

**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, 2015 and 2014

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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, 2015 and 2014, 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.

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

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, 2015 and 2014, and the changes in their financial position and their cash flows, where applicable, for the years then ended, in conformity with the accounting principles generally accepted in the United States of America.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the California State Water Resources Control Board, Water Pollution Control Revolving Fund as of June 30, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the California State Water Resources Control Board, Water Pollution Control Revolving Fund's basic financial statements. The schedule of expenditures of federal awards, as required by 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

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

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 30, 2015, 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 30, 2015

**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, 2015 and 2014. 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 \$163 million to a total of \$3.8 billion in 2015, which was \$29 million more than the increase of \$134 million in 2014. The increase in net position was primarily due to an increase in loan receivables, which was a direct result of higher capital contributions during the year from the U.S. Environmental Protection Agency (EPA).
- Capital contributions increased by \$28.8 million to \$131.4 million as compared to \$102.6 million in 2014. The increase in capital contributions was mostly a result of capital available from EPA capitalization grants for loan disbursements. Capital contributions from EPA capitalization grant funds of \$24 million were forgiven.
- Cash and cash equivalents decreased by \$37 million in 2015 as compared to a decrease of \$60 million in 2014. The smaller decrease in 2015 was mostly the result of an increase in capital contributions for loan disbursements.
- Loans receivable increased by \$188 million to \$3.55 billion in 2015 and increased by \$181 million in 2014. The increases in 2015 and 2014 mostly reflect an increase in loan disbursements.
- Restricted portion of net position decreased by \$9.3 million to \$342 million in 2015 as compared to a decrease of \$9 million in 2014. The decrease in 2015 and 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 implementation of the provisions of GASB 68 "Accounting and Financial Reporting for Pensions" decreased Net Position by a total of \$1.3 million as of June 30, 2015.

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, 2015 and 2014 and the change in their financial positions and their cash flows for the years then ended.

Overview of Financial Statements

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

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

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

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

Net Position

In 2015, the growth of the CWSRF's net position continued to strengthen increasing by \$163 million, or 4.5%, to \$3.8 billion at June 30, 2015 as compared to an increase of \$134 million, or 3.8%, the previous year. The increase in net position was \$29 million higher than in the previous year, mostly reflecting the higher level of capital contributions from EPA capitalization grants.

The current portion of the CWSRF's liabilities was \$15 million in 2015 and 2014. Current liabilities primarily correspond to continuing principal payments for the Series 2012 Revenue Bonds. Noncurrent liabilities decreased \$14 million in 2015 and 2014. The decrease in 2015 and 2014 is the result of the ongoing principal payments of the Series 2012 Revenue Bonds.

A segment of the CWSRF's net position is subject to external restriction due to the debt service requirements of the Series 2012 Revenue Bonds. The net position that is restricted decreased in 2015 by \$9.3 million to \$342 million, or 2.7%, as compared to a decrease in 2014 of \$9 million to \$352 million, or 2.5%. The decrease in 2015 and 2014 corresponds to the ongoing debt service payments.

Of the total restricted net position, \$305 million in 2015 and \$325 million in 2014 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 million (\$20.7 million of principal and \$5.3 million of interest) in 2015 of which the debt service payment was \$14.7 million (\$13 million of principal and \$1.7 million of interest). In 2014, the CWSRF received total payments on pledged loans of \$26.8 million (\$20.9 million of principal and \$5.9 million of interest) of which the debt service payments were \$15.1 million (\$13 million of principal and \$2.1 million of interest) for the Series 2012 bonds.

The remaining \$37.3 million of restricted net position in 2015 and \$26.0 million in 2014 represent pledged loan repayments, which are restricted for future loan disbursements and/or debt service payments. Any excess of principal and interest received over the required debt service may be used for future loan disbursements and/or released from restriction in the event that certain criteria are met.

