



Helping Achieve the Goal of Clean Water *..financially*

Annual Report | 2012-2013

CLEAN WATER STATE REVOLVING FUND
State Fiscal Year 2012/2013 (July 1, 2012 – June 30, 2013)

CALIFORNIA ENVIRONMENTAL PROTECTION AGENCY
STATE WATER RESOURCES CONTROL BOARD

Division of Financial Assistance
1001 I STREET • SACRAMENTO, CA 95814

Our Vision

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



Our Mission

To preserve, enhance, and restore the quality of California's water resources, and ensure their proper allocation and efficient use for the benefit of present and future generations.



STATE WATER RESOURCES CONTROL BOARD
REGIONAL WATER QUALITY CONTROL BOARDS

About the State and Regional Water Boards

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

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

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

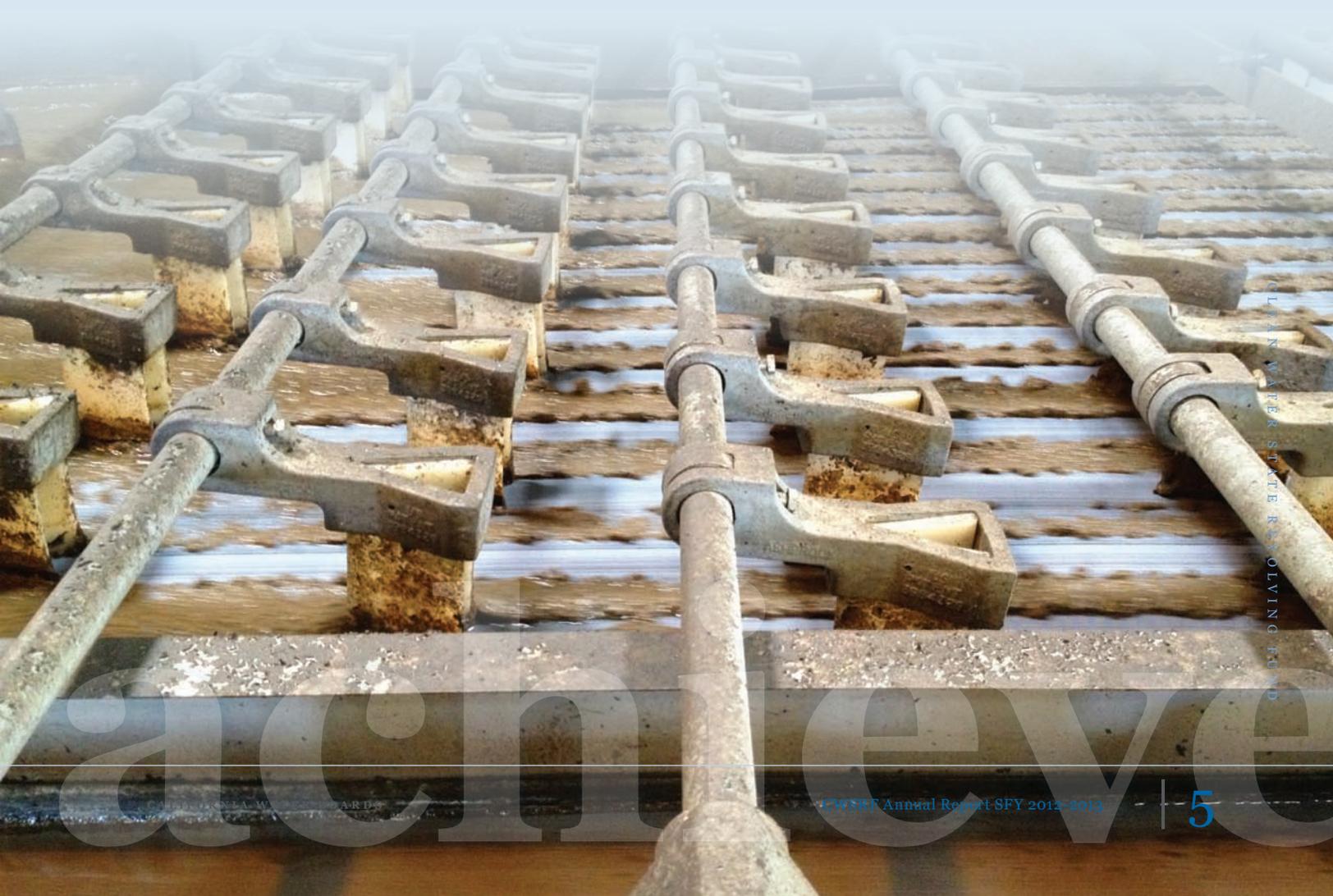
Each Regional Water Board has seven part-time Members, also appointed by the Governor and confirmed by the Senate. Regional Water Boards develop "basin plans" for their hydrologic areas, issue waste discharge permits, take enforcement action against violators, and monitor water quality.

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I. Introduction

This is the California Clean Water State Revolving Fund Program's Annual Report for State Fiscal Year (SFY) 12/13 (July 1, 2012 through June 30, 2013). California provided approximately \$277 million in low cost financing to 29 projects in SFY 12/13 that represent a wide variety of projects eligible for the CWSRF Program. This report describes how the State Water Board met the objectives for the Program identified in the Federal Fiscal Year 2013 [Intended Use Plan](#).



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II. Program Summary



The federal Clean Water Act provides states the opportunity to establish a Clean Water State Revolving Fund (CWSRF) Program to help each state achieve the goal of clean water. The CWSRF is capitalized with federal and state funds. The CWSRF provides affordable financing for publicly owned treatment works, non-point source (NPS) projects, and estuary projects. Further information about the Program can be found at the State Water Board's CWSRF website at http://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/index.shtml.



The CWSRF has supported protection and promotion of the health, safety, and welfare of Californians since 1989. Many CWSRF recipients use their financing to address water quality violations and the associated enforcement actions by the Regional Water Boards. Every project financed by the CWSRF is directly related to improving water quality or public health.



The revolving nature of the CWSRF creates asset and revenue growth. As of June 30, 2013, the total available to the CWSRF for financial assistance since inception of the Program was \$6.609 billion including funds from the American Recovery and Reinvestment Act of 2009 (ARRA). The State Water Board committed approximately 100 percent of all available funds to projects through executed financing agreements (binding commitments). The State Water Board disbursed about 92 percent of all available funds to financing recipients as of June 30, 2013. Cumulative Program activity from inception through the end of SFY 12/13 is shown in Table 1 below.

TABLE 1: CUMULATIVE PROGRAM ACTIVITY ¹

Activity	Life of Program
Number of Financing Agreements	647
Value of All Financing Agreements	\$6.644 billion ²
Disbursements Processed	\$6.103 billion ²
Balance of Financing Agreements	\$541 million ²

(1) Program activity includes matching funds provided by financing recipients.
 (2) Amount includes ARRA funds.

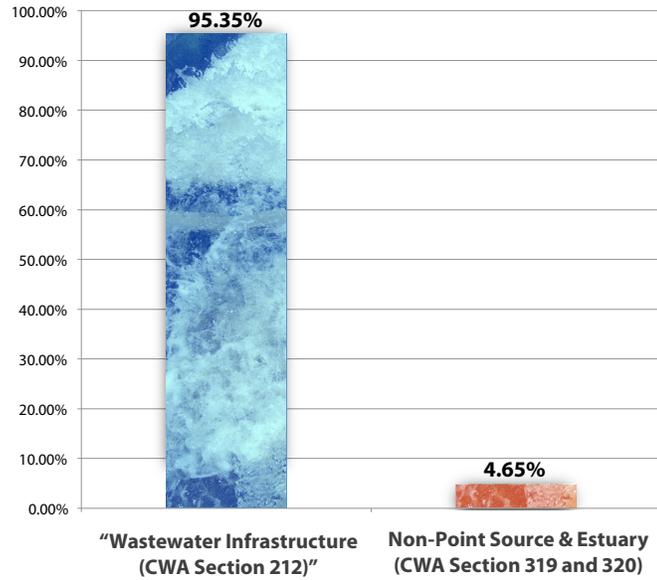
Over the next several years, the State Water Board plans to disburse the outstanding balance of the existing commitments, depending on the construction or implementation schedules of the projects financed. The CWSRF Program will use assets not restricted for other purposes and future revenue to fulfill these commitments. Expected future revenue includes repayments from existing receivables, federal capital contributions, state capital contributions, and investment earnings. The CWSRF can also leverage its revenue if necessary to finance projects.

The State Water Board operates the CWSRF Program on a cash flow basis. It accepts, reviews, and approves applications for new projects on a continuous basis. State Water Board staff is currently working with numerous applicants to make additional commitments. The CWSRF Intended Use Plan (IUP), updated at least yearly, forecasts the projects likely to be financed over the short term. The IUP is posted at http://www.waterboards.ca.gov/water_issues/programs/grants_loans/srf/pubs.shtml#annual.

The CWSRF is used for a broad range of projects. Figure 1 illustrates comparative funding since Program inception for the two main categories of projects: 1) wastewater infrastructure, and 2) non-point and estuary source pollution prevention and reduction projects. Non-point source and estuary funding are combined into one category in Figure 1 because they are closely related.

As seen in Figure 1, most funds were used to construct and improve wastewater infrastructure, with the remainder of the funds used for NPS and estuary projects.

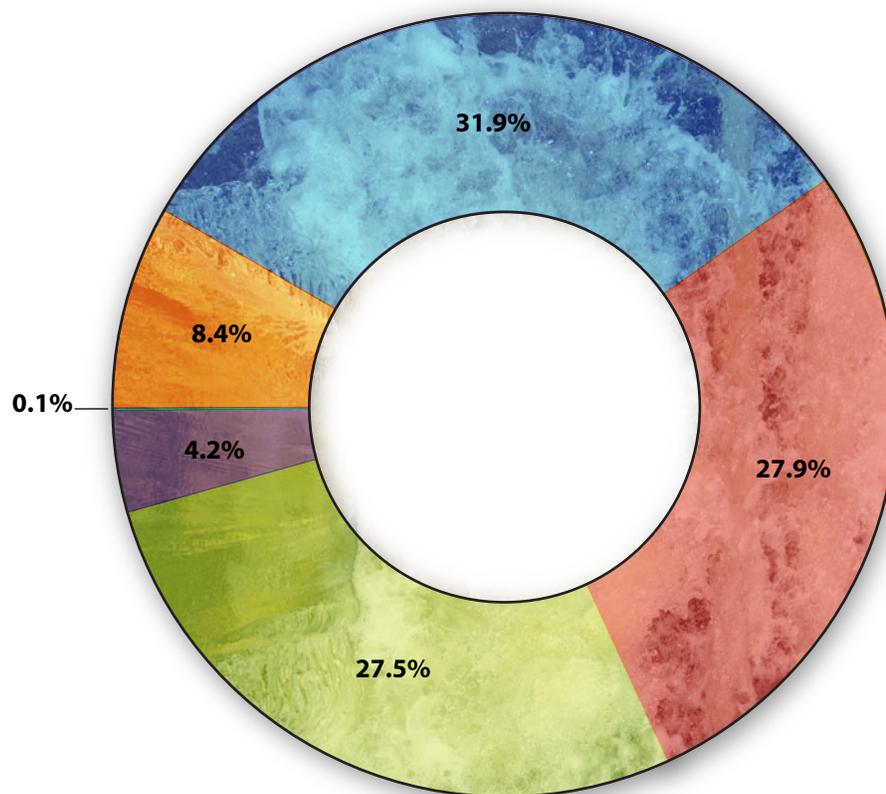
FIGURE 1: CWSRF Funding By Project Type*



*Percentages were calculated based on total funding amounts for each category since program inception.

Figure 2 (below) illustrates the categories of projects funded in SFY 12/13. The top five uses, accounting for approximately 99.9 percent of the funds used, are all infrastructure categories. This demonstrates the CWSRF's vital role in maintaining California's water quality infrastructure.

FIGURE 2: CWSRF Funding Categories*



PERCENTAGE BY NEEDS CATEGORIES

- | | |
|---|--------------------------------------|
| ■ 31.9% I Secondary Treatment | ■ 4.2% IV A New Collector Sewers |
| ■ 27.9% II Advanced Treatment | ■ 0.1% VII K NPS Hydromodification |
| ■ 27.5% III B Sewer System Rehabilitation | ■ 8.4% X Recycled Water Distribution |

*Percentages were calculated based on total funding amounts for each category in SFY 2012/13.

III. Program Goals & Financial Results

A. SHORT-TERM GOALS

The State Water Board established the following short-term goals in the Federal Fiscal Year (FFY) 2013 IUP, adopted on November 6, 2012. This section discusses the results of the CWSRF Program's efforts to meet those goals.

1. Prepare and review cash management reports

Effective cash flow management requires careful and regular monitoring of disbursements and receipts. State Water Board staff reviews management reports at bi-monthly internal finance/audit committee meetings that summarize the CWSRF's current finances.

State Water Board staff also routinely monitors cash flow as part of the financing approval process. The effect of the estimated disbursements of each project on the Program's overall cash flow is analyzed before financing is approved for the project.

