S.E.C. RULE 15c2-12  
ANNUAL REPORT  
FISCAL YEAR ENDED JUNE 30, 2017

The Treasurer of the State of California, on behalf of the State Water Resources Control Board  
(the "Board"), hereby provides the annual financial information for the fiscal year ended June 30,  
2017 in connection with the following:

Bond Issues

|  |  |  |
| --- | --- | --- |
| Name of Issue | Dated Date | Date of Continuing  Disclosure  Agreement |
| California Infrastructure and Economic Development Bank, Clean Water State Revolving Fund Refunding Revenue Bonds, Series 2012 (the "2012 Bonds") | 12/3/12 | 11/1/12 |
| California Infrastructure and Economic Development Bank, Clean Water State Revolving Fund Revenue Bonds, Series 2016 (Green Bonds) (the "2016 Bonds") | 4/28/16 | 4/1/16 |
| California Infrastructure and Economic Development Bank, Clean Water State Revolving Fund Revenue Bonds, Series 2017 (Green Bonds) (the "2017 Bonds" and together with the 2012 Bonds and the 2016 Bonds, the "Bonds") | 3/23/17 | 3/1/17 |

The base CUSIP number for the Bonds is 13034A -

Note: The base CUSIP number provided is for the convenience of bondholders. Neither the Board  
nor the State Treasurer's Office is responsible for the accuracy or completeness of such numbers.

Annual Report

The Annual Financial Information (as defined in the Continuing Disclosure Agreements for the  
Bonds and attached hereto) for the fiscal year ended June 30, 2017 consists of:

1.  
 Audited Financial Statements of the Board relating to the Clean Water State Revolving  
 Fund for the Year Ended June 30, 2017.

2.  
 Financial information or operating data with respect to the Clean Water State Revolving  
 Fund for each fiscal year of the Board, including (a) financial information and operating  
 data concerning the Clean Water State Revolving Fund program of the type appearing  
 under the caption "CASH FLOW SCHEDULE" to the Official Statements for the Bonds,  
 and (b) the number of Recipients under the Pledged Project Obligations, the number and  
 outstanding aggregate principal amount of the Pledged Project Obligations, and whether

there has been any change in the identity of the Significant Borrowers with respect to the  
Bonds and financial information and operating data of the type appearing in the Official  
Statement for the 2012 Bonds in APPENDIX A - "INITIAL PLEDGED PROJECT  
OBLIGATIONS" and in the Official Statements for the 2016 Bonds and the 2017 Bonds  
in APPENDIX A - "PLEDGED PROJECT OBLIGATIONS".

Other Matters

This annual report is provided solely for purposes of compliance with the Continuing Disclosure  
Agreements. The filing of this report does not constitute or imply any representation (i) that all of  
the information provided is material to investors, (ii) regarding any other financial, operating or  
other information about the Board or the Bonds, or (iii) that no changes, circumstances or events  
have occurred since the end of the fiscal year to which this report relates (other than as referred to  
in this report), or that no other information exists which may have a bearing on the security for the  
Bonds, or an investor's decision to buy, sell, or hold the Bonds. The information contained in this  
report has been obtained from sources which are believed to be reliable, but such information is  
not guaranteed as to accuracy or completeness.

Dated: January 29, 2018

Treasurer of the State of California

Original signed by Julie Giordano  
Deputy Treasurer  
For California State Treasurer John Chiang  
As Trustee and Dissemination Agent

STATEMENT OF

ANNUAL FINANCIAL INFORMATION  
AND OPERATING DATA  
with respect to the  
CLEAN WATER STATE REVOLVING FUND

of the

STATE WATER RESOURCES CONTROL BOARD

Introduction

This Statement of Annual Financial Information and Operating Data dated January 26,  
2018 (the "Statement") of the State Water Resources Control Board of the State of California (the  
"Board") is prepared and submitted in accordance with the requirements of the Board's Continuing  
Disclosure Agreement dated as of November 1, 2012 (the "2012 Continuing Disclosure  
Agreement") with respect to the $68,940,000 California Infrastructure and Economic  
Development Bank Clean Water State Revolving Fund Refunding Revenue Bonds, Series 2012  
(the "2012 Bonds"), the Board's Continuing Disclosure Agreement dated as of April 1, 2016 (the  
"2016 Continuing Disclosure Agreement") with respect to the $410,735,000 California  
Infrastructure and Economic Development Bank Clean Water State Revolving Fund Revenue  
Bonds, Series 2016 (Green Bonds) (the "2016 Bonds"), and the Board's Continuing Disclosure  
Agreement dated as of March 1, 2017 (the "2017 Continuing Disclosure Agreement" and, together  
with the 2012 Continuing Disclosure Agreement and the 2016 Continuing Disclosure Agreement,  
the "Continuing Disclosure Agreements") with respect to the $450,000,000 California  
Infrastructure and Economic Development Bank Clean Water State Revolving Fund Revenue  
Bonds, Series 2017 (Green Bonds) (the "2017 Bonds" and, together with the 2012 Bonds and the  
2016 Bonds, the "Bonds"). Set forth below is certain financial information and operating data  
relating to the Board's Clean Water Program for the Fiscal Year ended June 30, 2017, unless  
otherwise indicated, and certain other information relating to the Bonds as provided in the  
Continuing Disclosure Agreements. Capitalized terms used herein without definition shall have  
the meanings ascribed thereto in the Master Trust Indenture, dated as of November 1, 2012, as  
heretofore amended and supplemented, by and between the California Infrastructure and  
Economic Development Bank and the Treasurer of the State of California, as trustee thereunder.

This Statement is of limited scope; it contains only an update of certain financial  
information and operating data described below. The information set forth herein does not contain  
all material information concerning the Bonds or the Board necessary to make an informed  
investment decision. This Statement does not constitute an offer to sell or the solicitation of an  
offer to buy the Bonds. This Statement is submitted pursuant to the Continuing Disclosure  
Agreements. The purpose of the Board's undertaking is to comply with the requirements of Rule  
15c2-12 promulgated by the U.S. Securities and Exchange Commission (the "SEC") under the  
Securities Exchange Act of 1934 (17 CFR Part 240, 240.15c2-12) (as amended, the "Rule") and  
not to create new contractual or other rights for the trustee or the underwriters of the Bonds, any  
registered owner or beneficial owner of Bonds, any municipal securities broker or dealer, any  
potential purchaser of Bonds, the SEC or any other person.

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Cash Flow Schedule

The following cash flow schedule sets forth on an annual basis the Pledged Revenues and  
the Debt Service on the Bonds. The amounts set forth in the cash flow schedule are based upon  
various assumptions concerning the timely repayment of Pledged Project Obligations in  
accordance with scheduled repayment amounts and without any prepayments of such amounts and  
other assumptions. There can be no assurance that the assumptions will be realized. Actual cash  
flow and debt service coverage may be different than described below. In addition, the cash flow  
schedules assume that there is no substitution, addition or release of Pledged Project Obligations  
as permitted under the Indenture. Any such release of Pledged Project Obligations could result in  
a reduction in the debt service coverage set forth in the Cash Flow Schedule below; provided,  
however, that the State Water Board would still be required to meet the Coverage Test.

