

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

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

June 30, 2014 and 2013

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## INDEPENDENT AUDITORS' REPORT

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

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

We have audited the accompanying financial statements of the California State Water Resources Control Board, Water Pollution Control Revolving Fund, an enterprise fund of the State of California, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

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

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

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

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

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

As discussed in Note 1 - Definition of Reporting Entity, the basic financial statements of the California State Water Resources Control Board, Water Pollution Control Revolving Fund are intended to present the financial position, changes in financial position and cash flows of only that portion of the financial reporting entity of the California State Water Resources Control Board that is attributable to the transactions of the California State Water Resources Control

Board, Water Pollution Control Revolving Fund. They do not purport to, and do not, present fairly the financial position of the California State Water Resources Control Board or the State of California as of June 30, 2014 and 2013, and the changes in their financial position and their cash flows, where applicable, for the years then ended, in conformity with the accounting principles generally accepted in the United States of America.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the California State Water Resources Control Board, Water Pollution Control Revolving Fund as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

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

#### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the California State Water Resources Control Board, Water Pollution Control Revolving Fund's basic financial statements. The schedule of 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 September 26, 2014, on our consideration of the California State Water Resources Control Board, Water Pollution Control Revolving Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering California State Water Resources Control Board, Water Pollution Control Revolving Fund's internal control over financial reporting and compliance.

*CliftonLarsonAllen LLP*

Denver, Colorado  
September 26, 2014

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

**Management's Discussion & Analysis**

The following Management's Discussion and Analysis is a required supplement to the California State Water Resources Control Board's (State Water Board), Water Pollution Control Revolving Fund (Clean Water State Revolving Fund program) (CWSRF) financial statements. It describes and analyzes the financial position of the CWSRF providing an overview of the CWSRF's activities for the years ended June 30, 2014 and 2013. We encourage readers to consider the information presented here in conjunction with information that is in the financial statements and notes, which follow this section.

**Financial Highlights**

- Net position increased by \$134 million to a total of \$3.6 billion in 2014, which was \$57 million less than the increase of \$191 million in 2013. The smaller increase in net position reflects a reduction in capital contributions during the year from the U.S. Environmental Protection Agency (EPA).
- Capital contributions decreased by \$61 million to \$81 million as compared to \$142 million in 2013. The decrease in capital contributions was a result of less capital available from EPA capitalization grants for loan disbursements.
- Capital contributions from EPA capitalization grant funds of \$22 million were forgiven.
- Cash and cash equivalents decreased by \$60 million in 2014 as compared to an increase of \$108 million in 2013. The decrease in 2014 was mostly the result of an increase in loan disbursements.
- Loans receivable increased by \$181 million to \$3.36 billion in 2014 as compared to an increase of \$41 million in 2013. The larger increase in 2014 mostly reflects a higher amount of loan disbursements during 2014.
- Restricted portion of net position decreased by \$9 million to \$352 million in 2014 as compared to an increase of \$90 million in 2013. The decrease in 2014 was due to the decrease in notes receivables for loans pledged to the Series 2012 Revenue Bonds as a result of repayments received and the related debt service payments. The increase in 2013 reflects the greater pledged loan requirements of the Series 2012 Revenue Bonds as compared to the refunded Series 2002 Revenue Bonds.

**Using this Annual Financial Report**

The financial statements included in this annual financial report are those of the CWSRF. As discussed in Note 1, Definition of Reporting Entity, the basic financial statements of the CWSRF are intended to present the financial position, changes in financial position, and cash flows of only that portion of the financial reporting entity of the State Water Board that is attributable to the transactions of the CWSRF. They do not purport to present the financial position of the State Water Board or the State of California (State) as of June 30, 2014 and 2013 and the change in their financial positions and their cash flows for the years then ended.

## Overview of Financial Statements

This discussion and analysis is an introduction to the CWSRF financial statements and accompanying notes to financial statements. This report also contains required supplementary information and other supplementary information.

The financial statements of the CWSRF are presented as a special purpose government engaged only in business type activities - providing loans to other governmental entities. The statements provide both short-term and long-term information about the CWSRF's financial position, which assists the reader in assessing the CWSRF's economic condition at the end of the fiscal year. These statements are prepared using the accrual basis of accounting. The financial statements include the following three statements:

- The *Statements of Net Position* present information on all of the CWSRF's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position are expected to serve as a useful indicator of whether the financial position of the CWSRF is improving or deteriorating.
- The *Statements of Revenues, Expenses, and Changes in Net Position* present information which reflects how the CWSRF's net position changed during the past year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.
- The *Statements of Cash Flows* report the CWSRF's cash flows from operating activities, noncapital financing activities, and investing activities.

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes can be found immediately following the financial statements.

## Net Position

In 2014, the growth of the CWSRF's net position remained strong increasing by \$134 million, or 3.8%, to \$3.6 billion at June 30, 2014 as compared to an increase of \$191 million, or 5.8%, the previous year. The increase in net position was \$57 million lower than in the previous year, primarily reflecting the lower level of capital contributions from EPA capitalization grants.

The current portion of the CWSRF's liabilities was \$15 million in 2014 and 2013. Current liabilities primarily correspond to continuing principal payments for the Series 2012 Revenue Bonds. Noncurrent liabilities decreased \$14 million in 2014 and \$34 million in 2013. The decrease in 2014 is the result of the ongoing principal payments of the Series 2012 Revenue Bonds, while the greater decrease in 2013 reflects the refunding of the Series 2002 Revenue Bonds.

A segment of the CWSRF's net position is subject to external restriction due to the debt service requirements of the Series 2012 Revenue Bonds. The net position that is restricted decreased in 2014 by \$9 million to \$352 million, or 2.5%, as compared to an increase in 2013 of \$90 million to \$361 million, or 33.2%. The decrease in 2014 corresponds to the ongoing debt service payments, while the increase in 2013 corresponded to the greater pledged loan requirements of the Series 2012 Revenue Bonds.

