated September 14, 2015, USEPA Region IX acknowledged the shortfall in disbursements and accepted the revised target date of January 1, 2016 for CAP Item 22. The DWSRF program was able to meet the requirements of CAP Item 22 in October of 2015, exceeding the target disbursement amount of \$621 million. The DWSRF program notified the USEPA of this accomplishment at the October CAP update meeting.

7. Provide funding for water meter projects

Funding projects as part of the Green Project Reserve (GPR) was optional under the 2014 DWSRF Capitalization Grant; however, the DWSRF program provided \$ 4,399,041 in GPR funding in SFY 2014-15 (Exhibit E, page 80).

8. Achieve set-aside spending rate of 75 percent per the DWSRF CAP

The State Water Board had a set-aside spending rate of approximately 88 percent, exceeding the goal of 75 percent.

9. Disburse \$621 million in cumulative DWSRF funds

The State Water Board did not disburse \$621 million in cumulative DWSRF funds by its target date of June 30, 2015 due to a shortfall in projected disbursements. The State Water Board met this disbursement goal in October of 2015, ahead of the revised January 2016 target date approved by USEPA Region IX on September 14, 2015.

10. Develop comprehensive guide on DWSRF claims eligibility

In the USEPA Performance Evaluation Report (PER) for SFY 2013-14, USEPA requested the DWSRF program to share its eligibility guidance once developed and provide an update on improvements to its expense allocation procedures.

The DWSRF program integrated and implemented its expense allocation procedures in alignment with existing Clean Water State Revolving Fund (CWSRF) expense allocation procedures. The DWSRF Policy has disbursement request forms and guidance materials within it. In addition, the CWSRF and DWSRF Loans and Grants Tracking System (LGTS) databases were merged,

enabling the DWSRF program to more accurately document reimbursement claims and approvals.

In SFY 2014-15, the State Water Board began comparing and integrating certain DWSRF and CWSRF claims eligibility rules, such as allowable invoice mark-up and allowable overhead expenses. The DWSRF program will not finalize a draft of its claims eligibility guidance until it receives eligibility guidance from USEPA. This anticipated guidance from USEPA ensures the DWSRF program's claims eligibility guidance is consistent with applicable federal recommendations and/or requirements.

11. Collaborate with water systems to identify problems early

The creation of DWSRF Project Managers within DFA, who work in coordination with DDW staff engineers, has increased direct communication with funding applicants. Project Managers are involved in the funding application process from its beginning and focus on developing DWSRF-specific expertise, giving them the ability to identify and address potential problems early in the application process, improving efficiency and customer service.

12. Solicit input from stakeholders to streamline project selection process

The State Water Board worked closely with stakeholders and used its process to solicit and incorporate input from them prior to the adoption of the

DWSRF Policy. The State Water Board also reached out to them for input on the creation of the IUP, funding criteria, project selection and collaborative funding mechanisms for Prop 1. The DWSRF program engaged in three (3) public workshops throughout California to solicit input on proposed Prop 1 and DWSRF project selection and funding guidelines. The workshops and input obtained from the public enabled the State Water Board to tailor the SFY 2015-16 IUP in a way that addressed the needs and concerns raised by both the public and stakeholders.

13. Reduce instances of non-compliance from small water systems

The DWSRF program worked closely with DDW to ensure that all eligible small water systems had the opportunity to apply for DWSRF funding. The DWSRF program made available technical assistance to help small water systems apply for funding. In SFY 2014-15, oversight of small water system compliance was transferred to DDW. They will provide progress reports on small water system compliance with safe drinking water standards to the USEPA Region IX.

14. Increase outreach activities

DWSRF program staff participated in six (6) 2014 California Financing Coordinating Committee (CFCC) funding fairs and three (3) 2015 CFCC funding fairs, with three (3) additional fairs scheduled for the remainder of 2015. These funding

fairs provide members of the public and infrastructure development professionals with current information on funding options available for different types of projects.

DWSRF program staff also participated in several conferences throughout the year to provide updated information on the DWSRF program. These conferences included the following:

1. League of California Cities 2014 Annual Conference
2. 2015 WaterReuse California Annual Conference
3. California Water Environment Association 2015 Annual Conference
4. The Association of California Water Agencies 2014 Fall and 2015 Spring Conferences
5. 2015 California Rural Water Association (CRWA) Expo
6. The 2nd California Water Summit
7. American Water Works Association 2015 Conference & Exposition
8. California Public Finance Conference
9. Rural Community Assistance Corporation (RCAC) California Technical Assistance Provider (CalTAP) fairs

10. The Council of Infrastructure Financing Authorities (CIFA) 2014 Fall and 2015 Spring Conferences.

15. Continue improving new Universal Pre-Application

The DWSRF program implemented a new application system already in place for other State Water Board funding programs, replacing the DWSRF Universal Pre-Application and invitation process. The system currently in use is the Financial Assistance Application Submittal Tool (FAAST), which allows applicants to submit DWSRF applications online any time. FAAST contains four packages: 1) General, 2) Technical, 3) Financial and 4) Environmental, which collectively contains the information necessary for the application process. Adoption of the FAAST system has improved the efficiency of application submittal and its approval.

16. Continue developing a web-enabled LGTS

The DWSRF program continued its efforts to web-enable LGTS. In SFY 2014-15, phase one of web-enabling efforts was completed with the merger of the DWSRF and CWSRF LGTS databases. The reconciliation of DWSRF financial and accounting data in LGTS was also substantially completed, enabling the database to be relied upon. Finally, phase two of the LGTS web-enabling effort began late in SFY 2014-15, which included programming efforts for a web-based LGTS platform.

17. Continue requiring TMF and TMF tune-ups from PWS

TMF tune-up was removed because the support contract with University of California, Davis was not renewed. The tune-up is in transition to a new platform and is anticipated to be online soon. As in the past, TMF tune-up will be a prerequisite for water systems to receive technical assistance.

18. Implement Small Water System Plan to reduce MCL violation

The DWSRF program continued to work with DDW to ensure all eligible small water systems had the opportunity to apply for DWSRF funding. Technical assistance was available to help small water systems apply for funding. DDW assumed responsibility for the implementation and management of the Small Water System Plan in SFY 2014-15 and progress reports of its implementation will be reported in the annual Drinking Water Capacity Development Report to USEPA Region IX as well as other supplemental reports.



B. LONG-TERM GOALS

This section discusses the State Water Board's efforts to meet the following long-term goals for the DWSRF program.

1. Address significant risks to public health

California exceeded the national average in percentage of population receiving water that meets the National Primary Drinking Water Standards. Over 98 percent of the population served by public water systems in California have access to safe drinking water. The State Water Board is committed to assisting water systems in addressing public health issues.

The program continues to fund projects that remediate risks caused by exceedances of primary drinking water standards. Health risks caused by current drought conditions in California have also received high priority and receive short-term emergency funding followed by long-term solutions through DWSRF funding.

2. Ensure SDWA compliance

The DWSRF program continues to work with DDW to ensure all eligible public water systems have the opportunity to apply for DWSRF funding. Beginning January 2015, all applicants with an eligible project could apply at any time for funding. Funding continued to be prioritized for projects that addressed primary and secondary standards of the SDWA and were ready to proceed. Technical assistance was made available to help small water

systems apply for funding. DDW also continued its permitting, inspections, monitoring, and enforcement activities for compliance with the SDWA.

3. Reduce cost of drinking water

The DWSRF program continued to provide low-cost loans and principal forgiveness to public water systems, reducing the costs of infrastructure improvements. As a part of the funding process, the State Water Board continued requirements to improve the TMF capacity of water systems receiving DWSRF funding. These requirements ensure that public water systems benefiting from DWSRF funding will operate in an effective and efficient manner, which reduces the cost of drinking water.

DWSRF applicants are encouraged to include energy efficiency and water conservation measures such as water meters in their projects. Water meters encourage users to conserve water and produce cost savings related to water pumping, treatment, storage and distribution as well as help identify non revenue water loss. The State Water Board also encourages the consolidation or regionalization of small public water systems that lack the capability to be operated and maintained in a cost-effective manner by providing incentives for consolidation projects.

4. Acknowledge and address household affordability constraints

The State Water Board acknowledges the affordability constraints of public water systems and continues to provide principal forgiveness of loans, reduced interest rates, and encourage the consolidation of water systems to improve economies of scale. Specifically, the DWSRF Policy targets principal forgiveness for public water systems serving disadvantaged communities while also reserving zero (0) percent interest rates for small water systems serving disadvantaged communities with higher residential water rates.

C. OPERATING AGREEMENT AND CAPITALIZATION GRANT CONDITIONS

The DWSRF program agreed to meet a number of conditions described in the Operating Agreement and Capitalization Grant agreements. These conditions were met as described below.

1. Assistance activities

A total of \$117,810,310 in new DWSRF funding agreements were given in SFY 2014-15. Funds are provided to enhance drinking water treatment, distribution, storage, meters, ensure water systems improve reliability with interties, and the consolidation of systems. Due to a fourth year of severe drought in California, both water quantity and quality issues were addressed by DWSRF projects in SFY 2014-15 as groundwater and surface water continued to diminish. Water quality issues such as arsenic, nitrate, groundwater under direct influence, and disinfection by-product formation continue to be addressed. Projects funded in SFY 2014-15 are shown in Exhibit B (page 75).

Types of assistance include funding agreements and the purchase of debt for the construction of drinking water projects.

Principal forgiveness was provided to applicants that met conditions specified by the State Water Board in Section IV of the IUP. Small and disadvantaged communities may receive zero percent interest rates.

The standard interest rate for projects are set when a funding agreement is prepared. The interest rate is generally one-half the state's average general obligation bond rate, which is established each calendar year.

The State Water Board offered planning and design funding in SFY 2014-15. Planning and design funding may be amortized over five years and can be rolled into a construction funding agreement. Construction funding agreements are generally amortized up to 20 years for non-

2. Eligible categories of projects and funding terms

The State Water Board offered funding to all eligible categories of projects.

disadvantaged communities or up to 30 years for disadvantaged communities.

3. State match

The State Water Board met its 20 percent general state match requirement for the 2014 DWSRF Capitalization Grant in SFY 2014-15 through the sale of a short-term bond to the California Infrastructure and Economic Development Bank (IBank). The State Water Board sold a \$17.9 million short-term bond to the IBank in early December of 2014, which was secured by, and repaid with interest generated from outstanding DWSRF loans. As mandated in federal regulations, the principal amount of the short-term bond was deposited into the DWSRF prior to the FFY 2014 DWSRF Capitalization Grant payment in early December of 2014.

All available DWSRF state match, including the 2014 short-term loan with the IBank and approximately \$45.7 million in Proposition 84 – Section 75023 state match funds, were fully liquidated in SFY 2014-15. The liquidation of state match funds enabled the State Water Board to begin disbursing federal funds through the 2014 Capitalization Grant. As of June 30, 2015, California has provided approximately \$294.5 million in state match funds to the DWSRF program through a combination of state General Funds, state general obligation bond revenue proceeds, local match, and short-term bonds with the IBank and has disbursed all available state match funds.

Finally, California provided approximately \$8.3221 million in additional 1:1 matching funds for the \$8.3221 million budgeted to the 2014 State Program Management set-aside. California has provided over \$14 million in state General Fund appropriation to the State Water Board's Safe Drinking Water Account in support of PWSS activities.

4. Binding commitments within one year

The State Water Board must commit funding agreements to projects in an amount equal to 120 percent of each federal quarterly payment within one year of that payment. As of June 30, 2015, executed funding agreements totaled \$2.2 billion, which is 136 percent of the mandated commitment amount.

5. Expedient and timely expenditure

The State Water Board continued to work on advanced cash-flow modeling to demonstrate the timely and expeditious use of DWSRF funds. In SFY 2014-15, the minimum funding agreement amount to ensure optimal use of DWSRF funds without leveraging was \$115 million. The State Water Board committed \$117.8 million by June 30, 2015. The minimum commitment amount depends on projected funding disbursement averages relative to projected future receipts based on claim submittals for reimbursement. Funding recipients begin principal repayment on total disbursements no later than one year

from the project completion date.

The minimum annual commitment amount also depends on the timeline for processing complete disbursement requests from funding recipients. To ensure the timely reimbursement of claims, DWSRF staff review and approve complete disbursement requests, then route the requests to the State Water Board's Division of Administrative Services (DAS). DAS typically processes requests within seven (7) calendar days of receiving the claim then send the requests to the State Controller's Office (SCO), which issues a check (warrant) within 10 calendar days to the funding recipient.

The State Water Board draw federal funds from the United States Treasury via the Automated Standard Application for Payments (ASAP) system as warrants are issued by SCO. ASAP is a request and delivery system of federal funds developed by the Financial Management Service of the United States Treasury and the Federal Reserve Bank. By using ASAP, the State Water Board may draw funds from USEPA for expenditures incurred by the DWSRF program in an expeditious and timely manner. Draw requests are made within one week of an issued warrant. Requested funds are also deposited electronically the next business day to account(s) specified by the State Water Board. For the DWSRF set-aside accounts, federal draws are typically requested through ASAP on a monthly basis for prior month's administration costs.

The State Water Board also integrated the DWSRF program into existing administrative activities to ensure the efficient encumbering and disbursement of funding agreements. The State Water Board encumbered all loan balances to DWSRF federal funds to ensure the liquidation of federal Capitalization Grants. The job duties of existing DWSRF disbursement analysts were reorganized so they could focus on the processing of disbursement requests. In prior years, disbursement analysts were tasked with additional duties, limiting their time available to process disbursement requests. The use of LGTS in the processing of disbursement between DFA and DAS has also contributed to a more efficient and timely reimbursement process.

The timely and expeditious use of federal funds can be measured through the amount of unliquidated federal funds. USEPA's best practices call for a Capitalization Grant to be liquidated within two years of its award. The Notice of Non-Compliance to CDPH, dated April 19, 2013, cited a federal unliquidated obligation (ULO) of approximately \$455 million. As of June 30, 2015, the real-time DWSRF federal ULO was approximately \$174.9 million and cash-flow projections showed that the DWSRF program is on target to achieve a federal ULO less than \$160 million by June 30, 2016, as described in the CAP.