CASH FLOW SCHEDULE

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Bond Year Ending October 1 | Scheduled Loan Repayments from Pledged Project Obligations\* | | | Debt Service Payments - All Bonds | | | Debt  Service \*\* Coverage |
| Principal | Interest | Total | Principal | Interest | Total |
| 2017 | $156,036,782 | $19,847,650 | $175,884,432 | $27,350,000 | $31,066,018 | $58,416,018 | 3.01% |
| 2018 | 111,834,297 | 17,953,860 | 129,788,157 | 58,845,000 | 40,531,800 | 99,376,800 | 1.31 |
| 2019 | 110,654,683 | 16,957,506 | 127,612,188 | 67,680,000 | 38,297,050 | 105,977,050 | 1.20 |
| 2020 | 113,021,087 | 16,179,333 | 129,200,419 | 55,450,000 | 35,858,750 | 91,308,750 | 1.41 |
| 2021 | 114,039,564 | 15,104,305 | 129,143,869 | 58,155,000 | 33,108,850 | 91,263,850 | 1.42 |
| 2022 | 115,735,720 | 14,003,202 | 129,738,922 | 61,400,000 | 30,289,550 | 91,689,550 | 1.41 |
| 2023 | 111,711,244 | 12,875,375 | 124,586,619 | 75,300,000 | 27,288,950 | 102,588,950 | 1.21 |
| 2024 | 102,430,326 | 11,720,159 | 114,150,485 | 70,395,000 | 23,554,100 | 93,949,100 | 1.22 |
| 2025 | 81,621,808 | 10,692,900 | 92,314,708 | 50,585,000 | 20,128,950 | 70,713,950 | 1.31 |
| 2026 | 74,398,568 | 9,672,809 | 84,071,377 | 46,660,000 | 17,613,750 | 64,273,750 | 1.31 |
| 2027 | 72,347,313 | 8,665,271 | 81,012,584 | 49,955,000 | 15,295,750 | 65,250,750 | 1.24 |
| 2028 | 71,502,401 | 7,633,163 | 79,135,563 | 48,095,000 | 12,798,000 | 60,893,000 | 1.30 |
| 2029 | 52,766,701 | 6,591,783 | 59,358,485 | 38,080,000 | 10,393,250 | 48,473,250 | 1.22 |
| 2030 | 52,852,246 | 5,601,346 | 58,453,593 | 35,500,000 | 8,489,250 | 43,989,250 | 1.33 |
| 2031 | 48,873,534 | 4,586,605 | 53,460,138 | 33,425,000 | 6,714,250 | 40,139,250 | 1.33 |
| 2032 | 37,995,223 | 3,611,292 | 41,606,515 | 25,960,000 | 5,043,000 | 31,003,000 | 1.34 |
| 2033 | 34,554,630 | 2,777,730 | 37,332,360 | 23,965,000 | 3,745,000 | 27,710,000 | 1.35 |
| 2034 | 27,809,076 | 1,960,964 | 29,770,040 | 19,335,000 | 2,546,750 | 21,881,750 | 1.36 |
| 2035 | 26,662,744 | 1,258,558 | 27,921,302 | 18,880,000 | 1,580,000 | 20,460,000 | 1.36 |
| 2036 | 18,127,211 | 581,149 | 18,708,360 | 12,720,000 | 636,000 | 13,356,000 | 1.40 |
|  | $1,534,975,157 | $188,274,959 | $1,723,250,116 | $877,735,000 | $364,979,018 | $1,242,714,018 |  |

\*

Scheduled loan repayments occur throughout the year and are adjusted to include the 10-day grace period  
permitted by the Board.

Does not include earnings on pledged funds and accounts.

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Pledged Project Obligations

As of June 30, 2017, 25 separate Recipients accounted for 79 Pledged Project Obligations  
with an aggregate outstanding principal of $1,408,775,637.00 and no Significant Borrower. The  
following table sets forth the Pledged Project Obligations, their respective balances and certain  
other information respecting the Pledged Project Obligations as of June 30, 2017:

|  |  |  |  |
| --- | --- | --- | --- |
| Borrower | Obligation Balance as of June 30, 2017 | Percent of Total Pledged Project Obligations | Final Maturity of Obligation |
| Brentwood, City of | $13,687,770.12 | 0.97% | 1/2/2023 |
| Chico, City of | 29,208,489.00 | 2.07 | 12/31/2029 |
| Corona, City of | 15,503,295.08 | 1.10 | 9/30/2025 |
| Delta Diablo | 4,227,631.66 | 0.30 | 4/3/2033 |
| Delta Diablo | 4,437,977.30 | 0.32 | 12/31/2030 |
| Total for Delta Diablo (2 Loans) | 8,665,608.96 | 0.62 |  |
| Eastern Municipal Water District | 35,418,153.62 | 2.51 | 3/16/2033 |
| Eastern Municipal Water District | 31,234,639.22 | 2.22 | 7/5/2032 |
| Total for Eastern Municipal Water District (2 Loans) | 66,652,792.84 | 4.73 |  |
| Fontana, City of | 2,963,413.08 | 0.21 | 6/30/2028 |
| Fontana, City of | 2,558,121.44 | 0.18 | 8/29/2028 |
| Fontana, City of | 5,524,647.12 | 0.39 | 3/31/2028 |
| Total for Fontana, City of (3 Loans) | 11,046,181.64 | 0.78 |  |
| Hayward, City of | 32,732,118.00 | 2.32 | 9/30/2028 |
| Inland Empire Utilities Agency | 24,908,574.96 | 1.77 | 12/31/2034 |
| Inland Empire Utilities Agency | 3,708,688.04 | 0.26 | 8/15/2030 |
| Inland Empire Utilities Agency | 3,665,745.79 | 0.26 | 8/15/2030 |
| Inland Empire Utilities Agency | 20,933,585.15 | 1.49 | 2/28/2032 |
| Inland Empire Utilities Agency | 3,751,453.67 | 0.27 | 3/31/2029 |
| Inland Empire Utilities Agency | 9,049,021.66 | 0.64 | 6/30/2028 |
| Inland Empire Utilities Agency | 2,476,663.49 | 0.18 | 6/30/2025 |
| Inland Empire Utilities Agency | 2,420,762.41 | 0.17 | 7/15/2024 |
| Total for Inland Empire Utilities Agency (8 Loans) | 70,914,495.17 | 5.03 |  |
| Laguna County Sanitation District | 3,290,407.89 | 0.23 | 7/1/2023 |
| Los Angeles County Sanitation District | 18,610,312.52 | 1.32 | 10/31/2023 |
| Los Angeles County Sanitation District | 14,654,385.48 | 1.04 | 5/31/2024 |
| Los Angeles County Sanitation District | 35,928,900.03 | 2.55 | 12/31/2022 |
| Los Angeles County Sanitation District | 11,840,850.07 | 0.84 | 8/31/2035 |
| Los Angeles County Sanitation District | 9,388,036.94 | 0.67 | 1/30/2031 |
| Los Angeles County Sanitation District | 60,451,227.53 | 4.29 | 7/31/2031 |
| Los Angeles County Sanitation District | 2,808,325.56 | 0.20 | 12/31/2029 |
| (Table continued on next page.) |  |  |  |