Of the total restricted net position, \$325 million in 2014 and \$346 million in 2013 represent the balance of outstanding loans that were pledged as security to the Series 2012 Revenue Bond debt service. The principal and interest received during the fiscal year from these loans is used to make the semi-annual debt service payments on the revenue bonds.

The CWSRF received total payments on pledged loans of \$26.8 million (\$20.9 million of principal and \$5.9 million of interest) in 2014 of which the debt service payment was \$15.1 million (\$13 million of principal and \$2.1 million of interest). In 2013, the CWSRF received total payments on pledged loans of \$43.9 million (\$36.8 million of principal and \$7.1 million of interest) of which the debt service payments were \$0.7 million of interest for the Series 2012 bonds and \$25.6 million (\$22.9 million of principal and \$2.7 million of interest) for the Series 2002 bonds. In addition, during 2013 the Series 2002 refunding debt service was \$92.5 million (\$91.8 million of principal and \$0.7 million of interest).

The remaining \$26.0 million of restricted net position in 2014 and \$14 million in 2013 represent pledged loan repayments, which are restricted for future loan disbursements and/or debt service payments. Any excess of principal and interest received over the required debt service may be used for future loan disbursements and/or released from restriction in the event that certain criteria are met.

**Table 1**

**Net Position**

(in thousands)

	<u>2014</u>	<u>June 30, 2013</u>	<u>2012</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 316,552	\$ 376,642	\$ 268,664
Loans receivable	3,357,490	3,176,732	3,135,310
All other assets	22,734	24,351	26,691
<b>Total assets</b>	<b><u>3,696,776</u></b>	<b><u>3,577,725</u></b>	<b><u>3,430,665</u></b>
<b>LIABILITIES</b>			
Current liabilities	15,004	15,382	25,330
Noncurrent liabilities	44,897	59,236	93,194
<b>Total liabilities</b>	<b><u>59,901</u></b>	<b><u>74,618</u></b>	<b><u>118,524</u></b>
<b>NET POSITION</b>			
Restricted			
Debt service	25,975	14,157	32,567
Security for revenue bonds	325,460	346,377	238,166
Subtotal restricted assets	<b><u>351,435</u></b>	<b><u>360,534</u></b>	<b><u>270,733</u></b>
Unrestricted	3,285,440	3,142,573	3,041,408
<b>Total net position</b>	<b><u>\$ 3,636,875</u></b>	<b><u>\$ 3,503,107</u></b>	<b><u>\$ 3,312,141</u></b>



### **Changes in Net Position**

Program revenue for the CWSRF in 2014 was \$54.1 million of which \$5.5 million is restricted for debt service. Program revenue in 2013 was \$50.7 million of which \$6.1 million was restricted for debt service. In 2014, program revenue increased by \$3.4 million or 6.77% and in 2013 increased by \$1.6 million or 3.26%. In 2014 and 2013, program revenue reflects an increase in outstanding receivables and the interest earned year over year on those receivables.

In 2014, general revenue was \$0.9 million, which was a decrease of \$0.1 million or 11%, when compared to \$1 million in 2013. In 2013, general revenue decreased \$0.1 million or 13% compared to \$1.1 million in 2012. The decrease in investment income during 2014 and 2013 was mostly the result of lower interest rate yields from the Surplus Money Investment Fund (SMIF).

Total expenses decreased \$0.4 million in 2014 as compared to a decrease of \$5.4 million in 2013. The decrease in 2014 was mostly due to a reduction in revenue bond expenses for the Series 2012 bonds. In 2013, the decrease was primarily due to a reduction in revenue bond interest expense, which was directly associated with the refunding of the Series 2002 bonds.

Administrative expenses increased \$0.7 million to \$1.8 million in 2014 compared to 2013. Administrative expenses decreased \$1.8 million to \$1.1 million in 2013 compared to 2012. The changes in administrative expenses to the CWSRF during 2014 and 2013 primarily reflect the amounts charged to the CWSRF Administration Fund. In 2014 and 2013, administrative expenses of \$6.5 million and \$7 million, respectively, were charged to the CWSRF Administration Fund.

Capital contributions to the CWSRF decreased by \$61 million, or 43%, in 2014 when compared to 2013. The decrease in 2014 was due to a decrease in available contributions from EPA capitalization grants. In 2013, capital contributions increased by \$36 million, or 34%, when compared to 2012. The increase in 2013 was due to an increase in loans from capital contributions from EPA capitalization grants.

The CWSRF program received principal forgiveness funds from EPA capitalization grants of \$21.7 million and \$39.7 million, in 2014 and 2013, respectively. The loans made with these funds were forgiven as disbursed and must be repaid if certain loan conditions are not met.

**Table 2****Changes in Net Position  
(in thousands)**

	Year Ended June 30,		
	2014	2013	2012
<b>Revenues</b>			
Program revenues:			
Loan interest income	\$ 54,113	\$ 50,680	\$ 49,080
General revenues:			
Investment income	855	962	1,103
<b>Total revenues</b>	<b>54,968</b>	<b>51,642</b>	<b>50,183</b>
<b>Expenses</b>			
Program expenses:			
Administrative expenses	1,748	1,078	2,860
EPA-capitalization grant Principal Forgiveness	(21,666)	(32,529)	(21,571)
Capitalization Principal Forgiveness expense	21,666	32,529	21,571
EPA-ARRA grant Principal Forgiveness	-	(7,216)	(12,223)
ARRA Principal Forgiveness expense	-	7,216	12,223
Revenue bond interest expense	355	533	4,984
Amortization of revenue bond issuance costs	-	888	55
<b>Total expenses</b>	<b>2,103</b>	<b>2,499</b>	<b>7,899</b>
<b>Increase in net position before contributions</b>	<b>52,865</b>	<b>49,143</b>	<b>42,284</b>
<b>Capital contributions:</b>			
EPA capitalization grant	79,586	138,008	84,513
EPA ARRA capitalization grant	1,034	3,637	21,337
State and other contributions	283	178	207
Subtotal capital contributions	<b>80,903</b>	<b>141,823</b>	<b>106,057</b>
<b>Change in net position</b>	<b>133,768</b>	<b>190,966</b>	<b>148,341</b>
<b>Net position - beginning of year</b>	<b>3,503,107</b>	<b>3,312,141</b>	<b>3,163,800</b>
<b>Net position - end of year</b>	<b>\$ 3,636,875</b>	<b>\$ 3,503,107</b>	<b>\$ 3,312,141</b>