Table 1

Net Position

(in thousands)

	June 30,		
	2015	2014	2013
ASSETS			
Cash and cash equivalents	\$ 279,374	\$ 316,552	\$ 376,642
Loans receivable	3,545,617	3,357,490	3,176,732
All other assets	20,075	22,734	24,351
Total assets	3,845,066	3,696,776	3,577,725
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	42	-	-
Total deferred outflows of resources	42	-	-
LIABILITIES			
Current liabilities	14,544	15,004	15,382
Noncurrent liabilities	32,024	44,897	59,236
Total liabilities	46,568	59,901	74,618
DEFERRED INFLOWS OF RESOURCES			
Related to Pensions	209	-	-
Total deferred inflows of resources	209	-	-
NET POSITION			
Restricted			
Debt service	37,320	25,975	14,157
Security for revenue bonds	304,797	325,460	346,377
Subtotal restricted assets	342,117	351,435	360,534
Unrestricted	3,456,214	3,285,440	3,142,573
Total net position	\$ 3,798,331	\$ 3,636,875	\$ 3,503,107

Changes in Net Position

Program revenue for the CWSRF in 2015 was \$55.6 million of which \$5.2 million is restricted for debt service. Program revenue in 2014 was \$54.1 million of which \$5.5 million was restricted for debt service. In 2015, program revenue increased by \$1.5 million or 2.66% and in 2014 increased by \$3.4 million or 6.77%. In 2015 and 2014, program revenue reflects an increase in outstanding receivables and the interest earned year over year on those receivables.

In 2015, general revenue was \$0.8 million, which was a decrease of \$0.06 million or 7%, when compared to \$0.9 million in 2014. In 2014, general revenue decreased \$0.1 million or 11% compared to \$1 million in 2013. The decrease in investment income during 2015 and 2014 mostly reflects reduced earnings that resulted from less cash on deposit.

Total expenses increased \$1.2 million in 2015 as compared to a decrease of \$18.5 million in 2014. The increase in 2015 was due to an increase in principal forgiveness expenses. In 2014, the decrease was primarily due to a decrease in principal forgiveness expenses.

Administrative expenses decreased \$0.7 million to \$1.1 million in 2015 compared to 2014. Administrative expenses increased \$0.7 million to \$1.8 million in 2014 compared to 2013. The changes in administrative expenses to the CWSRF during 2015 and 2014 primarily reflect the amounts charged to the CWSRF Administration Fund. In 2015 and 2014, administrative expenses of \$8.5 million and \$6.5 million, respectively, were charged to the CWSRF Administration Fund.

Capital contributions to the CWSRF increased by \$27 million, or 33%, in 2015 when compared to 2014. The increase in 2015 was due to an increase in loan disbursements made from capital contributions from EPA capitalization grants. In 2014, capital contributions decreased by \$61 million, or 43% when compared to 2013. The decrease in 2014 was due to a decrease in available contributions from EPA capitalization grants.

The CWSRF program received principal forgiveness funds from EPA capitalization grants of \$23.6 million and \$21.7 million, in 2015 and 2014, 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,		
	2015	2014	2013
Revenues			
Program revenues:			
Loan interest income	\$ 55,554	\$ 54,113	\$ 50,680
General revenues:			
Investment income	796	855	962
Total revenues	56,350	54,968	51,642
Expenses			
Program expenses:			
Administrative expenses	1,096	1,748	1,078
Capitalization Principal Forgiveness expense	23,629	21,666	32,529
ARRA Principal Forgiveness expense	-	-	7,216
Revenue bond interest expense	293	355	533
Amortization of revenue bond issuance costs	-	-	888
Total expenses	25,018	23,769	42,244
Increase in net position before contributions	31,332	31,199	9,398
Capital contributions:			
EPA capitalization grant	100,584	79,586	138,008
EPA capitalization grant Principal Forgiveness	23,629	21,666	32,529
EPA ARRA capitalization grant	-	1,034	3,637
EPA ARRA grant Principal Forgiveness	-	-	7,216
State and other contributions	7,162	283	178
Subtotal capital contributions	131,375	102,569	181,568
Change in net position	162,707	133,768	190,966
Net position - beginning of year	3,636,875	3,503,107	3,312,141
Net position - Restatement	(1,251)	-	-
Net position - beginning of year (restated)	3,635,624	3,503,107	3,312,141
Net position - end of year	\$ 3,798,331	\$ 3,636,875	\$ 3,503,107

Budgetary Information

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

Debt Administration

The State Water Board administers a leveraged CWSRF program. The State Water Board maintains high bond ratings from Fitch (AAA), Moody's Investors Service (Aaa), and Standard and Poor's Ratings Services (AAA) on its Revenue Bonds, Series 2012. As of June 30, 2015, outstanding bonds total \$44.9 million, a decrease of \$14.3 million, compared to \$59.2 million last year as shown in Table 3. The decrease in 2015 and 2014 was due primarily to the payment of the scheduled bond principal repayments for the Series 2012 bonds. The revenue bonds are backed by a pledge of specific revenue for which the annual collections are generally predictable.