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|  |  |  |  |
| --- | --- | --- | --- |
| (Table continued on from prior page.) |  |  |  |
| Los Angeles County Sanitation District | 4,178,368.00 | 0.30 | 3/31/2025 |
| Los Angeles County Sanitation District | 9,646,351.00 | 0.68 | 3/31/2028 |
| Los Angeles County Sanitation District | 6,303,462.76 | 0.45 | 10/31/2026 |
| Los Angeles County Sanitation District | 6,871,625.58 | 0.49 | 10/31/2026 |
| Los Angeles County Sanitation District | 3,954,995.11 | 0.28 | 10/31/2026 |
| Los Angeles County Sanitation District | 4,592,794.09 | 0.33 | 4/30/2025 |
| Los Angeles County Sanitation District | 16,294,152.08 | 1.16 | 11/30/2023 |
| Los Angeles County Sanitation District | 4,381,912.63 | 0.31 | 12/31/2024 |
| Total for Los Angeles County Sanitation District (15 Loans) | 209,905,699.38 | 14.90 |  |
| Los Angeles, City of | 108,843,859.60 | 7.73 | 8/9/2024 |
| Modesto, City of | 122,421,633.59 | 8.69 | 12/1/2035 |
| Novato Sanitary District | 63,322,682.88 | 4.49 | 12/31/2030 |
| Orange County Water District | 140,134,900.91 | 9.95 | 1/31/2036 |
| Orange County Water District | 1,978,020.50 | 0.14 | 6/1/2026 |
| Orange County Water District | 75,240,812.90 | 5.34 | 12/31/2027 |
| Orange County Water District | 2,515,685.20 | 0.18 | 6/1/2026 |
| Orange County Water District | 1,851,849.90 | 0.13 | 4/1/2026 |
| Orange County Water District | 3,367,571.63 | 0.24 | 6/1/2024 |
| Total for Orange County Water District (6 Loans) | 225,088,841.04 | 15.98 |  |
| Palo Alto, City of | 6,452,173.14 | 0.46 | 11/30/2030 |
| Palo Alto, City of | 5,400,000.00 | 0.38 | 6/30/2029 |
| Total for Palo Alto, City of (2 Loans) | 11,852,173.14 | 0.84 |  |
| Pismo Beach, City of | 5,483,335.05 | 0.39 | 2/25/2026 |
| Redding, City of | 10,702,812.42 | 0.76 | 12/30/2033 |
| Redding, City of | 5,117,022.19 | 0.36 | 4/1/2034 |
| Redding, City of | 6,191,442.64 | 0.44 | 3/31/2030 |
| Redding, City of | 15,003,409.25 | 1.06 | 4/15/2033 |
| Redding, City of | 7,839,165.44 | 0.56 | 12/15/2031 |
| Redding, City of | 13,183,610.73 | 0.94 | 3/31/2030 |
| Redding, City of | 3,299,112.21 | 0.23 | 10/31/2028 |
| Redding, City of | 2,637,843.70 | 0.19 | 9/30/2027 |
| Redding, City of | 6,121,988.60 | 0.43 | 2/20/2023 |
| Total for Redding, City of (9 Loans) | 70,096,407.18 | 4.98 |  |
| San Diego, City of | 2,322,484.25 | 0.16 | 10/15/2021 |
| San Diego, City of | 10,123,488.01 | 0.72 | 5/12/2022 |
| San Diego, City of | 1,910,182.35 | 0.14 | 3/24/2020 |
| San Diego, City of | 7,153,481.37 | 0.51 | 3/10/2034 |
| San Diego, City of | 13,332,454.13 | 0.95 | 6/20/2033 |
| San Diego, City of | 30,251,770.88 | 2.15 | 9/30/2035 |
| San Diego, City of | 6,291,251.10 | 0.45 | 3/30/2026 |
| San Diego, City of | 4,462,021.84 | 0.32 | 1/21/2024 |
| San Diego, City of | 2,904,336.90 | 0.21 | 1/31/2023 |
| Total for San Diego, City of (9 Loans) | 78,751,470.83 | 5.59 |  |
| (Table continued on next page.) |  |  |  |

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|  |  |  |  |
| --- | --- | --- | --- |
| (Table continued on from prior page.) |  |  |  |
| Santa Margarita Water District | 5,005,262.01 | 0.36 | 11/16/2027 |
| Sonoma Valley County Sanitation District | 2,876,129.50 | 0.20 | 8/29/2034 |
| Sonoma Valley County Sanitation District | 1,808,217.85 | 0.13 | 11/15/2031 |
| Sonoma Valley County Sanitation District | 2 4,262,231.27 | 0.30 | 11/5/2027 |
| Total for Sonoma Valley County Sanitation District (3 Loans) | 8,946,578.62 | 0.64 |  |
| South San Francisco, City of | 17,970,264.70 | 1.28 | 8/1/2022 |
| South San Francisco, City of | 5,990,202.27 | 0.43 | 7/15/2028 |
| South San Francisco, City of | 11,175,564.95 | 0.79 | 4/30/2026 |
| Total for South San Francisco, City of (3 Loans) | 35,136,031.92 | 2.49 |  |
| Tahoe-Truckee Sanitation Agency | 30,724,653.01 | 2.18 | 10/31/2027 |
| Vacaville, City of | 66,089,729.08 | 4.69 | 6/30/2035 |
| Vacaville, City of | 29,177,086.08 | 2.07 | 8/31/2033 |
| Vacaville, City of | 37,928,026.06 | 2.69 | 7/1/2025 |
| Total for Vacaville, City of (3 Loans) | 133,194,841.22 | 9.45 |  |
| Water Replenishment District of Southern California | 9,782,483.84 | 0.69 | 12/31/2048 |
| Yucaipa Valley Water District | 8,345,823.15 | 0.59 | 12/31/2032 |
| Yucaipa Valley Water District | 30,172,701.84 | 2.14 | 9/10/2028 |
| Total for Yucaipa Valley Water District (2 Loans) | 38,518,524.99 | 2.73 |  |
| Total (79 Loans)(1) | $1,408,775,637.00 | 100.00% |  |

(1) Amounts may not add up to total due to individual rounding.

Annual Financial Statement of the Board

Audited Financial Statements of the Board for the Fiscal Years ended June 30, 2017 and  
2016 are available through the Board's website, under "Annual Reports - 2016/2017" at:  
http://www.waterboards.ca.gov/water\_issues/programs/grants\_loans/srf/pubs.sht  
ml#annual

Annual Financial Information of Significant Borrower

As of June 30, 2017 and the date hereof, there is no Significant Borrower.

Conclusion

This Statement has been executed and delivered on behalf of the Board pursuant to the  
Continuing Disclosure Agreements.

Dated: January 26, 2018

STATE WATER RESOURCES CONTROL  
BOARD

By:  
 JulieAZandor  
 Leslie Laudon  
 Deputy Director

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**CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**Sacramento, California**

**FINANCIAL STATEMENTS**

**and SINGLE AUDIT REPORTS**

**June 30, 2017 and 2016**

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**INDEPENDENT AUDITORS' REPORT**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the California State Water Resources  
Control Board, Water Pollution Control Revolving Fund (Water Pollution Control Revolving Fund), an  
enterprise fund of the State of California, as of and for the years ended June 30, 2017 and 2016, 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.

A member of  
Nexia I

International

Board of Directors  
California State Water Resources Control Board

As discussed in Note 1 - Definition of Reporting Entity, the basic financial statements of the California  
State Water Resources Control Board, Water Pollution Control Revolving Fund are intended to present  
the financial position, changes in financial position and cash flows of only that portion of the financial  
reporting entity of the California State Water Resources Control Board that is attributable to the  
transactions of the California State Water Resources Control Board, Water Pollution Control Revolving  
Fund. They do not purport to, and do not, present fairly the financial position of the California State  
Water Resources Control Board or the State of California as of June 30, 2017 and 2016, 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, 2017 and 2016, and the respective changes in financial position  
and cash flows thereof for the year then ended in accordance with accounting principles generally  
accepted in the United States of America.

**Other Matters**

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the  
management's discussion and analysis on pages IV through 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 federal awards, as required by Title 2  
U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and  
Audit Requirements for Federal Awards, is also presented for purposes of additional analysis and is not  
a required part of the basic financial statements.

Board of Directors  
California State Water Resources Control Board

The schedule of expenditures of federal awards is the responsibility of management and were derived  
from and relate directly to the underlying accounting and other records used to prepare the basic  
financial statements. Such information has been subjected to the auditing procedures applied in the  
audit of the basic financial statements and certain additional procedures, including comparing and  
reconciling such information directly to the underlying accounting and other records used to prepare the  
basic financial statements or to the basic financial statements themselves, and other additional  
procedures in accordance with auditing standards generally accepted in the United States of America.  
In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial  
statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated October 2,  
2017, on our consideration of the Water Pollution Control Revolving Fund's internal control over  
financial reporting and on our tests of its compliance with certain provisions of laws, regulations,  
contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the Water Pollution Control Revolving  
Fund's internal control over financial reporting or on compliance. That report is an integral part of an  
audit performed in accordance with Government Auditing Standards in considering Water Pollution  
Control Revolving Fund's internal control over financial reporting and compliance.

Clifton Larson Allen LLP

**CliftonLarsonAllen LLP**

**Greenwood Village, Colorado**

October 2, 2017

**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, 2017 and 2016. 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 $113.1 million to a total of $4 billion in 2017, which was $8.4 million  
less than the increase of $121.5 million in 2016. The smaller increase in net position is a direct  
result of lower capital contributions during the year from the U.S. Environmental Protection  
Agency (EPA).

· Capital contributions decreased by $8.9 million to $65.8 million as compared to $74.7 million in  
2016. The decrease in capital contributions was mostly a result of less capital available from  
EPA capitalization grants for loan disbursements. Capital contributions from EPA capitalization  
grant funds that were forgiven decreased by $3 million to $5 million as compared to $8 million in  
2016.