6. Eligibility activities

The DWSRF program requires each applicant to submit a detailed

application to ensure USEPA eligibility requirements are met. All activities funded were eligible under Section 35.3520 of Title 40 of Code of Federal Regulations.

7. Disadvantaged Business Enterprise (DBE) objectives, Davis-Bacon, and American Iron and Steel requirements

The State Water Board negotiated a total fair share DBE objective with the USEPA beginning FFY 2014-15 for the DWSRF program. The objective was two percent for the Minority Owned Business Enterprises (MBE) and one percent for Women Owned Business Enterprises (WBE) participation for a combined three percent goal. Funding recipients reported participation as 0.02 percent for MBE and 0.03 percent for WBE. Exhibit D (page 39) provides a breakdown of DBE participation. The State Water Board will continue to monitor participation to ensure that the “positive effort process” is followed by funding recipients.

All projects funded were required to comply with Davis-Bacon prevailing wage requirements. Each funding agreement included provisions requiring applicants to follow Davis-Bacon requirements. Staff review reports and verify that sub-recipients have complied with Davis-Bacon requirements. Staff also maintain tracking mechanisms to ensure federal quarterly baseline monitoring requirements are met. Records of all documents and site inspection reports are maintained in project files. Staff

review the quarterly site inspection reports annually to determine whether the number of site inspections is satisfactory and if any modifications to the control activities are needed.

Funding recipients were required to use American-made iron and steel products pursuant to USEPA guidelines for projects involving the construction, alteration, maintenance, or repair of a public treatment works funded after January 16, 2014, unless a national or project specific waiver from the USEPA applied. These guidelines applied to projects that received a funding agreement between December 16, 2014 and September 30, 2015. These projects must conform with the American Iron and Steel (AIS) requirements, except where a national or project specific waiver from the USEPA applied or the State Water Board approved plans and specifications prior to December 16, 2014.

8. Additional subsidy and green requirements

A portion of each Capitalization Grant must be used for additional subsidy. Beginning in FFY 2010, the United States Congress began prescribing minimum amounts of a DWSRF Capitalization Grant that must be committed in the form of additional subsidization to DWSRF projects. Table 2 (page 22) shows the amounts necessary for compliance and Exhibit E (page 80) identifies 17 additional subsidy projects funded in SFY 2014-15.

The DWSRF program may grant a portion of a Capitalization Grant to projects with green benefits (GPR). In SFY 2014-15, GPR funding was given to projects that included the installation of water meters and the water conservation and efficiency benefits. Table 3 (page 22) shows the amount of DWSRF funding assigned to current and prior year Capitalization Grants.

Table 2: Additional Subsidization Funding⁴

Federal Fiscal Year Grant	Minimum Principal Forgiveness By FFY Grant Agreement	Maximum Principal Forgiveness By FFY Grant Agreement*	Principal Forgiveness Disbursed	Amount Committed
2010	\$38,087,400.00	\$38,087,400.00	\$30,829,903.22	\$38,087,400.00
2011	\$26,009,400.00	\$26,009,400.00	\$8,896,222.46	\$26,009,400.00
2012	\$17,071,600.00	\$25,607,400.00	\$4,530,939.94	\$25,607,400.00
2013	\$15,754,000.00	\$23,631,000.00	\$884,060.53	\$23,631,000.00
2014	\$16,704,200.00	\$25,056,300.00	\$0.00	\$11,716,085.75
Totals	\$113,626,600.00	\$138,391,500.00	\$45,141,126.15	\$125,051,285.75

* DWSRF federal regulations require that no more than 30 percent of a DWSRF Capitalization Grant to be awarded as additional subsidy.

Table 3: Green Project Reserve Funding³

Federal Fiscal Year	Minimum Green Projects Required By Grant Agreement	Amount Committed	Amount Disbursed
2010	\$25,391,600	\$25,391,600	\$25,391,600
2011	\$17,339,600	\$26,013,832	\$26,013,832
2012	\$0	\$8,565,660	\$2,254,634
2013	\$0	\$0	\$0
2014	\$0	\$0	\$0
Totals	\$42,731,200	\$59,971,092	\$53,660,066

⁴ Amounts shown are as of June 30, 2015.

9. Federal Cross-Cutters

The State Water Board uses the [State Environmental Review Process](#) (SERP) to review the environmental impacts of projects. While the SERP generally follows the requirements of the California Environmental Quality Act (CEQA), each applicant must also complete and submit an [Evaluation Form for Environmental Review and Federal Coordination Form](#) (Evaluation Form). Based on the Evaluation Form and review of the application documents, DWSRF staff will distribute environmental analysis documents and consult with the appropriate federal agencies on projects with known or suspected effects under federal environmental regulations, consistent with the Operating Agreement between the State Water Board and USEPA.

The DWSRF program required compliance with DBE and Davis-Bacon wage requirements for all funding, except planning and design funding, and requires Single Audit Act (Office of Management and Budget Circular A-133) compliance and reporting on all agreements that received over \$500,000 in federal funds in any one year. DWSRF also required compliance with American Iron and Steel requirements beginning in 2014, as required by the Consolidated Appropriations Act of 2014 (Public Law 113-76), unless the project qualified for a waiver.

The Federal Funding Accountability and Transparency Act (FFATA) along with associated Office of Management

and Budget (OMB) directives, requires non-ARRA recipients of federal dollars to report recipient and sub-recipient information into the FFATA Subaward Reporting System (FSRS) by the end of the month following recipient or sub-recipient award for any amount equaling \$25,000 or greater, starting October 1, 2010.

The DWSRF program began reporting FFATA data in FFY 2011 on an equivalency basis, by choosing loans that equaled the total DWSRF grant amount received from the USEPA. The DWSRF program continues to report FFATA loan data, on an equivalency basis, to the FSRS (Exhibit F, page 81)

D. FINANCIAL ACTIVITY

1. Net Assets

Net assets of the DWSRF program are shown below.

Statement of Net Assets	
June 30, 2015 (dollars in thousands)	
Assets	
Current Assets	\$391,754
Other Assets	\$1,069,141
Total Assets	\$1,460,895
Liabilities	
Current Liabilities	\$5,570
Non-Current Liabilities	\$0
Total Liabilities	\$5,570
Net Assets	
Restricted	\$17,900
Unrestricted	\$1,437,425
Total Net Assets	\$1,455,325

2. Revenues

Revenue for the DWSRF program is described in its Financial Statements. The total revenues for SFY 2014-15 were \$230 million. Revenues for the period of this report were as follows:

Loan Interest income	\$14.7 million
Net investment income	\$631 thousand
Capitalization Grants - Principal Forgiveness Receipts	\$7.2 million
State Match Revenue	\$44.5 million
ARRA Capitalization Grant	\$1 million
Capitalization Grant	\$160.8 million
State match revenue – Principal Forgiveness	\$1.2 million

3. Disbursements and Expenses

Total disbursements are based on Financial Statements and do not include matching funds provided by funding recipients. Total disbursements for SFY 2014-15 were \$252 million. Disbursements for the period of this report were made as follows:

Loan disbursements	\$198 million
Grants disbursements	\$851 thousand
Principal Forgiveness disbursements	\$17.3 million
Employees' salaries and vendors' payments	\$17.6 million
Principal paid for state match loan	\$17.9 million
State match fees paid	\$4 thousand
Interest paid on state match loan	\$1 thousand

4. Extended Term Financing and Reduced Interest Rate

In accordance with federal rules and regulations, the State Water Board continued to provide extended term financing (ETF) in the form of 30-year loan repayment terms to funding applicants that served disadvantaged communities. In SFY 2014-15, four (4) projects received approximately \$4.5 million in ETF as shown in Exhibit K (page 91).

ETF for disadvantaged communities has historically provided more manageable financing for a funding recipient. Based on current analysis,

providing ETF for disadvantaged communities has not jeopardized the financial strength of the DWSRF program, but rather has led to an increased demand for funding. This has provided more manageable and stable funds returning to the program. Such demand has been necessary in recent years to reduce historical ULOs.

California statute was amended January 1, 2015, following the adoption of the DWSRF Policy, directing the State Water Board to provide zero (0) percent interest rate loans if the funding recipient served a disadvantaged community with financial hardship. The DWSRF Policy defined financial hardship to mean the funding applicant is a small water system with high residential water rates. Prior to the adoption of the DWSRF Policy and the change in state statute, California law provided for zero (0) percent interest rate loans from the DWSRF if the funding applicant served a disadvantaged community regardless of the size of the water system size. In SFY 2014-15, to ensure the long-term financial growth of the fund while considering the financial limitations of certain public water system types, the State Water Board limited zero (0) percent interest rate loans from the DWSRF program to small water systems serving disadvantaged communities.

5. DWSRF Credit Risk

Funding recipient must pledge or dedicate one or more sources of revenue toward the payment of its DWSRF loan. For publically owned

entities, dedicated sources of revenue are generally water rate revenues, but may also be any number of revenue sources, special tax pledges, or other pledgeable income. For privately owned entities, the dedicated source of repayment is generally a UCC-1 security interest by the State Water Board on all of the entity's water revenue accounts.

In SFY 2014-15, the DWSRF program did not restructure any commitments due to a recipient's inability to make payment on a DWSRF loan. Also, initial concerns about the current drought impacting revenue streams of existing loan recipients due to water conservation measures has not resulted in any requests for loan restructuring or warnings about potential delays or defaults in payment.

There is no allowance for uncollectible accounts as all repayments are current and all loans are anticipated to be repaid in accordance with the loan terms. There have been no loan defaults in the DWSRF program and State Water Board staff continues to ensure that funding agreements are secure and all payments are made on time and in full. This is done by using a variety of analysis and monitoring measures to reduce the possibility of non-payment and continually evaluating additional steps to ensure full and timely payments.

IV. PUBLIC HEALTH BENEFITS

The contributions of the DWSRF program to water quality are diverse. The program has the strength and versatility to address a wide range of water-quality issues. To the maximum extent possible, priority is given to projects which address the most serious risks to human health, are necessary to ensure compliance with SDWA requirements, and assist water systems in need the most on a per household basis. Projects are ranked by categories below:

Category A	Immediate Health Risk
Category B	Untreated or At-Risk Sources
Category C	Compliance or Shortage Problems
Category D	Inadequate Reliability
Category E	Secondary Risks
Category F	Other Projects

The information below summarizes the public health benefits from DWSRF projects funded. The data supporting this summary was reported to the USEPA through the DWSRF Project Benefits Reporting (PBR) database.

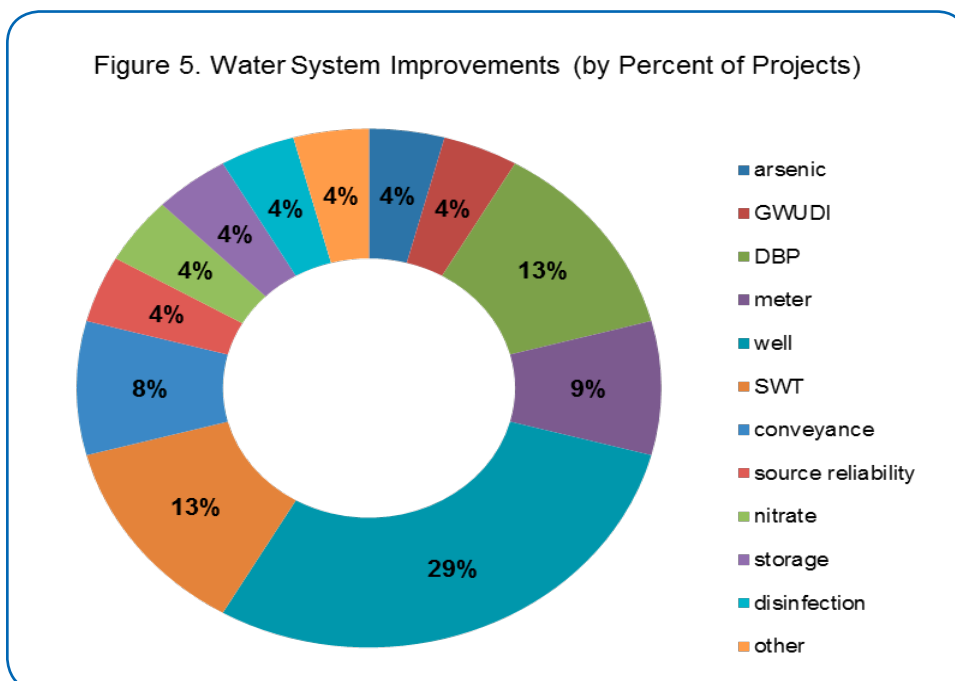
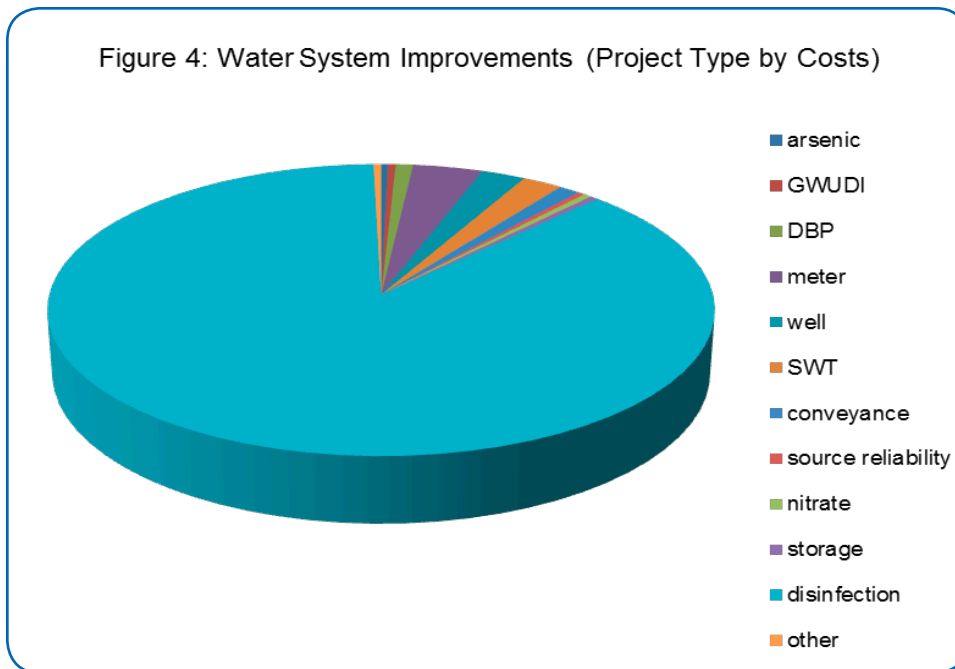
A. PROJECTS IN SFY 2014-15 WILL HELP ACHIEVE AND MAINTAIN SDWA GOALS

1. There were 24 projects were funded by the DWSRF program
2. 3,436,775 people reside within the boundaries of the projects funded
3. \$7,946,418 in principal forgiveness were given to these projects
4. Projects funded by the DWSRF program fall into the categories noted earlier and defined in the DWSRF Policy, Section V.C. The projects funded and the category they were given are as follows.