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

Table 3

Outstanding Long-term Debt
(in thousands)

	<u>2015</u>	<u>June 30, 2014</u>	<u>2013</u>
Revenue bonds			
Bond principal	\$ 42,940	\$ 55,940	\$ 68,940
Bond premium	1,957	3,296	4,915
Total revenue bonds	<u><u>\$ 44,897</u></u>	<u><u>\$ 59,236</u></u>	<u><u>\$ 73,855</u></u>

Economic Conditions and Outlook

In 2015, new binding loan commitments were \$811 million, a significant increase of 63% above the new commitments made in 2014. The higher level of financing activity reflects continued improvement in the general economic conditions along with CWSRF program improvements. In 2013, program procedures, policies, and financing terms were enhanced to make the program a more attractive choice compared to other financing options for publicly owned treatment works projects. A steady demand in CWSRF financing activity is anticipated in the near term.

Capitalization grant funds from EPA continue to be an important component of cash flows for financing activities. For the grant year 2015, the EPA allocated \$99 million to the CWSRF. The 2015 grant allocation is a reduction of 1% compared to the 2014 grant allocation of \$100 million. Presently available information indicates that the 2016 grant could be less than the 2015 grant by as much as 20%.

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

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

Requests for Information

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

BASIC FINANCIAL STATEMENTS

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
STATEMENTS OF NET POSITION
June 30, 2015 and 2014
(in thousands)

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 242,054	\$ 290,577
Cash and cash equivalents - Restricted	37,320	25,975
Receivables:		
Loan interest	18,805	22,333
Investment interest	214	202
Due from other funds and other governments	1,056	199
Loans receivable:		
Current portion	185,974	178,447
Current portion - Restricted	20,584	20,182
Total current assets	506,007	537,915
OTHER ASSETS		
Loans receivable:		
Noncurrent (net of allowance for bad debt)	3,054,846	2,853,583
Noncurrent - Restricted	284,213	305,278
Total other assets	3,339,059	3,158,861
TOTAL ASSETS	3,845,066	3,696,776
 DEFERRED OUTFLOW OF RESOURCES		
Related to pensions	42	-
 LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Revenue bond interest payable	388	469
Unearned revenue	1	4
Due to other funds	163	192
Revenue bonds payable	13,992	14,339
Total current liabilities	14,544	15,004
NONCURRENT LIABILITIES		
Revenue bonds payable	30,905	44,897
Pension liability	1,119	-
Total noncurrent liabilities	32,024	44,897
Total liabilities	46,568	59,901
 DEFERRED INFLOW OF RESOURCES		
Related to pensions	209	-
 NET POSITION		
Restricted for:		
Debt service	37,320	25,975
Security for revenue bonds	304,797	325,460
Unrestricted	3,456,214	3,285,440
Total net position	\$ 3,798,331	\$ 3,636,875

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, 2015 and 2014
(in thousands)

	2015	2014
OPERATING REVENUE		
Loan interest income	\$ 55,554	\$ 54,113
Total operating revenue	55,554	54,113
OPERATING EXPENSES		
Capitalization Principal Forgiveness	23,629	21,666
Personnel services	263	816
Other expenses	752	923
Pension expenses	77	-
Total operating expenses	24,721	23,405
INCOME FROM OPERATIONS	30,833	30,708
NONOPERATING REVENUE (EXPENSE)		
Net investment income	796	855
Revenue bond interest expense	(293)	(355)
Bond fees	(4)	(9)
Total nonoperating revenue (expense)	499	491
INCOME BEFORE CONTRIBUTIONS	31,332	31,199
CONTRIBUTIONS		
EPA capitalization grant	100,584	79,586
EPA capitalization grant - Principal Forgiveness	23,629	21,666
EPA ARRA capitalization grant	-	1,034
State match revenue	7,162	283
Total contributions	131,375	102,569
CHANGE IN NET POSITION	162,707	133,768
NET POSITION - BEGINNING OF YEAR	3,636,875	3,503,107
NET POSITION - RESTATEMENT	(1,251)	-
NET POSITION - BEGINNING OF YEAR (RESTATED)	3,635,624	
NET POSITION - END OF YEAR	\$ 3,798,331	\$ 3,636,875