Cash and cash equivalents increased by $308 million in 2017 as compared to an increase of  
$452 million in 2016. The increase in 2017 was mostly the result of an increase in cash from the  
issuance of the Series 2017 Revenue Bond and several payoffs of loan receivables.

. Loans receivable increased by $309 million to $4 billion in 2017 and increased by $155 million  
in 2016. The larger increase in 2017 mostly reflects an increase in loan disbursements.

. On March 23, 2017, the CWSRF issued California Infrastructure and Economic Development  
Bank, Clean Water State Revolving Fund Revenue Bonds, Series 2017 for $450 million at a  
premium of $79.5 million. The Series 2017 Revenue Bonds were issued for the purpose of

**making financial assistance available to recipients for eligible projects.**

. Restricted portion of net position decreased by $100 million to $1.5 billion in 2017 as compared  
to an increase of $1.3 billion in 2016. The decrease in 2017 reflects the decrease in notes  
receivables for loans pledged to the Series 2012, 2016 and 2017 Revenue Bonds as a result of  
repayments received and the related debt service payments. The increase in 2016 reflects the

**greater pledged loan requirements of the Series 2016 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, 2017 and 2016 and the change in their financial positions and their cash flows for  
the years then ended.

IV

**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, liabilities and deferred inflows of resources 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 2017, the growth of the CWSRF's net position continued to strengthen increasing by $113.1 million,  
or 2.9%, to $4 billion at June 30, 2017 as compared to an increase of $121.5 million, or 3.2%, the  
previous year. The increase in net position was $8.4 million lower than in the previous year, mostly  
reflecting the lower level of capital contributions from EPA capitalization grants.

The current portion of the CWSRF's liabilities was $57 million in 2017 and $29 million in 2016. Current  
liabilities primarily correspond to continuing principal payments for the Series 2012, 2016 and 2017  
Revenue Bonds. Noncurrent liabilities increased by $481 million in 2017 as compared to an increase of  
$476 million in 2016. The increase in 2017 is a result of the issuance of the Series 2017 Revenue  
Bonds while the increase in 2016 is the result of the issuance of the Series 2016 Revenue Bond.

A segment of the CWSRF's net position is subject to external restriction due to the debt service  
requirements of the Series 2012, 2016 and 2017 Revenue Bonds. The net position that is restricted  
decreased in 2017 by $100 million to $1.5 billion, or 6.1%, as compared to an increase in 2016 of $1.3  
billion to $1.6 billion, or 377.7%. The decrease in 2017 was primarily due to several early payoffs of  
loan receivables and ongoing debt service payments. The increase in 2016 was primarily due to an  
increase in pledged loan receivables to secure the issuance of the Series 2016 Revenue Bonds.

V

Of the total restricted net position, $1.377 billion in 2017 and $1.567 billion in 2016 represent the  
balance of outstanding loans that were pledged as security to the Series 2012, 2016 and 2017  
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 $234.3 million ($207.3 million of principal and  
$27 million of interest) in 2017 of which the debt service payment was $31.5 million ($13 million of  
principal and $18.5 million of interest). In 2016, the CWSRF received total payments on pledged loans  
of $40.9 million ($32.7 million of principal and $8.2 million of interest) of which the debt service  
payments were $14.3 million ($13 million of principal and $1.3 million of interest).

The remaining $157.6 million of restricted net position in 2017 and $66.9 million in 2017 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, | | |
| 2017 | 2016 | 2015 |
| ASSETS |  |  |  |
| Cash and cash equivalents | $ 1,039,972 | $ 731,798 | $ 279,374 |
| Loans receivable | 4,010,218 | 3,700,721 | 3,545,617 |
| All other assets | 28,525 | 24,341 | 20,075 |
| Total assets | 5,078,715 | 4,456,860 | 3,845,066 |
| LIABILITIES |  |  |  |
| Current liabilities | 56,921 | 29,157 | 15,830 |
| Noncurrent liabilities | 988,785 | 507,846 | 30,905 |
| Total liabilities | 1,045,706 | 537,003 | 46,735 |
| NET POSITION |  |  |  |
| Restricted |  |  |  |
| Debt service | 157,601 | 66,876 | 37,320 |
| Security for revenue bonds | 1,376,682 | 1,567,358 | 304,797 |
| Subtotal restricted assets | 1,534,283 | 1,634,234 | 342,117 |
| Unrestricted | 2,498,726 | 2,285,623 | 3,456,214 |
| Total net position | $ 4,033,009 | $ 3,919,857 | $ 3,798,331 |

VI

**Changes in Net Position**

Program revenue for the CWSRF in 2017 was $59.6 million of which $25.3 million is restricted for debt  
service. Program revenue in 2016 was $57.6 million of which $22.2 million was restricted for debt  
service. In 2017, program revenue increased by $2 million or 3.43% and in 2016 increased by $2.1  
million or 3.75%. In 2017 and 2016, program revenue reflects an increase in outstanding receivables  
and the interest earned year over year on those receivables.

In 2017, general revenue was $6.0 million, which was an increase of $4.6 million or 331%, when  
compared to $1.4 million in 2016. In 2016, general revenue increased $0.6 million or 75% compared to  
$0.8 million in 2015. The increase in investment income during 2017 and 2016 mostly reflects  
increased earnings that resulted from more cash on deposit

Total expenses increased by $6 million in 2017 as compared to a decrease of $12.8 million in 2016.  
The increase in 2017 was primarily due to an increase in revenue bond expenses. The decrease in  
2016 was primarily due to a decrease in principal forgiveness expenses.

Administrative expenses decreased $1.2 million to -$0.8 million in 2017 compared to 2016.  
Administrative expenses decreased $0.8 million to $0.3 million in 2016 compared to 2015. The  
reduction of administrative expenses charged to the CWSRF during 2017 and 2016 primarily reflects  
the use of the CWSRF Administration Fund instead of the CWSRF as the primary source of  
administrative funding. In 2017 and 2016, administrative expenses of $9.2 million and $8.7 million,  
respectively, were charged to the CWSRF Administration Fund.

Capital contributions to the CWSRF decreased by $6 million, or 9%, in 2017 when compared to 2016.  
The decrease in 2017 was primarily due to a decrease in available contributions from EPA  
capitalization grants. In 2016, capital contributions decreased by $41 million, or 38% when compared to  
2015. The decrease in 2016 was due to a decrease in available contributions from EPA capitalization

grants.

The CWSRF program received principal forgiveness funds from EPA capitalization grants of $4.8  
million and $7.8 million, in 2017 and 2016, respectively. The loans made with these funds were forgiven  
as disbursed and must be repaid if certain loan conditions are not met.

VII

**Table 2**

|  |  |  |  |
| --- | --- | --- | --- |
| Changes in Net Position (in thousands) | Year Ended June 30, | | |
|  |
| 2017 | 2016 | 2015 |
| Revenues |  |  |  |
| Program revenues: |  |  |  |
| Loan interest income | $ 59,615 | $ 57,638 | $ 55,554 |
| General revenues: |  |  |  |
| Investment income | 6,020 | 1,396 | 796 |
| Total revenues | 65,635 | 59,034 | 56,350 |
| Expenses |  |  |  |
| Program expenses: |  |  |  |
| Administrative expenses | (844) | 329 | 1,096 |
| Capitalization Principal Forgiveness expense | 4,790 | 7,792 | 23,629 |
| Revenue bond interest expense | 12,458 | 2,199 | 293 |
| Revenue bond issuance costs | 1,896 | 1,894 | - |
| Total expenses | 18,300 | 12,214 | 25,018 |
| Increase in net position before contributions | 47,335 | 46,820 | 31,332 |
| Capital contributions: |  |  |  |
| EPA capitalization grant | 60,966 | 66,846 | 100,584 |
| EPA capitalization grant Principal Forgiveness | 4,790 | 7,792 | 23,629 |
| State and other contributions | 61 | 68 | 7,162 |
| Subtotal capital contributions | 65,817 | 74,706 | 131,375 |
| Change in net position | 113,152 | 121,526 | 162,707 |
| Net position - beginning of year | 3,919,857 | 3,798,331 | 3,636,875 |
| Net position - Restatement | - | - | (1,251) |
| Net position - beginning of year (restated) | 3,919,857 | 3,798,331 | 3,635,624 |
| Net position - end of year | $ 4,033,009 | $ 3,919,857 | $ 3,798,331 |

VIII

**Budgetary Information**

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

**Debt Administration**

The State Water Board administers a leveraged CWSRF program. The State Water Board maintains  
high bond ratings from Fitch (AAA), Moody's Investors Service (Aaa), and Standard and Poor's Ratings  
Services (AAA) on the CWSRF Series 2017, 2016 and 2012 Revenue Bonds. In 2017, the CWSRF  
issued Series 2017 Revenue Bonds for $450 million at a premium of $79.5 million. In 2016, the  
CWSRF issued Series 2016 Revenue Bonds for $410.7 million at a premium of $91.2 million. The  
Series 2017 and 2016 Revenue Bonds were issued for the purpose of making financial assistance  
available to recipients for eligible projects. In 2012, the CWSRF issued Series 2012 Refunding  
Revenue Bonds for $68.9 million at a premium of $6.0 million. The Series 2012 Revenue Bonds were  
issued to refund the Series 2002 Revenue Bonds.