Category A	4
Category B	9
Category C	9
Category D	2
Category E	0
Category F	0

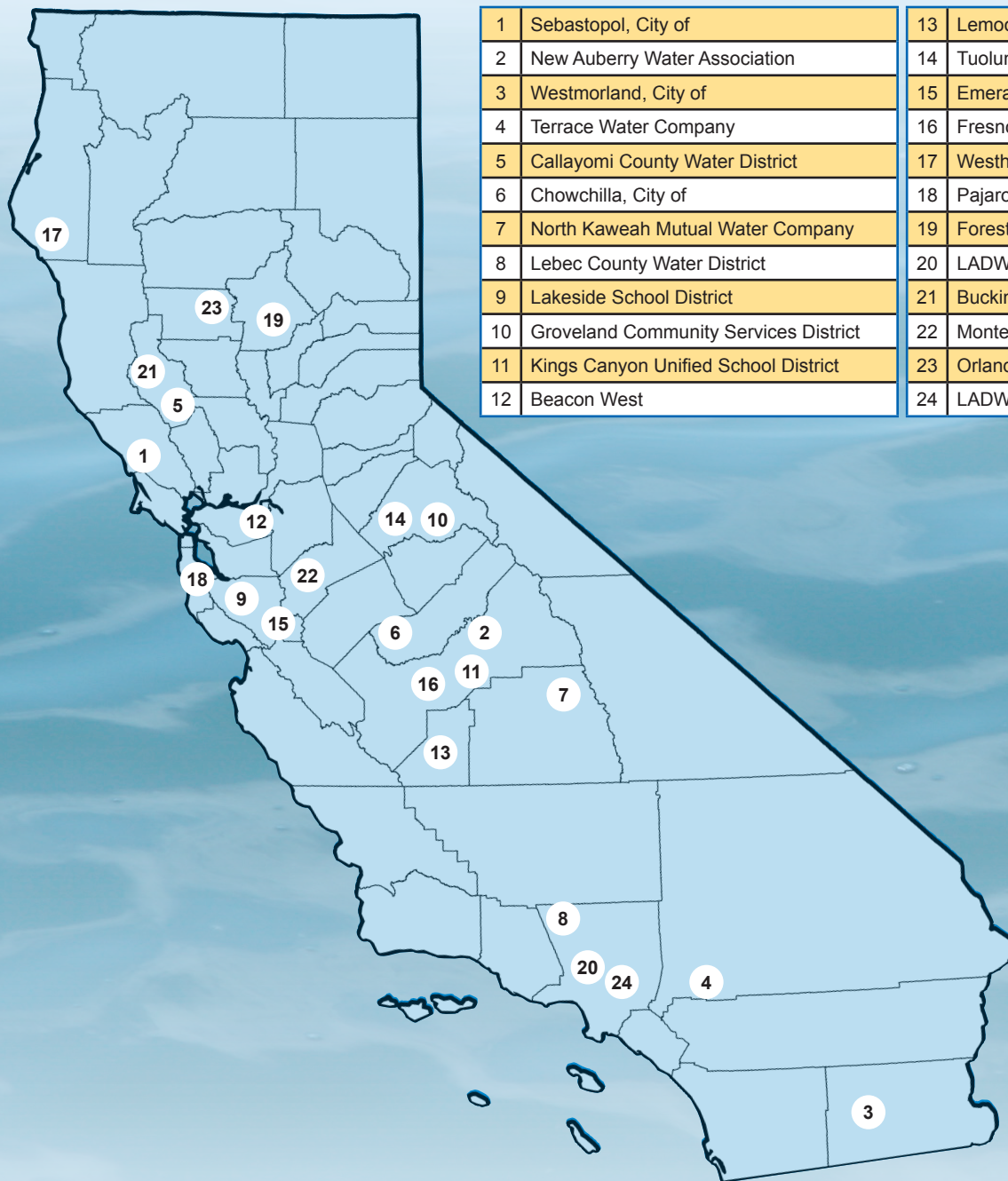
B. DWSRF PROJECTS ACHIEVE MULTIPLE BENEFITS

DWSRF projects often provide benefits to water system improvement projects in many ways. Figure 4 and Figure 5 (page 27) show the many benefits commonly provided by DWSRF projects.



PROJECT HIGHLIGHTS

C. Highlights of Projects Funded by DWSRF in SFY 2014-15



1	Sebastopol, City of	13	Lemoore, City of
2	New Auberry Water Association	14	Tuolumne Utilities District - Columbia
3	Westmorland, City of	15	Emerald Valley Mutual Water Company
4	Terrace Water Company	16	Fresno County Waterworks District No. 40
5	Callayomi County Water District	17	Westhaven Community Services District
6	Chowchilla, City of	18	Pajaro/Sunny Mesa CSD
7	North Kaweah Mutual Water Company	19	Forest Ranch Mutual Water System
8	Lebec County Water District	20	LADWP
9	Lakeside School District	21	Buckingham Park Water District
10	Groveland Community Services District	22	Monterey Park Tract CSD
11	Kings Canyon Unified School District	23	Orland, City of
12	Beacon West	24	LADWP

V. ADMINISTRATIVE AND PROGRAMMATIC UPDATES

A. Notice of Non-Compliance / Corrective Action Plan

On April 19, 2013, the USEPA issued a Notice of Non-Compliance to the California Department of Public Health (CDPH), the department formerly with primacy over the DWSRF program. The USEPA determined that CDPH “had not timely and efficiently committed and expended funds in the DWSRF, nor employed adequate financial resources to operate the SDWSRF in a sound financial manner....” CDPH did not dispute the findings and had already implemented strategies addressing these issues as demonstrated by the DWSRF program’s increase in its fund utilization rate.

CDPH was given 60 days from the date of receipt of the notice to either remedy the issues addressed or submit a CAP outlining the methods in which the issues would be addressed and resolved. On June 24, 2103, CDPH submitted the CAP to the USEPA and at the request of USEPA, submitted a revised version of the CAP on July 12, 2013. USEPA accepted and approved the revised CAP on July 23, 2013. The State Water Board assumed primacy over the DWSRF program on July 1, 2014 and will fulfill all remaining commitments.

In SFY 2014-15, the DWSRF program achieved the following CAP goals:

- **CAP Item 03:** The State Water Board continues to meet monthly with USEPA, providing written update of the program’s actions towards meeting upcoming CAP item requirements.
- **CAP Item 15:** The State Water Board submitted a letter to USEPA on September 30, 2014, indicating this CAP item commitment requirement had been met well in advance of the September 30, 2014 deadline.
- **CAP Item 16:** The State Water Board submitted to USEPA on September 30, 2014, a list of all DWSRF SFY 2013-14 funding commitments totaling approximately \$365 million and specifically identified those commitments, which applied to this CAP item.
- **CAP Item 17:** The State Water Board submitted to USEPA on January 23, 2015, the finalized DWSRF Management Study completed by Northbridge on December 19, 2014.
- Due to the timing of the DWSRF Program transitioning from CDPH to the State Water Board and the adoption of the DWSRF Policy, the Management Study acknowledged the improvements with regard to USEPA’s areas of concern (project

priority system, project selection, readiness to proceed and bypass procedures). Although CDPH's initial intent was to evaluate the recommendations disclosed in the report prior to implementation, both CDPH and the State Water Board deemed it necessary to implement process improvements more swiftly than permitted in the initial timeline of the CAP Item.

The State Water Board continues to collaborate with Northbridge in an effort to evaluate and implement strategies that can potentially improve programmatic efficiencies beyond the requirement of this CAP Item.

- **CAP Item 18:** The State Water Board submitted to USEPA on May 29, 2015, the projected DWSRF minimum commitment amount for SFY 2015-16.
- **CAP Item 19:** The State Water Board submitted to USEPA on June 30, 2015, the deliverable associated with this item (SFY 2015-16 DWSRF Fundable List).
- **CAP Item 20:** The State Water Board submitted to USEPA on June 30, 2015, the deliverable associated with this item (SFY 2014-15 DWSRF Executed Funding Agreement List).
- **CAP Item 21:** The State Water Board submitted to USEPA on June 30, 2015, the deliverable associated with this item (FFY 16 DWSRF Estimated Schedule of Quarterly Federal Cash Draws).

- **CAP Item 22:** The State Water Board submitted to USEPA on June 30, 2015, the deliverable response associated with this item (DWSRF Disbursement List from July 1, 2012 to June 30, 2015). The State Water Board expects has met the disbursement target by the second quarter of SFY 2015-16 as of October 2015.
- **CAP Item 23:** The State Water Board submitted to USEPA on June 30, 2015, the deliverable associated with this item, generating a cumulative set-aside spending rate 85 percent exceeding the requirement of 80 percent by June 30, 2015.

B. Performance Evaluation Report

On April 3, 2015, the USEPA presented the State Water Board its Program Evaluation Report (PER) for the DWSRF program for SFY 2013- 14. The PER addressed California's performance and compliance with the requirements of the DWSRF base program activities and the American Recovery and Reinvestment Act (ARRA) requirements. The PER also provided observations made by the USEPA and recommendations for follow up actions related to specific DWSRF required elements listed below:

1. Required Program Elements
 - a. Funding Eligibility
 - b. Set-Aside Activity
 - c. Status of Corrective Action Plan

2. Required Financial Elements

- a. State Match
- b. Rules of Cash Draw (including improper payments)
- c. Timely and Expeditious Use of Funds
- d. Financial Management

The State Water Board has considered each recommendation and is developing best practices to help ensure the program's overall effectiveness and efficiency improvements.

For set-aside activities related to capacity development, DFA and DDW collaborate on a regular basis to support programmatic activities and the needs of public water systems and the communities that they serve. The USEPA acknowledged the need for DFA and DDW to collaborate on the following items.

1. Developing standard operating procedures to define each division's role and responsibility with regard to codependent or overlapping activities
2. Technical, Managerial and Financial evaluations
3. Capacity Development Strategy revisions
4. Outreach and internal notifications

Both DFA and DDW acknowledge the need for a collaborative and productive relationship. As both divisions serve under the State Water Board, they

are able to resolve to support each other in accordance with the State Water Board's objectives. As the divisions continue to collaborate, items such as the Capacity Development Strategy revision effort will reinforce the partnership that exists between the two.

The USEPA acknowledge that improper transactions in the areas of funding eligibility, state match, rules of cash draw, and financial management as identified in the PER have been resolved and the current financial management structure and function is both adequate and appropriate for the program to operate in a fiscally sustainable manner.

As for the status of the CAP and timely and expeditious use of funds, the State Water Board continues to address the commitments set forth in the CAP. Since the transfer of primacy to the State Water Board, the program has made significant organizational changes designed to support the CAP and the requirement to use funds in a timely and expeditious manner. The adoption and implementation of the DWSRF Policy, modifications to state statutes, improved project application and priority systems, as well as improved operations between DFA and DAS staff has provided the State Water Board the ability to optimize commitments and disbursements.

C. Comprehensive List

The Comprehensive List identifies projects potentially eligible for funding

assistance from the DWSRF program. As the program receives applications, it assigns each project a category from Section V.C.1 of the DWSRF Policy. The program then recommends to the Executive Director of the State Water Board, in consultation with DDW, to either add the project to the Comprehensive List or update an existing project.

The primary purpose of the Comprehensive List is to identify potentially eligible future projects and prioritize the marketing, assistance, and application review efforts of staff and management. A project must be on the current Comprehensive List to be considered for financing. Eligible projects on the Comprehensive List will be considered for Prop 1 funding. Placement of a project on a Comprehensive List, however, does not constitute a commitment from the DWSRF program to provide funding.

At a minimum, applicants must submit the General DWSRF application package to be added to the Comprehensive List, regardless of how the project is ultimately funded. The general package must describe the nature of the project with enough details for staff to rank and place the project on the Comprehensive List. The DWSRF program will review and rank the project in the appropriate categories as described in Section IV.C of the SFY 2015-16 IUP. The DWSRF application is available online via FFAST.

The DWSRF program updates the Comprehensive List quarterly on the State Water Board's website, but the Executive Director may update the Comprehensive List more or less frequently as necessary.

D. Fundable List and Project Bypass

There were 49 projects identified on the fundable list of projects in the IUP, with some projects expected to be amended for cost increases. Of these 49 projects, 19 were planning and 30 were construction projects. The DWSRF program awarded funding to 11 planning projects and amendment one (1) funding agreement. Three (3) of the planning projects were withdrawn and three (3) bypassed but expected to be funded in SFY 2015-16 pending the receipt of required information. Of the 30 construction projects, six (6) construction projects received funding agreements and six (6) received amendments to existing funding agreements. Two (2) construction projects were withdrawn after financing agreements were offered. The remaining 16 construction projects not funded were bypassed pending additional financial and environmental reviews due to changes to the DWSRF Policy. At the time of this report, four (4) of those 16 construction projects were funded and the remaining 12 are expected to be funded in SFY 2015-16.