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, 2015 and 2014
(in thousands)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from interest on loans	\$ 42,498	\$ 43,397
Loans disbursed	(372,294)	(384,674)
Principal Forgiveness Disbursed	(23,629)	(21,666)
Principal received on loans receivable	200,748	214,764
Cash paid to employees and vendors	(1,086)	(1,738)
Cash flows provided (required) by operating activities	(153,763)	(149,917)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Funds received from EPA capitalization grant	123,363	103,733
Funds received from the State of California	7,155	284
Bond fees paid	(4)	(9)
Principal paid on revenue bonds	(13,000)	(13,000)
Interest paid on revenue bonds	(1,713)	(2,071)
Cash flows provided by noncapital financing activities	115,801	88,937
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investment income received	784	890
Net cash provided by investing activities	784	890
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	(37,178)	(60,090)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	316,552	376,642
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 279,374	\$ 316,552
Reconciliation of operating income to net cash required by operating activities		
Income from operations	\$ 30,833	\$ 30,708
Adjustments to reconcile income from operations to net cash required by operating activities		
Construction period interest	(16,582)	(10,846)
Deferred outflows related to pension expense	35	-
Effect of changes in operating assets and liabilities:		
Loans receivable	(171,549)	(169,911)
Loan interest receivable	3,529	133
Due to other funds	(29)	(1)
Net cash provided (required) by operating activities	\$ (153,763)	\$ (149,917)

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, 2015 and 2014
(Dollar Amounts Expressed in Thousands)

NOTE 1 - DEFINITION OF REPORTING ENTITY

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

Since 1989, the Fund has been capitalized by a series of grants from the U.S Environmental Protection Agency (EPA). States are required to provide matching funds equal to 20 percent of the Federal capitalization grant amount in order to receive the grants from the EPA. As of June 30, 2015 and 2014, the EPA has awarded cumulative capitalization grant funding of \$2,576,562 and \$2,476,285, respectively to the State of California (State), for which the State is required to provide \$515,312 and \$495,257, respectively, of cumulative matching funding to the Fund. In addition, in February 2009, the EPA awarded \$280,285 in ARRA grant funding for which there is no State Match requirement.

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

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

Reporting Entity

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

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014
(Dollar Amounts Expressed in Thousands)

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, 2014, the Fund implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 and the related GASB 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68. GASB 68 and GASB 71 improve the accounting and financial reporting by state and local governments for pensions. Information was not available to present the pension liability for 2014 and therefore, is not comparative.

Operating Revenues and Expenses

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

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Budgets

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

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Loans Receivable

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

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2015 and June 30, 2014.

Revenue Bond Issue Costs and Original Issue Premium

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

Reclassifications

For comparability, certain 2014 amounts have been reclassified, where appropriate, to conform with the 2015 financial statement presentation.

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

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NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

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.

The Fund's cash deposits had a carrying balance of \$4 at June 30, 2015 and 2014.

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

<u>Investments</u>	<u>2015</u>	<u>2014</u>
Treasury/Trust Portfolio	<u>\$ 279,370</u>	<u>\$ 316,548</u>
Total cash deposits and investments	<u>\$ 279,374</u>	<u>\$ 316,552</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 and 2014, Comprehensive Annual Financial Reports for disclosure related to the risks applicable to the Portfolio.

Cash deposits and investments are reflected on the June 30, 2015 and 2014 statement of net position as follows:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 242,054	\$ 290,577
Cash and cash equivalents - Restricted	<u>37,320</u>	<u>25,975</u>
Total cash deposits and investments	<u>\$ 279,374</u>	<u>\$ 316,552</u>

As of June 30, 2015, all revenue bond proceeds have been disbursed. As of June 30, 2015 and 2014, cash and investments in the amount of \$37,320 and \$25,975, respectively, representing various reserve accounts required by the revenue bonds were restricted for future loan disbursements and debt service.