As of June 30, 2017, outstanding bonds totaled $1.035 billion, an increase of $504.2 million, compared  
to $530.8 million last year as shown in Table 3. The increase in 2017 was due to the issuance of the  
Series 2017 Revenue Bonds. The increase in 2016 was due to the issuance of the Series 2016  
Revenue Bonds. The revenue bonds are backed by a pledge of specific revenue for which the annual  
collections are generally predictable.

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

**Table 3**

|  |  |  |  |
| --- | --- | --- | --- |
| Outstanding Long-term Debt (in thousands) | | | |
|  | June 30, | | |
| 2017 | 2016 | 2015 |
| Revenue bonds |  |  |  |
| Bond principal | $ 877,735 | $ 440,675 | $ 42,940 |
| Bond premium | 157,251 | 90,118 | 1,957 |
| Total revenue bonds | $ 1,034,986 | $ 530,793 | $ 44,897 |

IX

**Economic Conditions and Outlook**

In 2017, new binding loan commitments (encumbrances) were $1.378 billion, a significant increase of  
34% above the new commitments made in 2016. The higher level of financing activity reflects continued  
improvement in the general economic conditions in California along with recent CWSRF program  
improvements 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 2017, the EPA allocated $94.6 million to the CWSRF. The 2017 grant  
allocation is a reduction of 1% compared to the 2016 grant allocation of $95 million. Presently available  
information indicates that the 2018 grant will be approximately equal to the 2017 grant but could be lower  
as a result of ongoing congressional budget negotiations.

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 reduced the number of local entities experiencing strained  
revenue flows, the CWSRF diligently works with loan recipients to ensure full repayment of all loans.

**Requests for Information**

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

X

**BASIC FINANCIAL STATEMENTS**

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**STATEMENTS OF NET POSITION**

**June 30, 2017 and 2016**

(in thousands)

|  |  |  |
| --- | --- | --- |
|  | 2017 | 2016 |
| ASSETS |  |  |
| CURRENT ASSETS |  |  |
| Cash and cash equivalents | $ 596,396 | $ 494,274 |
| Cash and cash equivalents - Restricted | 443,576 | 237,524 |
| Receivables: |  |  |
| Loan interest | 25,861 | 23,488 |
| Investment interest | 2,518 | 772 |
| Due from other funds and other governments | 146 | 81 |
| Loans receivable: |  |  |
| Current portion | 128,271 | 111,478 |
| Current portion - Restricted | 100,385 | 156,108 |
| Total current assets | 1,297,153 | 1,023,725 |
| OTHER ASSETS |  |  |
| Loans receivable: |  |  |
| Noncurrent (net of allowance for bad debt) | 2,505,265 | 2,021,885 |
| Noncurrent - Restricted | 1,276,297 | 1,411,250 |
| Total other assets | 3,781,562 | 3,433,135 |
| TOTAL ASSETS | 5,078,715 | 4,456,860 |
| LIABILITIES AND NET POSITION CURRENT LIABILITIES |  |  |
| Revenue bond interest payable | 10,603 | 4,329 |
| Unearned Revenue | 18 | 5 |
| Due to other funds | 99 | 49 |
| Revenue bond cost of issuance payable | - | 617 |
| Revenue bonds payable | 46,201 | 22,947 |
| Other liability | - | 1,210 |
| Total current liabilities | 56,921 | 29,157 |
| NONCURRENT LIABILITIES |  |  |
| Revenue bonds payable | 988,785 | 507,846 |
| Total noncurrent liabilities | 988,785 | 507,846 |
| Total liabilities | 1,045,706 | 537,003 |
| NET POSITION |  |  |
| Restricted for: |  |  |
| Debt service | 157,601 | 66,876 |
| Security for revenue bonds | 1,376,682 | 1,567,358 |
| Unrestricted | 2,498,726 | 2,285,623 |
| Total net position | $ 4,033,009 | $ 3,919,857 |

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

1

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**Years Ended June 30, 2017 and 2016**

(in thousands)

|  |  |  |
| --- | --- | --- |
|  | 2017 | 2016 |
| OPERATING REVENUE |  |  |
| Loan interest income | $ 59,615 | $ 57,638 |
| Total operating revenue | 59,615 | 57,638 |
| OPERATING EXPENSES |  |  |
| Capitalization Principal forgiveness | 4,790 | 7,792 |
| Other expenses | (860) | 32 |
| Total operating expenses | 3,930 | 8,113 |
| INCOME FROM OPERATIONS | 55,685 | 49,525 |
| NONOPERATING REVENUE (EXPENSE) |  |  |
| Net investment income | 6,020 | 1,396 |
| Revenue bond interest expense | (12,458) | (2,199) |
| Revenue bond fees | (16) | (8) |
| Revenue bond issuance costs | (1,896) | (1,894) |
| Total nonoperating revenue (expense) | (8,350) | (2,705) |
| INCOME BEFORE CONTRIBUTIONS | 47,335 | 46,820 |
| CONTRIBUTIONS |  |  |
| EPA capitalization grant | 60,966 | 66,846 |
| EPA capitalization grant - Principal Forgiveness | 4,790 | 7,792 |
| State match revenue | 61 | 68 |
| Total contributions | 65,817 | 74,706 |
| CHANGE IN NET POSITION | 113,152 | 121,526 |
| NET POSITION - BEGINNING OF YEAR | 3,919,857 | 3,798,331 |
| NET POSITION - END OF YEAR | $ 4,033,009 | $ 3,919,857 |

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

2

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2017 and 2016**

(in thousands)

|  |  |  |
| --- | --- | --- |
|  | 2017 | 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES |  |  |
| Cash paid to employees and vendors | $ (300) | $ (510) |
| Cash flows provided (required) by operating activities | (300) | (510) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES |  |  |
| Funds received from EPA capitalization grant | 65,746 | 75,585 |
| Funds received from the State of California | 53 | 96 |
| Proceeds from revenue bond issuance | 529,467 | 501,961 |
| Revenue bond issuance costs paid | (2,513) | (1,277) |
| Revenue bond fees paid | (16) | (8) |
| Principal paid on revenue bonds | (12,940) | (13,000) |
| Interest paid on revenue bonds | (18,517) | (1,323) |
| Cash flows provided (required) by noncapital financing activities | 561,280 | 562,034 |
| CASH FLOWS FROM INVESTING ACTIVITIES |  |  |
| Cash received from interest on loans | 46,018 | 39,250 |
| Loans disbursed | (625,321) | (521,862) |
| Principal Forgiveness Disbursed | (4,790) | (7,792) |
| Principal received on loans receivable | 327,013 | 380,466 |
| Net investment income received | 4,274 | 838 |
| Net cash provided (required) by investing activities | (252,806) | (109,100) |
| NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS | 308,174 | 452,424 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | 731,798 | 279,374 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | $ 1,039,972 | $ 731,798 |
| Reconciliation of operating income to net cash required by operating activities |  |  |
|  |
| Income from operations | $ 55,685 | $ 49,525 |
| Adjustments to reconcile income from operations to net cash required by operating activities |  |  |
| Construction period interest | (11,237) | (13,708) |
| Cash received from interest on loans | (46,018) | (39,250) |
| Loans disbursed | 625,274 | 521,862 |
| Principal Forgiveness Disbursed | 4,790 | 7,792 |
| Principal received on loans receivable | (327,013) | (380,466) |
| Other expenses | (1,210) | (75) |
| Effect of changes in operating assets and liabilities: |  |  |
| Loans receivable | (298,248) | (141,392) |
| Loan interest receivable | (2,373) | (4,684) |
| Due to other funds | 50 | (114) |
| Net cash provided (required) by operating activities | $ (300) | $ (510) |

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

3

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017 and 2016**

(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, 2017 and 2016,  
the EPA has awarded cumulative capitalization grant funding of $2,771,615, and $2,676,325,  
respectively to the State of California (State), for which the State is required to provide $554,323 and  
$535,265, respectively, of cumulative matching funding to the Fund. In addition, in February 2009, the  
EPA awarded $280,285 in ARRA grant funding for which there is no State Match requirement.