VI. DWSRF SET-ASIDES

The DWSRF program used a percentage of each federal Capitalization Grant set-asides in SFY 2014-15 to fund the administration of the DWSRF program as well as other activities critical to the success of the program. The set-aside accounts included Administration, SWSTA, Local Assistance, and State Program Management. These set-asides aided in providing funding and technical assistance to water systems. The State Water Board budgeted 23 percent of the 2014 Capitalization Grant for all four (4) set-asides.

A. Administrative Set-Aside

The DWSRF program budgeted four (4) percent of the 2014 Capitalization Grant along with prior years Capitalization Grants to the Administration Set Aside to fund the management of the DWSRF program. The Administration set-aside funded technical and administrative personnel within DFA who prepared construction and planning approvals and agreements, inspected and evaluated projects, and processed claims for reimbursement. The Administration set aside also funded personnel activities associated with various project tracking and reporting required by USEPA as well as other state and federal agencies.

A portion of the Administration set-aside also funded contracts with other agencies such as SCO. In SFY 2014-15, SCO completed the single-audit for SFY 2013-14 in accordance with OMB Circular A-133 as well as produce audited financial statements for the program.

The Administration set-aside also provided approximately \$426,000

of in-kind funding for a Northbridge management study of the DWSRF program as well as additional funding for Northbridge to continue its web-enabling efforts of the LGTS database.

The budgeting and expenditures of the DWSRF Administration set-aside, as of June 30, 2015 are shown in Exhibit G (page 82).

B. Small Water System Technical Assistance Set-Aside

The DWSRF program budgeted two (2) percent of the 2014 Capitalization Grant along with prior year Capitalization Grants for SWSTA. SWSTA focuses on small water systems. Its primary goals are to reduce the instances of non-compliance with drinking water standards and requirements, establish and assure safe and dependable water supplies, improve operational capability, and establish or improve the TMF capacity of small water systems.

The SWSTA set-aside funded technical and administrative staff within DFA and their technical assistance to small water systems. Assistance by staff

included helping small water systems identify drinking water problems and potential solutions, assisting in the preparation of funding applications, reviewing TMF assessments, and evaluating potential funding eligibility. Staff also helped resolve ownership issues, right-of-way disputes, as well as interceded and mediated with adjacent water systems regarding potential water interties and consolidation projects. SWSTA set-aside also provided partial funding for technical and administrative staff of the Proposition 84 funding program. They prepared Proposition 84 planning projects for small water systems that led to DWSRF construction funding.

The budgeting and expenditures of the SWSTA set-aside as of June 30, 2015 are shown in Exhibit G (page 82).

C. Local Assistance Set-Aside

The DWSRF program budgeted six (6) percent of the 2014 Capitalization Grant along with prior year Capitalization Grants, for technical assistance to public water systems to support TMF capacity development strategies. Of the six (6) percent budgeted for the Local Assistance set-aside, four (4) percent was allocated for third-party technical assistance contracts with CRWA, RCAC and Self-Help Enterprises (Self-Help), which provided on-site technical assistance to over 200 small public water systems in SFY 2014-15. Some of the technical assistance included income surveys, water rate studies, and DWSRF application development. CRWA,

RCAC and Self-Help also provided TMF assistance in SFY 2014-15, including mutual water company board training, public water system operation training, and water system ownership research.

In addition, RCAC developed and conducted statewide onsite and online training workshops that focused on building the TMF capacity of public water systems. In SFY 2014-15, RCAC held two CalTAP funding fairs. These fairs displayed and demonstrated the free services and materials available to the water systems and two (2) Arsenic Symposia on arsenic treatment alternatives and case studies. The CalTAP fairs averaged 108 attendees and the Symposia averaged 38. In addition to these fairs, RCAC also held 41 onsite and 74 online workshops. Board members, water system staff and operators from more than 1,111 individual water systems participated in these training events cumulatively. In a survey conducted by RCAC, of the 2,969 responses received to request for feedback on the value and usefulness of the workshops and training, 93 percent reported positively regarding the workshops and the information provided, six (6) percent had neutral responses, and only one (1) percent reported negatively to the workshops. These statistics demonstrate the effectiveness of these programs and workshops and give the DWSRF program a good indication of its effectiveness in communicating with the public and its ability to provide helpful information.

The remaining two (2) percent of the 2014 Local Assistance set-aside supported technical and administrative staff within DFA and their assistance to public water systems for TMF capacity development strategy. Staff oversaw and engaged third-party technical assistance contractors on the activities described above as well as assisted funding applicants in achieving the TMF capacity necessary to be eligible for DWSRF funding, reviewed the TMF assessments necessary for the approval of DWSRF funding, advised and reviewed proposed water system consolidations and interties, assisted and mediated in legal entity formation and water system ownership issues, and reviewed water rate studies.

Local Assistance set-aside also funded staff in support of the drought relief efforts through the PWSDER program. Staff reviewed applications for drought emergency funding from the \$15 million State General Fund appropriation provided through the PWSDER program. Staff also developed PWSDER funding agreements and coordinated drought relief efforts with DDW in review of reimbursement claims and project inspections.

The budgeting and expenditures of the DWSRF Local Assistance set-aside, as of June 30, 2015 are shown in Exhibit G (page 82).

D. State Program Management Set-Aside

The DWSRF program budgeted ten (10) percent of the 2014

Capitalization Grant, along with prior year Capitalization Grants, for the State Program Management set-aside. This set-aside funded DDW's PWSS regulatory program. In SFY 2014-15, the State Program Management set-aside subsidized a pro-rated portion of DDW's permitting, inspection, compliance, monitoring (PICM) activities as well as the general administration activities of DDW with the 2014 PWSS grant and California's safe drinking water cost-recovery account.

In general, DDW staff conducted inspections and surveys of both large and small water systems, evaluated treatment and infrastructure improvement needs, reviewed plans and specifications in relation to and for conformance with treatment requirements, and assisted public water systems with state and federal drinking water compliance issues. The State Program Management set-aside funds were used to enhance emergency preparedness and terrorism/disaster response preparedness of the PWSS program as well as California's public water systems. The DWSRF program also utilized this set-aside to enhance and manage its data reporting mechanisms, including the Safe Drinking Water Information System (SDWIS). The TMF capacity development activities inherent within the PICM activities of DDW were partially funded by the set-aside as well. The budgeting and expenditures of the State Program Management set-aside as of June 30, 2015 are shown in Exhibit G (page 82).

VII. PROGRAM COMMENTS

A. General Comments

On July 1, 2014, California's Drinking Water Program, including the DWSRF and associated state financing programs, were reorganized and transferred from CDPH to the State Water Board through the 2014-15 California Budget Act. Under the State Water Board, a new DDW was created and dedicated to the State's existing PWSS program. The DWSRF program and associated technical and administrative staff were transferred to DFA so both the DWSRF and existing CWSRF programs could be jointly administered.

To provide greater funding flexibility and efficiency for the DWSRF program, the State Water Board adopted a new DWSRF Policy on October 21, 2014, which repealed existing state regulations and amended certain state statutes on January 1, 2015. The new DWSRF Policy, also effective January 1, 2015, established a more concise project prioritization plan, project selection process, as well as enabled certain DWSRF funding rules such as project additional subsidy amounts and certain loan terms, to be established annually within the IUP. The DWSRF Policy also removed prior limitations on project funding amounts and established a new and more efficient application process.

DFA focused on implementing process improvements and procedural changes

in SFY 2014-15, making the DWSRF program more efficient and leading to increased demand. These changes were based on work done by the DFA and the CWSRF program in SFY 2012-13 in cooperation with Northbridge. Such process improvements for the DWSRF program included the establishment of Project Managers, technical staff assigned to manage funding applications from receipt of the first application package through the eligibility reviews for funding, issuance of a contract, the submittal, review and reimbursement of claims, project inspections close-out. Previously, these duties were completed by DDW technical staff.

The accounting and financial records of the DWSRF were transferred into LGTS and substantially reconciled in SFY 2014-15. Due to the reconciling efforts of the administrative and accounting staff, a successful audit of the DWSRF program's fiscal accounts was completed in the early fall of 2015. Existing and new loan amortizations were entered into LGTS and the first LGTS billing of loan recipients was completed in SFY 2014-15. Additional work continued through the end of SFY 2014-15 on reconciling loan amortization schedules and invoicing previously done by CDPH and DWR. These policy, process and administrative changes within the DWSRF program have been well received by stakeholders and State Water Board staff.

Additionally, while the DWSRF program continued to administer ARRA funds in SFY 2014-15, the ARRA effort is essentially complete. As of June 30, 2015, all ARRA funds have been disbursed and all required reporting to www.FederalReporting.gov has been completed.

B. Consolidation Incentive Program

With the DWSRF Policy in effect as of January 1, 2015, all DWSRF eligible projects became eligible to apply for funding via FFAST. The Consolidation Incentive Program, as described in the IUP, became less of an incentive as originally intended. The DWSRF program did not receive requests for this program, but will continue to process the existing projects under the current Policy.

C. LEFA Program

Of the eight (8) percent of DWSRF funding budgeted for the Local Assistance set-aside, two percent was allocated to the Legal Entity Formation Assistance (LEFA) program. The LEFA program was established as a pilot program, which provided grant funding to assist communities not currently served domestic water from an existing community water system, and public water systems not eligible for DWSRF funding due to the lack of an eligible entity. These communities and systems also have domestic water sources with a water quality or quantity public health problem. The purpose of the LEFA program is to provide

financial assistance for the formation of a legal entity for such communities, which would have among other things, the authority to own and/or operate a public water system, assess rates and charges for domestic water supply, or have the authority to consolidate with an existing public water system. Eligible applicants were limited to public agencies, Local Agency Formation Commissions (LAFCO), public colleges and/or universities, Joint Power Authorities, and non-profit organizations that could enter into a funding agreement with the State Water Board and demonstrate their ability to carry out the project. Once an appropriate governing entity is identified and/or formed, that governing entity would be able to apply for planning or construction funding.

D. Source Water Protection Program

California established the DWSRF program with federal Capitalization Grants awarded by the USEPA. A portion of these funds was set aside for source water protection (SWP) loans.

Funding for the SWP program provides loans to public water systems for the purchase of land or conservation easements. A public water system may only purchase land or a conservation easement from a willing party. The purchase must be for the purposes of protecting the system's source water and ensuring compliance with national drinking water regulations. The

DWSRF program evaluated all projects using the priority system described within the IUP in effect at the time such SWP loans were awarded.

As of SFY 2014-15, the program had set aside a total of \$24,889,390 from the 2000-2005 Capitalization Grants for this program, but, due to lack of demand from public water systems, subsequent federal grant amendments returned \$22,889,390 from the 2000-2005 Capitalization Grants to the DWSRF infrastructure loan fund. As shown in Table 4 (page 38), \$2,000,000 has been committed and expended for SWP loans.

Table 4: Source Water Protection Loan Set-Aside

Project Name	Project Number	Population	Executed FA Date	Contract Number	Loan Amount	Grant Amount	Total Funding
Contra Costa Water District	0710003-017	201,100	9/1/2003	2001SWP101	\$2,000,000	\$0	\$2,000,000



VIII. INDEX

ARRA	American Recovery and Reinvestment Act of 2009
ASAP	Automated Standard Application of Payments
CAP	Corrective Action Plan
CDPH	California Department of Public Health
CRWA	California Rural Water Association
CWSRF	Clean Water Safe Revolving Fund
DAS	Division of Administrative Services
DBE	Disadvantaged Business Enterprise
DDW	Division of Drinking Water
DFA	Division of Financial Assistance
DWR	Department of Water Resources
DWSRF	Drinking Water State Revolving Fund
ETF	Extended Term Financing
FFATA	Federal Funding Accountability and Transparency Act
FFY	Federal Fiscal Year
FSRS	FFATA Subaward Reporting System
IUP	Intended Use Plan
LGTS	Loans and Grants Tracking System
MBE	Minority Owned Business Enterprise
NIMS	National Information Management System
OMB	Office of Management and Budget
PBR	Drinking Water Project Benefits Reporting
PWS	Public Water Systems
RCAC	Rural Community Assistance Corporation
SCO	State Controller's Office
SERP	State Environmental Review Process
SFY	State Fiscal Year
SWP	Source Water Protection
SWRCB	State Water Resources Control Board
USEPA	United States Environmental Protection Agency
WBE	Women Owned Business Enterprise

IX. EXHIBITS

Exhibit A	SFY 2014-15 Audited Financial Statements
Exhibit B	Projects Funded by Needs Category
Exhibit C	Projects Not Funded
Exhibit D	Disadvantaged Business Enterprise Report
Exhibit E	Green and Subsidy Projects Funded
Exhibit F	Projects Reported to FFATA
Exhibit G	Set-Asides
Exhibit H	Small Water System Funding
Exhibit I	LEFA Projects
Exhibit J	Drought Emergency Projects
Exhibit K	Extended Term Financing Projects

EXHIBIT A

SFY 2014-15 Audited Financial Statements

CALIFORNIA STATE WATER RESOURCES
CONTROL BOARD
SAFE DRINKING WATER STATE REVOLVING FUND
Sacramento, California

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

June 30, 2015

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the California State Water Resources Control Board, Drinking Water Revolving Fund (Safe Drinking Water Revolving Fund), an enterprise fund of the State of California, as of and for the year ended June 30, 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 audit. 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.