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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, 2015 and 2014, the Fund had total binding commitments of \$7,951,852 and \$7,141,128, respectively, since program inception. As of June 30, 2015, the remaining commitment on these loans amounted to \$1,462,332, of which \$331,586 is federal funds. The federal loan commitments included capitalization funds of \$17,531 which will be forgiven. 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. 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, 2015 and 2014 the unpaid balance on all loans receivable outstanding amounted to \$3,545,617 and \$3,357,490, respectively.

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	\$ 37,827	\$ 206,558	\$ 244,385
2017	35,356	204,485	239,841
2018	32,551	208,224	240,775
2019	29,700	205,971	235,671
2020	26,941	205,575	232,516
2021-2025	95,027	911,509	1,006,536
2026-2030	43,915	568,277	612,192
2031-2035	11,936	230,150	242,086
2036-2040	1,979	47,130	49,109
2041-2045	234	9,851	10,085
Total	<u>\$ 315,466</u>	<u>2,797,730</u>	<u>\$ 3,113,196</u>
Loans not yet in repayment		757,243	
Allowance for bad debt		(9,356)	
Total loans receivable		<u>\$ 3,545,617</u>	

Restricted Loans Receivable

At June 30, 2015 and 2014, \$304,797 and \$325,460, 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, 2015 the Fund received \$20,663 and \$5,330 of principal and interest, respectively, on these loans. During the year ended June 30, 2014 the Fund received \$20,918 and \$5,931 of principal and interest, respectively, on these same loans. Any excess of the principal and interest received over the debt service payments required may be used for future loan disbursements and/or released from restriction upon approval by the Trustee in the event certain requirements are met.

Local Match Loans

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

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NOTE 4 - LOANS RECEIVABLE (CONTINUED)

The Fund had authorized a total of \$1,718,966 of local match loans as of June 30, 2015 and 2014. 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, 2015 and 2014. The remaining borrowers elected to repay the State match over a period of 20 or 30 years, in the amount of \$281,264 and \$281,065 as of June 30, 2015 and 2014, respectively. As of June 30, 2015 and 2014, total local match loans outstanding, including the local match to be paid, amounted to \$792,279 and \$860,347, respectively. As of June 30, 2015 and 2014 the remaining State match to be repaid amounted to \$93,462 and \$108,213, 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, 2015 and 2014 of these major local agencies represent approximately 23.5 and 23.6 percent, respectively, of the total loans receivable and are as follows:

<u>Borrower</u>	<u>2015</u>		<u>2014</u>
	<u>Authorized Loan Amount</u>	<u>Outstanding Loan Balance</u>	<u>Outstanding Loan Balance</u>
Los Angeles County Sanitation District (LACSD)	\$ 599,296	\$ 348,081	\$ 366,955
LACSD District #29	969	881	922
LACSD Santa Clarita	4,336	4,201	4,107
LACSD District #2	41,511	16,568	7,019
LACSD Total	<u>\$ 646,112</u>	<u>\$ 369,731</u>	<u>\$ 379,003</u>
Eastern Municipal Water District	243,572	233,121	206,177
Orange County Water District	308,093	230,319	207,323
	<u>\$ 1,197,777</u>	<u>\$ 833,171</u>	<u>\$ 792,503</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.

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NOTE 5 - LONG-TERM DEBT (CONTINUED)

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

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>
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>\$ 42,940</u>	<u>\$ 2,773</u>	<u>\$ 45,713</u>

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

	<u>Balance June 30, 2014</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance June 30, 2015</u>	<u>Due Within One Year</u>
Series 2012 Revenue Bonds:					
Bond principal	\$ 55,940	\$ -	\$ 13,000	\$ 42,940	\$ 13,000
Bond premium	3,296	-	1,339	1,957	992
	<u>59,236</u>	<u>\$ -</u>	<u>\$ 14,339</u>	<u>44,897</u>	<u>\$ 13,992</u>
Less current portion:					
Bond principal	(13,000)			(13,000)	
Bond premium amortization	(1,339)			(992)	
Long-term portion	<u>\$ 44,897</u>			<u>\$ 30,905</u>	