### Budgetary Information

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

### Debt Administration

The State Water Board administers a leveraged CWSRF program. The State Water Board maintains a high bond rating from Fitch (AAA), Moody's Investors Service (Aaa), and Standard and Poor's Ratings Services (AAA) on its Revenue Bonds, Series 2012. As of June 30, 2014, outstanding bonds total \$59.2 million, a decrease of \$14.7 million, compared to \$73.9 million last year as shown in Table 3. The decrease in 2014 was due primarily to the payment of the scheduled bond principal repayments for the Series 2012 bonds. The decrease in 2013 was due to scheduled bond principal payments, along with the refunding of Series 2002 bonds with the issuance of Series 2012 bonds. The Series 2002 bonds were refunded to take advantage of the more favorable interest rates available at the time of the refunding. The Series 2002 bond proceeds were used to finance additional CWSRF loans to local governments for water pollution control projects. The revenue bonds are backed by a pledge of specific revenue for which the annual collections are generally predictable.

Additional information on the CWSRF long-term debt can be found in Note 5, Long-Term Debt.

**Table 3**

**Outstanding Long-term Debt**  
**(in thousands)**

	<u>2014</u>	<u>June 30,</u> <u>2013</u>	<u>2012</u>
<b>Revenue bonds</b>			
Bond principal	\$ 55,940	\$ 68,940	\$ 114,695
Bond premium	3,296	4,915	1,779
<b>Total revenue bonds</b>	<u><u>\$ 59,236</u></u>	<u><u>\$ 73,855</u></u>	<u><u>\$ 116,474</u></u>

### **Economic Conditions and Outlook**

The CWSRF program improved its procedures, policies, and financing terms in 2013 to make the program a more attractive choice compared to other financing options for publicly owned treatment works projects. The total amount of new loan commitments increased significantly from the level financed in 2013 with financing in 2014 approximately 25% higher than the average level of activity over the preceding seven years. Present conditions indicate that there will be steady demand for CWSRF financing in the near term. In 2014, the CWSRF program revenues continued to support its loan financing activity and administrative expenses.

For the grant year 2014, the EPA allocated \$100 million to the CWSRF. The 2014 grant allocation is an increase of 5% compared to the 2013 grant allocation of \$95 million. Presently available information indicates that the 2015 grant could be less than the 2013 grant by as much as 25%. Although capitalization funds from EPA are an important component of the cash flow, the CWSRF has a significant level of loan repayments and equity from loan receivables that can be used to obtain funds for new loans if needed. As part of the 2012 refunding, the State Water Board updated the revenue bond indenture to allow for a shortened time to market if there is a need to sell additional bonds. State Water Board staff continues to monitor the demand for new loans and will work with its financial advisors on a revenue bond sale to meet required cash flows when needed.

Generally improving economic conditions have diminished the number of local entities experiencing strained revenue flows. To ensure that loans are repaid on time and in full, the CWSRF continues to use a variety of analysis and surveillance measures to reduce the possibility of non-payment. By diligently working with loan recipients, the CWSRF anticipates full repayment of all loans.

### **Requests for Information**

This financial report is designed to provide interested parties with a general overview of the CWSRF finances. Questions concerning the information provided in this report or requests for additional information should be addressed to Mr. Jerrel Bolds, Manager, Accounting Branch, Division of Administrative Services, P.O. Box 100, Sacramento, California 95812 or [jerrel.bolds@waterboards.ca.gov](mailto:jerrel.bolds@waterboards.ca.gov).

## **BASIC FINANCIAL STATEMENTS**

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**STATEMENTS OF NET POSITION**  
**June 30, 2014 and 2013**  
(in thousands)

	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 290,577	\$ 362,485
Cash and cash equivalents - Restricted	25,975	14,157
Receivables:		
Loan interest	22,333	22,466
Investment interest	202	237
Due from other funds and other governments	199	1,648
Loans receivable:		
Current portion	178,447	174,924
Current portion - Restricted	20,182	20,448
Total current assets	537,915	596,365
<b>OTHER ASSETS</b>		
Loans receivable:		
Noncurrent (net of allowance for bad debt)	2,853,583	2,655,430
Noncurrent - Restricted	305,278	325,930
Total other assets	3,158,861	2,981,360
<b>TOTAL ASSETS</b>	<b>3,696,776</b>	<b>3,577,725</b>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Revenue bond interest payable	469	566
Unearned revenue	4	6
Due to other funds	192	191
Revenue bonds payable	14,339	14,619
Total current liabilities	15,004	15,382
<b>NONCURRENT LIABILITIES</b>		
Revenue bonds payable	44,897	59,236
Total noncurrent liabilities	44,897	59,236
Total liabilities	59,901	74,618
<b>NET POSITION</b>		
Restricted for:		
Debt service	25,975	14,157
Security for revenue bonds	325,460	346,377
Unrestricted	3,285,440	3,142,573
Total net position	<b>\$ 3,636,875</b>	<b>\$ 3,503,107</b>