As discussed in Note 1 - Definition of Reporting Entity, the basic financial statements of the Safe Drinking Water 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 Safe Drinking Water 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, 2015, and the changes in their financial position and their cash flows, where applicable, for the year 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 Safe Drinking Water Revolving Fund as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 financial statements in an appropriate operational, economic or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Safe Drinking Water Revolving Fund's basic financial statements. The schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and 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 October 7, 2015, on our consideration of the Safe Drinking Water 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 Safe Drinking Water Revolving Fund's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenwood Village, Colorado
October 7, 2015

BASIC FINANCIAL STATEMENTS

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
SAFE DRINKING WATER STATE REVOLVING FUND
STATEMENT OF NET POSITION**

June 30, 2015
(in thousands)

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	312,700
Cash and cash equivalents - Restricted		17,900
Receivables:		
Loan interest		4,868
Investment interest		176
Due from other funds and other governments		7,055
Loans receivable:		
Current portion		49,055
Total current assets		391,754

OTHER ASSETS

Loans receivable:		
Noncurrent		1,069,141
Total other assets		1,069,141
TOTAL ASSETS		1,460,895

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Due to other funds		5,570
Total current liabilities		5,570
Total liabilities		5,570

NET POSITION

Restricted for:		
Future loan disbursements		17,900
Unrestricted		1,437,425
Total net position	\$	1,455,325

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

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
SAFE DRINKING WATER STATE REVOLVING FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended June 30, 2015
(in thousands)

OPERATING REVENUE	
Loan interest income	\$ 14,718
Total operating revenue	14,718
 OPERATING EXPENSES	
Principal forgiveness	17,399
Personnel services	11,938
Other expenses	9,144
Grants and subventions-setasides	851
Total operating expenses	39,332
 INCOME FROM OPERATIONS	 (24,614)
 NONOPERATING REVENUE (EXPENSE)	
Net investment income	631
Other nonoperating expense	(1,519)
State match loan expense	(5)
Total nonoperating revenue (expense)	(893)
 INCOME BEFORE CONTRIBUTIONS	 (25,507)
 CONTRIBUTIONS	
EPA capitalization grant	160,871
EPA-capitalization grant - Principal Forgiveness	7,234
EPA - ARRA capitalization grant	1,054
State match revenue	44,520
State match revenue-principal forgiveness	1,230
Total contributions	214,909
 CHANGE IN NET POSITION	 189,402
 NET POSITION - BEGINNING OF YEAR	 1,265,923
 NET POSITION - END OF YEAR	 \$ 1,455,325

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

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
SAFE DRINKING WATER STATE REVOLVING FUND
STATEMENT OF CASH FLOWS
Year Ended June 30, 2015
(in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from interest on loans	\$ 15,224
Loans disbursed	(198,844)
Grants disbursed	(851)
Principal forgiveness Disbursed	(17,399)
Principal received on loans receivable	44,077
Cash paid to employees and vendors	(17,681)
Cash flows provided (required) by operating activities	<u>(175,474)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Funds received from EPA capitalization grant	161,216
Funds received from the State of California	45,750
State loan match proceeds	17,900
Principal paid for state match loan	(17,900)
State match fees paid	(4)
Interest paid on state match loan	(1)
Cash flows provided by noncapital financing activities	<u>206,961</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Net investment income received	602
Net cash provided by investing activities	<u>602</u>

NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS

32,089

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR

298,511

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 330,600

**Reconciliation of operating income to net cash required
by operating activities**

Income from operations	\$ (24,614)
Adjustments to reconcile income from operations to net cash required by operating activities	
Effect of changes in operating assets and liabilities:	
Loans receivable	(154,768)
Loan interest receivable	507
Due to other funds	3,401
Net cash provided (required) by operating activities	<u>\$ (175,474)</u>

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

NOTE 1 - DEFINITION OF REPORTING ENTITY

The California State Water Resources Control Board, Safe Drinking Water State Revolving Fund (Fund) was established pursuant to the Federal Safe Drinking Water Act of 1974 (Act) as amended in 1996. The 1996 amendment to the Act established the Drinking Water State Revolving Fund (DWSRF) program for the purposes of providing low interest financing and/or subsidies, in the form of grants and loan principal forgiveness, to public water systems for drinking water infrastructure projects necessary to establish and/or maintain compliance with safe drinking water standards. Standard construction financing has repayment terms of up to 20-years, not to exceed the useful life of the facilities. Public water systems that serve “disadvantaged” communities can have repayment terms up to 30-years, not to exceed the useful life of the facilities. Standard planning financing has repayment terms of 5-years. Both planning and construction financing have a standard interest rate that is half of the State of California’s (State) general obligation bond rate from the prior calendar year. Public water systems that serve “disadvantaged” communities and have financial hardship may be eligible for 0% interest rate financing. All repayments, including interest and principal, must remain in the Fund.

Since 1997, 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. States may elect to use up to 31% of each grant for other eligible activities, such as DWSRF administration, other local assistance and special programs, small water system-technical assistance, and the State program management of its public water system supervision/capacity development programs. These other eligible activities under a DWSRF capitalization grant are accounted in separate funds, known as Set-asides. An additional 1:1 in matching funds must be provided by the State for the amount budgeted and expended under the State Program Management Set-aside. As of June 30, 2015, the EPA has awarded cumulative capitalization grant funding of \$1,463,511 to the State of California (State), for which the State is required to provide \$292,702 of cumulative match funding to the Fund. As of June 30, 2015, the Fund has designated \$186,819 of the cumulative capitalization grant for Set-aside funding, including \$74,451 under the State Program Management Set-aside. As such, the State is also required to provide \$74,451 in cumulative 1:1 matching funds. In addition, in June 2009, the EPA awarded \$159,008 in ARRA grant funding, including \$8,152 of Set-aside funding, for which there is no State Match requirement.

Initially, the Fund was administered by the California Department of Health Services (CDHS) and then administered by the California Department of Public Health (CDPH) under the Division of Drinking Water after a restructure of CDHS by the State in July 2007. The Division of Drinking Water within CDPH managed both the DWSRF program and the State’s Public Water System Supervision program (PWSS) implanting the primacy authority in CDPH under USEPA to enforce the Safe Drinking Water Act.

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

NOTE 1 - DEFINITION OF REPORTING ENTITY (CONTINUED)

As of July 1, 2014, the DWSRF program 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. The Division of Drinking Water, also under the Board, is focused primarily on the State's PWSS program under the primacy authority now delegated to the Board by USEPA. The Board's primary responsibilities with the DWSRF 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's primary responsibilities with the State's PWSS program include technical assistance and enforcement of the requirements of the Act as well as other governing State drinking water requirements. The Board consists of five member positions, which are appointed by the Governor and confirmed by the Senate.

The Board administers the DWSRF program by charging the Fund for time spent on DWSRF 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 and the five Set-aside funds are included in the State's Comprehensive Annual Financial Report as a governmental fund using the modified accrual basis of accounting. The Set-aside funds are the: (1) Administration Account, (2) Water System Reliability Account, (3) Source Protection Account, (4) Small System Technical Assistance Account, and (5) Public Water System, Safe Drinking Water Revolving Fund. The Fund is engaged only in business-type activities and therefore is required to present financial statements as a proprietary enterprise fund.

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

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

The effect of the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 has not been reported on these financial statements as the amounts related to GASB 68 are not intended to be recorded in these funds and have been reported in the State's Comprehensive Annual Financial Report as a governmental fund.

Operating Revenues and Expenses

The Fund distinguishes between operating revenues and expenses and nonoperating items in the Statement 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, and allocated indirect costs. 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.

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 DWSRF to operate under a continuous appropriation. Continuous appropriation authority means that no further appropriations are necessary to expend all funds deposited into the DWSRF. Therefore, the Fund operations are not included in California's annual budget.

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

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, short term state matching loans, 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. Standard construction loans are amortized over periods up to 20 years, and not to exceed the useful life of the facilities, while construction loans for public water systems that serve "disadvantaged" communities are amortized over periods up to 30-years, also not to exceed the useful life of the facilities. Planning loans are amortized over periods up to 5-years. Interest only repayments begin within 6 months of the first disbursement with principal repayments beginning within 6 months after project completion date and are made on a semi-annual basis.

DWSRF 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

There is no allowance for uncollectible accounts, as all repayments are current and management believes all loans will be repaid according to the loan terms. There have been no loan defaults in the program since its inception.

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

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, 2015, the Fund’s cash deposits had a carrying balance of \$68,151.

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

Investments

Treasury/Trust Portfolio	<u>\$</u>	<u>262,449</u>
Total cash deposits and investments	<u>\$</u>	<u>330,600</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, 2015, Comprehensive Annual Financial Reports for disclosure related to the risks applicable to the Portfolio.

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

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

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

Cash and cash equivalents	\$ 312,700
Cash and cash equivalents - restricted	<u>17,900</u>
 Total cash and cash equivalents	 <u><u>\$ 330,600</u></u>

NOTE 4 - LOANS RECEIVABLE

Loans are made to qualified agencies for projects that meet the eligibility requirements of the Federal Safe Drinking Water Act of 1974 and any subsequent amendments. Loans are financed with capitalization grants, State match, short term state matching loans, 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 with interest only repayments within 6 months of the first disbursement and principal repayments beginning within 6 months after project completion date. 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. 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, 2015, the Fund had total binding commitments of \$2,223,846 since program inception. As of June 30, 2015, the remaining commitment on these loans amounted to \$621,944, of which \$591,141 is federal funds. The federal loan commitments included capitalization funds of \$46,307 which will be forgiven. Principal forgiveness loans are forgiven as disbursed, but must be repaid if the recipient fails to meet the program requirements.

At June 30, 2015 the unpaid balance on all loans receivable outstanding amounted to \$1,118,196.

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

NOTE 4 - LOANS RECEIVABLE (CONTINUED)

Estimated maturities of the loans receivable and interest payments thereon, at June 30, 2015 are as follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2016	\$ 13,487	\$ 49,055	\$ 62,542
2017	14,996	53,827	68,823
2018	14,166	58,733	72,899
2019	13,280	59,574	72,854
2020	12,363	60,181	72,544
2021-2025	47,449	304,267	351,716
2026-2030	24,122	265,756	289,878
2031-2035	8,653	150,728	159,381
2036-2040	3,256	50,968	54,224
2041-2045	1,586	41,779	43,365
2046-2050	173	9,014	9,187
Total	<u>\$ 153,531</u>	<u>1,103,882</u>	<u>\$ 1,257,413</u>
Loans not yet in repayment		<u>14,314</u>	
Total loans receivable		<u>\$ 1,118,196</u>	

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, 2015 of these major local agencies represent approximately 44 percent of the total loans receivable and are as follows:

<u>Borrower</u>	<u>Authorized Loan Amount</u>	<u>Outstanding Loan Balance</u>
Los Angeles, City of (acting by and through the Department of Water & Power)	\$ 802,113	\$ 425,037
San Diego, City of	89,074	66,624
	<u>\$ 891,187</u>	<u>\$ 491,661</u>

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

NOTE 5 - 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 of June 30, 2015 the EPA has awarded cumulative capitalization grants including in-kind of \$1,463,511 to the State, of which \$1,293,094 has been drawn, cumulatively, for loans, and administrative expenses. The State has provided matching funds of \$294,451.

In addition, as of June 30, 2015, the EPA has awarded the ARRA grant of \$159,008 to the fund for which there is no State matching requirements. As of June 30, 2015 \$159,008 has been drawn, cumulatively, for loans and administrative expenses, of which \$121,290 was for principal forgiveness (See Note 4).

Table 1 summarizes the EPA capitalization grants awarded, amounts drawn on each grant as of June 30, 2015, and balances available for future loans as of June 30, 2015. Table 2 summarizes the state match amounts paid by the state as of June 30, 2015. As of June 30, 2015, the state match required is \$258,619. As of June 30, 2015, the state match available for potential future state match is \$35,832.

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	Available for Loans and Setasides as of June 30, 2015
1997-2009	\$ 1,003,064	\$ 1,003,064	\$ -	\$ 1,003,064	\$ -
2010	126,958	95,069	31,889	126,958	-
2011	86,698	10,604	76,094	86,698	-
2012	84,758	12,601	47,351	59,952	24,806
2013	77,916	2,455	7,999	10,454	67,462
2014	82,921	-	4,772	4,772	78,149
	<u>\$ 1,462,315</u>	<u>\$ 1,123,793</u>	<u>\$ 168,105</u>	<u>\$ 1,291,898</u>	<u>\$ 170,417</u>
In-kind (direct payment made by EPA)	1,196	896	300	1,196	-
	<u>\$ 1,463,511</u>	<u>\$ 1,124,689</u>	<u>\$ 168,405</u>	<u>\$ 1,293,094</u>	<u>\$ 170,417</u>
2008-ARRA	159,008	157,954	1,054	159,008	-
	<u>\$ 1,622,519</u>	<u>\$ 1,282,643</u>	<u>\$ 169,459</u>	<u>\$ 1,452,102</u>	<u>\$ 170,417</u>

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

NOTE 5 - 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 disbursed	\$ 195,751	\$ 45,750	\$ 241,501
State interest disbursed	35,050	17,900	52,950
	<u>\$ 230,801</u>	<u>\$ 63,650</u>	<u>\$ 294,451</u>

On December 2, 2014, the Fund borrowed \$17,900 with interest at .234 percent for the purpose of providing the state match. The loan was repaid on December 9, 2014.

NOTE 6 - 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, 2015 and 2014, Comprehensive Annual Financial Reports.

NOTE 7 - 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, 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, 2015 the Fund had restricted net position of \$17,900 representing amounts received from short term loans for state matching purposes.

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.

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

NOTE 8 – OTHER NONOPERATING EXPENSES

As discussed in Note 1, the Safe Drinking Water State Revolving Fund was administered by CDPH until it was transferred to the Board on July 1, 2014. As part of the transfer process, the Board performed a reconciliation of account balances and as a result had differences of \$1.519 million that have been included in other nonoperating expenses.

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
SAFE DRINKING WATER STATE REVOLVING FUND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2015**

<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	66.468	\$ 168,105,032 (*)
Capitalization Grants for State Revolving Funds-ARRA	66.468	1,053,974 (*)
		<u>\$ 169,159,006</u>

(*) Tested as a Major Program

See notes to schedule of expenditures of federal awards

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
SAFE DRINKING WATER STATE REVOLVING FUND
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2015**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the California State Water Resources Control Board, Safe Drinking Water State Revolving Fund and is presented on the accrual basis of accounting. 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 Safe Drinking Water State Revolving Fund CFDA# 66.468 include \$146,172,263 of expenditures that were disbursed as loan awards to qualifying subrecipients, which includes \$7,234,225 of principal forgiveness loans.