	<u>Balance June 30, 2013</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance June 30, 2014</u>	<u>Due Within One Year</u>
Series 2012 Revenue Bonds:					
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>	

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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, 2015 and 2014, the EPA has awarded to the State cumulative capitalization grants of \$2,576,562 and \$2,476,285, respectively. As of June 30, 2015 and 2014, the State has drawn, cumulatively \$2,555,395 and \$2,431,181, respectively, for loans and administrative expenses. The State has provided matching funds of \$354,164 and \$347,002, respectively.

In addition, as of June 30, 2015, the EPA awarded the ARRA grant of \$280,285 to the fund for which \$161,006 was for principal forgiveness (See Note 4). There were no State matching requirements for the grant which was fully drawn as of June 30, 2014.

As discussed in Note 4, certain borrowers have contributed funds that can be used to match federal contributions in exchange for reduced interest rate loans. The EPA allows the State to include amounts provided by borrowers under certain local matching loans in meeting the State's statutory matching obligation. As of June 30, 2015 and 2014, the borrowers had contributed \$283,560 and \$283,360, respectively, which qualifies as meeting the State's matching requirement.

Table 1 summarizes the EPA capitalization grants awarded, amounts drawn on each grant as of June 30, 2015 and 2014, and balances available for future loans as of June 30, 2015. Table 2 summarizes the state match amounts paid by the state and local entities as of June 30, 2015 and 2014. As of June 30, 2015 and 2014, the state match required is \$511,079 and \$486,236, respectively. As of June 30, 2015 and 2014, the state match available for potential future state match is \$126,645 and \$144,126, respectively.

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NOTE 6 - CAPITAL CONTRIBUTIONS (CONTINUED)

TABLE 1

Year	Grant Award	Funds Drawn As of June 30, 2013	Funds Drawn During Year Ended June 30, 2014	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 as of June 30, 2015
1989-2011	\$ 2,279,735	\$ 2,279,735	\$ -	\$ 2,279,735	\$ -	\$ 2,279,735	\$ -
2012	101,065	50,195	50,870	101,065	-	101,065	-
2013	95,485	-	50,381	50,381	45,104	95,485	-
2014	100,277	-	-	-	79,110	79,110	21,167
	<u>\$ 2,576,562</u>	<u>\$ 2,329,930</u>	<u>\$ 101,251</u>	<u>\$ 2,431,181</u>	<u>\$ 124,214</u>	<u>\$ 2,555,395</u>	<u>\$ 21,167</u>
2008-ARRA	280,285	279,252	1,033	280,285	-	280,285	-
	<u>\$ 2,856,847</u>	<u>\$ 2,609,182</u>	<u>\$ 102,284</u>	<u>\$ 2,711,466</u>	<u>\$ 124,214</u>	<u>\$ 2,835,680</u>	<u>\$ 21,167</u>

TABLE 2

	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 Match Paid During Year Ended June 30, 2015	State Match Paid As of June 30, 2015
State Disbursed	\$ 346,719	\$ 283	\$ 347,002	\$ 7,162	\$ 354,164
Local Disbursed	282,463	897	283,360	200	283,560
	<u>\$ 629,182</u>	<u>\$ 1,180</u>	<u>\$ 630,362</u>	<u>\$ 7,362</u>	<u>\$ 637,724</u>

Restricted Funds

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

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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, 2015</u>	<u>June 30, 2014</u>
Administrative fee collected	<u>\$ 7,056</u>	<u>\$ 7,093</u>
Operating expenses incurred	<u>\$ 8,531</u>	<u>\$ 6,485</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, 2015</u>	<u>June 30, 2014</u>
Grant fee collected	<u>\$ 9,497</u>	<u>\$ 7,977</u>
Grants disbursed	<u>\$ 7,693</u>	<u>\$ 3,026</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, 2015 and 2014, Comprehensive Annual Financial Reports.