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

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**Years Ended June 30, 2014 and 2013**  
(in thousands)

	<b>2014</b>	<b>2013</b>
<b>OPERATING REVENUE</b>		
Loan interest income	\$ 54,113	\$ 50,680
Total operating revenue	54,113	50,680
<b>OPERATING EXPENSES</b>		
Personnel services	816	184
Other expenses	923	871
Total operating expenses	1,739	1,055
<b>INCOME FROM OPERATIONS</b>	52,374	49,625
<b>NONOPERATING REVENUE (EXPENSE)</b>		
Net investment income	855	962
EPA-capitalization grant - Principal Forgiveness	21,666	32,529
Capitalization Principal Forgiveness expense	(21,666)	(32,529)
EPA-ARRA capitalization grant - Principal Forgiveness	-	7,216
ARRA Principal Forgiveness expense	-	(7,216)
Revenue bond interest expense	(355)	(533)
Bond fees	(9)	(23)
Revenue bond issuance costs	-	(888)
Total nonoperating revenue (expense)	491	(482)
<b>INCOME BEFORE CONTRIBUTIONS</b>	52,865	49,143
<b>CONTRIBUTIONS</b>		
EPA capitalization grant	79,586	138,008
EPA - ARRA capitalization grant	1,034	3,637
State match revenue	283	178
Total contributions	80,903	141,823
<b>CHANGE IN NET POSITION</b>	133,768	190,966
<b>NET POSITION - BEGINNING OF YEAR</b>	3,503,107	3,312,141
<b>NET POSITION - END OF YEAR</b>	\$ 3,636,875	\$ 3,503,107

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

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2014 and 2013**  
(in thousands)

	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from interest on loans	\$ 43,397	\$ 45,042
Loans disbursed	(384,674)	(288,089)
Principal received on loans receivable	214,764	254,306
Cash paid to employees and vendors	(1,738)	(1,349)
Cash flows provided (required) by operating activities	(128,251)	9,910
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Funds received from EPA capitalization grant	103,733	181,310
Funds received from the State of California	284	211
Funds received from Bond Refunding	-	74,929
ARRA Principal Forgiveness	-	(7,216)
Principal Forgiveness	(21,666)	(32,529)
Bond fees paid	(9)	(766)
Principal paid on revenue bonds	(13,000)	(114,695)
Interest paid on revenue bonds	(2,071)	(4,159)
Cash flows provided by noncapital financing activities	67,271	97,085
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net investment income received	890	982
Net cash provided by investing activities	890	982
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(60,090)	107,977
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	376,642	268,665
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 316,552	\$ 376,642
<b>Reconciliation of operating income to net cash required by operating activities</b>		
Income from operations	\$ 52,374	\$ 49,625
Adjustments to reconcile income from operations to net cash required by operating activities		
Construction period interest	(10,846)	(7,639)
Amortization of unearned revenue	-	(212)
Effect of changes in operating assets and liabilities:		
Loans receivable	(169,911)	(33,789)
Loan interest receivable	133	2,220
Due to other funds	(1)	(295)
Net cash provided (required) by operating activities	\$ (128,251)	\$ 9,910

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



**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**  
(Dollar Amounts Expressed in Thousands)

**NOTE 1 - DEFINITION OF REPORTING ENTITY**

The California State Water Resources Control Board, Water Pollution Control Revolving Fund (Fund) was established pursuant to Title VI of the Federal Clean Water Act of 1987 (Act). The Act established the State Revolving Fund (SRF) program to replace the construction grants program (Title II of the Act) to provide loans at reduced interest rates to finance the construction of publicly owned water pollution control facilities, non-point source pollution control projects, and estuary management plans. Instead of making grants to communities that pay for a portion of building wastewater treatment facilities, the SRF provides for low interest loans to finance the entire cost of qualifying projects. The SRF provides a flexible financing source that can be used for a variety of pollution control projects, including non-point source pollution control projects, and developing estuary conservation and management plans. Loans made must be repaid within 30 years or less. All repayments, including interest and principal, must remain in the Fund.

Since 1989, the Fund has been capitalized by a series of grants from the U.S. Environmental Protection Agency (EPA). States are required to provide matching funds equal to 20 percent of the Federal capitalization grant amount in order to receive the grants from the EPA. As of June 30, 2014 and 2013, the EPA has awarded cumulative capitalization grant funding of \$2,476,285 and \$2,380,800, respectively, to the State of California (State), for which the State is required to provide \$495,257 and \$476,160, respectively, of cumulative matching funding to the Fund. In addition, in February 2009, the EPA awarded \$280,285 in ARRA grant funding for which there is no State Match requirement.

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

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

**Reporting Entity**

The Fund follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB

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

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

The activities of the Fund are included in the State's Comprehensive Annual Financial Report as an enterprise fund using the accrual basis of accounting.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Fund conform to generally accepted accounting principles as applicable to a governmental unit accounted for as a proprietary enterprise fund. The enterprise fund is used since the Fund's powers are related to those operated in a manner similar to a for profit business where an increase in net position is an appropriate determination of accountability.

**Basis of Accounting**

The Fund's records are maintained on the accrual basis of accounting. Under the accrual basis of accounting revenue is recognized when earned and expenses are recognized when the liability is incurred. Assets and liabilities associated with the operations of the Fund are included in the Statements of Net Position

**Implementation of New Standards**

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

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

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

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

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

GASB No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources certain items that were previously reported as assets or liabilities. As a result of implementing early this GASB pronouncement, the Fund has expensed the debt issuance costs on the 2012 Revenue Bond that prior to GASB 65 would have been capitalized. The impact of the pronouncement was considered as part of the refunding that occurred in December 2012.