ARRA Capitalization Grant for Safe Drinking Water State Revolving Fund CFDA# 66.468 include \$1,053,974 of expenditures that were disbursed as loan awards to qualifying subrecipients which includes \$1,053,974 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**

California State Water Resources Control Board
Safe Drinking Water 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, Safe Drinking Water Revolving Fund (Safe Drinking Water Revolving Fund), an enterprise fund of the State of California, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Safe Drinking Water Revolving Fund's basic financial statements, and have issued our report thereon dated October 7, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Safe Drinking Water 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 Safe Drinking Water Revolving Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of Safe Drinking Water 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 Safe Drinking Water 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 "CliftonLarsonAllen LLP".**CliftonLarsonAllen LLP**

Greenwood Village, Colorado
October 7, 2015



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

California State Water Resources Control Board
Safe Drinking Water Revolving Fund
Sacramento, California

Report on Compliance for Each Major Federal Program

We have audited California State Water Resources Control Board, Safe Drinking Water Revolving Fund's (Safe Drinking Water 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 Safe Drinking Water Revolving Fund's major federal programs for the year ended June 30, 2015. Safe Drinking Water 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 Safe Drinking Water 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 Safe Drinking Water 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 Safe Drinking Water Revolving Fund's compliance.

Opinion on Each Major Federal Program

In our opinion, Safe Drinking Water 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, 2015.

Other Matters

The results of our auditing procedures disclosed certain instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2015-001 to 2015-003. Our opinion on each major federal program is not modified with respect to these matters.

Safe Drinking Water Revolving Fund's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Safe Drinking Water Revolving Fund's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of Safe Drinking Water 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 Safe Drinking Water 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 Safe Drinking Water 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2015-001 to 2015-003, that we consider to be significant deficiencies.

Safe Drinking Water Revolving Fund's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Safe Drinking Water Revolving Fund's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

CliftonLarsonAllen LLP

Greenwood Village, Colorado
October 7, 2015

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
SAFE DRINKING WATER REVOLVING FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2015**

PART I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	_____ yes	<u> √ </u> no
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ yes	<u> √ </u> none reported
Noncompliance material to financial statements noted?	_____ yes	<u> √ </u> no

Federal Awards

Internal control over major program:		
Material weakness(es) identified?	_____ yes	<u> √ </u> no
Significant deficiency(ies) identified not considered to be material weaknesses?	<u> √ </u> 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?	<u> √ </u> yes	_____ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
66.468	Capitalization Grants for State Revolving Funds
66.468	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 <u> √ </u> no

PART II - FINDINGS RELATED TO FINANCIAL STATEMENTS

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

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
SAFE DRINKING WATER REVOLVING FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2015**

PART III - FINDINGS RELATED TO FEDERAL AWARDS

Finding 2015-001

U.S. Environmental Protection Agency
CFDA # 66.468 Capitalization Grants for State Revolving Funds

Cash Management

Significant Deficiency, Internal Control over Compliance, Noncompliance

Criteria: When an entity processes reimbursement requests, supporting documentation should be obtained and reviewed before the reimbursement is requested.

Condition: Supporting documentation was not available to support a draw in March 2015 as the related expenditures were incurred while the program was being administered by the California Department of Public Health (CDPH).

Questioned Costs: None

Effect: Safe Drinking Water Revolving Fund was not in compliance with cash management requirements to obtain and review supporting documentation.

Cause: The Safe Drinking Water Revolving Fund program was moved from the CDPH to California State Water Resources Control Board. Numerous requests for information were made of CDPH, but the only supporting document provided was a spreadsheet identifying the expenditures to be reimbursed.

Recommendation: We recommend the Safe Drinking Water Revolving Fund ensure that all draws are not made until all documentation has been obtained and reviewed.

View of Responsible Official: Agree with the finding.

Planned Corrective Action: Now that the program is fully implemented at California State Water Resources Control Board, the necessary expenditure documentation for all draws will be available in the future.

Anticipated Completion Date: Already implemented

Responsible individuals: Division of Administrative Services, Jerrel Bolds and Heather Bell

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
SAFE DRINKING WATER REVOLVING FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2015**

Finding 2015-002

U.S. Environmental Protection Agency

CFDA # 66.468 Capitalization Grants for State Revolving Funds

CFDA # 66.468 ARRA Capitalization Grants for State Revolving Funds

Subrecipient Monitoring

Significant Deficiency, Internal Control over Compliance, Noncompliance

Criteria: Pass-through entities are to ensure required audits are performed by subrecipients, are responsible for issuing a management decision on any subrecipient audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings.

Condition: Supporting documentation was not available to support Safe Drinking Water Revolving Fund's proper review, monitoring, and follow-up of subrecipient audit reporting requirements.

Questioned Costs: None

Effect: Safe Drinking Water Revolving Fund was not in compliance with subrecipient monitoring requirements.

Cause: The Safe Drinking Water Revolving Fund program was in transition from being managed by the CDPH to California State Water Resources Control Board and did not have a system in place to document subrecipient monitoring related to of single audit reports filed by subrecipients for the 2014 fiscal year.

Recommendation: We recommend the Safe Drinking Water Revolving Fund implement a process that provides for timely reminder notifications to subrecipients of the requirement to file an audit report under OMB Circular A-133. The notification should go to all recipients except those specifically excluded from filing under A-133. A tracking system should be set up to monitor the receipt of the reports and document any discrepancies, findings and related follow up and management decisions made.

View of Responsible Official: Agree with the finding.

Planned Corrective Action: The program is fully implemented at California State Water Resources Control Board and the necessary subrecipient monitoring has been implemented.

Anticipated Completion Date: Already implemented

Responsible individuals: Division of Administrative Services, Jerrel Bolds and Heather Bell
Division of Financial Assistance, Lance Reese and Kelly Valine

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
SAFE DRINKING WATER REVOLVING FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2015**

Finding 2015-003

U.S. Environmental Protection Agency

CFDA # 66.468 Capitalization Grants for State Revolving Funds

CFDA # 66.468 ARRA Capitalization Grants for State Revolving Funds

Special Tests

Significant Deficiency, Internal Control over Compliance, Noncompliance

Criteria: The first principal repayment is required to be within one year of the project completion date and the loan is to be repaid within 20 years of the project completion date.

Condition: Principal on two loans in repayment were not scheduled timely so that the loans would be repaid within 20 years.

Questioned Costs: None

Effect: Safe Drinking Water Revolving Fund was not in compliance with loan repayment requirements.

Cause: The errors noted were due to the timing of the loan completion date and also due to the manual billing system in place at the time these loan projects were completed.

Recommendation: We recommend the Safe Drinking Water Revolving Fund establish procedures to ensure repayment of the principal portion of the loan is started in sufficient time for the loan to be paid in full within 20 years of the completion date.

View of Responsible
Official: Agree with the finding.

Planned Corrective
Action: Necessary changes have already been made so that the billing process is not done manually.

Anticipated
Completion Date: Already implemented

Responsible
individuals: Division of Financial Assistance, Lance Reese and Kelly Valine

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
SAFE DRINKING WATER REVOLVING FUND
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2015

Finding 2013-001

Condition:

On April 19, 2013, the EPA sent a Notice of Non-compliance to the California Department of Public Health (CDPH). The letter detailed that as of October 2012, the Fund had unspent federal funds (also referred to as unliquidated obligations, or ULOs) of \$455 million. The Notice also disclosed that the CDPH had approximately \$260 million in loan and interest repayments that have yet to be committed. The ULOs of the SDWSRF for fiscal years ending September 30, 2010, 2011, and 2012, were \$505,352,525, \$525,191,738, and \$455,437,385 respectively. The notice also discloses that since 2009, the EPA and the CDPH have met quarterly to discuss ways to improve program operations and reduce the amount of unspent federal funds. In 2012, the EPA issued a review report entitled EPA Region 9 Management Discussion of the CDPH SDWSRF, issued on September 27, 2012, which included 25 recommendations to streamline and otherwise improve CDPH operations and the SDWRF program's ability to efficiently commit and expend funds. The CDPH had disbursed only 63 percent of its funds at the end of the state fiscal year 2012, whereas the national average for the DWSRF programs was 81 percent. In August 2012, the CDPH identified actions to reduce ULOs including spending \$123 million of the more than \$400 million in ULOs by December 31, 2012. However, the CDPH failed to meet the spending target by about \$23 million. The CDPH's inability to reduce the ULOs to an acceptable level and to disburse funds closer to that of the national average resulted in the EPA Notice of Non-compliance dated April 19, 2013. In summary, the Notice of Non-compliance concluded the following:

- The CDPH has not committed and expended all funds in the SDWRF as efficiently as possible and in an expeditious and timely manner in accordance with 40 CFR 35.3550(l).
- The CDPH has not provided the EPA with a quarterly schedule of estimated cash draws on a yearly basis in accordance with 40 CFR 35.3560(d).
- The CDPH has inadequate personnel and resources to manage the SDWRF program pursuant to 40 CFR 35.3550(c).

Recommendations:

The CDPH should ensure that the SDWSRF is managed in a financially sound manner by reducing the balance of the unliquidated obligation (ULOs). The CDPH should ensure that all SDWSRF funds are committed and expended in a timely manner by performing the following:

- Ensure that all funds are committed and that there are sufficient projects ready to receive commitments.
- Commit funds to projects that are shovel ready.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
SAFE DRINKING WATER REVOLVING FUND
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2015**

- Instruct recipients to timely submit claims for reimbursement and provide guidance to recipients on how to properly submit claims.
- Ensure the CDPH SDWSRF personnel are technically capable and have the proper resources to adequately account for and manage all of the Fund's financial resources in accordance with 40 CFR 35.3550(l).
- Provide EPA with a quarterly schedule of estimated cash draws for the Federal fiscal year in accordance with 40 CFR 35.3560(d).
- Satisfy all of the requirements and commitments of the Corrective Action Plan submitted and approved by EPA (July 2013 revision).

Status:

The administration of the Fund has been transferred from CDPH to California State Water Resources Control Board, resulting in resolution of the finding.

EXHIBIT B

EXHIBIT B

Projects Funded by Needs Category						
Project Name	Project Description	Category	Population	Initial Loan Date	Total SRF Funding	
Sebastopol, City of	Well 06 Arsenic Treatment	C	7,750	08-06-2014	\$411,000	
New Auberry Water Association	Groundwater under direct influence of surface water feasibility study	B	80	08-15-2014	\$500,000	
Westmorland, City of	Feasibility study to address SWTP and DBP issues	C	2,444	08-15-2014	\$500,000	
Terrace Water Company	Terrace Water Company meter installation	D	2,200	08-15-2014	\$1,193,050	
Callayomi County Water District	Callayomi well replacement project	B	1,200	08-25-2014	\$460,500	
Chowchilla City Water Department	Install water meters	D	10,682	08-25-2014	\$3,205,991	
North Kaweah Mutual Water Company	Slow sand filtration, reservoir, and pump plant	B	75	08-26-2014	\$300,000	
Lebec County Water District	Lebec - new well	C	830	09-03-2014	\$500,000	
Lakeside School District	Well, storage and distribution replacement	B	110	09-10-2014	\$343,000	
Groveland Community Services District	Groveland CSD filtration treatment installation	B	3,400	09-17-2014	\$1,250,000	
Kings Canyon Unified School District	Dunlap Leadership Academy water project	C	75	10-01-2014	\$470,000	
Diablo Water District	Beacon West M-26 well project	C	45	11-14-2014	\$64,000	
Lemoore, City of	Disinfection byproducts reduction study	C	24,500	12-18-2014	\$465,000	
Tuolumne Utilities District - Columbia Water System	San Diego ditch constructed conveyance - connect to Columbia Water Treatment Plant	B	3,646	12-18-2014	\$225,955	
Emerald Valley Mutual Water Company	Emerald Valley Estates Water Company New Wells Project	A	35	12-29-2014	\$142,000	
Fresno County Waterworks District No. 40 - Shaver Springs	Assess alternate water sources for WWD 40	C	172	02-23-2015	\$425,000	

Projects Funded by Needs Category						
Project Name	Project Description	Category	Population	Initial Loan Date	Total SRF Funding	
Westhaven Community Services District	DBP precursor treatment (planning)	C	490	02-23-2015	\$134,500	
Forest Ranch Mutual Water System	Well replacement and treatment plant expansion	C	92	03-10-2015	\$135,000	
Los Angeles Department of Water and Power	Headworks Reservoir Flow Regulation Station and Power Plant	B	4,071,873	03-10-2015	\$500,000	
Pajaro/Sunny Mesa Community Services District	Springfield MWC- Nitrate	A	122	03-10-2015	\$500,000	
Buckingham Park Water District	2014 Water System Upgrades Project	B	580	04-23-2015	\$990,000	
Monterey Park Tract Community Services District	Monterey Park Tract Waterline Connection Project	A	186	06-10-2015	\$1,137,171	
Orland, City of	City of Orland - New well construction	A	6,525	06-25-2015	\$1,160,268	
Los Angeles Department of Water and Power	Los Angeles reservoir ultraviolet light treatment plant	B	4,071,873	06-30-2015	\$102,797,875	
			TOTAL		\$117,810,310	