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

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

**Reporting Entity**

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

4

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017 and 2016**

(Dollar Amounts Expressed in Thousands)

NOTE 1 - DEFINITION OF REPORTING ENTITY (CONTINUED)

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

**Operating Revenues and Expenses**

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

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

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

**Budgets**

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

**Use of Estimates in Preparing Financial Statements**

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

**period. Actual results could differ from those estimates.**

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**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017 and 2016**

(Dollar Amounts Expressed in Thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Cash and Cash Equivalents**

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

**Loans Receivable**

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

Loans funded by principal forgiveness 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, 2017 and June 30, 2016.

**Due to Other Funds**

Due to other funds represents amounts payable to other funds reported within the California State  
Water Resources Control Board that are not included in these financial statements.

**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 2016 amounts have been reclassified, where appropriate, to conform with the  
2017 financial statement presentation.

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**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017 and 2016**

(Dollar Amounts Expressed in Thousands)

**NOTE 3 - CASH AND CASH EQUIVALENTS**

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

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

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

At June 30, 2017 and 2016, the Fund's cash deposits had a carrying balance of $6 and $6,

**respectively.**

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

|  |  |  |
| --- | --- | --- |
| Investments | 2017 | 2016 |
| Treasury/Trust Portfolio | $ 1,039,966 | $ 731,792 |
| Total cash deposits and investments | $ 1,039,972 | $ 731,798 |

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, 2017 and 2016,  
Comprehensive Annual Financial Reports for disclosure related to the risks applicable to the Portfolio.

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**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017 and 2016**

(Dollar Amounts Expressed in Thousands)

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

Cash deposits and investments are reflected on the June 30, 2017 and 2016 statement of net position  
as follows:

|  |  |  |
| --- | --- | --- |
|  | 2017 | 2016 |
| Cash and cash equivalents | $596,396 | $ 494,274 |
| Cash and cash equivalents - Restricted | 443,576 | 237,524 |
| Total cash deposits and investments | $ 1,039,972 | $ 731,798 |

Cash and investments in the amount of $285,975 and $170,648, representing unspent revenue bonds  
proceeds, at June 30, 2017 and 2016, respectively, were restricted for future loan disbursements.  
Additionally, cash and investments in the amount of $157,601 and $66,876 representing various  
reserve accounts required by the revenue bonds, at June 30, 2017 and 2016, respectively, were  
restricted for future loan disbursements and debt service.

**NOTE 4 - LOANS RECEIVABLE**

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

As of June 30, 2017 and 2016, the Fund had total binding commitments of $10,355,713 and  
$8,978,122, respectively, since program inception. As of June 30, 2017, the remaining commitment on  
these loans amounted to $2,706,475, of which $253,113 is federal funds. The federal loan  
commitments included capitalization funds of $31,093, which will be forgiven. As of June 30, 2016, the  
remaining commitment on these loans amounted to $1,958,948, of which $241,349 is federal funds.  
The federal loan commitments included capitalization funds of $10,761, which will be forgiven. Principal  
forgiveness loans are forgiven as disbursed, but must be repaid if the recipient fails to meet the  
program requirements.

At June 30, 2017 and 2016 the unpaid balance on all loans receivable outstanding amounted to

**$4,010,218 and $3,700,721, respectively.**

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**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017 and 2016**

(Dollar Amounts Expressed in Thousands)

NOTE 4 - LOANS RECEIVABLE (CONTINUED)

Estimated maturities of the loans receivable and interest payments thereon, at June 30, 2017 are as  
follows:

|  |  |  |  |
| --- | --- | --- | --- |
| Year Ending June 30, | Interest | Principal | Total |
| 2018 | $ 50,062 | $ 228,656 | $ 278,718 |
| 2019 | 47,739 | 232,192 | 279,931 |
| 2020 | 44,388 | 232,295 | 276,683 |
| 2021 | 41,058 | 231,710 | 272,768 |
| 2022 | 37,768 | 224,487 | 262,255 |
| 2023-2027 | 142,366 | 951,741 | 1,094,107 |
| 2028-2032 | 78,973 | 656,910 | 735,883 |
| 2033-2037 | 31,574 | 334,401 | 365,975 |
| 2038-2042 | 12,098 | 111,682 | 123,780 |
| 2043-2047 | 4,278 | 83,069 | 87,347 |
| 2048-2052 | 7 | 1,077 | 1,084 |
| Total | $ 490,311 | 3,288,220 | $ 3,778,531 |
| Loans not yet in repayment |  | 731,354 |  |
| Allowance for bad debt |  | (9,356) |  |
| Total loans receivable |  | $ 4,010,218 |  |

**Restricted Loans Receivable**

At June 30, 2017 and 2016, $1,376,682 and $1,567,358, 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, 2017, the Fund received $207,377 and $26,944 of principal and  
interest, respectively, on these loans. During the year ended June 30, 2016, the Fund received $32,738  
and $8, 195 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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**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017 and 2016**

(Dollar Amounts Expressed in Thousands)

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

The Fund had authorized a total of $1,718,966 of local match loans as of June 30, 2017 and 2016.  
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, 2017 and 2016. The remaining borrowers elected to  
repay the State match over a period of 20 or 30 years, in the amount of $281,714 as of June 30, 2017  
and 2016. As of June 30, 2017 and 2016, total local match loans outstanding, including the local match  
to be paid, amounted to $652,685 and $723,274, respectively. As of June 30, 2017 and 2016, the  
remaining State match to be repaid amounted to $67,795 and $80,195, 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. As of June 30, 2017  
and 2016, respectively, the combined outstanding loan balances of these major local agencies

**represent approximately 19.31 and 15.8 percent of the total loans receivable.**

|  |  |  |
| --- | --- | --- |
| Borrower | 2017 | |
| Authorized Loan Amount | Outstanding Loan Balance |
| Los Angeles County Sanitation District (LACSD) | $ 596,746 | $ 246,481 |
| LACSD District #29 | $ 969 | $ 796 |
| LACSD Santa Clarita | $ 4,336 | $ 3,820 |
| LACSD District #2 | $ 41,511 | $ 38,219 |
| LACSD Total | $ 643,562 | $ 289,316 |
| Orange County Water District | $ 316,725 | $ 233,010 |
| Sacramento Regional County Sanitation District | $1,393,737 | $ 252,073 |
|  | $ 2,354,024 | $ 774,399 |

|  |  |  |
| --- | --- | --- |
| Borrower | 2016 | |
| Authorized Loan Amount | Outstanding Loan Balance |
| Los Angeles County Sanitation District (LACSD) | $ 596,746 | $ 322,299 |
| LACSD District #29 | $ 969 | $ 839 |
| LACSD Santa Clarita | $ 4,336 | $ 4,012 |
| LACSD District #2 | $ 41,511 | $ 23,705 |
| LACSD Total | $ 643,562 | $ 350,855 |
| Orange County Water District | $ 316,725 | $ 233,800 |
|  | $ 960,287 | $ 584,655 |

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**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017 and 2016**

(Dollar Amounts Expressed in Thousands)

**NOTE 5 - LONG-TERM DEBT**

On March 23, 2017, the Fund issued $450,000 of California Infrastructure and Economic Development  
Bank, Clean Water State Revolving Fund Revenue Bonds, Series 2017, dated March 1, 2017 with  
coupon rates of 2 to 5 percent at a yield of 2.24%. These serial bonds are due annually in varying  
amounts through 2036. The interest on the bonds is due semi-annually on April 1 and October 1. The  
bonds maturing on or after October 1, 2027 are subject to redemption prior to their respective stated  
maturities at the option of the Fund on any date on or after April 1, 2027. The bonds were issued to  
provide funding for the issuance of additional revolving fund loans by the Fund

On April 28, 2016, the Fund issued $410,735 of California Infrastructure and Economic Development  
Bank, Clean Water State Revolving Fund Revenue Bonds, Series 2016, dated April 1, 2016 with  
coupon rates of 2.5 to 5 percent at a yield of 1.57%. These serial bonds are due annually in varying  
amounts through 2035. The interest on the bonds is due semi-annually on April 1 and October 1. The  
bonds maturing on or after October 1, 2026 are subject to redemption prior to their respective stated  
maturities at the option of the Fund on any date on or after April 1, 2026. The bonds were issued to  
provide funding for the issuance of additional revolving fund loans by the Fund.