2. Continue regular finance/audit committee meetings

State Water Board staff conducted finance/audit committee meetings on July 26, 2012, January 17, 2013, March 21, 2013, and June 3, 2013. Standing topics at these meetings included:

- Reviewing cash flow of projects under contract, three and six month cash flow projections, and cash flow needs for upcoming projects;
- Comparing actual performance with target performance measures; and
- Reviewing audit issues, program control issues, and plan for upcoming audits.

3. Apply for and accept the FFY 2013 capitalization grant

The State Water Board submitted its federal fiscal year (FFY) 2013 Capitalization Grant application on December 21, 2012. The United States Environmental Protection Agency (US EPA) awarded the grant for \$95,485,000 to the State Water Board on September 20, 2013. The State Water Board will provide the necessary state match through excess state bond funds and local match contributions to the Program.

4. Prepare Annual Report and Audit for SFY 12/13

Audited financial statements for the year ending June 30, 2013, were completed September 25, 2013, and are included in this report as Exhibit A. This report with audited financial statements completes the Annual Report requirement for SFY 12/13.

5. Provide funds for projects that support the Water Boards' priorities

Section IV and Exhibit B provide further details about the projects funded by the CWSRF Program in SFY 12/13.

6. Adopt the FFY 2013 IUP

The 2013 IUP was adopted by the State Water Board on November 6, 2012. It guided the marketing and assistance efforts targeting the Water Boards' highest priorities in SFY 2012/13.

7. Amend the CWSRF Policy

The work of improving the application process and revamping the priority system continued through 2012 and early 2013. The CWSRF Policy was amended by the State Water Board on May 7, 2013. The Policy changes are effective on October 1, 2013. The amendment reflects additional streamlining and improvements recommended by staff.

8. Enter data for the quadrennial Clean Watersheds Needs Survey (CWNS)

The CWNS provides basic information about the market and need for CWSRF financing. The State Water Board continued to input data for the 2012 CWNS throughout SFY 12/13. The results of the 2012 CWNS are expected from US EPA early 2014.

9. Report activities supporting US EPA Strategic Plan

During SFY 12/13, the State Water Board continued to report activities that support US EPA strategic goals via its CWSRF Annual Report, Clean Water Benefits Reporting System (CBR), and Clean Water National Information Management System (CWNIMS). State Water Board staff reported via the Federal Funding Accountability and Transparency Act (FFATA) Reporting System an amount equal to the FFY 2012 Capitalization Grant.

10. Provide 20 percent of CWSRF funds in the form of Extended Term Financing (ETF)

ETF makes financing more affordable for disadvantaged communities by reducing debt service by approximately 25 percent. The State Water Board provided seven percent of its CWSRF financing during SFY 12/13 in the form of ETF to eligible recipients.

11. Application Process Improvements

Work on this goal wrapped up in 2013, resulting in a CWSRF Policy amendment on May 7, 2013. The Policy amendment and the revamped financing applications reflect additional program streamlining and process efficiencies that are expected to significantly reduce the application review time. The new application forms are posted on the [CWSRF website](#) for applicants to use for new financing requests.

12. Marketing and Outreach

State Water Board staff conducted extensive marketing and outreach efforts throughout the year. Specifically, staff participated in one California Financing Coordinating Committee (CFCC) funding fair during SFY 12/13 in April 2013, with five additional fairs scheduled for the remainder of 2013. The funding fairs provide members of the public and infrastructure development professionals' current information on funding options available for different project types.

State Water Board staff also attended and participated in the Association of California Water Agencies (ACWA) 2013 Fall Conference, California Water Environment Association (CWEA) Annual and Regional Training Conferences, the 2013 WaterReuse California Annual Conference, the 2013 Green California Summit, the 2013 California Tribal Water Summit, the California Association of Sanitation Agencies 2013 Spring Conference, and the Central Valley Clean Water Association (CVCWA) 2013 Annual Conference.



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B. LONG-TERM GOALS

In its FFY 2013 IUP, California identified the following long-term goals. This section discusses the results of the CWSRF Program’s efforts to meet these goals.

1. Maximize cash flow management

Ideally CWSRF disbursements should be equal to the Program’s receipts, assuming that the \$25 million minimum cash balance and restricted assets needed for bond payments and expenses are maintained, to get the most water quality benefit from the funds available to the CWSRF Program. Applicants request reimbursement of incurred costs throughout construction. The different rates at which applicants request disbursements can cause the cash balance to increase in the CWSRF account.

During SFY 12/13, the State Water Board made commitments equal to approximately 100 percent of all available funds to compensate for the difference between when project costs are incurred by the applicants and when disbursements are made to the applicants. Although this is below the “funds utilization rate” of at least 105 percent established in the FFY 2013 IUP, staff continues to monitor cash balance trends through its management reports and finance/audit committee meetings and aggressively market the CWSRF to ensure that the cash balance is not increasing and that sufficient funds are available to fulfill disbursement requests.

Staff also continued to monitor project disbursement levels relative to the projects’ schedules, and periodically reviewed projects to ensure that final disbursements are made no later than six months after completion to ensure that funds are disbursed in a timely manner.

2. Effectively use revenue and new capital

The CWSRF has sizeable revenue that can be leveraged to fund more projects at current costs and address California’s large water quality needs.

The Program did not need additional capital this year. Staff are closely monitoring cash flow and financing forecasts to see whether additional capital will be needed to fund future projects.

3. Maintain financial integrity

The State Water Board continued its credit review and borrower surveillance this year to ensure that loans are repaid on time and in full. The State Water Board analyzes each applicant’s financial capabilities and may impose special conditions on applicants to lower their credit risk. Recipients may be required to provide ongoing financial information after loan closing or to complete public outreach if there was significant disapproval during the public rate setting process. State Water Board staff also maintained its “watch list” of financing recipients and potential applicants that show signs of financial weakness.

All supervisors and managers associated with the Program are required yearly to file a “Statement of Economic Interest” with the California Fair Political Practices Commission, and complete mandatory ethics training biennially.

Financial statements were prepared by State Water Board staff and audited by an independent auditor in accordance with Government Auditing Standards. A copy of the audited financial statements is included in this report (Exhibit A) and is posted on the CWSRF website.

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4. To achieve statewide compliance with water quality objectives and maximize the environmental benefits from CWSRF funded projects

The State Water Board continued its efforts to set and enforce water quality objectives. The State Water Board provided financial assistance from the CWSRF to correct point source pollution problems to help meet these objectives. The environmental benefits of the projects financed by the CWSRF during SFY 12/13 are summarized in Section IV of this report.

5. Finance infrastructure that supports U.S. EPA's Sub-Objective 2.2.1 (Improve Water Quality on a Watershed Basis)

CWSRF financed approximately \$277 million of infrastructure improvements during the previous year that support the Regional Water Boards' efforts to implement water quality control plans in their respective regions. Water quality control plans are developed on a watershed basis.

6. Assist with the State Water Board's Plan For California's Nonpoint Source Pollution Control Program and estuary Comprehensive Conservation and Management Plans

The State Water Board financed one project in SFY 12/13 to address non-point pollution, storm water, and estuaries. CWSRF provided the Bay Foundation of Morro Bay, a nationally designated estuary sponsor, approximately \$369,000 to help the Foundation evaluate the effectiveness on ongoing estuary conservation and management efforts.

7. Provide good service with a special emphasis on Disadvantaged Communities (DACs)

The State Water Board assists small and/or DACs with wastewater needs consistent with the Small Community Wastewater Strategy (Strategy). The Strategy provides an overview of the problems faced by these communities, and the potential solutions.

On November 17, 2011, the State Water Board executed a contract with California Rural Water Association (CRWA) to provide up to \$500,000 in wastewater-related technical assistance to small disadvantaged communities (SDACs) statewide. The types of technical assistance include: preparation of financial assistance applications; compliance audits and troubleshooting to address permit violations or improve operations; review of proposed project alternatives to assist in identifying low-cost, sustainable approaches; assistance with planning and budgets, including capital improvement planning; and assistance with community outreach, awareness, and education, especially with regard to rate setting and Proposition 218 compliance. The technical assistance provided under this contract is intended to be targeted and specific, with each SDAC allotted 20 hours of technical assistance. Division of Financial Assistance (DFA) staff may approve additional time on a case-by-case basis.

As identified in Exhibit B (Notes), 28 percent of the projects funded during SFY 12/13 will assist DACs.

8. Develop clear, flexible, and innovative application procedures

Development of a transparent and uniform application with a clear instruction booklet was completed during SFY 12/13. During SFY 13/14, State Water Board staff will roll out the revamped application and implement the policy and procedure changes approved by the Board on May 7, 2013.

9. Ensure staff is well trained and ready to help communities resolve technical and financial issues

The CWSRF management conducted regular staff meetings to ensure that staff received up-to-date information about the current policies and procedures affecting the CWSRF Program.

C. OPERATING AGREEMENT & CAPITALIZATION GRANT CONDITIONS

The State Water Board agreed to a number of conditions in the Operating Agreement and the Federal Capitalization Grant Agreements. These conditions were met as described below.

1. Assistance Activity

A total of \$276.7 million was financed in SFY 12/13. Approximately 99.9 percent went to wastewater treatment, collection systems, or wastewater recycling; one-tenth of one percent went to NPS projects.

In SFY 12/13, 60 of 87 projects listed in the IUP were not funded (see Exhibit C for the reasons that projects listed in the IUP were not funded). High demand for water quality improvement funding in California requires the State Water Board to fund projects on a ready-to-proceed basis and substitute projects as needed. The reason(s) projects in the IUP do not get funded is typically one or more of the following:

- Change to the project's scope or objectives
- Application requires additional studies, more documentation, and/or more hearings
- Changes in design
- Delays in the bidding process
- Financed with other (non-CWSRF) financing
- Application withdrawn
- Funded as part of another CWSRF financing agreement

2. Eligible Categories of Projects and Financing Terms

The State Water Board provided funding for all eligible categories of projects. The types of assistance include installment sales agreements and purchase of debt for the construction of treatment works or implementation of non-point source or estuary projects.

Principal forgiveness was provided to those applicants that met the conditions specified by the State Water Board in the IUP (Section III and Table 4).

The State Water Board offered planning financing during SFY 12/13. Planning financing is amortized over five years unless rolled into a construction financing agreement. Construction or implementation financing is generally amortized for periods up to 20 years, but can be amortized over as much as 30 years for SDACs. The terms associated with financial assistance vary by applicant and the date the project is approved.

The interest rate applied to financing agreements is established at the time the project is approved. The interest rate generally will be one-half the state's most recent general obligation bond rate, rounded up to the nearest one-tenth of a percent. SDACs may receive lower interest rates upon approval by the State Water Board and/or under certain conditions where necessary to make a project affordable.

The CWSRF is over-matched as of this date as explained below. Therefore, the State Water Board did not offer the match financing option during SFY 12/13.

3. Provide a State Match

The State Water Board meets its match requirement by identifying state funds equal to at least 20 percent of each capitalization grant amount. As of the end of SFY 12/13, the total of the capitalization grants awarded to the State Water Board was \$2.661 billion. Of this amount, \$280 million did not require the 20 percent match because the funds were from ARRA. As of June 30, 2013, the State Water Board drew \$2.329 billion in CWSRF federal grants that required a 20 percent match. The required match for the federal grants drawn by the State Water Board was \$466 million.

California uses a combination of state general obligation bonds repaid outside the CWSRF and funds contributed by applicants to the CWSRF to meet the 20 percent match requirement. A total of \$629 million in matching funds has been contributed to the CWSRF. Therefore, California contributed \$153 million more to the CWSRF than is required to match grants drawn as of June 30, 2013. (Note: The National Information Management System [NIMS] Report includes all state match contributed to the CWSRF.)

4. Binding Commitments within One Year

The State Water Board must make binding commitments, in the form of executed financing agreements, to provide assistance in an amount equal to 120 percent of each federal quarterly payment within one year of that payment. As of June 30, 2013, executed binding commitments totaled \$6.644 billion, or 255 percent of the \$2.609 billion in federal payments received as of June 30, 2013.

5. Expeditious and Timely Expenditure

Numerous factors contribute to meeting this objective. The State Water Board's standard practice is to encumber and disburse federal funds before other sources of funds. The State Water Board also set a goal in its FFY 2013 IUP to over commit available funds at a rate of 105 percent. Both factors contribute to the goal of efficiently using cash available to the Program.

Expenditure (disbursement) of CWSRF funds begins soon after a binding commitment is made. Financing recipients request disbursements to cover past planning and design costs. These requests are quickly followed by requests for disbursement of construction or implementation costs. Financing recipients can request disbursements as often as they like.

Disbursement requests are processed on a strict timeframe to ensure timely expenditure. State Water Board staff review and approve complete disbursement requests within 30 calendar days

after receipt. The request is then transmitted to the State Water Board's accounting department. The accounting department processes the request within seven calendar days after receipt and transmits the request to the State Controller's Office (SCO). The SCO then has 10 calendar days to issue the warrant (check) to the applicant.

The State Water Board draws federal funds from the US Treasury via the Automated Standard Application for Payments (ASAP) system as warrants are issued by the SCO. Draw requests are made within one week of a warrant being issued. ASAP is a request and delivery system of federal funds developed by the Financial Management Service of the US Treasury and the Federal Reserve Bank. By using ASAP, the State Water Board is able to draw funds from US EPA for expenditures incurred by the CWSRF in an expeditious and timely manner. Requested funds are deposited electronically the next business day to the account(s) specified by the State Water Board.