**Operating Revenues and Expenses**

The Fund distinguishes between operating revenues and expenses and nonoperating items in the Statements of Revenues, Expenses and Changes in Net Position. Operating revenues and expenses generally result from carrying out the purpose of the Fund of providing low interest loans to communities and providing assistance for prevention programs and administration. Operating revenues consist of loan interest repayments from borrowers. Operating expenses include direct salary costs and benefits expenses, allocated indirect costs and bad debt allowance. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

In accordance with generally accepted accounting principles, monies received from the EPA and the State are recorded as capital contributions, except for principal forgiveness reported as nonoperating revenue. In certain circumstances, local communities have contributed the State's matching share in exchange for reduced interest rate loans, as discussed in Note 4.

When both restricted and unrestricted resources are available for use, it is the Fund's policy to use restricted resources first, then unrestricted resources as they are needed.

**Budgets**

Under the California constitution, money may only be drawn from the Treasury by legal appropriation. The State Legislature authorized the SRF to operate under a continuous appropriation. Continuous appropriation authority means that no further appropriations are necessary to expend all funds deposited into the SRF. Therefore, the Fund operations are not included in California's annual budget.

**Use of Estimates in Preparing Financial Statements**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date

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of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Nearly all monies of the Fund are deposited with the California State Treasurer's office, which is responsible for maintaining these deposits in accordance with California State law. The Fund considers all such deposits to be cash equivalents. According to State law, the Treasurer is responsible for maintaining the cash balances and investing excess cash of the Fund, as discussed in Note 3. Consequently, management of the Fund does not have any control over the investment of the excess cash. Investment earnings on these deposits are received quarterly. The statement of cash flows considers all funds deposited with the Treasurer to be cash or cash equivalents, regardless of actual maturities of the underlying investments.

**Loans Receivable**

Loans are funded by capitalization grants from the EPA, State matching funds, local contributions, revenue bond proceeds, loan repayments and fund earnings. Loans are advanced to local agencies on a cost reimbursement basis. Interest is calculated from the date that funds are advanced. After the final disbursement has been made, the loan agreement is adjusted for the actual amounts disbursed and interest accrued during the project period (Construction Period Interest). Loans are amortized over periods up to 30 years. Loan repayments must begin within one year of construction completion or one year from the initial loan disbursement, depending upon the type of loan agreement, and are made on an annual and semi-annual basis.

Loans funded by principal forgiveness are advanced to local agencies on a cost reimbursement basis and forgiven as each disbursement occurs. Loan agreements require repayment of the forgiven loan if all program requirements are not met.

**Allowance for Bad Debts**

The allowance for bad debts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Loans receivable are charged against the allowance for bad debts when management believes that the uncollectibility of the principal is probable. The allowance for bad debts was \$9,356 at June 30, 2014 and June 30, 2013.

**Revenue Bond Issue Costs and Original Issue Premium**

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

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**NOTE 3 - CASH AND INVESTMENTS**

The California State Treasurer’s Office administers a pooled investment program for the State. This program enables the State Treasurer’s Office to combine available cash from all funds and to invest cash that exceeds current needs. The necessary disclosures for the State’s pooled investment program are included in the Comprehensive Annual Financial Report of the State of California.

Nearly all monies of the Fund are deposited with the State Treasurer’s Office and are considered to be cash equivalents. The Treasurer is responsible for maintaining the cash balances in accordance with California laws, and excess cash is invested in California’s Surplus Money Investment Fund, which is part of the Pooled Money Investment Account. The Treasurer is required to maintain a mix of investment portfolios in order to allow funds to be withdrawn at any time to meet normal operating needs, without prior notice or penalty.

The investments allowed by State statute, bond resolutions and investment policy resolutions restrict investments of the pooled investment program to investments in U.S. Government securities, negotiable certificates of deposit, bankers’ acceptances, commercial paper, corporate bonds, bank notes, mortgage loans and notes, other debt securities, repurchase agreements, reverse repurchase agreements, equity securities, real estate, mutual funds, and other investments. The Fund’s proportionate share of the investment income, based on the average daily balance for the period, is credited to the Fund quarterly. The Treasurer charges all funds of the State an administrative fee, which reduces the interest earned by each fund. All cash and investments are stated at fair value. Details of the investments can be obtained from the State Treasurer’s Office.

At June 30, 2014 and 2013, the Fund’s cash deposits had a carrying balance of \$4 and \$3, respectively.

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

<u><b>Investments</b></u>	<u><b>2014</b></u>	<u><b>2013</b></u>
Treasury/Trust Portfolio	<u>\$ 316,548</u>	<u>\$ 376,639</u>
Total cash deposits and investments	<u>\$ 316,552</u>	<u>\$ 376,642</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, 2014 and 2013, Comprehensive Annual Financial Reports for disclosure related to the risks applicable to the Portfolio.

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

Cash deposits and investments are reflected on the June 30, 2014 and 2013 statement of net position as follows:

	<b>2014</b>	<b>2013</b>
Cash and cash equivalents	\$ 290,577	\$ 362,485
Cash and cash equivalents - Restricted	25,975	14,157
Total cash deposits and investments	\$ 316,552	\$ 376,642

As of June 30, 2014, all revenue bond proceeds have been disbursed. As of June 30, 2014 and 2013, cash and investments in the amount of \$25,975 and \$14,157, respectively, representing various reserve accounts required by the revenue bonds were restricted for future loan disbursements and debt service.

**NOTE 4 - LOANS RECEIVABLE**

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

As of June 30, 2014 and 2013, the Fund had total binding commitments of \$7,141,128 and \$6,643,750, respectively, since program inception. As of June 30, 2014, the remaining commitment on these loans amounted to \$1,047,530, of which \$295,222 is federal funds. The federal loan commitments included capitalization funds of \$29,907 which will be forgiven. As of June 30, 2013, the remaining commitment on these loans amounted to \$956,291, of which \$131,361 is federal funds. The federal loan commitments included ARRA federal funds of \$1,033, of which \$0 will be forgiven and capitalization funds of \$41,452 which will be forgiven. Principal forgiveness loans are forgiven as disbursed, but must be repaid if the recipient fails to meet the program requirements.