On December 3, 2012, the Fund issued $68,940 of California Infrastructure and Economic  
Development Bank, Clean Water State Revolving Fund Refunding Revenue Bonds, Series 2012, dated  
November 1, 2012, with coupon rates of 2 to 4 percent at a yield of .056%. 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 Master 2012 indenture and Series 2012 revenue bonds, the Fund  
pledged in excess of $394,000 of the Fund's outstanding loan receivables as security for the bonds.  
The Fund pledged an additional $1,228,000 of outstanding loan receivables at the time of issuance of  
the Series 2016 revenue bonds, for a total of $1,622,000 pledged for security of all outstanding 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:

**Series 2012**

|  |  |  |  |
| --- | --- | --- | --- |
| Year Ending June 30, | Principal | Interest | Total |
| 2018 | $ 9,530 | $ 451 | $ 9,981 |
| 2019 | 7,470 | 131 | 7,601 |
|  | $ 17,000 | $ 582 | $ 17,582 |

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**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017 and 2016**

(Dollar Amounts Expressed in Thousands)

NOTE 5 - LONG-TERM DEBT (CONTINUED)

|  |  |  |  |
| --- | --- | --- | --- |
| Series 2016 | Principal | Interest | Total |
| Year Ending June 30, |
| 2018 | $ 17,820 | $ 18,813 | $ 36,633 |
| 2019 | 21,010 | 18,166 | 39,176 |
| 2020 | 29,715 | 17,314 | 47,029 |
| 2021 | 30,885 | 16,072 | 46,957 |
| 2022 | 32,430 | 14,534 | 46,964 |
| 2023-2027 | 141,915 | 49,843 | 191,758 |
| 2028-2032 | 92,490 | 21,859 | 114,349 |
| 2033-2036 | 44,470 | 4,203 | 48,673 |
|  | $ 410,735 | $ 160,804 | $ 571,539 |

|  |  |  |  |
| --- | --- | --- | --- |
| Series 2017 | Principal | Interest | Total |
| Year Ending June 30, |
| 2018 | $ - | $ 22,208 | $ 22,208 |
| 2019 | 30,365 | 21,117 | 51,482 |
| 2020 | 37,965 | 19,764 | 57,729 |
| 2021 | 24,565 | 18,412 | 42,977 |
| 2022 | 25,725 | 17,165 | 42,890 |
| 2023-2027 | 162,425 | 61,535 | 223,960 |
| 2028-2032 | 112,565 | 26,705 | 139,270 |
| 2033-2037 | 56,390 | 6,827 | 63,217 |
|  | $ 450,000 | $ 193,733 | $ 643,733 |

|  |  |  |  |
| --- | --- | --- | --- |
| Combined | Principal | Interest | Total |
| Year Ending June 30, |
| 2018 | $ 27,350 | $ 41,472 | $ 68,822 |
| 2019 | 58,845 | 39,414 | 98,259 |
| 2020 | 67,680 | 37,078 | 104,758 |
| 2021 | 55,450 | 34,484 | 89,934 |
| 2022 | 58,155 | 31,699 | 89,854 |
| 2023-2027 | 304,340 | 111,378 | 415,718 |
| 2028-2032 | 205,055 | 48,564 | 253,619 |
| 2033-2037 | 100,860 | 11,030 | 111,890 |
|  | $ 877,735 | $ 355,119 | $1,232,854 |

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**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017 and 2016**

(Dollar Amounts Expressed in Thousands)

NOTE 5 - LONG-TERM DEBT (CONTINUED)

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Balance June 30, 2016 | Issuances | Retirements | Balance June 30, 2017 | Due  Within One Year |
| Series 2017 Revenue Bonds: |  |  |  |  |  |
| Bond principal | $ | $ 450,000 | $ | $ 450,000 | $ |
| Bond premium | - | 79,467 | 2,327 | 77,140 | 9,010 |
|  | - | $529,467 | $ 2,327 | 527,140 | $ 9,010 |
| Less current portion: |  |  |  |  |  |
| Bond principal | - |  |  | - |  |
| Bond premium amortization | - |  |  | (9,010) |  |
| Long-term portion | $ - |  |  | $518,130 |  |
| Series 2016 Revenue Bonds: |  |  |  |  |  |
| Bond principal | $ 410,735 | $ - | $ - | $410,735 | $ 17,820 |
| Bond premium | 89,153 | - | 9,388 | 79,765 | 9,549 |
|  | 499,888 | $ - | $ 9,388 | 490,500 | $ 27,369 |
| Less current portion: |  |  |  |  |  |
| Bond principal | - |  |  | (17,820) |  |
| Bond premium amortization | (9,388) |  |  | (9,549) |  |
| Long-term portion | $ 490,500 |  |  | $463,131 |  |
| Series 2012 Revenue Bonds: |  |  |  |  |  |
| Bond principal | $ 29,940 | $ - | $ 12,940 | $ 17,000 | $ 9,530 |
| Bond premium | 965 | - | 619 | 346 | 292 |
|  | 30,905 | $ - | $ 13,559 | 17,346 | $ 9,822 |
| Less current portion: |  |  |  |  |  |
| Bond principal | (12,940) |  |  | (9,530) |  |
| Bond premium amortization | (619) |  |  | (292) |  |
| Long-term portion | $ 17,346 |  |  | $ 7,524 |  |

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**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017 and 2016**

(Dollar Amounts Expressed in Thousands)

NOTE 5 - LONG-TERM DEBT (CONTINUED)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Balance June 30, 2015 | Issuances | Retirements | Balance June 30, 2016 | Due  Within One Year |
| Series 2016 Revenue Bonds: |  |  |  |  |  |
| Bond principal | $ - | $ 410,735 | $ - | $ 410,735 | $ - |
| Bond premium | - | 91,226 | 2,073 | 89,153 | 9,388 |
|  | - | $ 501,961 | $ 2,073 | 499,888 | $ 9,388 |
| Less current portion: |  |  |  |  |  |
| Bond principal | - |  |  | - |  |
| Bond premium amortization | - |  |  | (9,388) |  |
| Long-term portion | $ - |  |  | $ 490,500 |  |
| Series 2012 Revenue Bonds: |  |  |  |  |  |
| Bond principal | $ 42,940 | $ - | $ 13,000 | $ 29,940 | $ 12,940 |
| Bond premium | 1,957 | - | 992 | 965 | 619 |
|  | 44,897 | $ - | $ 13,992 | 30,905 | $ 13,559 |
| Less current portion: |  |  |  |  |  |
| Bond principal | (13,000) |  |  | (12,940) |  |
| Bond premium amortization | (992) |  |  | (619) |  |
| Long-term portion | $ 30,905 |  |  | $ 17,346 |  |

**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, 2017 and 2016, the EPA has awarded to the State  
cumulative capitalization grants of $2,771,615 and $2,676,325, respectively. As of June 30, 2017 and  
2016, the State has drawn, cumulatively $2,695,788 and $2,630,033, respectively, for loans and  
administrative expenses. The State has provided matching funds of $354,293 and $354,232,  
respectively.