Federal draws are requested through ASAP on a monthly basis for the prior month's administration costs if taken from the federal grants.

One way to measure the expeditious and timely expenditure of funds is to compare the amount of federal funds disbursed (drawn from the US Treasury) with the total federal payments and grant awards to the State Water Board. As of June 30, 2013, \$2.609 billion in federal funds were disbursed. The CWSRF Program received \$2.609 billion in federal payments and \$2.661 billion in federal grant awards. Therefore, as of June 30, 2013, 98 percent of the total federal payments were disbursed and 98 percent of the total federal grant awards were disbursed.

State Water Board staff also periodically compares the rate at which applicants are requesting disbursements with the progress of construction on their projects. Applicants are given appropriate reminders if they appear to be falling behind with their forecasted disbursements.

6. First Use of Funds for Enforceable Requirements

California met the first-use requirement by providing financial assistance to those projects on its National Municipal Policy (NMP) list that do not meet any of the criteria under part III.B.5 (pp. 11-12 of US EPA's "Initial Guidance for State Revolving Funds"). The state ensured that all listed projects are on enforceable schedules. California's program has now been expanded to other water quality needs.

7. Eligible Activities

California requires each applicant to submit a detailed application to ensure that US EPA's eligibility requirements are met. All activities financed were eligible under Section 212, Section 319, or Section 320 of the Clean Water Act.

8. Disadvantaged Business Enterprise (DBE) Objectives and Davis-Bacon Requirements

The State Water Board negotiated a total fair share DBE objective with the US EPA beginning FFY 2012/2013 for the CWSRF Program. The objective was 2.0 percent for minority owned business enterprises (MBE) and 1.0 percent for women owned business enterprises (WBE) participation for a combined 3.0 percent goal. The participation on CWSRF financing agreements reported by financing recipients in SFY 12/13 was 6.83 percent for MBE and 1.30 percent for WBE. The overall DBE participation was 8.12 percent. The State Water Board exceeded the combined goal of 3.0 percent. Exhibit D provides a detailed analysis of DBE participation. The State Water Board will continue to monitor participation to ensure that the "positive effect process" is followed by financing recipients.

All projects financed during SFY 12/13 were required to comply with Davis-Bacon prevailing wage requirements. Each financing agreement included provisions requiring applicants to follow Davis-Bacon requirements. Staff review reports and verify that sub-recipients have complied with

all Davis-Bacon requirements. Staff maintains tracking mechanisms to ensure that federal quarterly baseline monitoring requirements are met. Records of all documents and site inspection reports are maintained in the project files. State Water Board staff review the quarterly site inspection reports annually to determine whether the number of site inspections is satisfactory and modifications to the control activities are needed.

Program and Accounting staff meet bi-monthly to discuss financial, accounting, and control issues related to the Program such as DBE and Davis Bacon.

9. Use of Capitalization Grant Administration Allowance

A portion of the CWSRF may be used for administration of the Program. Up to 4.0 percent of the amount in capitalization grants awarded to the Program may be used for administration. Total capitalization funds awarded to the State Water Board as of June 30, 2013, were \$2.661 billion.

The capitalization grant administration cost (administrative expenses) incurred by the CWSRF during SFY 12/13 was \$1 million. This amount included Personnel Services of \$184,000, Operating Expenses of \$871,000, and Bond Fees of \$23,000. Other administration expenses were paid from the administration fund held out of the CWSRF funds.

As of June 30, 2013, the cumulative total expended from the CWSRF for administration is \$93 million. The maximum available for administration from the capitalization grants is \$106 million. Therefore, cumulatively 3.51 percent of the capitalization grants have been incurred in administering the Program. The balance available for future administrative expenses from the 4.0 percent administrative set-aside is \$13 million. The balance will be banked for potential use in the future.

The administrative expenses for SFY 99/00 through SFY 12/13 are shown in Table 2 on the next page.

TABLE 2: ADMINISTRATIVE EXPENSES FOR SFY 1999/2000 THROUGH 2012/2013

FFY Grant Year	Capitalization Grant	4% Admin. Allowance	Actual Admin. Costs	Difference between Allowance & Expenses	Admin. Surplus	Cumulative Grant Amount including in kind	Cumulative Admin. Costs	Percent of Grants
2000	\$ 95,987,727	\$ 3,839,509	\$ 4,099,786	\$ (260,277)	\$10,259,772	\$ 1,329,586,055	\$ 42,923,670	3.23%
2001	\$ 95,134,446	\$ 3,805,378	\$ 4,851,968	\$(1,046,590)	\$ 9,213,182	\$ 1,424,720,501	\$ 47,775,638	3.35%
2002	\$ 95,346,405	\$ 3,813,856	\$ 5,251,394	\$(1,437,538)	\$ 7,775,644	\$ 1,520,066,906	\$ 53,027,032	3.49%
2003	\$ 94,726,665	\$ 3,789,067	\$ 4,168,440	\$ (379,373)	\$ 7,396,271	\$ 1,614,793,571	\$ 57,195,472	3.54%
2004	\$ 94,783,887	\$ 3,791,355	\$ 4,274,162	\$ (482,807)	\$ 6,913,464	\$ 1,709,577,458	\$ 61,469,634	3.60%
2005	\$ 82,745,541	\$ 3,309,822	\$ 4,102,135	\$ (792,313)	\$ 6,121,151	\$ 1,792,322,999	\$ 65,571,769	3.66%
2006	\$ 46,383,876	\$ 1,855,355	\$ 3,422,947	\$(1,567,592)	\$ 4,553,559	\$ 1,838,706,875	\$ 68,994,716	3.75%
2007	\$ 92,791,710	\$ 3,711,668	\$ 4,540,867	\$ (829,199)	\$ 3,724,360	\$ 1,931,498,585	\$ 73,535,583	3.81%
2008	\$329,208,091	\$13,168,324	\$ 4,009,832	\$ 9,158,492	\$12,882,852	\$ 2,260,706,676	\$ 77,545,415	3.45%
2009	\$ 48,667,707	\$ 1,946,708	\$ 7,019,543	\$(5,072,835)	\$ 7,810,017	\$ 2,309,374,383	\$ 84,564,958	3.65%
2010	\$145,721,000	\$ 5,828,840	\$ 4,891,000	\$ 937,840	\$ 8,747,857	\$ 2,455,095,383	\$ 89,455,958	3.66%
2011	\$105,570,800	\$ 4,222,832	\$ 2,860,000	\$ 1,362,832	\$10,110,689	\$ 2,560,666,183	\$ 92,315,958	3.60%
2012	\$101,080,000	\$ 4,043,200	\$ 1,055,000	\$ 2,988,200	\$13,098,889	\$ 2,661,746,183	\$ 93,370,958	3.51%

10. Additional Subsidy and Green Requirements

A portion of each capitalization grant must be used for subsidization and funding green project reserve projects. The chart below shows the applicable amounts necessary to comply.

Federal Fiscal Year	Minimum Subsidy By FFY Grant Agreement	Maximum Subsidy By FFY Grant Agreement	Subsidy Disbursed	Minimum Green Projects Required By Grant Agreement*	Green Project Reserve Disbursed
2010	\$21,824,382	\$72,747,939	\$46,758,344	\$29,144,200	\$16,517,880
2011	\$9,786,446	\$32,621,486	\$14,219,272	\$21,114,160	\$59,869,002
2012	\$5,617,660	\$8,426,490	\$-0-	\$10,108,000	\$-0-

*Minimum Green Projects required by Grant Agreement were 20% for FFY 2010 and 2011, 10% for FFY 2012.

11. Federal Cross-Cutters

Projects funded by the CWSRF Program must comply with certain federal laws known as “cross-cutters.” The State Water Board ensured that CWSRF financing recipients complied with applicable federal laws through a variety of program procedures.

CWSRF financing agreements include a list of applicable federal statutes and requirements taken from the most recent Capitalization Grant (40 C.F.R., § 35.3145). The financing recipient agrees to comply with these federal requirements by signing the financing agreement.

The State Water Board used its [State Environmental Review Process](#) (SERP) to review the environmental impacts of projects during FFY 2013. While the SERP generally follows the requirements of the California Environmental Quality Act, each applicant must also complete and submit an [Evaluation Form for Environmental Review and Federal Coordination](#). State Water Board staff distributed environmental analysis documents and consulted with relevant federal agencies on projects with known or suspected effects under federal environmental regulations, consistent with the Operating Agreement between the State Water Board and U.S. EPA.

DFA required compliance with Disadvantaged Business Enterprise (DBE) requirements for all CWSRF financing, except planning and design financing, and requires Single Audit Act (Office of Management and Budget Circular A-133) and reporting on all agreements.

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

The CWSRF Program began reporting FFATA data in FFY 2011 based on an equivalency basis, by choosing loans that equaled the total CWSRF grant amount received from EPA. The CWSRF Program intends to continue reporting FFY 2012 FFATA loan data, on an equivalency basis, to the FSRS (see Exhibit E). The equivalency amount will equal the 2012 CWSRF grant amount of \$101,080,000.

Water ...financially



CLEAN WATER STATE REVOLVING FUND

D. FINANCIAL ACTIVITY

1. Net Assets

Net assets of the program are shown below.

STATEMENT OF NET ASSETS

June 30, 2013 and 2012
(\$ in thousands)

	2013	2012
ASSETS		
Current Assets	596,365	492,636
Other Assets	2,981,360	2,938,029
Total Assets	3,577,725	3,430,665

LIABILITIES

Current Liabilities	15,382	25,330
Non Current Liabilities	59,236	93,194
Total Liabilities	74,618	118,524

NET ASSETS

Restricted	360,534	270,733
Unrestricted	3,142,573	3,041,408
Total Net Assets	3,503,107	3,312,141

2. Revenues

Revenue for the State Water Board's CWSRF is reflected in the Financial Statements. The total revenues for SFY 12/13 were \$233 million. Revenues for the period of this report were as follows:

- Interest income - \$50.6 million
- Net investment income - \$960 thousand
- ARRA Principal Forgiveness receipts - \$7.2 million
- Principal Forgiveness receipts - \$32.5 million
- ARRA capitalization grant - \$3.6 million
- Capitalization grant - \$138 million
- State match revenue - \$178 thousand

3. Disbursements and Expenses

Total disbursements are based on the Financial Statements and do not include matching funds provided by financing recipients. Total disbursements for SFY 12/13 were \$448 million. Disbursements for the period of this report were made as follows:

- Financing agreement disbursements - \$288 million
- Employees' salaries and vendors' payments - \$1.3 million
- ARRA Principal Forgiveness disbursements - \$7.2 million
- Principal Forgiveness - \$32.5 million
- Bond fees paid - \$766 thousand
- Principal paid on revenue bonds - \$114.7 million
- Interest paid on revenue bonds - \$4.2 million

4. Bond Refunding

The State Water Board, in conjunction with the California Infrastructure and Economic Development Bank (I-Bank), the State's issuer of bonds for local government infrastructure projects, closed a \$68.9 million sale of tax-exempt revenue refunding bonds on

December 3, 2012, for the benefit of the CWSRF program. Proceeds of the bond sale were used to refund the CWSRF's 2002 bonds and pay for costs of issuance. The refunding provided the State Water Board with \$10.5 million of net present value savings for the CWSRF. In addition, the CWSRF program's bond documents were modernized to enhance leveraging capacity and efficiency.

5. Extended Term Financing and Reduced Interest Rate

US EPA approved the State Water Board's requests to implement ETF for SDACs, regionalization projects, and communities in financial distress or financial emergency. The CWSRF Policy defines SDAC, regionalization, and financial distress. Reducing financing costs through ETF helps to reduce wastewater treatment costs for SDACs and gives communities an incentive to regionalize their facilities.

US EPA approved the State Water Board's requests to implement ETF on the condition that it can maintain its historic, baseline (or average annual) financing level in the CWSRF Program. The State Water Board estimated that it can continue to meet its historic financing level providing ETF to SDACs, regionalization projects, and communities in financial distress or financial emergency.

During SFY 12/13, two (2) SDACs received \$18,396,676 in ETF as follows:

- CWSRF Project No. 7670-210, Donner Summit Public Utilities District (\$16,073,401.00 in CWSRF financing). The Project serves a small disadvantaged community with sewer rates exceeding 4.0 percent of the community's MHI. As a second home community, the District did not receive CWSRF principal forgiveness/ grants for the Project. The State Water Board

did approve an extended financing term of 27 years (limited to 27 years because the financing term could not exceed the term of an existing use permit that provides access for a portion of the Project), to make the Project affordable.

- CWSRF Project No. 7649-210, Planada Community Services District (\$2,323,275 in CWSRF financing). The Project serves a small severely disadvantaged community with sewer rates exceeding 1.5 percent of the community's MHI. The Project qualified for \$4 million in CWSRF principal forgiveness/ grants. The remaining financing was provided with an extended financing term of 30 years, to make the Project affordable.

The March 17, 2009 amendment to the CWSRF Policy allowed a SDAC with wastewater rates of 1.5 percent or more of the DAC's MHI to receive a reduced interest rate of not less than zero percent (0%), if based on the credit review results, ETF is insufficient to make the project affordable to the SDAC. This provision was modified by the May 7, 2013 amendment to the CWSRF Policy, with the intent that Board direction regarding the provision of reduced interest rates would be better addressed in the CWSRF IUP. It is anticipated that this will be addressed in the FFY 2014 IUP, which is scheduled for State Water Board consideration in October 2013.