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NOTE 8 - RETIREMENT PLAN

Plan Description

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

The pension plan provides benefits based upon the employee's years of credited service, age and final compensation. Vesting occurs after five or ten years of credited services depending on the benefit tier. Employees who retire at or after age 50 with five or more years of service are entitled to a retirement benefit, payable monthly for the remainder of their lives. Benefit provisions and all other requirements are established by State statute.

Funding Policy

Contributions

The Fund is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the PERF Board of Administration. The required contribution rates for the years ended June 30, 2015, 2014 and 2013, were 24.280%, 21.203% and 20.503%, respectively, for State Miscellaneous First Tier and 24.237%, 21.355% and 20.457%, respectively, for State Miscellaneous Second Tier. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through the CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by the employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2014 (the measurement date), the average active employee contribution rate was 6.525% of annual payroll and the employer's contribution rate was 21.137% of annual payroll.

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NOTE 8 - RETIREMENT PLAN (CONTINUED)

These rates reflect Section 20683.2, which mandates that certain employees must contribute more as of July 1, 2013. Furthermore, any reduction in employer contributions due to the increase in the employee contributions must be paid by the employer towards the unfunded liability. It is the responsibility of the employer to make necessary accounting adjustments to reflect the impact due to any Employer Paid Member Contributions or situations where members are paying a portion of the employer contribution. Contributions to the plan were \$42 for the year ended June 20, 2015.

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

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 209
Fund contributions and proportionate share of contributions	-	-
Fund contributions subject to the measurement date	42	-
	\$ 42	\$ 209

The \$42 reported as deferred outflows of resources related to pensions resulting from the Fund contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

<u>Year Ending June 30,</u>	
2016	\$ 52
2017	52
2018	52
2019	53
2020	-
	\$ 209

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NOTE 8 - RETIREMENT PLAN (CONTINUED)

Actuarial Assumptions

For the measurement period ended June 30, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability. The June 30, 2013 and June 30, 2014 total pension liabilities were based on the following actuarial assumptions:

Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of return	7.50% , net of pension plan investment and administrative expenses; includes inflation
Post retirement benefit increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies

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

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increases, mortality and retirement rates. The Experience Study report can be obtained via the internet at www.calpers.ca.gov under Forms and Publications.

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

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014
(Dollar Amounts Expressed in Thousands)**

NOTE 8 - RETIREMENT PLAN (CONTINUED)

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

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

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>Target Allocation (%)</u>	<u>Real Return Years 1-10 (%) (1)</u>	<u>Real Return Years 11+ (%) (2)</u>
Global Equity	47	5.25	5.71
Global Fixed Income	19	0.99	2.43
Private Equity	12	6.83	6.95
Real Estate	11	4.50	5.13
Inflation Sensitive	6	0.45	3.36
Infrastructure and Forestland	3	4.50	5.09
Liquidity	2	-0.55	-1.05
Total	<u>100</u>		

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

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

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014
(Dollar Amounts Expressed in Thousands)**

NOTE 8 - RETIREMENT PLAN (CONTINUED)

the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.50% is applied to all plans in the Public Employees' Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained via the internet at www.calpers.ca.gov under the GASB 68 section.

According to paragraph 30 of the GASB 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability.

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

The following presents the Fund's share of the net pension liability as of the measurement date, calculated using the discount rate of 7.50%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50%) or 1 percentage-point higher (8.50%) than the current rate (dollars in thousands):

	<u>Discount Rate -1%</u> <u>(6.50%)</u>		<u>Current Discount Rate</u> <u>(7.50%)</u>		<u>Discount Rate +1%</u> <u>(8.50%)</u>
Fund's Net Pension Liability	\$ 1,630	\$	1,119	\$	693

Pension Plan Fiduciary Net Position

As of June 30, 2014 the Plan's fiduciary net position was \$68.8 billion. Detailed information about the plan's net position is available via the internet at www.calpers.ca.gov under Forms and Publications.

Payable to the Pension Plan

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

Post-Employment Benefits Other than Pension

In addition to the pension benefits provided by the State, the State also provides post-retirement health care benefits, in accordance with Section 22754(g) of the State Government Code, to all employees who retire from the State on or after attaining certain age and length of service requirements. The post-retirement health care benefits are funded by the State's General Fund on a pay-as-you-go basis. Refer to the State's Post-Employment Benefits Other than Pension disclosure in the June 30, 2015 and June 30, 2014 Comprehensive Annual Financial Reports for disclosure.