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

At June 30, 2014 and 2013, the unpaid balance on all loans receivable outstanding amounted to \$3,357,490 and \$3,176,726, respectively.

Estimated maturities of the loans receivable and interest payments thereon, at June 30, 2014 are as follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2015	\$ 42,273	\$ 198,629	\$ 240,902
2016	40,458	198,070	238,528
2017	37,204	197,024	234,228
2018	34,026	200,525	234,551
2019	30,790	197,949	228,739
2020-2024	107,770	916,893	1,024,663
2025-2029	47,072	583,528	630,600
2030-2034	12,130	225,284	237,414
2035-2039	2,352	37,511	39,863
2040-2044	554	13,875	14,429
Total	<u>\$ 354,629</u>	<u>2,769,288</u>	<u>\$ 3,123,917</u>
Loans not yet in repayment		597,558	
Allowance for bad debt		(9,356)	
Total loans receivable		<u>\$ 3,357,490</u>	

**Restricted Loans Receivable**

At June 30, 2014 and 2013, \$325,460 and \$346,378, respectively, of loans receivable were pledged as security for the revenue bonds outstanding (see Note 5). The principal and interest received during the fiscal year from these loans is to be used to make the annual debt service payments on the revenue bonds. During the year ended June 30, 2014 the Fund received \$20,918 and \$5,931 of principal and interest, respectively, on these loans, and during the year ended June 30, 2013 the Fund received \$36,837 and \$7,104 of principal and interest, respectively, on these loans. Any excess of the principal and interest received over the debt service payments required may be used for future loan disbursements and/or released from restriction upon approval by the Trustee in the event certain requirements are met.

**Local Match Loans**

The Fund has offered reduced interest rates on loans to recipients that have agreed to contribute funds that can be used to match federal contributions. In order to obtain one of these loans, the local agency contributes one-sixth, or 16.7 percent, of the total loan principal. The borrower then repays 100 percent of the loan principal including the contributed amount (see Note 6).

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

As of June 30, 2014 and 2013, the Fund had authorized a total of \$1,718,966 and \$1,720,176, respectively, of local match loans. From these authorizations, certain borrowers elected to remit the State match at the time the loan was awarded in the amount of \$2,296 as of June 30, 2014 and 2013. The remaining borrowers elected to repay the State match over a period of 20 or 30 years, in the amount of \$281,065 and \$280,167 as of June 30, 2014 and 2013, respectively. As of June 30, 2014 and 2013, total local match loans outstanding, including the local match to be paid, amounted to \$860,347 and \$923,315, respectively, and the remaining State match to be repaid amounted to \$108,213 and \$123,492, respectively.

**Loans to Major Local Agencies**

The Fund has made loans to the following major local agencies. The aggregate outstanding loan balances for each of these agencies exceeds 5 percent of total loans receivable. The combined outstanding loan balances at June 30, 2014 and 2013 of these major local agencies represent approximately 23.6 and 23.0 percent, respectively, of the total loans receivable and are as follows:

<u>Borrower</u>	<u>2014</u>		<u>2013</u>
	<u>Authorized Loan Amount</u>	<u>Outstanding Loan Balance</u>	<u>Outstanding Loan Balance</u>
Los Angeles County Sanitation District (LACSD)	\$ 606,426	\$ 366,955	\$ 394,487
LACSD District #29	1,069	922	-
LACSD Santa Clarita	4,336	4,107	3,648
LACSD District #2	41,511	7,019	-
LACSD Total	<u>653,342</u>	<u>379,003</u>	<u>398,135</u>
Orange County Water District	299,958	207,323	152,838
Eastern Municipal Water District	244,698	206,177	180,622
	<u>\$ 1,197,998</u>	<u>\$ 792,503</u>	<u>\$ 731,595</u>

**NOTE 5 - LONG-TERM DEBT**

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

At the time of issuance of the Series 2012 revenue bonds by the Fund, the Fund pledged in excess of \$394,000 of outstanding loans receivables of the Fund as security for the bonds (see



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

Note 4). The principal and interest received during the fiscal year from these loans is to be used to make annual debt service payments on the revenue bonds. Any excess of the principal and interest received over the debt service payments required may be used for future loan disbursements and/or released from restriction upon approval by the Trustee in the event that certain requirements are met.

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

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

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 13,000	\$ 1,713	\$ 14,713
2016	13,000	1,323	14,323
2017	12,940	868	13,808
2018	9,530	451	9,981
2019	7,470	131	7,601
	<u>\$ 55,940</u>	<u>\$ 4,486</u>	<u>\$ 60,426</u>