6. Service Charges¹ for Administration and Small Community Grant Fund

State law allows the State Water Board to collect two service charges on CWSRF financing: one to provide a secondary source of revenue for administration in addition to the administrative allowance from the Capitalization Grants, and the other to provide revenue for the CWSRF Small Community Grant (SCG) Fund; the SCG Fund can provide wastewater grants to SDACs.

The total service charge collected for administration revenue during SFY 12/13 was \$7.6 million, and was expended as follows:

- Administrative Fee Revenue - \$7,655,132.04
- Administrative Fee Expenses -
 - *Personal Services (Salaries, Benefits and Paid Time Off)* = \$4,743,683.62
 - *Operating Expenses (Contractors, Supplies, and Operating IDC)* = \$2,235,914.59

Service charge revenue up to \$50 million may be collected through 2014 to collect funds for grants to SDACs for wastewater projects. The total service charge collected for wastewater grant revenue during SFY 12/13 was \$8.4 million, and was expended as follows:

- Grant Fee Revenue - \$8,498,321.77
- Grants Disbursed - \$1,141,384.92
- Grants Encumbered - \$11,956,396.08

7. Credit Risk of the CWSRF

Each financing recipient must pledge one or more dedicated sources of revenue toward

payment of its CWSRF obligation. Dedicated sources of revenue are generally sewer rate revenue pledges, but may also be any number of other revenue sources, special tax pledges, or other pledgeable income.

During SFY 12/13, the CWSRF restructured one agreement:

- The City of Oakdale indicated that it would have difficulty making its full payments for the first three years of its loan due to financial conditions within the City. On April 18, 2013, DFA approved a restructuring of the City's payments based on its review of the City's current financials.

In 2012, the allowance for bad debt remains the same as 2010, at \$9.36 million.

State Water Board staff continued efforts to ensure that the CSWRF's financing agreements are secure and that all payments are made on time and in full. The State Water Board uses a variety of analysis and monitoring measures to reduce the possibility of non-payment, and continues to evaluate additional steps to ensure full and timely payment of all agreements.

¹For federal purposes, the Administrative Fund service charge is a fee "other than program income not included as principal in CWSRF financing." The service charge is collected in lieu of an equal amount of interest that would otherwise be due on the outstanding balance of the financing agreement. The service charge is offset by the reduction in the interest rate so that financing recipients' payments remain the same whether or not they pay the service charge.

Like the service charge, the SCG charge is also a fee "other than program income not included as principal in CWSRF financing" for federal purposes. The SCG charge is collected in lieu of an equal amount of interest that would otherwise be due on the outstanding balance of the financing agreement.



CLEAN WATER STATE REVOLVING FUND



IV. Environmental Benefits

The contributions of the CWSRF to water quality are diverse and difficult to quantify. Rather than being a weakness of the Program, this indicates the Program's strength and versatility in addressing a wide range of water quality issues. The data and graphics below summarize the environmental benefits derived from the CWSRF projects funded during SFY 12/13. The data supporting this summary has been transmitted to US EPA via the CWSRF Benefits Reporting (CBR) Database. The data indicate that the CWSRF protected or restored a wide range of beneficial water uses.

A. Projects in SFY 12/13 Will Help Achieve and Maintain Clean Water Act Goals

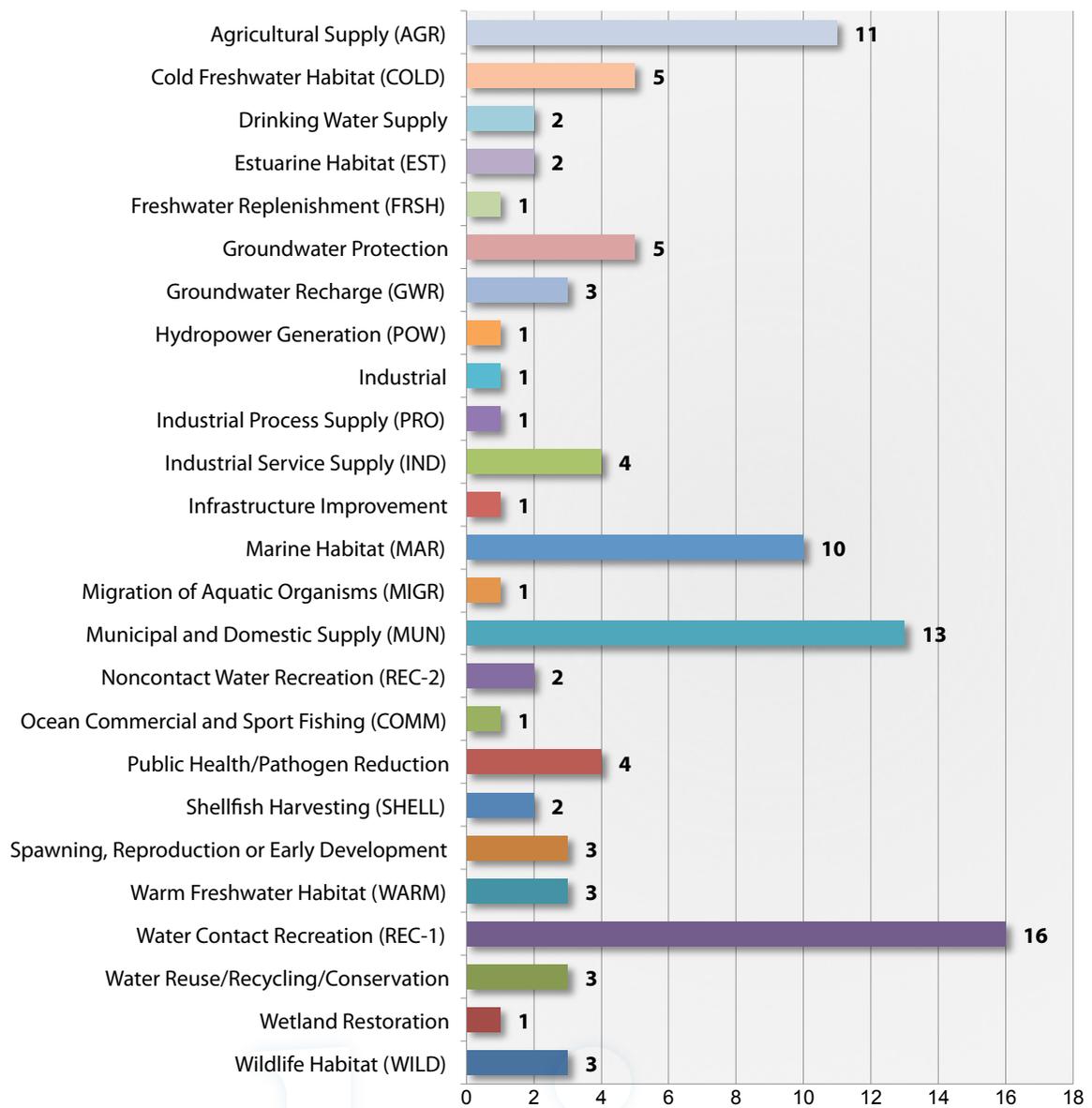
- Wastewater systems receiving CWSRF funds treated approximately 907 million gallons per day (mgd) of wastewater. Funded projects directly treated 272 mgd.
- Funded projects directly served 10.2 million people and will indirectly serve a total of 12.7 million people statewide.
- Recipients received more than \$82.4 million in CWSRF subsidy (the subsidy is the amount of funds saved by recipients due to the reduced interest rate and/or principal forgiveness on CWSRF financing).

B. CWSRF Projects Achieve Multiple Benefits

Each CWSRF project provides water quality benefits in more than one way. Each project was evaluated to determine its water quality benefits. The funding provided for each water quality area in SFY 12/13 is shown on the next page.

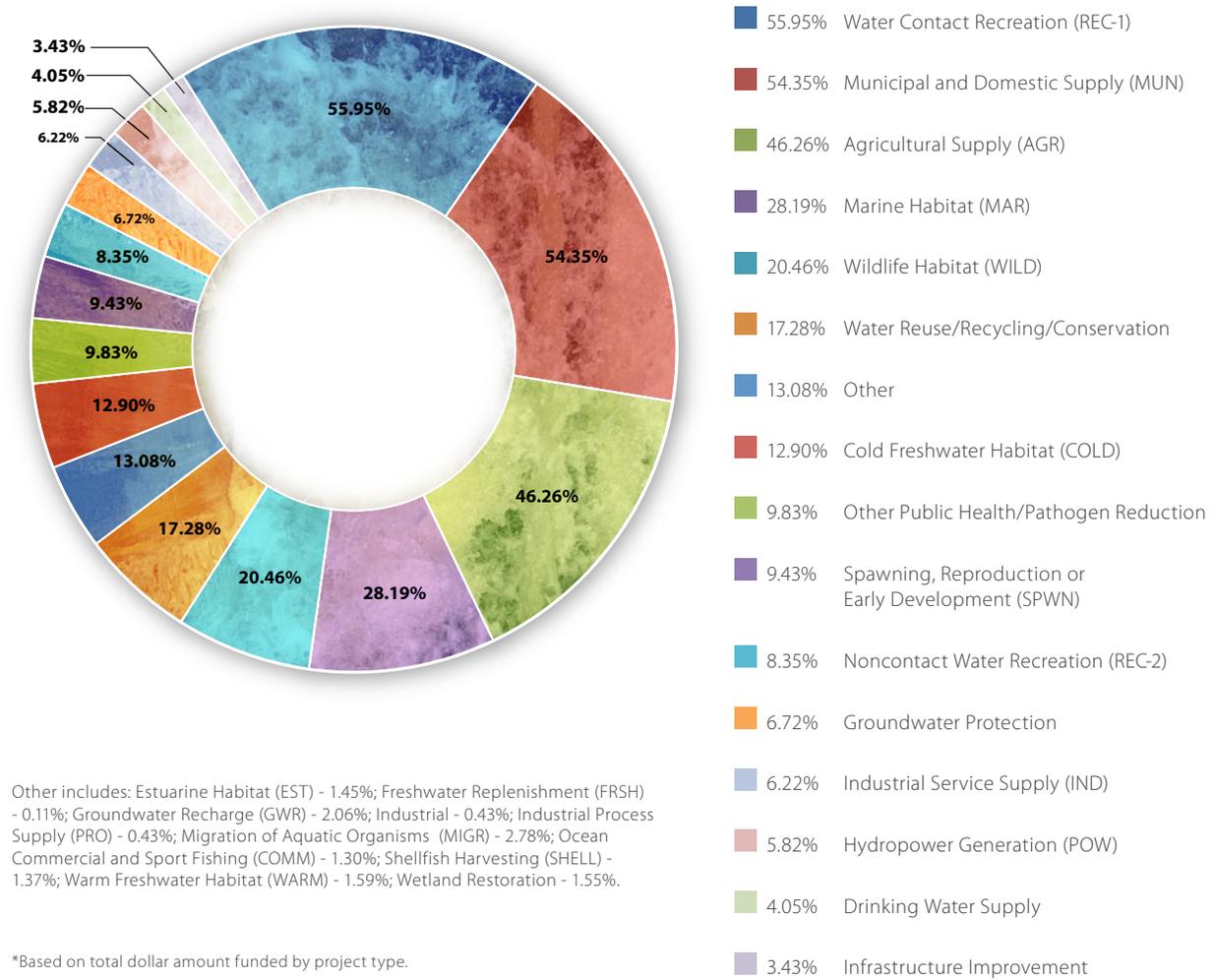
Figure 3 (below) provides a different view of the benefits provided by the CWSRF projects funded in SFY 12/13. Figure 3 shows how many projects addressed designated beneficial uses identified in state water quality control plans. Note that individual projects may have addressed multiple beneficial uses.

FIGURE 3: Number of Projects Addressing Different Beneficial Uses*



*Project may address multiple beneficial uses.