In addition, as of June 30, 2017, 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, 2017 and 2016, the borrowers had contributed $284,010, which qualifies as

**meeting the State's matching requirement.**

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**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017 and 2016**

(Dollar Amounts Expressed in Thousands)

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

Table 1 summarizes the EPA capitalization grants awarded, amounts drawn on each grant as of  
June 30, 2017 and 2016, and balances available for future loans as of June 30, 2017. Table 2  
summarizes the state match amounts paid by the state and local entities as of June 30, 2017 and 2016.  
As of June 30, 2017 and 2016, the state match required is $539, 158 and $526,006, respectively. As of  
June 30, 2017 and 2016, the state match available for potential future state match is $99,145 and  
$112,236, respectively.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| TABLE 1  Year | Grant  Award | Funds  Drawn As of June 30, 2015 | Funds  Drawn  During  Year  Ended June 30, 2016 | Funds  Drawn As of June 30, 2016 | Funds  Drawn  During  Year  Ended June 30, 2017 | Funds  Drawn As of June 30, 2017 | Available for Loans as of June 30, 2017 |
| 1989-2013 | $ 2,476,285 | $ 2,476,285 | $ - | $ 2,476,285 | $ - | $ 2,476,285 | $ - |
| 2014 | 100,277 | 79,110 | 21,167 | 100,277 | - | 100,277 | - |
| 2015 | 99,763 | - | 53,471 | 53,471 | 46,292 | 99,763 | - |
| 2016 | 95,290 | - | - | - | 19,464 | 19,464 | 75,826 |
|  | $ 2,771,615 | $ 2,555,395 | $ 74,638 | $ 2,630,033 | $ 65,756 | $ 2,695,789 | $ 75,826 |
| 2008-ARRA | 280,285 | 280,285 |  | 280,285 | - | 280,285 | - |
|  | $ 3,051,900 | $ 2,835,680 | $74,638 | $ 2,910,318 | $ 65,756 | $ 2,976,074 | $75,826 |

**TABLE 2**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | State Match Paid As of June 30, 2015 | State Match Paid  During  Year  Ended June 30, 2016 | State Match Paid | State Match Paid  During  Year  Ended June 30, 2017 | State Match Paid As of June 30, 2017 |
| As of June 30, 2016 |
| State Disbursed | $354,164 | $ 68 | $354,232 | $ 61 | $ 354,293 |
| Local Disbursed | 283,560 | 450 | 284,010 | - | 284,010 |
|  | $ 637,724 | $ 518 | $ 638,242 | $ 61 | $ 638,303 |

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**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017 and 2016**

(Dollar Amounts Expressed in Thousands)

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

**Restricted Funds**

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

**restricted for future water reclamation loans that are eligible under the CWSRF program.**

**Administrative Fund**

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

|  |  |  |
| --- | --- | --- |
|  | June 30, 2017 | June 30, 2016 |
| Administrative fee collected | $ 5,851 | $ 6,887 |
| Operating expenses incurred | $ 9,205 | $ 8,681 |

**Small Community Grant Fund**

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

Revenue collected and expenses incurred for the grant fund are as follows:

|  |  |  |
| --- | --- | --- |
|  | June 30, 2017 | June 30, 2016 |
| Grant fee collected | $10,039 | $ 11,098 |
| Grants disbursed | $ 3,602 | $ 7,392 |

**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, 2017 and 2016, Comprehensive Annual Financial Reports.

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**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2017 and 2016**

(Dollar Amounts Expressed in Thousands)

**NOTE 8 - 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, 2017 and 2016, 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, 2017 and 2016, the Fund had  
restricted net position of $157,601 and $66,876, respectively, representing amounts received from  
borrower loan repayments on pledged loans. As of June 30, 2017 and 2016 pledged loans restricted for  
future bond debt service payments were $1,376,682 and $1,567,358, 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 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.

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**SINGLE AUDIT REPORTS**

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**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2017**

|  |  |  |  |
| --- | --- | --- | --- |
| Grantor and Program Title | Federal  CFDA  Number | Federal  Expenditures | Subrecipients |
| U.S. Environmental Protection Agency |  |  |  |
| Direct Programs: |  |  |  |
| Capitalization Grants for State Revolving Funds | 66.458 | $ 65,755,709 (\*) | $ 65,450,474 |
|  |  | $ 65,755,709 | $ 65,450,474 |

(\*) Tested as a Major Program

See notes to schedule of expenditures of federal awards.  
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**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2017**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant  
activity of the California State Water Resources Control Board, Water Pollution Control Revolving Fund  
(Fund) under programs of the federal government for the year ended June 30, 2017. The information in  
this Schedule is presented in accordance with the requirements of 2 CFR Part 200, Uniform  
Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform  
Guidance).

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

Expenditures

Expenditures reported on the Schedule are presented on the accrual basis of accounting and are  
recognized following the cost principles contained in the Uniform Guidance, wherein certain types of  
expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the  
Schedule represent adjustments or credits made, in the normal course of business, to amounts reported  
as expenditures in prior years. The Fund has elected not to use the ten percent de minimis indirect cost  
rate allowed under the Uniform Guidance.

**NOTE 3 - LOANS TO SUBRECIPIENTS**

Capitalization Grants for Clean Water State Revolving Fund CFDA# 66.458 include $65,450,474 of  
expenditures that were disbursed as loan awards to qualifying subrecipients, which includes $4,789,526  
of principal forgiveness loans.

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

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,  
2017, and the related notes to the financial statements, which collectively comprise Water Pollution  
Control Revolving Fund's basic financial statements, and have issued our report thereon dated October  
2, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered 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 opinions 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.

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Water Pollution Control Revolving Fund

**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.

Clifton Larson Allen LLP

**CliftonLarsonAllen LLP**

Greenwood Village, Colorado  
October 2, 2017

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

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 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, 2017.  
Water Pollution Control Revolving Fund's major federal programs are identified in the summary of  
auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and  
conditions of its federal awards applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for 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 the audit  
requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative  
Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those  
standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable

**assurance about whether noncompliance with the types of compliance requirements referred to above**

that could have a direct and material effect on a major federal program occurred. An audit includes  
examining, on a test basis, evidence about Water Pollution Control Revolving Fund's compliance with  
those requirements and performing such other procedures as we considered necessary in the  
circumstances.

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

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

**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, 2017.

**Report on Internal Control Over Compliance**

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

A deficiency in internal control over compliance exists when the design or operation of a control over  
compliance does not allow management or employees, in the normal course of performing their  
assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance  
requirement of a federal program on a timely basis. A material weakness in internal control over  
compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such

**that there is a reasonable possibility that material noncompliance with a type of compliance**

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

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

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

Clifton Larson Allen LLP

**CliftonLarsonAllen LLP**

**Greenwood Village, Colorado**

October 2, 2017

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**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2017**

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

|  |  |  |
| --- | --- | --- |
| Financial Statements |  |  |
| Type of auditors' report issued: | Unmodified |  |
| Internal control over financial reporting: |  |  |
| Material weakness(es) identified? | yes | V no |
| Significant deficiency(ies) identified not considered to be material weaknesses? | yes | V none reported |
| Noncompliance material to financial statements noted? | yes | V no |
| Federal Awards Internal control over major program: |  |  |
|  |  |
| Material weakness(es) identified? | yes | V no |
| Significant deficiency(ies) identified not considered to be material weaknesses? | yes | V none reported |
| Type of auditor's report issued on compliance for major program: | Unmodified |  |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | yes | V no |

Identification of major programs:

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

Dollar threshold used to distinguish between  
 Type A and Type B programs: $1,972,671

Auditee qualified as low-risk auditee? V yes no

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**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**Year Ended June 30, 2017**

PART II - FINDINGS RELATED TO FINANCIAL STATEMENTS

**Our audit did not disclose any matters required to be reported in accordance with Government Auditing**

Standards.

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

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).

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**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**WATER POLLUTION CONTROL REVOLVING FUND**  
**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
**Year Ended June 30, 2017**

**PART IV - PRIOR YEAR FINDINGS**

There were no prior year audit findings required to be reported under Government Auditing Standards  
or 2 CFR 200.516(a).

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