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

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

	<u>Balance June 30, 2013</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance June 30, 2014</u>	<u>Due Within One Year</u>
<b>Series 2012 Revenue Bonds:</b>					
Bond principal	\$ 68,940	\$ -	\$ 13,000	\$ 55,940	\$ 13,000
Bond premium	4,915	-	1,619	3,296	1,339
	<u>73,855</u>	<u>\$ -</u>	<u>\$ 14,619</u>	<u>59,236</u>	<u>\$ 14,339</u>
Less current portion:					
Bond principal	(13,000)			(13,000)	
Bond premium amortization	(1,619)			(1,339)	
Long-term portion	<u>\$ 59,236</u>			<u>\$ 44,897</u>	
	<u>Balance June 30, 2012</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance June 30, 2013</u>	<u>Due Within One Year</u>
<b>Series 2012 Revenue Bonds:</b>					
Bond principal	\$ -	\$ 68,940	\$ -	\$ 68,940	\$ 13,000
Bond premium	-	5,989	1,074	4,915	1,619
	<u>-</u>	<u>\$ 74,929</u>	<u>\$ 1,074</u>	<u>73,855</u>	<u>\$ 14,619</u>
Less current portion:					
Bond principal	-			(13,000)	
Bond premium amortization	-			(1,619)	
Long-term portion	<u>\$ -</u>			<u>\$ 59,236</u>	
<b>Series 2002 Revenue Bonds:</b>					
Bond principal	\$ 114,695	\$ -	\$ 114,695	\$ -	\$ -
Bond premium	1,779	-	1,779	-	-
	<u>116,474</u>	<u>\$ -</u>	<u>\$ 116,474</u>	<u>-</u>	<u>\$ -</u>
Less current portion:					
Bond principal	(22,895)			-	
Bond premium amortization	(536)			-	
Long-term portion	<u>\$ 93,043</u>			<u>\$ -</u>	

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**NOTE 6 - CAPITAL CONTRIBUTIONS**

The Fund is capitalized by annual grants from the EPA. The State must also contribute an amount equal to 20 percent of the federal capitalization amount. The State's matching contribution has been provided through the appropriation of State resources as well as through the use of loans from the Water Reclamation program. As of June 30, 2014 and 2013, the EPA has awarded cumulative capitalization grants of \$2,476,285 and \$2,380,800, respectively, to the State, of which \$2,431,181 and \$2,329,930, respectively, has been drawn, cumulatively, for loans and administrative expenses. The State has provided matching funds of \$347,002 and \$346,719, respectively.

In addition, as of June 30, 2014, the EPA has awarded the ARRA grant of \$280,285 to the fund for which there is no State matching requirements. As of June 30, 2014 and June 30, 2013, \$280,285, of which \$161,006 was for principal forgiveness and \$279,252, of which \$161,006 was for principal forgiveness, respectively, has been drawn cumulatively (see Note 4).

As discussed in Note 4, certain borrowers have contributed funds that can be used to match federal contributions in exchange for reduced interest rate loans. The EPA allows the State to include amounts provided by borrowers under certain local matching loans in meeting the State's statutory matching obligation. As of June 30, 2014 and 2013, the borrowers had contributed \$283,360 and \$282,463, respectively, which qualify as meeting the State's matching requirement.

Table 1 summarizes the EPA capitalization grants awarded, amounts drawn on each grant as of June 30, 2014 and 2013, and balances available for future loans as of June 30, 2014. Table 2 summarizes the state match amounts paid by the state and local entities as of June 30, 2014 and 2013. As of June 30, 2014 and 2013, the state match required is \$486,236 and \$465,986, respectively. As of June 30, 2014 and 2013, the state match available for potential future state match is \$144,126 and \$163,196, respectively.

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

**TABLE 1**

Year	Grant Award	Funds Drawn As of June 30, 2012	Funds Drawn During Year Ended June 30, 2013	Funds Drawn As of June 30, 2013	Funds Drawn During Year Ended June 30, 2014	Funds Drawn As of June 30, 2014	Available for Loans as of June 30, 2014
1989-2009	\$ 2,028,443	\$ 2,028,443	\$ -	\$ 2,028,443	\$ -	\$ 2,028,443	\$ -
2010	145,721	101,455	44,266	145,721	-	145,721	-
2011	105,571	29,495	76,076	105,571	-	105,571	-
2012	101,065	-	50,195	50,195	50,870	101,065	-
2013	95,485	-	-	-	50,381	50,381	45,104
	<u>\$ 2,476,285</u>	<u>\$ 2,159,393</u>	<u>\$ 170,537</u>	<u>\$ 2,329,930</u>	<u>\$ 101,251</u>	<u>\$ 2,431,181</u>	<u>\$ 45,104</u>
2008-ARRA	\$ 280,285	\$ 268,398	\$ 10,854	\$ 279,252	\$ 1,033	\$ 280,285	\$ -
	<u>\$ 2,756,570</u>	<u>\$ 2,427,791</u>	<u>\$ 181,391</u>	<u>\$ 2,609,182</u>	<u>\$ 102,284</u>	<u>\$ 2,711,466</u>	<u>\$ 45,104</u>

**TABLE 2**

	State Match Paid As of June 30, 2012	State Match Paid During Year Ended June 30, 2013	State Match Paid As of June 30, 2013	State Match Paid During Year Ended June 30, 2014	State Match Paid As of June 30, 2014
State Disbursed	\$ 346,541	\$ 178	\$ 346,719	\$ 283	\$ 347,002
Local Disbursed	279,587	2,876	282,463	897	283,360
	<u>\$ 626,128</u>	<u>\$ 3,054</u>	<u>\$ 629,182</u>	<u>\$ 1,180</u>	<u>\$ 630,362</u>

**Restricted Funds**

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

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

**Administrative Fund**

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

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Administrative fee collected	<u>\$ 7,093</u>	<u>\$ 7,655</u>
Operating expenses incurred	<u>\$ 6,485</u>	<u>\$ 6,980</u>

**Small Community Grant Fund**

In September 2008, legislation in the State of California became effective which allows CWSRF to collect an annual charge on loans which will be used to assist Small Disadvantage Communities. The fees collected and the expenses incurred are not included in the accompanying financial statements. Revenue collected and expenses incurred for the grant fund are as follows:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Grant fee collected	<u>\$ 7,977</u>	<u>\$ 8,498</u>
Grants disbursed	<u>\$ 3,026</u>	<u>\$ 1,141</u>