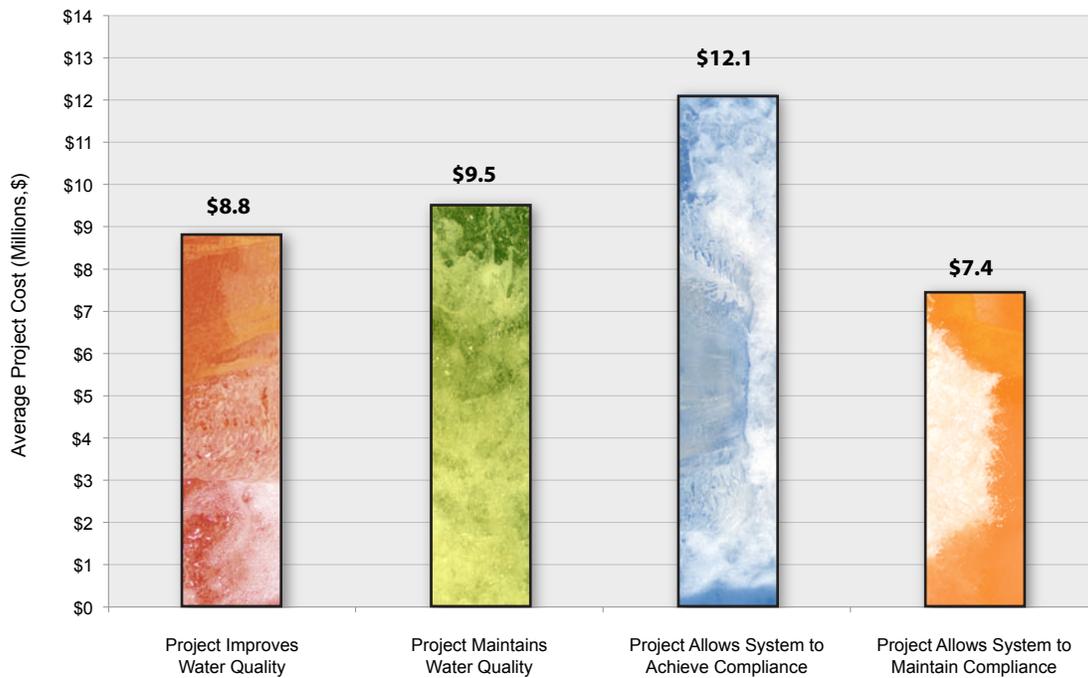
FIGURE 4: Percentage of Funding Supporting all Uses and Benefits*



Another way to display the large breadth of environmental benefits from CWSRF projects is shown in Figure 4 (above). Figure 4 shows a breakdown of funding supporting different designated beneficial uses and other water quality benefits in comparison to all the funding provided by the CWSRF in SFY 12/13. As can be seen, the CWSRF in SFY 12/13 contributed broadly to support and protect many different environmental benefits.

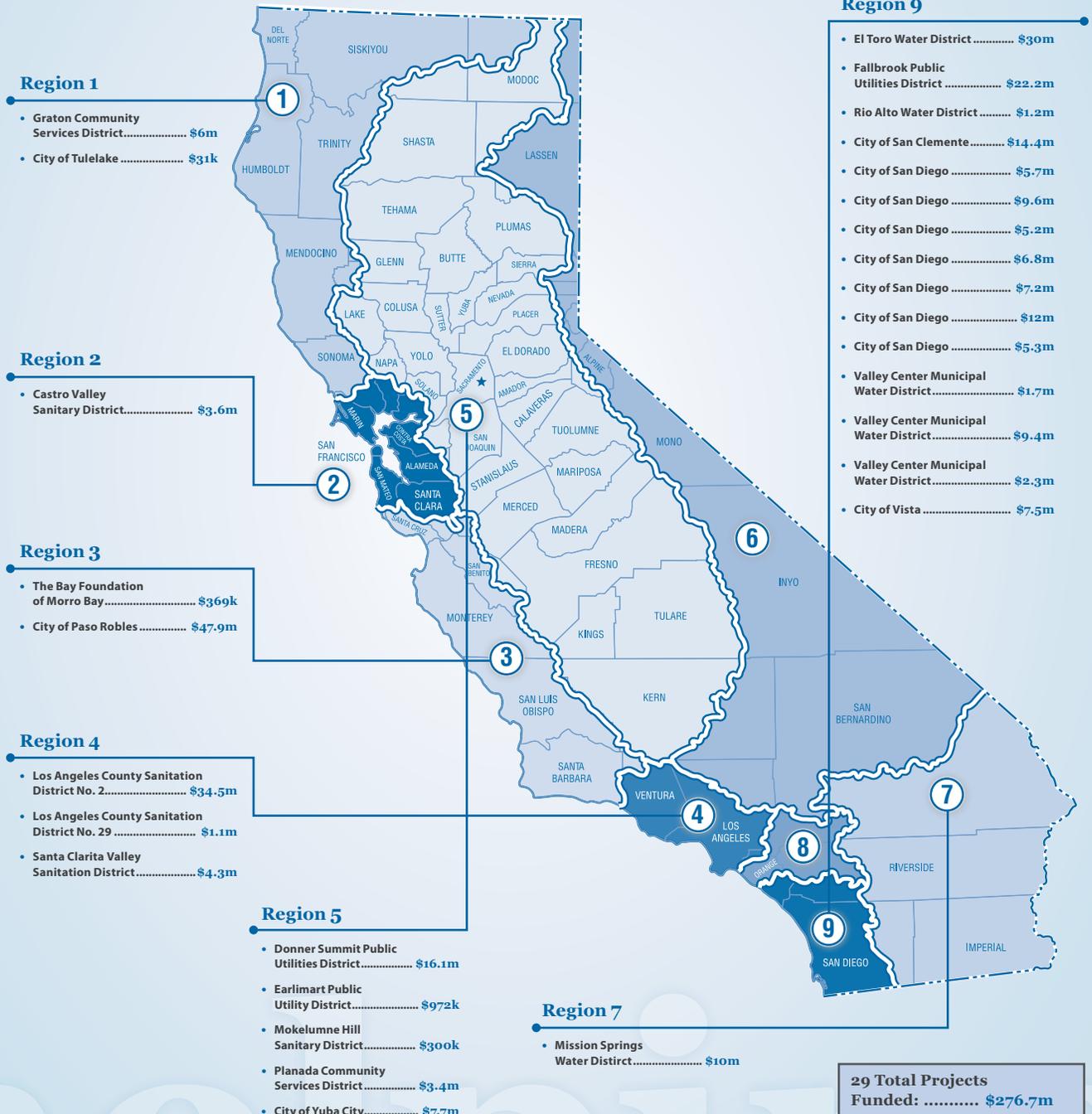
Many of the water quality projects undertaken today are expensive and large. This reflects the level of assistance needed to continue to improve water quality. Figure 5 (below) shows the average project cost for different project types. The ability of the CWSRF to fund such large projects is one of its greatest strengths. Many agencies would not be able to secure such large funding levels from one provider if the CWSRF were not available.

FIGURE 5: Average Project Amount by Water Quality Objective and Outcome



Project Highlights

C. HIGHLIGHTS OF PROJECTS FUNDED BY CWSRF IN SFY 12/13



V. General Program Comments

During SFY 12/13, the CWSRF focused primarily on its core activities – administering existing financing agreements, approving new financing agreements, and maintaining thorough financial and administrative oversight of the program.

Although the State Water Board continued to administer ARRA funds during SFY 12/13, the level of effort associated with ARRA continued to decrease significantly. As of June 30, 2013, only approximately \$1 million in ARRA funds remain undisbursed. State Water Board staff anticipates disbursing these funds during August 2013.

State Water Board staff completed its work during SFY 12/13 on revamping the financing application, streamlining and improving the application review process, and revamping the priority setting and project selection process. The State Water Board staff posted the new application forms on its website at the end of May 2013. The goal of these efforts is to make the Program more efficient so that it meets both the stakeholders' and the State Water Board's expectations.

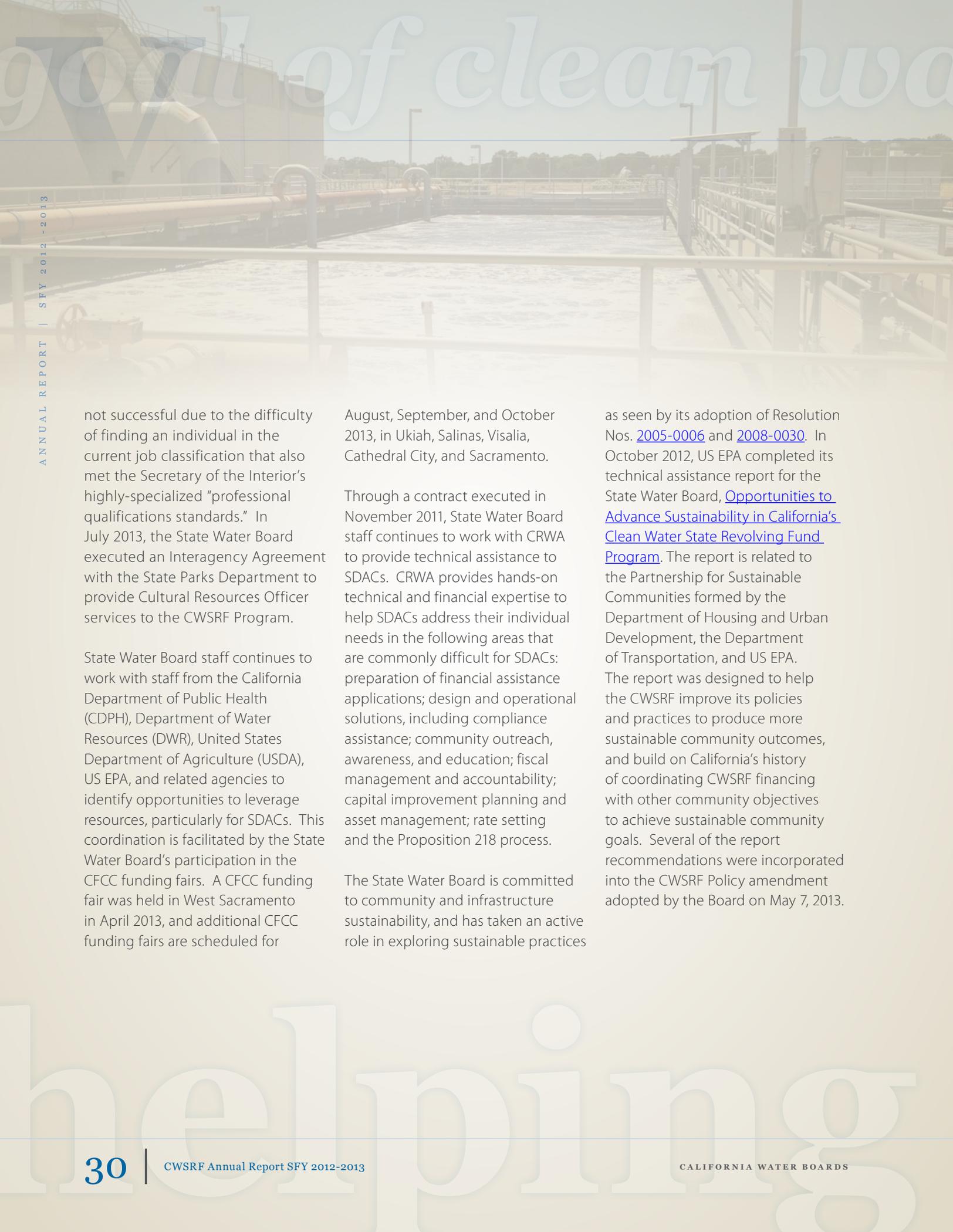
The State Water Board continued to assist DACs by collecting financing servicing fees authorized by AB 2356 (Chap. 609, Statutes of 2008) on CWSRF agreements. The fees are

deposited into the SCG Fund. The total service fee collected during SFY 12/13 was \$8.4 million. During SFY 12/13, \$12 million from the SCG Fund was obligated to several small disadvantaged communities (see Exhibit G). The State Water Board is currently working with several applicants that potentially qualify for SCG funds, and anticipates obligating additional funds to SDACs during SFY 13/14. In addition, available principal forgiveness funds were provided to DACs, as directed by the State Water Board in the approved IUP.

The CWSRF Program's Cultural Resources Officer retired in June 2012. Our efforts in SFY 2012/13 to hire a qualified replacement were



CLEAN WATER STATE REVOLVING FUND



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not successful due to the difficulty of finding an individual in the current job classification that also met the Secretary of the Interior's highly-specialized "professional qualifications standards." In July 2013, the State Water Board executed an Interagency Agreement with the State Parks Department to provide Cultural Resources Officer services to the CWSRF Program.

State Water Board staff continues to work with staff from the California Department of Public Health (CDPH), Department of Water Resources (DWR), United States Department of Agriculture (USDA), US EPA, and related agencies to identify opportunities to leverage resources, particularly for SDACs. This coordination is facilitated by the State Water Board's participation in the CFCC funding fairs. A CFCC funding fair was held in West Sacramento in April 2013, and additional CFCC funding fairs are scheduled for

August, September, and October 2013, in Ukiah, Salinas, Visalia, Cathedral City, and Sacramento.

Through a contract executed in November 2011, State Water Board staff continues to work with CRWA to provide technical assistance to SDACs. CRWA provides hands-on technical and financial expertise to help SDACs address their individual needs in the following areas that are commonly difficult for SDACs: preparation of financial assistance applications; design and operational solutions, including compliance assistance; community outreach, awareness, and education; fiscal management and accountability; capital improvement planning and asset management; rate setting and the Proposition 218 process.

The State Water Board is committed to community and infrastructure sustainability, and has taken an active role in exploring sustainable practices

as seen by its adoption of Resolution Nos. [2005-0006](#) and [2008-0030](#). In October 2012, US EPA completed its technical assistance report for the State Water Board, [Opportunities to Advance Sustainability in California's Clean Water State Revolving Fund Program](#). The report is related to the Partnership for Sustainable Communities formed by the Department of Housing and Urban Development, the Department of Transportation, and US EPA. The report was designed to help the CWSRF improve its policies and practices to produce more sustainable community outcomes, and build on California's history of coordinating CWSRF financing with other community objectives to achieve sustainable community goals. Several of the report recommendations were incorporated into the CWSRF Policy amendment adopted by the Board on May 7, 2013.