Projects Not Funded

Project Name	Project Number	District	Population	Total SRF Funding	Estimated Principal Forgiveness	Comment
Country Hills Estates	4000637-001P	Santa Barbara	60	\$67,270	\$0	Unresponsive to request to execute funding agreement; pursuing other funding options
Lemon Cove Water Company	5400616-001P	Visalia	200	\$412,000	\$120,000	To be funded in FY 2015-16 (technical assistance in progress)
London Community Services District	5410017-003P	Visalia	2,138	\$454,300	\$363,440	Received emergency funding instead of DWSRF
Institute of Mentalphysics	3600768-001P	San Bernardino	70	\$259,000	\$0	Not Eligible, withdrawn
North Gualala Water Company	2310007-016P	Mendocino	3,671	\$488,693	\$0	To be funded in FY 2015-16 (delay due to new requirements)
Paradise Water Irrigation District	0410007-001P	Valley	26,299	\$500,000	\$0	To be funded in FY 2015-16 (delay due to new requirements)
Armona Community Services District	1610001-007C	Visalia	3,239	\$6,032,000	\$3,000,000	To be funded in FY 2015-16 (delay due to new requirements)
Kettleman City Community Services District	1610009-005C	Visalia	1,499	\$3,000,000	\$3,000,000	To be funded in FY 2015-16 (delay due to new requirements)
Amador County Service Area No. 3, Unit 6	0310021-003C	Stockton	2,386	\$1,805,292	\$1,444,234	To be funded in FY 2015-16 (delay due to new requirements)
Amador Water Agency - Buckhorn Plant	0310012-005C	Stockton	8,800	\$2,222,000	\$2,222,000	To be funded in FY 2015-16 (delay due to new requirements)
Amador Water Agency - Buckhorn Plant	0310012-006C	Stockton	8,800	\$348,000	\$278,400	To be funded in FY 2015-16 (delay due to new requirements)
Georgetown Public Utility District	0910013-005C	Sacramento	9,261	\$4,000,000	\$0	To be funded in FY 2015-16 (delay due to new requirements)
Hughson, City of	5010008-011C	Stockton	6,082	\$6,607,210	\$0	To be funded in FY 2015-16 (delay due to new requirements)
Keyes Community Services District(consolidation project)	5010009-004C	Stockton	4,575	\$3,812,500	\$0	To be funded in FY 2015-16 (delay due to new requirements)
Keyes	5010009-003C	Stockton	4,900	\$3,000,000	\$3,000,000	To be funded in FY 2015-16 (delay due to new requirements)

Projects Not Funded							
Project Name	Project Number	District	Population	Total SRF Funding	Estimated Principal Forgiveness	Comment	
Lanare CSD	1000053	Fresno	660	\$3,000,000	\$3,000,000	To be funded in FY 2015-16 (delay due to new requirements)	
Hidden Valley Community Association	3103836-002C	Lassen	499	\$484,212	\$0	Agreement issued 6-30-14, water system withdrawn on 7-18-2014	
Del Rey Community Services District	1010035-004C	Fresno	1,100	\$793,980	\$793,980	Offer to fund was rejected, water system withdrawn on 10-2-2014	
Heber PUD	1310007-002C	San Diego	3,400	\$5,692,120	\$3,000,000	Has been funded in FY 2015-16	
Huron, City of	1010044-001C	Fresno	6,790	\$6,000,000	\$6,000,000	Has been funded in FY 2015-16	
Eastern Municipal Water District	3310009-067C	Riverside	512,711	\$3,000,000	\$3,000,000	Has been funded in FY 2015-16	
Fresno, City of	1010007-028C	Fresno	484,087	\$31,066,009	\$0	Has been funded in FY 2015-16	
Metropolitan Water District of Southern California	1910087-019C	Metropolitan	18,379,000	\$11,000,000	\$0	To be funded in FY 2015-16 (delay due to new requirements)	

EXHIBIT D

Disadvantaged Business Enterprise Report

		MBE	WBE	TOTAL
Annual Total	October 1, 2013-September 30, 2014	\$3,784,601.08	\$5,492,238.76	\$9,276,839.84
Total Disbursements	October 1, 2013-September 30, 2014			\$181,628,485.81
Percentage to Total Disbursements	October 1, 2013-September 30, 2014	0.02 percent	0.030 percent	0.05 percent

EXHIBIT D

Green and Subsidy Projects Funded

Project Name	Project Number	Principal Forgiveness	Loan	Total SRF Funding	FA Execution Date	Status
Forest Ranch Mutual Water Co	0400004-001P	\$58,000	\$77,000	\$135,000	03-10-2015	Disadvantaged
Diablo Water District	0707602-001C	\$64,000	\$0	\$64,000	11-14-2014	Disadvantaged
New Auberry Water Association	1000063-005P	\$500,000	\$0	\$500,000	08-15-2014	Severely Disadvantaged
Kings Canyon Unified School District	1000577-001P	\$470,000	\$0	\$470,000	10-01-2014	Severely Disadvantaged
Westhaven Community Services District	1210024-003P	\$107,600	\$26,900	\$134,500	02-23-2015	Disadvantaged
Westmorland, City of	1310008-003P	\$500,000	\$0	\$500,000	08-15-2014	Severely Disadvantaged
Lebec County Water District	1510051-004P	\$500,000	\$0	\$500,000	09-03-2014	Severely Disadvantaged
Buckingham Park Water District	1710011-001C	\$792,000	\$198,000	\$990,000	04-23-2015	Disadvantaged
Callayomi County Water District	1710013-003P	\$368,400	\$92,100	\$460,500	08-25-2014	Disadvantaged
Los Angeles, City of Acting by and through the Department of Water and Power	1910067-050P	\$400,000	\$100,000	\$500,000	03-10-2015	Disadvantaged
Pajaro/Sunny Mesa Community Services District	2700771-001P	\$500,000	\$0	\$500,000	03-10-2015	Severely Disadvantaged
*Terrace Water Company	3610048-004C	\$775,483	\$417,567	\$1,193,050	08-15-2014	Disadvantaged
Lakeside Joint Unified School district	4300779-001P	\$343,000	\$0	\$343,000	09-10-2014	Severely Disadvantaged
Monterey Park Tract Community Services District	5000389-002C	\$1,137,171	\$0	\$1,137,171	06-10-2015	Severely Disadvantaged
Groveland Community Services District	5510009-001C	\$1,250,000	\$0	\$1,250,000	09-17-2014	Severely Disadvantaged
Tuolumne Utilities District	5510013-009C	\$180,764	\$45,191	\$225,955	12-18-2014	Disadvantaged
*Chowchilla, City of	2010001-011C	\$0	\$3,205,991	\$3,205,991	08-25-2014	Disadvantaged

*Green Projects (water meter projects)

EXHIBIT F

EXHIBIT F

Projects Reported to FFATA							
Financial Assistance Recipient	Project Number	Agreement Date	FFATA Reporting Due	Date Reported	FFATA Reporting Amount*	Total SRF Funding	
City of Los Angeles Acting by and through the Department of Water and Power	1910067-049C	06-30-2015	07-31-2015	07-31-2015	\$83,221,000	\$102,797,875	

*Based on FFY 2014 Capitalization Grant of \$83,221,000

EXHIBIT G

EXHIBIT G

Set Asides (Funds 0625 and 0628)

Federal Fiscal Year	Final Capitalization Grant Amount (including In-Kind)	0625 - Administration (Max 4 percent)			0628 - SWS TA (Max 2 percent)		
		Budget Amount	Expenditure Amount	Balance	Budget Amount	Expenditure Amount	Balance
1997	\$75,565,707.20	\$3,027,304.00	\$3,027,304.00	\$0.00	\$68,245.00	\$68,245.00	\$0.00
1998	\$77,108,200.00	\$3,084,328.00	\$3,084,328.00	\$0.00	\$1,542,164.00	\$1,542,164.00	\$0.00
1999	\$80,816,700.00	\$3,232,668.00	\$3,232,668.00	\$0.00	\$1,616,334.00	\$1,616,334.00	\$0.00
2000	\$83,993,100.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2001	\$84,340,000.00	\$3,373,600.00	\$3,373,600.00	\$0.00	\$1,686,800.00	\$1,686,800.00	\$0.00
2002	\$82,460,900.00	\$3,229,883.00	\$3,229,883.00	\$0.00	\$1,649,218.00	\$1,649,218.00	\$0.00
2003	\$81,966,200.00	\$3,278,648.00	\$3,278,648.00	\$0.00	\$1,639,324.00	\$1,639,324.00	\$0.00
2004	\$85,027,600.00	\$6,609,752.00	\$6,609,752.00	\$0.00	\$3,339,876.00	\$3,339,876.00	\$0.00
2005	\$84,847,500.00	\$2,781,076.00	\$2,781,076.00	\$0.00	\$1,390,538.00	\$1,390,538.00	\$0.00
2006	\$67,153,678.00	\$2,654,166.00	\$2,654,166.00	\$0.00	\$1,342,083.00	\$1,342,083.00	\$0.00
2007	\$67,105,000.00	\$2,684,200.00	\$2,684,200.00	\$0.00	\$1,342,100.00	\$1,342,100.00	\$0.00
2009 (ARRA)	\$159,008,000.00	\$5,364,471.60	\$5,364,471.60	\$0.00	\$2,787,147.37	\$2,787,147.37	\$0.00
2008	\$66,424,000.00	\$2,656,960.00	\$2,656,960.00	\$0.00	\$1,328,480.00	\$1,328,480.00	\$0.00
2009	\$66,424,000.00	\$2,656,960.00	\$2,656,960.00	\$0.00	\$1,328,480.00	\$1,328,480.00	\$0.00
2010	\$126,958,000.00	\$5,078,320.00	\$5,078,320.00	\$0.00	\$2,539,160.00	\$2,539,160.00	\$0.00
2011	\$86,698,000.00	\$3,467,920.00	\$3,467,920.00	\$0.00	\$1,733,960.00	\$1,733,960.00	\$0.00
2012	\$85,358,000.00	\$3,114,320.00	\$3,114,320.00	\$0.00	\$1,707,160.00	\$1,707,160.00	\$0.00
2013	\$78,770,000.00	\$2,723,933.00	\$2,723,933.00	\$0.00	\$1,575,400.00	\$1,066,968.99	\$508,431.01
2014	\$83,221,000.00	\$3,328,840.00	\$1,954,665.13	\$1,374,174.87	\$1,664,420.00	\$0.00	\$1,664,420.00
TOTAL	\$1,623,245,585.20	\$62,347,349.60	\$60,973,174.73	\$1,374,174.87	\$30,280,889.37	\$28,108,038.36	\$2,172,851.01

EXHIBIT G continued

Federal Fiscal Year	Final Capitalization Grant Amount (including In-Kind)	7500 - State Program Management (Max 10 percent)					
		Capacity Development			PWSS Administration		
		Budget Amount	Expenditure Amount	Balance	Budget Amount	Expenditure Amount	Balance
1997	\$75,565,707.20	\$4,157.00	\$4,157.00	\$0.00	\$0.00	\$0.00	\$0.00
1998	\$77,108,200.00	\$308,433.00	\$308,433.00	\$0.00	\$0.00	\$0.00	\$0.00
1999	\$80,816,700.00	\$323,267.00	\$323,267.00	\$0.00	\$0.00	\$0.00	\$0.00
2000	\$83,993,100.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2001	\$84,340,000.00	\$2,000,000.00	\$2,000,000.00	\$0.00	\$0.00	\$0.00	\$0.00
2002	\$82,460,900.00	\$2,000,000.00	\$2,000,000.00	\$0.00	\$0.00	\$0.00	\$0.00
2003	\$81,966,200.00	\$2,000,000.00	\$2,000,000.00	\$0.00	\$0.00	\$0.00	\$0.00
2004	\$85,027,600.00	\$2,400,000.00	\$2,400,000.00	\$0.00	\$0.00	\$0.00	\$0.00
2005	\$84,847,500.00	\$2,400,000.00	\$2,400,000.00	\$0.00	\$1,677,000.00	\$1,677,000.00	\$0.00
2006	\$67,153,678.00	\$2,400,000.00	\$2,400,000.00	\$0.00	\$2,304,000.00	\$2,304,000.00	\$0.00
2007	\$67,105,000.00	\$2,400,000.00	\$2,400,000.00	\$0.00	\$2,534,400.00	\$2,534,400.00	\$0.00
ARRA 2009	\$159,008,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2008	\$66,424,000.00	\$2,400,000.00	\$2,400,000.00	\$0.00	\$2,482,164.00	\$2,482,164.00	\$0.00
2009	\$66,424,000.00	\$2,400,000.00	\$2,400,000.00	\$0.00	\$2,482,164.00	\$2,482,164.00	\$0.00
2010	\$126,958,000.00	\$1,778,376.64	\$1,778,376.64	\$0.00	\$7,540,340.36	\$7,540,340.36	\$0.00
2011	\$86,698,000.00	\$85,539.28	\$85,539.28	(\$0.00)	\$8,584,260.72	\$8,584,260.72	\$0.00
2012	\$85,358,000.00	\$0.00	\$0.00	\$0.00	\$8,535,800.00	\$8,535,800.00	\$0.00
2013	\$78,770,000.00	\$0.00	\$0.00	\$0.00	\$7,089,300.00	\$7,089,300.00	\$0.00
2014	\$83,221,000.00	\$0.00	\$0.00	\$0.00	\$8,022,100.00	\$2,817,546.16	\$5,204,553.84
Total	\$1,623,245,585.20	\$22,899,772.92	\$22,899,772.92	(\$0.00)	\$51,251,529.08	\$46,046,975.24	\$5,204,553.84

Federal Fiscal Year	Final Capitalization Grant Amount (including In-Kind)	0626 - Local Assistance (Max 15 percent)											
		SWP Loans			Source Water Area Delineation			Capacity Development (LEFA, Technical Assistance Contracts, DFA Technical Assistance)					
		Budget Amount	Expenditure Amount	Balance	Budget Amount	Expenditure Amount	Balance	Budget Amount	Expenditure Amount	Balance			
1997	\$75,565,707.20	\$0.00	\$0.00	\$0.00	\$6,831,577.20	\$6,831,577.20	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
1998	\$77,108,200.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
1999	\$80,816,700.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2000	\$83,993,100.00	\$2,000,000	\$2,000,000	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2001	\$84,340,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2002	\$82,460,900.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2003	\$81,966,200.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2004	\$85,027,600.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2005	\$84,847,500.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2006	\$67,153,678.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2007	\$67,105,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
ARRA 2009	\$159,008,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2008	\$66,424,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2009	\$66,424,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2010	\$126,958,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2011	\$86,698,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$2,600,940	\$2,600,940	\$0.00	\$0.00
2012	\$85,358,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$4,267,900	\$4,267,900	\$2,837,550.58	\$1,430,349.42
2013	\$78,770,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$6,301,600	\$6,301,600	\$0.00	\$6,301,600.00
2014	\$83,221,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$4,993,260	\$4,993,260	\$0.00	\$4,993,260.00
Total	\$1,623,245,585.20	\$2,000,000	\$2,000,000	\$0.00	\$6,831,577.20	\$6,831,577.20	\$0.00	\$0.00	\$0.00	\$18,163,700	\$18,163,700	\$5,438,490.58	\$12,725,209.42
		\$6,831,577.20 \$6,831,577.20											