**NOTE 7 - RISK MANAGEMENT**

The Fund participates in the State of California's Risk Management Program. The State has elected, with a few exceptions, to be self-insured against loss or liability. There have been no significant reductions in insurance coverage from the prior year. In addition, settled claims have not exceeded insurance coverage in the last three fiscal years. Refer to the State's Risk Management disclosure in the June 30, 2014 and 2013, Comprehensive Annual Financial Reports.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014 and 2013**  
(Dollar Amounts Expressed in Thousands)

**NOTE 8 - RETIREMENT PLAN**

**Plan Description**

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

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

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

**Funding Policy**

The Fund is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the PERF Board of Administration. The required contribution rates for the years ended June 30, 2014, 2013 and 2012, were 21.203%, 20.503% and 18.175%, respectively, for State Miscellaneous First Tier and 21.355%, 20.457% and 17.025%, respectively, for State Miscellaneous Second Tier. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Contributions, annual pension costs and trend information attributable to employees of the Fund for the fiscal year ended June 30, 2014, 2013 and 2012, are not determinable at the Fund level. However, this information is reported at a statewide level in the State of California's Comprehensive Annual Financial Report.

**Post-Employment Benefits Other than Pension**

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

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
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**NOTE 8 - RETIREMENT PLAN (CONTINUED)**

on a pay-as-you-go basis. Refer to the State's Post-Employment Benefits Other than Pension disclosure in the June 30, 2014 and June 30, 2013 Comprehensive Annual Financial Reports for disclosure.

**NOTE 9 - NET POSITION**

Governmental Accounting Standards Board Statement provides for three components of net position: net investment in capital assets, restricted and unrestricted. As of June 30, 2014 and 2013, 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, 2014 and 2013, the Fund had restricted net position of \$25,975 and \$14,157, respectively, representing amounts received from borrower loan repayments on pledged loans. As of June 30, 2014 and 2013 pledged loans restricted for future bond debt service payments were \$325,460 and \$346,378, respectively, representing loans receivable pledged as security for the revenue bonds (see Note 5).

Unrestricted net position consists of net position that does not meet the definition of invested in capital assets, net of related debt or restricted. Although the Fund reports unrestricted net position on the face of the statements of net position, unrestricted net position is to be used by the Fund for the payment of obligations incurred by the Fund in carrying out its statutory powers and duties and is to remain in the Fund.

**NOTE 10 - LITIGATION**

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

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

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



**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD  
WATER POLLUTION CONTROL REVOLVING FUND  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2014**

<u>Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b><u>U.S. Environmental Protection Agency</u></b>		
Direct Programs:		
Capitalization Grants for State Revolving Funds	66.458	\$ 101,250,967 (*)
ARRA Capitalization Grant for State Revolving Funds	66.458	<u>1,033,934 (*)</u>
		<u><u>\$ 102,284,901</u></u>

(\*) Tested as a Major Program

See notes to schedule of expenditures of federal awards

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD  
WATER POLLUTION CONTROL REVOLVING FUND  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2014**

**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, Water Pollution Control 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 Government and Non-Profit Organizations*.

**NOTE 2 - LOANS TO SUBRECIPIENTS**

Capitalization Grants for Clean Water State Revolving Fund CFDA# 66.458 include \$99,786,470 of expenditures that were disbursed as loan awards to qualifying subrecipients, which includes \$21,666,045 of principal forgiveness loans.

ARRA Capitalization Grant for Clean Water State Revolving Fund CFDA# 66.458 includes \$1,033,934 of expenditures that were disbursed as loan awards to qualifying subrecipients, which includes \$0 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  
Water Pollution Control Revolving Fund  
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the California State Water Resources Control Board, Water Pollution Control Revolving Fund (Water Pollution Control Revolving Fund), an enterprise fund of the State of California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Water Pollution Control Revolving Fund's basic financial statements, and have issued our report thereon dated September 26, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Water Pollution Control Revolving Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Water Pollution Control Revolving Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of Water Pollution Control Revolving Fund's internal control.

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Water Pollution Control Revolving Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of

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

**Purpose of this Report**

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

**CliftonLarsonAllen LLP**

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

Greenwood Village, Colorado  
September 26, 2014



**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  
Water Pollution Control Revolving Fund  
Sacramento, California

**Report on Compliance for Each Major Federal Program**

We have audited California State Water Resources Control Board, Water Pollution Control Revolving Fund's (Water Pollution Control Revolving Fund) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Water Pollution Control Revolving Fund's major federal programs for the year ended June 30, 2014. Water Pollution Control Revolving Fund's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Water Pollution Control Revolving Fund's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above, that could have a direct and material effect on a major federal program, occurred. An audit includes examining, on a test basis, evidence about Water Pollution Control Revolving Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on Each Major Federal Program***

In our opinion, Water Pollution Control Revolving Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

## Report on Internal Control Over Compliance

Management of Water Pollution Control Revolving Fund is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Water Pollution Control Revolving Fund's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Water Pollution Control Revolving Fund's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*CliftonLarsonAllen LLP*

Greenwood Village, Colorado  
September 26, 2014

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD  
WATER POLLUTION CONTROL REVOLVING FUND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2014**

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

**Financial Statements**

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

**Federal Awards**

Internal control over major program:  
Material weakness(es) identified? \_\_\_\_\_ yes  no  
Significant deficiency(ies) identified  
not considered to be material weaknesses? \_\_\_\_\_ yes  none reported  
Type of auditor's report issued on compliance  
for major program: Unmodified  
Any audit findings disclosed that are required  
to be reported in accordance with section 510 (a)  
of OMB Circular A-133? \_\_\_\_\_ yes  no

Identification of major programs:

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

Dollar threshold used to distinguish between  
Type A and Type B programs: \$3,000,000  
Auditee qualified as low-risk auditee?  yes  no

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

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

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

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

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD  
WATER POLLUTION CONTROL REVOLVING FUND  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
Year Ended June 30, 2014**

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