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VI. Index of Acronyms

COMMONLY USED ACRONYMS

- ACWA** Association of California Water Agencies
- ARRA** American Recovery and Reinvestment Act of 2009
- ASAP** Automated Standard Application of Payments
- CBR** Clean Water Benefits Reporting
- CDPH** California Department of Public Health
- CRWA** California Rural Water Association
- CVCWA** Central Valley Clean Water Association
- CWA** Clean Water Act
- CWEA** California Water Environment Association
- CWNS** Clean Watersheds Needs Survey
- CWNIMS** Clean Water National Information Management System
- CWSRF** Clean Water State Revolving Fund
- DAC** Disadvantaged Community
- DBE** Disadvantaged Business Enterprise
- DFA** Division of Financial Assistance
- DWR** Department of Water Resources
- ETF** Extended Term Financing
- FFATA** Federal Funding Accountability and Transparency Act
- FFY** Federal Fiscal Year
- FSR** Feasibility Study Report
- FSRS** Federal Funding Accountability and Transparency Act Subaward Reporting System
- IUP** Intended Use Plan
- LGTS** Loans and Grants Tracking System
- MBE** Minority Owned Business Enterprise
- MGD** Million Gallons per Day
- MHI** Median Household Income
- NIMS** National Information Management System
- NMP** National Municipal Policy
- NPS** Nonpoint Source
- OMB** Office of Management and Budget
- RCAC** Rural Community Assistance Corporation
- Regional Water Boards**
Regional Water Quality Control Boards
- SCG** Small Community Grant
- SCO** State Controller's Office
- SDAC** Small Disadvantaged Community
- SFY** State Fiscal Year
- State Water Board**
State Water Resources Control Board
- USDA** United States Department of Agriculture
- US EPA** United States Environmental Protection Agency
- WBE** Women Owned Business Enterprise



CLEAN WATER STATE REVOLVING FUND

VII. EXHIBITS

EXHIBIT A:

SFY 12/13
Audited Financial
Statements

EXHIBIT B:

SFY 12/13 Projects
Funded by Needs
Category

EXHIBIT C:

SFY 12/13
Non-Funded
Projects

EXHIBIT D:

SFY 12/13
DBE Report

EXHIBIT E:

SFY 12/13
Projects Reported
to FFATA

EXHIBIT F:

SFY 12/13 Projects
with Financing
Servicing Fees

EXHIBIT G:

SFY 12/13 Small
Community Grant
(SCG) Projects

Exhibit A

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

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

June 30, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of California State Water Resources Control Board, Water Pollution Control Revolving Fund, an enterprise fund of the State of California, as of and for the years ended June 30, 2013 and 2012, 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Board, Water Pollution Control Revolving Fund. They do not purport to, and do not, present fairly, the financial position of the California State Water Resources Control Board or the State of California as of June 30, 2013 and 2012, 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, 2013 and 2012, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages IV through XI 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 comprise the California State Water Resources Control Board, Water Pollution Control Revolving Fund's basic financial statements. The schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2013, on our consideration of the California State Water Resources Control Board, Water Pollution Control Revolving Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering California State Water Resources Control Board, Water Pollution Control Revolving Fund's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Denver, Colorado
September 25, 2013

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

Management's Discussion and 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, 2013 and 2012. 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

- In 2013, net position increased by \$191 million to a total of \$3.5 billion, which was \$43 million more than the increase of \$148 million in 2012. The increase in net position was primarily due to an increase in loan receivables, which was a direct result of higher capital contributions during the year from the U.S. Environmental Protection Agency (EPA).
- Capital contributions increased by \$36 million to \$142 million as compared to \$106 million in 2012. Capital contributions increased as a result of the capital available from EPA capitalization grants for loan disbursements.
- Capital contributions from the EPA American Recovery and Reinvestment Act (ARRA) of \$7 million and capitalization grant funds of \$33 million were forgiven.
- Cash and cash equivalents increased by \$108 million in 2013 as compared to an increase of \$6.5 million in 2012. The larger increase in 2013 was mostly the result of higher capital contributions from EPA capitalization grants for loan disbursements and the prepayment of a number of loan receivables.
- Loans receivable increased by \$41 million to \$3.18 billion in 2013 as compared to an increase of \$118 million in 2012. The smaller increase in 2013 reflects the prepayment of loan receivables and a lower amount of loan disbursements during 2013.
- On December 3, 2012, the CWSRF issued California Infrastructure and Economic Development Bank, Clean Water State Revolving Fund Refunding Revenue Bonds, Series 2012 for \$68.9 million at a premium of \$6.0 million. The Series 2012 Revenue Bonds along with restricted cash remaining from Series 2002 Revenue Bonds was used to refund Series 2002 Revenue Bonds.
- Restricted portion of net position increased by \$90 million to \$361 million in 2013 as compared to a decrease of \$81 million in 2012. The increase in 2013 reflects the greater pledged loan requirements of the Series 2012 revenue bonds. The decrease in 2012 was due to the decrease in notes receivables for loans pledged to the Series 2002 Revenue Bonds as a result of repayments received and the related debt service payments.

Using this Annual Financial Report

The financial statements included in this annual financial report are those of the CWSRF. As discussed in Note 1, Definition of Reporting Entity, the basic financial statements of the CWSRF are intended to present the financial position, changes in financial position and cash flows of only that portion of the financial reporting entity of the State Water Board that is attributable to the transactions of the CWSRF. They do not purport to present the financial position of the State Water Board or the State of California (State) as of June 30, 2013 and 2012 and the change in their financial positions and their cash flows, where applicable, for the years then ended.

Overview of Financial Statements

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

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

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

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

Net Position

The CWSRF's net position indicates continued strong growth increasing by \$191 million, or 5.8%, to \$3.5 billion at June 30, 2013 as compared to an increase of \$148 million, or 4.7%, the previous year. The increase in net position was \$43 million higher than in the previous year. This primarily reflects the higher level of capital contributions for loans from EPA capitalization grants.

The current portion of the CWSRF's liabilities was \$15 million in 2013 and \$25 million in 2012. Current liabilities in 2013 primarily correspond to principal payments for the Series 2012 Revenue Bonds. In 2012, current liabilities primarily correspond to principal payments for Series 2002 Revenue Bonds. Noncurrent liabilities decreased \$34 million in 2013 and \$23 million in 2012. The decrease in 2013 reflects the refunding of the Series 2002 Revenue Bonds, while the decrease in 2012 reflects the ongoing principal payments of those same bonds.

A segment of the CWSRF's net position is subject to external restriction as to usage. The net position that is restricted increased in 2013 by \$90 million to \$361 million, or 33.2%, as compared to a decrease in 2012 of \$81 million to \$271 million, or 23.1%. The higher restricted amount corresponds to the greater pledged loan requirements of the Series 2012 revenue bonds compared to the Series 2002 bonds.

Of the total restricted net position, \$346 million in 2013 and \$238 million in 2012 represent the balance of outstanding loans that were pledged as security to Series 2012 and Series 2002 Revenue Bonds debt service, respectively. 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.

In 2013, the CWSRF received total payments on pledged loans of \$43.9 million (\$36.8 million of principal and \$7.1 million of interest). In 2013, debt service payments were \$0.7 million of interest for the Series 2012 bonds and \$25.6 million (\$22.9 million of principal and \$2.7 million of interest) for the Series 2002 bonds. In addition, the Series 2002 refunding debt service was \$92.5 million (\$91.8 million of principal and \$0.7 million of interest). In 2012, the CWSRF received total payments on pledged loans of \$74.1 million (\$66 million of principal and \$8.1 million of interest). The corresponding debt service payment for 2012 was \$30.2 million (\$24.3 million of principal and \$5.9 million of interest).

The remaining \$14 million of restricted net position in 2013 and \$33 million in 2012 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,		
	2013	2012	2011
ASSETS			
Cash and cash equivalents	\$ 376,642	\$ 268,664	\$ 262,142
Loans receivable	3,176,732	3,135,310	3,017,362
All other assets	24,351	26,691	28,052
Total assets	3,577,725	3,430,665	3,307,556
LIABILITIES			
Current liabilities	15,382	25,330	27,070
Noncurrent liabilities	59,236	93,194	116,686
Total liabilities	74,618	118,524	143,756
NET POSITION			
Restricted			
Debt service	14,157	32,567	47,850
Security for revenue bonds	346,377	238,166	304,195
Subtotal restricted assets	360,534	270,733	352,045
Unrestricted	3,142,573	3,041,408	2,811,755
Total net position	\$ 3,503,107	\$ 3,312,141	\$ 3,163,800

Changes in Net Position

CWSRF's 2013 program revenue was \$50.7 million of which \$6.1 million is restricted for debt service as compared to \$49.1 million in 2012 of which \$7 million was restricted for debt service. In 2013, program revenue increased by \$1.6 million or 3.26% as compared to an increase in 2012 of \$0.9 million or 1.76%. In 2013 and 2012, the increases in program revenue reflect stable levels of outstanding receivables year over year.

General revenue was \$1 million in 2013, which was a decrease of \$0.1 million or 13%, when compared to 2012. General revenue decreased \$0.3 million or 19% to \$1.1 million in 2012, when compared to 2011. During 2013 and 2012, the decrease in investment income was the result of lower interest earnings from the Surplus Money Investment Fund (SMIF). The lower earnings from SMIF were the result of lower interest rate yields.

Total expenses decreased \$5.4 million in 2013 as compared to a decrease of \$3 million in 2012. The decrease in 2013 was primarily due to a reduction in revenue bond interest expense, which was directly associated with the refunding of the Series 2002 bonds. In 2012, the decrease was primarily due to lower administrative expenses associated with the winding down of projects financed with one-time ARRA funding.

During 2013, administrative expenses decreased \$1.8 million to \$1.1 million. The decrease in 2013 was due to administrative expenses being charged to the CWSRF Administration Fund. In 2013, administrative expenses of \$7 million were charged to the CWSRF Administration Fund. In 2012, administrative expenses decreased \$2.0 million to \$2.9 million. The decrease in 2012 was primarily associated with lower costs related to the reduction in ARRA administration. In 2012, administrative expenses of \$4 million were charged to the CWSRF Administration Fund.

Capital contributions to the CWSRF increased by \$36 million, or 34%, in 2013 when compared to 2012. In 2012, capital contributions increased by \$20 million, or 23% when compared to 2011. The increases in 2013 and 2012 were due to increases in contributions from EPA capitalization grants.

The CWSRF program received principal forgiveness funds from EPA capitalization grants of \$39.7 million and \$33.8 million, in 2013 and 2012, respectively. The loans made with these funds were forgiven as disbursed and must be repaid if certain loan conditions are not met.

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

	Year Ended June 30,		
	2013	2012	2011
Revenues			
Program revenues:			
Loan interest income	\$ 50,680	\$ 49,080	\$ 48,231
General revenues:			
Investment income	962	1,103	1,354
Total revenues	51,642	50,183	49,585
Expenses			
Program expenses:			
Administrative expenses	1,078	2,860	4,891
EPA capitalization grant Principal Forgiveness	(32,529)	(21,571)	(11,425)
Capitalization Principal Forgiveness expenses	32,529	21,571	11,425
EPA ARRA grant Principal Forgiveness	(7,216)	(12,223)	(84,830)
ARRA Principal Forgiveness expenses	7,216	12,223	84,830
Revenue bond interest expense	533	4,984	5,996
Amortization of revenue bond issuance costs	888	55	66
Total expenses	2,499	7,899	10,953
Increase in net position before contributions	49,143	42,284	38,632
Capital contributions:			
EPA capitalization grant	138,008	84,513	31,104
EPA ARRA capitalization grant	3,637	21,337	55,007
State and other contributions	178	207	161
Subtotal capital contributions	141,823	106,057	86,272
Change in net position	190,966	148,341	124,904
Net position - beginning of year	3,312,141	3,163,800	3,038,896
Net position - end of year	\$ 3,503,107	\$ 3,312,141	\$ 3,163,800

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 received a high bond rating from Fitch (AAA), Moody's Investors Service (Aaa), and Standard and Poor's Ratings Services (AAA) on its Revenue Bonds, Series 2012. Outstanding bonds at June 30, 2013 total \$73.9 million, a decrease of \$42.6 million, compared to \$116.5 million last year as shown in Table 3. The decrease was due to the refunding of Series 2002 bonds with the issuance of Series 2012 bonds in December 2012, along with restricted cash remaining from the Series 2002 bonds. The Series 2002 bonds issued in August 2002 were refunded to take advantage of the current more favorable interest rates. The Series 2002 bond proceeds were used for the purpose of financing additional CWSRF loans administered by the State Water Board for providing financial assistance to local governments for water pollution control projects. The revenue bonds are backed by a pledge of specific revenue for which the annual collections are generally predictable.

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

Table 3

Outstanding Long-term Debt
(in thousands)

	<u>2013</u>	<u>June 30, 2012</u>	<u>2011</u>
Revenue bonds			
Bond principal	\$ 68,940	\$ 114,695	\$ 138,980
Bond premium	4,915	1,779	2,445
Total revenue bonds	<u>\$ 73,855</u>	<u>\$ 116,474</u>	<u>\$ 141,425</u>

Economic Conditions and Outlook

In 2013, the CWSRF program revenues continued to support new loan financing activity and administrative expenses. Although the total amount of new loan commitments was below 2012, the number of new projects financed in 2013 was comparable to the level of financing activity of past years. The present low interest rate environment makes CWSRF loans less attractive to some borrowers and the protracted economic recovery has slowed the development of larger public works expenditures. The CWSRF program continued to improve its procedures in 2013 to provide attractive and efficient financing for publicly owned treatment works projects, and continues to evaluate its financing terms so it can be an attractive choice compared to other market options.