Small Water System Funding

Project Name	Project Number	Principal Forgiveness	Loan	Total SRF Funding	FA Execution Date	Financial Status
Forest Ranch Mutual Water Company	0400004-001P	\$58,000.00	\$77,000.00	\$135,000.00	03-10-2015	Disadvantaged
Diablo Water District	0707602-001C	\$64,000.00	\$0.00	\$64,000.00	11-14-2014	Disadvantaged
Kings Canyon Unified School District	1000063-005P	\$500,000.00	\$0.00	\$500,000.00	08-15-2014	Severely Disadvantaged
Westhaven Community Services District	1000577-001P	\$470,000.00	\$0.00	\$470,000.00	10-01-2014	Severely Disadvantaged
Westmorland, City of	1210024-003P	\$107,600.00	\$26,900.00	\$134,500.00	02-23-2015	Disadvantaged
Lebec County Water District	1310008-003P	\$500,000.00	\$0.00	\$500,000.00	08-15-2014	Severely Disadvantaged
Buckingham Park Water District	1510051-004P	\$500,000.00	\$0.00	\$500,000.00	09-03-2014	Severely Disadvantaged
Callayomi County Water District	1710011-001C	\$792,000.00	\$198,000.00	\$990,000.00	04-23-2015	Disadvantaged
Pajaro/Sunny Mesa Community Services District	1710013-003P	\$368,400.00	\$92,100.00	\$460,500.00	08-25-2014	Disadvantaged
Terrace Water Co	2700771-001P	\$500,000.00	\$0.00	\$500,000.00	03-10-2015	Severely Disadvantaged
Lakeside Joint Unified School district	3610048-004C	\$775,483.00	\$417,567.00	\$1,193,050.00	08-15-2014	Disadvantaged
Monterey Park Tract Community Services District	4300779-001P	\$343,000.00	\$0.00	\$343,000.00	09-10-2014	Severely Disadvantaged
Groveland Community Services District	5000389-002C	\$1,137,171.00	\$0.00	\$1,137,171.00	06-10-2015	Severely Disadvantaged
Tuolumne Utilities District	5510009-001C	\$1,250,000.00	\$0.00	\$1,250,000.00	09-17-2014	Severely Disadvantaged
Sebastopol, City of	5510013-009C	\$180,764.00	\$45,191.00	\$225,955.00	12-18-2014	Disadvantaged
North Kaweah Mutual Water Company	4910011-005P	\$0.00	\$411,000	\$411,000	08-06-2014	Not Disadvantaged
Emerald Valley Estates Mutual Water Company	5400506-004C	\$0.00	\$300,000	\$300,000	08-26-2014	Not Disadvantaged
Orland, City of	4301004-001P	\$0.00	\$142,000	\$142,000	12-29-2014	Not Disadvantaged
Fresno County Waterworks District #40 - Shaver Springs	1110001-003C	\$0.00	\$1,160,268	\$1,160,268	06-25-2015	Disadvantaged
	1000042-002P	\$0.00	\$425,000.00	\$425,000.00	2/23/2015	Not Disadvantaged

LEFA Projects

Project Name	Project Number	Total SRF Funding (Grant)	FA Execution Date	Status
Easton Community Services District	0010003-001L	\$220,449.00	04-30-2015	Active
Rural Community Assistance Corporation – Garlen Court Mutual Water Company Formation	0027002-001L	\$52,745.00	06-17-2014	Completed
Rural Community Assistance Corporation – Courtland Community Services District	0034001-001L	\$84,747.00	06-24-2014	Completed (no entity formed per community decision)
Rural Community Assistance Corporation – Wendell Lane Mutual Water Company Formation	0049001-001L	\$46,494.00	06-27-2014	Completed
Self Help Enterprises – Weldon Regional Water Supply Entity	0015001-001L	\$186,723.00	09-29-2014	Active
Self Help Enterprises – Orange Center School Residential Area Water System Entity Formation	0010002-001L	\$214,247.00	09-29-2014	Active
California Rural Water Association – Ali Mutual Water Company Formation	0054004-001L	\$76,584.00	06-30-2014	Active
Self Help Enterprises – Highland Acres “Okieville” Water System Entity Formation	00540005-001L	129,007.00	11-24-2014	Active
Self Help Enterprises – Perry Colony Residential Area Water System Entity Formation	0010001-001L	\$191,457.00	09-29-2014	Active
California Rural Water Association – Barstow Perchlorate Area Entity Formation)	0036002-001L	\$204,605.00	11-14-2014	Active
Frazier Park Public Utility District – Lake of the Woods Regional	0015002-001L	\$202,265.00	11-07-2014	Active
Tulare County – North Tulare County Area Regional Surface Water Treatment Plant Governance formation	0054002-001L	\$250,000.00	05-07-2015	Active
Pajaro/Sunny Mesa Community Services District – Springfield Terrace	0027001-001L	\$71,280.00	03-10-2015	Active
Tulare County –Monson Water System Entity Formation	0054003-001L	132,027.00	Issued 09-04-2015	Active
Jurupa Community Services District -Chandler Community Water Entity Formation	0033001-001L	\$28,000.00	02-23-2015	Active

EXHIBIT J

EXHIBIT J

DWSRF and PWSDR Drought Emergency Projects

Project Name	Project Number	Total SRF Funding (Grant)	FA Execution Date	Project Description
**Groveland CSD	5510009-001	\$1,250,000	09-17-2014	Supply and installation of a permanent surface water treatment package plant
*Tyler Vincent LLC (dba Mt Taylor Mobile Home Park)	4900822-001	\$191,977.00	07-10-2014	Consolidation with neighboring public water system
*City of Willits	2310004-001	\$500,000.00	07-10-2014	Bring two wells online and install package filtration plant
*Madera County MD 85 - Valeta	2000511-001	\$674.00	07-15-2014	Water hauling and lower pump
*Guatay Mutual Benefit Corporation (1)	3700897-001	\$5,683.00	07-15-2014	Water hauling
*Redwood Valley County Water District	2310008-001	\$379,400.00	07-28-2014	Intertie with neighboring public water system and upgrade existing intertie
*Le Grand Community Services District	2410011-001	\$274,959.00	08-01-2014	Water hauling and rehab existing wells
*County of Tulare (on behalf of Seville Water Company)	5400550-001	\$275,000.00	08-01-2014	Install a new 15,000 gallon steel storage tank and two booster pumps
*Elk Creek CSD	1100616-001	\$8,974.00	08-05-2014	Iron and manganese treatment
*Los Madrones Mutual Water Company	3500578-001	\$281,039.00	08-25-2014	Construct new well and repair storage tank
*Tuolumne Utilities District (5510013-001)	5510013-001	\$115,444.00	08-26-2014	Replace pump drives and air conditioning systems for the pump building
*Tuolumne Utilities District (5510013-002)	5510013-002	\$359,797.00	08-26-2014	Expansion of reservoir storage capacity
*County of Colusa (1)	0600012-001	\$17,500.00	09-10-2014	Water hauling
*County of Madera	2010004-001	\$240,000.00	09-10-2014	Emergency intertie with neighboring public water system and rehab existing well
*City of Farmersville	5410004-001	\$500,000.00	09-10-2014	Permanently connect private well owners

DWSRF and PWSDER Drought Emergency Projects

Project Name	Project Number	Total SRF Funding (Grant)	FA Execution Date	Project Description
*Eagle's Nest Resort	5400602-001	\$1,879.00	09-16-2014	Temporary bottled water deliveries.
*Woodside RV Park LLC	2300644-001	\$158,300.00	9/17/2014	Construct new well and surface water treatment plant
*Summit Mutual Water Company	4400559-001	\$269,600.00	09-17-2014	Water hauling and repair storage tank
*Ali Mutual Water Company, Inc. (1)	5403144-001	\$10,000.00	09-18-2014	Bottled water and install storage tank and booster pump
*City of Hanford	1610003-001	\$10,000.00	09-23-2014	Bottled water and temporary emergency connection to neighboring public water system
*Los Angeles Residential Community Foundation	1900062-001	\$500,000.00	09-25-2014	Water hauling
*Paskenta Community Services District (1)	5200534-001	\$200,568.00	10-01-2014	Water hauling
*Tuolumne Utilities District (5510001-001)	5510001-001	\$236,707.00	10-07-2014	Reactivate existing well and treatment
*Valley Teen Ranch (2)	2000785-002	\$10,000.00	10-14-2014	Water hauling and rehab existing well
*County of Lake (on behalf of Lake County Service Area No. 22 - Mt. Hannah)	1700563-001	\$57,370.00	10-14-2014	Water hauling and construct a new well
*Aldercroft Heights County Water District	4300516-001	\$236,750.00	10-14-2014	Drill new well
*Clearwater Mutual Water Company	1700546-001	\$9,485.00	10-23-2014	Extend existing intake
*Lake Canyon Mutual Water Company	4300522-001	\$51,000.00	10-31-2014	Water hauling
*Goleta Water District	4210004-001	\$350,000.00	10-31-2014	Extend raw water intake
*Crescent Bay Improvement Company	1700519-001	\$18,035.00	11-03-2014	Emergency intertie with neighboring public water system and extend intake

DWSRF and PWSDER Drought Emergency Projects						
Project Name	Project Number	Total SRF Funding (Grant)	FA Execution Date	Project Description		
*Arroyo Center Water Company, Inc.	2701658-001	\$43,920.00	11-07-2014	Water hauling		
*Lake Berryessa Resort Improvement District	2800526-001	\$236,000.00	11-14-2014	Construct a new well		
*City of Porterville	5410010-001	\$85,478.00	11-19-2014	Consolidation with neighboring public water system		
*Volta Community Services District	2400201-001	\$38,135.00	12-18-2014	Rehab existing well		
*Carpinteria Valley Water District	4210001-001	\$350,000.00	12-18-2014	Extend raw water intake		
*Chemeketa Park Mutual Water Company	4300517-001	\$393,170.00	12-18-2014	Construct a new well, intertie to neighboring public water system and hauled water		
*Santa Barbara Water Department	4210010-001	\$350,000.00	12-19-2014	Extend raw water intake		
*Montecito Water District	4210007-001	\$350,000.00	12-30-2014	Extend raw water intake		
*Lake of the Woods Mutual Water Company	1510023-001	\$500,000.00	01-09-2015	Construct a new well		
*Tuolumne Utilities District (5510013-003)	5510013-003	\$55,363.00	01-13-2015	Permanently connect private well owners		
*Plainsburg Elementary School	2400065-001	\$200,000.00	01-13-2015	Construct a new well		
*Springville Public Utility District	5410011-001	\$60,379.00	01-16-2015	Purchased portable diesel powered pump		
*Ali Mutual Water Company, Inc. (2)	5403144-002	\$282,500.00	01-21-2015	Construct new well and provide storage tank and booster pump for hauled water		
*California Water Service Company (Lucerne)	1710005-001	\$136,172.00	02-11-2015	Extend existing intake and install a floating intake		
*Skyway Partners LLC (Big Bend Mobile Home Park)	0400028-001	\$143,631.00	02-19-2015	Water hauling and construct a new well		

EXHIBIT J continued

DWSRF and PWSDR Drought Emergency Projects

Project Name	Project Number	Total SRF Funding (Grant)	FA Execution Date	Project Description
*Lake Don Pedro Community Services District (1)	5510008-001	\$60,900.00	03-04-2015	Extend emergency floating intake
*County of Madera (County Maintenance District No. 33, Fairmead)	2000554-001	\$178,863	03-10-2015	Temporarily equip test well and rehab existing well
*Cambria Community Services District	4010014-001	\$307,876.00	03-10-2015	Rehabilitation of existing well and filter plant
*Tuolumne Utilities District (5510001-002)	2000598-001	\$207,290.00	04-01-2015	Permanently connect private well owners
*Alview-Dairyland Union School District	5510001-002	\$220,000.00	04-01-2015	Construct new well and rehab existing well
*County of Madera (County Service Area No. 14, Chuk Chause)	2000724-001	\$118,731.00	04-08-2015	Hauled water and rehab existing well
*Hillview Water Company - Raymond (1)	2010012-001	\$58,500.00	04-21-2015	Purchased of new well
*Lake Don Pedro Community Services District (2)	5510008-002	\$439,100.00	04-30-2015	Construct two new wells
*County of Fresno (County Service Area No. 32 Cantua Creek)	1000359-001	\$181,500.00	05-01-2015	Offset increased water costs
*Madera Unified School District (Dixieland Elementary School)	2000760-001	\$22,837.00	05-04-2015	Bottled water and rehab existing well
*County of Madera (County Maintenance District No. 60 - Dillon Estates) (2)	2000849-002	\$55,000.00	05-04-2015	Temporary connection and rehab existing well
*Lewiston Park Mutual Water Company	5301003-001	\$10,000.00	05-08-2015	Rehab existing well
*London Community Services District	5410017-001	\$147,708.00	06-26-2015	Construct new well
*County of Fresno (FCWWD #40 - Shaver Springs)	1000042-001	\$167,000.00	06-26-2015	Hauled water and rehab existing well

*Projects were funded through a \$15 million dollar California State General Fund appropriation to mitigate drought-related drinking water emergencies. The DWSRF Local Assistance Set-Aside funded state personnel costs, in support of capacity development, administering this \$15 million dollar California State General Fund appropriation.

**Projects funded through DWSRF to mitigate drought-related drinking water emergencies.

EXHIBIT K

EXHIBIT K

Extended Term Financing Projects			
Project Name	Project Number	Total SRF Funding	FA Execution Date
London Community Services District	5410017-001C	\$2,172,413.00	07-15-2014
Tuolumne Utilities District	5510013-009C	\$225,955.00	12-18-2014
Orland, City of	1110001-003C	\$1,160,268.00	06-25-2015
Buckingham Park Water District	1710011-001C	\$990,000.00	04-12-2015



FILTERS 1 & 2
SOLENOID VALVE PANEL

DANGER
HIGH VOLTAGE
ELECTRICITY
DO NOT TOUCH
OR OPEN