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014
(Dollar Amounts Expressed in Thousands)

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, 2015 and 2014, 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 and 2014, the Fund had restricted net position of \$37,320 and \$25,975, respectively, representing amounts received from borrower loan repayments on pledged loans. As of June 30, 2015 and 2014 pledged loans restricted for future bond debt service payments were \$304,797 and \$325,460, 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.

NOTE 11 - RESTATEMENTS

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2015**

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

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

Schedule of the Fund's Contributions

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

*The amount presented for each fiscal year was determined at June 30 of the prior year based on the measurement date of the plan. Information earlier than 2013 was not available.

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

**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, 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	66.458	\$ 124,213,571 (*)
		<u>\$ 124,213,571</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, 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, 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 Governments and Non-Profit Organizations*.

NOTE 2 - LOANS TO SUBRECIPIENTS

Capitalization Grants for Clean Water State Revolving Fund CFDA# 66.458 include \$123,326,483 of expenditures that were disbursed as loan awards to qualifying subrecipients, which includes \$23,629,119 of principal forgiveness loans.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the California State Water Resources Control Board, Water Pollution Control Revolving Fund (Water Pollution Control Revolving Fund), an enterprise fund of the State of California, as of and for the year ended June 30, 2015, 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 30, 2015.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Greenwood Village, Colorado
September 30, 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**

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

Report on Compliance for Each Major Federal Program

We have audited California State Water Resources Control Board, Water Pollution Control Revolving Fund's (Water Pollution Control Revolving Fund) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Water Pollution Control Revolving Fund's major federal program for the year ended June 30, 2015. Water Pollution Control Revolving Fund's major federal program is 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 the Water Pollution Control Revolving Fund's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 its major federal program for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2015-001. Our opinion on each major federal program is not modified with respect to this matter.

Water Pollution Control Revolving Fund's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Water Pollution Control Revolving Fund's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 its 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 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 a deficiency in internal control over compliance,

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

as described in the accompanying schedule of findings and questioned costs as item 2015-001 that we consider to be a significant deficiency.

Water Pollution Control Revolving Fund's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Water Pollution Control Revolving Fund's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 30, 2015

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL 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 no

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

Noncompliance material to financial statements
noted? yes no

Federal Awards

Internal control over major program:

Material weakness(es) identified? yes no

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

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

Any audit findings disclosed that are required
to be reported in accordance with section .510(a)
of OMB Circular A-133? yes no

Identification of major programs:

CFDA Number(s)
66.458

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

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

Auditee qualified as low-risk auditee? yes no

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2015**

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

Finding 2015-001

Significant Deficiency

Criteria:	Recipients of federal awards in excess of \$500,000 are required to file a Data Collection Form with the Federal Audit Clearinghouse within one month of the issuance of their single audit and no later than 9 months after the end of the fiscal year.
Condition:	The Water Pollution Control Revolving Fund did not file a data collection form for fiscal years 2012, 2013, and 2014.
Questioned Costs:	None
Effect:	Water Pollution Control Revolving Fund was not in compliance with requirements to file the data collection form within 9 months of the end of the fiscal year.
Cause:	Prior to fiscal year ending June 30, 2012, the State of California had included the Water Pollution Control Revolving Fund single audit with the state's filing of the data collection form. The State of California changed their process and did not communicate this change to Water Pollution Control Revolving Fund.
Recommendation:	We recommend Water Pollution Control Revolving Fund file the data collection forms for the fiscal years ending 2012, 2013, and 2014 and put a system in place to file this form within the required guidelines going forward.
View of Responsible Official:	The Fund agrees with the finding. The Fund was unaware of a change in process at the State level.
Planned Corrective Action:	The data collection forms have been prepared and will be transmitted as soon as the federal web-site is reactivated and available to receive the data. Going forward, the Fund will file the data collection form as required within the specified time frame.
Anticipated Completion Date:	The past forms will be filed as soon as the Federal Web-site is re-activated and available for data entry. Going forward, forms will be filed when due.
Responsible individuals:	Division of Administrative Services, Accounting Branch, Jerrel Bolds and Heather Bell.

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

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