As a result of slowly improving economic conditions, the frequency of local entities experiencing strained revenue flows has diminished. To ensure that loans are repaid on time and in full, the CWSRF uses a variety of analysis and surveillance measures to reduce the possibility of non-payment. The CWSRF has worked closely with loan recipients with strained revenues to ensure dedicated sources of revenue are sufficient, and when necessary has restructured loans in consideration of available short term cash flows. The CWSRF maintains a small reserve for doubtful accounts. However by diligently working with loan recipients, the CWSRF anticipates full repayment of all loans.

For the grant year 2013, the EPA allocated \$95 million to the CWSRF. The 2013 grant allocation is a decrease of 6% compared to the 2012 grant allocation of \$101 million. The EPA is expected to award the 2013 capitalization grant in September 2013. Presently available information indicates that the 2014 grant could be less than 50% of the 2013 grant.

Although reduced capitalization funds from EPA affect the cash flow, the CWSRF has significant equity from loan receivables that can be used to provide funds for new loans if needed. As part of the 2012 refunding, State Water Board updated the revenue bond indenture to allow for a shortened time to market if there is a need to sell additional bonds. State Water Board staff continues to monitor the demand for new loans, and will work with its financial advisors on a revenue bond sale to meet required cash flows when needed.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
STATEMENTS OF NET POSITION
June 30, 2013 and 2012
(in thousands)

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 362,485	\$ 221,663
Cash and cash equivalents - Restricted	14,157	47,001
Receivables:		
Loan interest	22,466	24,686
Investment interest	237	257
Due from other funds and other governments	1,648	1,602
Loans receivable:		
Current portion	174,924	151,765
Current portion - Restricted	20,448	45,618
Unamortized revenue bond issuance costs	-	44
Total current assets	596,365	492,636
OTHER ASSETS		
Noncurrent unamortized revenue bond issuance costs	-	102
Loans receivable:		
Noncurrent (net of allowance for bad debt)	2,655,430	2,745,378
Noncurrent - Restricted	325,930	192,549
Total other assets	2,981,360	2,938,029
TOTAL ASSETS	3,577,725	3,430,665
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Revenue bond interest payable	566	1,339
Unearned Revenue	6	73
Due to other funds	191	486
Revenue bonds payable	14,619	23,432
Total current liabilities	15,382	25,330
NONCURRENT LIABILITIES		
Unearned Revenue	-	151
Revenue bonds payable	59,236	93,043
Total noncurrent liabilities	59,236	93,194
Total liabilities	74,618	118,524
NET POSITION		
Restricted for:		
Debt service	14,157	32,567
Security for revenue bonds	346,377	238,166
Unrestricted	3,142,573	3,041,408
Total net position	\$ 3,503,107	\$ 3,312,141

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

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2013 and 2012
(in thousands)

	2013	2012
OPERATING REVENUE		
Loan interest income	\$ 50,680	\$ 49,080
Total operating revenue	50,680	49,080
OPERATING EXPENSES		
Personnel services	184	1,546
Other expenses	871	1,303
Total operating expenses	1,055	2,849
INCOME FROM OPERATIONS	49,625	46,231
NONOPERATING REVENUE (EXPENSE)		
Net investment income	962	1,103
EPA-capitalization grant - Principal Forgiveness	32,529	21,571
Capitalization Principal Forgiveness expense	(32,529)	(21,571)
EPA-ARRA capitalization grant - Principal Forgiveness	7,216	12,223
ARRA Principal Forgiveness expense	(7,216)	(12,223)
Revenue bond interest expense	(533)	(4,984)
Bond fees	(23)	(11)
Revenue bond issuance costs	(888)	(55)
Total nonoperating revenue (expense)	(482)	(3,947)
INCOME BEFORE CONTRIBUTIONS	49,143	42,284
CONTRIBUTIONS		
EPA capitalization grant	138,008	84,513
EPA - ARRA capitalization grant	3,637	21,337
State match revenue	178	207
Total contributions	141,823	106,057
CHANGE IN NET POSITION	190,966	148,341
NET POSITION - BEGINNING OF YEAR	3,312,141	3,163,800
NET POSITION - END OF YEAR	\$ 3,503,107	\$ 3,312,141

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

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2013 and 2012
(in thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from interest on loans	\$ 45,042	\$ 42,608
Loans disbursed	(288,089)	(325,435)
Principal received on loans receivable	254,306	212,559
Cash paid to employees and vendors	(1,349)	(2,777)
Cash flows provided (required) by operating activities	9,910	(73,045)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Funds received from EPA capitalization grant	181,310	142,273
Funds received from the State of California	211	163
Funds received from Bond Refunding	74,929	-
ARRA Principal Forgiveness	(7,216)	(12,223)
Principal Forgiveness	(32,529)	(21,571)
Bond fees paid	(766)	(11)
Principal paid on revenue bonds	(114,695)	(24,285)
Interest paid on revenue bonds	(4,159)	(5,943)
Cash flows provided by noncapital financing activities	97,085	78,403
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investment income received	982	1,165
Net cash provided by investing activities	982	1,165
NET INCREASE IN CASH AND CASH EQUIVALENTS	107,977	6,523
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	268,665	262,142
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 376,642	\$ 268,665
Reconciliation of operating income to net cash provided (required) by operating activities		
Income from operations	\$ 49,625	\$ 46,231
Adjustments to reconcile income from operations to net cash required by operating activities		
Construction period interest	(7,639)	(5,072)
Amortization of unearned revenue	(212)	(72)
Effect of changes in operating assets and liabilities:		
Loans receivable	(33,789)	(112,865)
Loan interest receivable	2,220	(1,339)
Due to other funds	(295)	72
Net cash provided (required) by operating activities	\$ 9,910	\$ (73,045)

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

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012
(Dollar Amounts Expressed in Thousands)

NOTE 1 - DEFINITION OF REPORTING ENTITY

The California State Water Resources Control Board, Water Pollution Control Revolving Fund (Fund) was established pursuant to Title VI of the Federal Clean Water Act of 1987 (Act). The Act established the State Revolving Fund (SRF) program to replace the construction grants program (Title II of the Act) to provide loans at reduced interest rates to finance the construction of publicly owned water pollution control facilities, non-point source pollution control projects, and estuary management plans. Instead of making grants to communities that pay for a portion of building wastewater treatment facilities, the SRF provides for low interest loans to finance the entire cost of qualifying projects. The SRF provides a flexible financing source that can be used for a variety of pollution control projects, including non-point source pollution control projects, and developing estuary conservation and management plans. Loans made must be repaid within 20 years, or 30 years for qualifying disadvantaged communities and communities regionalizing their facilities. 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, 2013 and 2012, the EPA has awarded cumulative capitalization grant funding of \$2,380,800 and \$2,279,735, respectively to the State of California (State), for which the State is required to provide \$476,160 and \$455,947, respectively, of cumulative matching funding to the Fund. In addition, in February 2009, the EPA awarded \$280,285 in ARRA grant funding for which there is no State Match requirement.

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

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

Reporting Entity

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

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
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June 30, 2013 and 2012
(Dollar Amounts Expressed in Thousands)

NOTE 1 - DEFINITION OF REPORTING ENTITY (CONTINUED)

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

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

Implementation of New Standards

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

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

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

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
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June 30, 2013 and 2012
(Dollar Amounts Expressed in Thousands)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets or liabilities. As a result of early implementing this GASB, the Fund has expensed the debt issuance costs on the 2012 Revenue Bond that prior to GASB 65 would have been capitalized. The impact of the pronouncement was considered as part of the refunding that occurred in December 2012. However, prior periods have not been restated as the change would not significantly impact the prior year's financial statement presentation.

Operating Revenues and Expenses

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

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

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

Budgets

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

Use of Estimates in Preparing Financial Statements

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

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012
(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 grants 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, 2013 and June 30, 2012.

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.

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012
(Dollar Amounts Expressed in Thousands)

NOTE 3 - CASH AND INVESTMENTS

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

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

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

At June 30, 2013 and 2012, the Fund's cash deposits had a carrying balance of \$3 and \$5, respectively.

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

<u>Investments</u>	<u>2013</u>	<u>2012</u>
Treasury/Trust Portfolio	<u>\$ 376,639</u>	<u>\$ 268,659</u>
Total cash deposits and investments	<u>\$ 376,642</u>	<u>\$ 268,664</u>

The State Treasurer is responsible for investing funds of the Treasury/Trust Portfolio and managing the credit risk, custodial credit risk, concentration of credit risk, interest rate risk and foreign currency credit risk of the Portfolio. Refer to the State's Pooled Investments disclosure in the June 30, 2013 and 2012, Comprehensive Annual Financial Reports for disclosure related to the risks applicable to the Portfolio.

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012
(Dollar Amounts Expressed in Thousands)

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Cash deposits and investments are reflected on the June 30, 2013 and 2012 statement of net assets as follows:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 362,485	\$ 221,663
Cash and cash equivalents - Restricted	14,157	47,001
Total cash deposits and investments	<u>\$ 376,642</u>	<u>\$ 268,664</u>

As of June 30, 2013, all revenue bond proceeds have been disbursed. Cash and investments in the amount of \$0 and \$235 representing investment earnings on unspent revenue bonds proceeds at June 30, 2013 and 2012, respectively, were restricted for future loan disbursements. As of June 30, 2013, cash and investments in the amount of \$14,157 representing various reserve accounts required by the revenue bonds were restricted for future loan disbursements and debt service. As of June 30, 2012, cash and investments in the amount of \$46,766, representing various reserve accounts required by the revenue bonds were restricted for 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. 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 20 or 30 years 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 commitment is made. 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, 2013 and 2012, the Fund had total binding commitments of \$6,643,750 and \$6,402,218, respectively, since program inception. As of June 30, 2013, the remaining commitment on these loans amounted to \$956,291, of which \$131,361 is federal funds. The federal loan commitments included ARRA federal funds of \$1,033, of which \$0 will be forgiven and capitalization funds of \$41,452 which will be forgiven. As of June 30, 2012, the remaining commitment on these loans amounted to \$1,041,070, of which \$169,655 is federal funds. The federal loan commitments included ARRA federal funds of \$11,887, of which \$8,920 will be forgiven and capitalization funds of \$54,346 which will be forgiven. Principal forgiveness loans are forgiven as disbursed, but must be repaid if the recipient fails to meet the program requirements.

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012
(Dollar Amounts Expressed in Thousands)

NOTE 4 - LOANS RECEIVABLE (CONTINUED)

At June 30, 2013 and 2012 the unpaid balance on all loans receivable outstanding amounted to \$3,176,726 and \$3,135,310, respectively.

Estimated maturities of the loans receivable and interest payments thereon, at June 30, 2013 are as follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2014	\$ 42,704	\$ 195,379	\$ 238,083
2015	42,250	197,093	239,343
2016	44,093	196,127	240,220
2017	40,451	194,757	235,208
2018	36,884	198,222	235,106
2019-2023	131,660	932,888	1,064,548
2024-2028	58,901	611,299	670,200
2029-2033	15,838	264,329	280,167
2034-2038	2,933	34,474	37,407
2039-2043	730	19,339	20,069
Total	<u>\$ 416,444</u>	<u>2,843,907</u>	<u>\$ 3,260,351</u>
Loans not yet in repayment		342,181	
Allowance for bad debt		(9,356)	
Total loans receivable		<u>\$ 3,176,732</u>	

Restricted Loans Receivable

At June 30, 2013 and 2012, \$346,378 and \$238,166, 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, 2013 the Fund received \$36,837 and \$7,104 of principal and interest, respectively, on these loans, and during the year ended June 30, 2012 the Fund received \$66,028 and \$8,074 of principal and interest, respectively, on these loans. Any excess of the principal and interest received over the debt service payments required may be used for future loan disbursements and/or released from restriction upon approval by the Trustee in the event certain requirements are met.

Local Match Loans

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

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012
(Dollar Amounts Expressed in Thousands)**

NOTE 4 - LOANS RECEIVABLE (CONTINUED)

As of June 30, 2013 and 2012, the Fund had authorized a total of \$1,720,176 and \$1,729,315, respectively, of local match loans. From these authorizations, certain borrowers elected to remit the State match at the time the loan was awarded in the amount of \$2,296 as of June 30, 2013 and 2012. The remaining borrowers elected to repay the State match over a period of 20 or 30 years, in the amount of \$280,167 and \$277,291 as of June 30, 2013 and 2012, respectively. As of June 30, 2013 and 2012, total local match loans outstanding, including the local match to be paid, amounted to \$ 923,315 and \$974,023, respectively, and the remaining State match to be repaid amounted to \$123,492 and \$138,343, respectively.

Loans to Major Local Agencies

The Fund has made loans to the following major local agencies. The aggregate outstanding loan balances for each of these agencies exceeds 5 percent of total loans receivable. The combined outstanding loan balances at June 30, 2013 and 2012 of these major local agencies represent approximately 18.1 and 18.4 percent, respectively, of the total loans receivable and are as follows:

<u>Borrower</u>	<u>2013</u>		<u>2012</u>
	<u>Authorized Loan Amount</u>	<u>Outstanding Loan Balance</u>	<u>Outstanding Loan Balance</u>
Los Angeles County Sanitation District	\$ 606,426	\$ 394,487	\$ 422,151
Eastern Municipal Water District	244,698	180,622	128,266
	<u>\$ 851,124</u>	<u>\$ 575,109</u>	<u>\$ 550,417</u>

NOTE 5 - LONG-TERM DEBT

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

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

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012
(Dollar Amounts Expressed in Thousands)**

NOTE 5 - LONG-TERM DEBT (CONTINUED)

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

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

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 13,000	\$ 2,071	\$ 15,071
2015	13,000	1,713	14,713
2016	13,000	1,323	14,323
2017	12,940	868	13,808
2018	9,530	451	9,981
2019	7,470	131	7,601
	<u>\$ 68,940</u>	<u>\$ 6,557</u>	<u>\$ 75,497</u>

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012
(Dollar Amounts Expressed in Thousands)

NOTE 5 - LONG-TERM DEBT (CONTINUED)

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

	<u>Balance June 30, 2012</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance June 30, 2013</u>	<u>Due Within One Year</u>
Series 2012 Revenue Bonds:					
Bond principal	\$ -	\$ 68,940	\$ -	\$ 68,940	\$ 13,000
Bond premium	-	5,989	1,074	4,915	1,619
	<u>-</u>	<u>\$ 74,929</u>	<u>\$ 1,074</u>	<u>73,855</u>	<u>\$ 14,619</u>
Less current portion:					
Bond principal	-			(13,000)	
Bond premium amortization	-			(1,619)	
Long-term portion	<u>\$ -</u>			<u>\$ 59,236</u>	
Series 2002 Revenue Bonds:					
Bond principal	\$ 114,695	\$ -	\$ 114,695	\$ -	\$ -
Bond premium	1,779	-	1,779	-	-
	<u>116,474</u>	<u>\$ -</u>	<u>\$ 116,474</u>	<u>-</u>	<u>\$ -</u>
Less current portion:					
Bond principal	(22,895)			-	
Bond premium amortization	(536)			-	
Long-term portion	<u>\$ 93,043</u>			<u>\$ -</u>	
	<u>Balance</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance</u>	<u>Due</u>
	<u>June 30,</u>			<u>June 30,</u>	<u>Within</u>
	<u>2011</u>			<u>2012</u>	<u>One Year</u>
Series 2002 Revenue Bonds:					
Bond principal	\$ 138,980	\$ -	\$ 24,285	\$ 114,695	\$ 22,895
Bond premium	2,445	-	666	1,779	536
	<u>141,425</u>	<u>\$ -</u>	<u>\$ 24,951</u>	<u>116,474</u>	<u>\$ 23,431</u>
Less current portion:					
Bond principal	(24,285)			(22,895)	
Bond premium amortization	(666)			(536)	
Long-term portion	<u>\$ 116,474</u>			<u>\$ 93,043</u>	

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012
(Dollar Amounts Expressed in Thousands)

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, 2013 and 2012, the EPA has awarded cumulative capitalization grants of \$2,380,800 and \$2,279,735, respectively, to the State, of which \$2,329,930 and \$2,159,393, respectively, has been drawn, cumulatively, for loans and administrative expenses. The State has provided matching funds of \$346,719 and \$346,541, respectively.

In addition, as of June 30, 2013, the EPA has awarded the ARRA grant of \$280,285 to the fund for which there is no State matching requirements. As of June 30, 2013 and June 30, 2012, \$279,252, of which \$161,006 was for principal forgiveness and \$268,398, of which \$153,790 was for principal forgiveness, respectively, has been drawn cumulatively (See Note 4).

As discussed in Note 4, certain borrowers have contributed funds that can be used to match federal contributions in exchange for reduced interest rate loans. The EPA allows the State to include amounts provided by borrowers under certain local matching loans in meeting the State's statutory matching obligation. As of June 30, 2013 and 2012, the borrowers had contributed \$282,463 and \$279,587, respectively, which qualify as meeting the State's matching requirement.

Table 1 summarizes the EPA capitalization grants awarded, amounts drawn on each grant as of June 30, 2013 and 2012, and balances available for future loans as of June 30, 2013. Table 2 summarizes the state match amounts paid by the state and local entities as of June 30, 2013 and 2012. As of June 30, 2013 and 2012, the state match required is \$465,986 and \$431,879, respectively. As of June 30, 2013 and 2012, the state match available for potential future state match is \$163,196 and \$194,249, respectively.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
 WATER POLLUTION CONTROL REVOLVING FUND
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2013 and 2012
 (Dollar Amounts Expressed in Thousands)**

NOTE 6 - CAPITAL CONTRIBUTIONS (CONTINUED)

TABLE 1

Year	Grant Award	Funds Drawn As of June 30, 2011	Funds Drawn During Year Ended June 30, 2012	Funds Drawn As of June 30, 2012	Funds Drawn During Year Ended June 30, 2013	Funds Drawn As of June 30, 2013	Available for Loans as of June 30, 2013
1989-2008	\$ 1,979,775	\$ 1,979,775	\$ -	\$ 1,979,775	\$ -	\$ 1,979,775	\$ -
2009	48,668	47,947	721	48,668	-	48,668	-
2010	145,721	25,587	75,868	101,455	44,266	145,721	-
2011	105,571	-	29,495	29,495	76,076	105,571	-
2012	101,065	-	-	-	50,195	50,195	50,870
	<u>\$ 2,380,800</u>	<u>\$ 2,053,309</u>	<u>\$ 106,084</u>	<u>\$ 2,159,393</u>	<u>\$ 170,537</u>	<u>\$ 2,329,930</u>	<u>\$ 50,870</u>
2008-ARRA	280,285	234,839	33,559	268,398	10,854	279,252	1,033
	<u>\$ 2,661,085</u>	<u>\$ 2,288,148</u>	<u>\$ 139,643</u>	<u>\$ 2,427,791</u>	<u>\$ 181,391</u>	<u>\$ 2,609,182</u>	<u>\$ 51,903</u>

TABLE 2

	State Match Paid As of June 30, 2011	State Match Paid During Year Ended June 30, 2012	State Match Paid As of June 30, 2012	State Match Paid During Year Ended June 30, 2013	State Match Paid As of June 30, 2013
State Disbursed	\$ 346,334	\$ 207	\$ 346,541	\$ 178	\$ 346,719
Local Disbursed	277,377	2,210	279,587	2,876	282,463
	<u>\$ 623,711</u>	<u>\$ 2,417</u>	<u>\$ 626,128</u>	<u>\$ 3,054</u>	<u>\$ 629,182</u>

Restricted Funds

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

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012
(Dollar Amounts Expressed in Thousands)**

NOTE 6 - CAPITAL CONTRIBUTIONS (CONTINUED)

Administrative Fund

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

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Administrative fee collected	<u>\$ 7,655</u>	<u>\$ 8,320</u>
Operating expenses incurred	<u>\$ 6,980</u>	<u>\$ 4,003</u>

Small Community Grant Fund

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

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Grant fee collected	<u>\$ 8,498</u>	<u>\$ 7,337</u>
Grants disbursed	<u>\$ 1,141</u>	<u>\$ 881</u>

NOTE 7 - RISK MANAGEMENT

The Fund participates in the State of California's Risk Management Program. The State has elected, with a few exceptions, to be self-insured against loss or liability. There have been no significant reductions in insurance coverage from the prior year. In addition, settled claims have not exceeded insurance coverage in the last three fiscal years. Refer to the State's Risk Management disclosure in the June 30, 2013 and 2012, Comprehensive Annual Financial Reports.

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012
(Dollar Amounts Expressed in Thousands)

NOTE 8 - RETIREMENT PLAN

Plan Description

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

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

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

Funding Policy

The Fund is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the PERF Board of Administration. The required contribution rates for the years ended June 30, 2013, 2012 and 2011, were 20.503%, 18.175% and 17.528%, respectively, for State Miscellaneous First Tier and 20.457%, 17.025% and 16.442%, respectively, for State Miscellaneous Second Tier. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Contributions, annual pension costs and trend information attributable to employees of the Fund for the fiscal year ended June 30, 2013, 2012 and 2011, are not determinable at the Fund level. However, this information is reported at a statewide level in the State of California's Comprehensive Annual Financial Report.

Post-Employment Benefits Other than Pension

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

CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012
(Dollar Amounts Expressed in Thousands)

NOTE 8 - RETIREMENT PLAN (CONTINUED)

on a pay-as-you-go basis. Refer to the State's Post-Employment Benefits Other than Pension disclosure in the June 30, 2013 and June 30, 2012 Comprehensive Annual Financial Reports for disclosure.

NOTE 9 - NET POSITION

Governmental Accounting Standards Board Statement No. 34 provides for three components of net assets: invested in capital assets, net of related debt, restricted and unrestricted. Governmental Accounting Standards Board Statement No 63 reclassifies net assets as net position, however the three components remain unchanged. As of June 30, 2013 and 2012, the Fund had no net investment 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, 2013 and 2012, the Fund had restricted net position of \$14,157 and \$32,567, respectively, representing amounts received from borrower loan repayments on pledged loans. As of June 30, 2013 and 2012 pledged loans restricted for future bond debt service payments were \$346,378 and \$238,166, respectively, representing loans receivable pledged as security for the revenue bonds (see Note 5).

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

NOTE 10 - LITIGATION

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

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

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

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013**

<u>Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U.S. Environmental Protection Agency</u>		
Direct Programs:		
Capitalization Grants for State Revolving Funds	66.458	\$ 170,536,556 (*)
ARRA Capitalization Grant for State Revolving Funds	66.458	10,853,764 (*)
		<u>\$ 181,390,320</u>

(*) Tested as a Major Program

See notes to schedule of expenditures of federal awards

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013**

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity, under the accrual basis of accounting, of the California State Water Resources Control Board, Water Pollution Control Revolving Fund. The information in this schedule is presented in accordance with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

NOTE 2 - LOANS TO SUBRECIPIENTS

Capitalization Grants for Clean Water State Revolving Fund CFDA# 66.458 include \$169,636,553 of expenditures that were disbursed as loan awards to qualifying subrecipients, which includes \$32,529,065 of principal forgiveness loans.

ARRA Capitalization Grant for Clean Water State Revolving Fund CFDA# 66.458 includes \$10,853,764 of expenditures that were disbursed as loan awards to qualifying subrecipients, which includes \$7,216,436 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***

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 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, 2013, and the related notes to the financial statements, which collectively comprise the Water Pollution Control Revolving Fund's basic financial statements, and have issued our report thereon dated September 25, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.

A handwritten signature in cursive script that reads "Clifton Larson Allen LLP".

Greenwood Village, Colorado
September 25, 2013



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Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

We have audited California State Water Resources Control Board, Water Pollution Control Revolving Fund's (Water Pollution Control Revolving Fund) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of CWSRF-SAWater Pollution Control Revolving Funds major federal programs for the year ended June 30, 2013. Water Pollution Control Revolving Fund's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Water Pollution Control Revolving Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

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

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

CliftonLarsonAllen LLP

Greenwood Village, Colorado
September 25, 2013

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
 WATER POLLUTION CONTROL REVOLVING FUND
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2013**

PART I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

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

Identification of major programs:

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

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

PART II - FINDINGS RELATED TO FINANCIAL STATEMENTS

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

PART III - FINDINGS RELATED TO FEDERAL AWARDS

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

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD
WATER POLLUTION CONTROL REVOLVING FUND
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2013**

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

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ANNUAL REPORT SFY 2012-2013

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Exhibit B

SFY 2012/2013 PROJECTS FUNDED BY NEEDS CATEGORY

FINANCIAL ASSISTANCE RECIPIENT NAME	PROJECT NUMBER	AGREEMENT DATE	DAC	CAT. I	CAT. II	CAT. III-B	CAT. IV-A	CAT. VII-K	CAT. X	TOTAL AGREEMENT AMOUNT
Graton Community Services District	4986-110	07/24/12	Y		\$ 6,000,000					\$ 6,000,000
Tulelake, City of	4930-110	08/06/12	Y		\$ 15,633	\$ 15,633				\$ 31,266
Mission Springs Water District	4250-310	08/21/12	Y				\$ 9,957,921			\$ 9,957,921
Donner Summit Public Utilities District	7670-210	08/31/12	Y		\$ 16,073,401					\$ 16,073,401
San Diego, City of	4905-120	10/04/12				\$ 5,733,542				\$ 5,733,542
Morro Bay, The Bay Foundation of	6701-110	10/05/12						\$ 368,926		\$ 368,926
Yuba City, City of	7113-110	10/15/12	Y			\$ 7,700,000				\$ 7,700,000
Earl Mart Public Utility District	7206-110	10/26/12	Y			\$ 972,400				\$ 972,400
Fallbrook Public Utilities District	7613-110	11/02/12			\$ 22,154,148					\$ 22,154,148
San Clemente, City of	4516-110	11/16/12			\$ 8,622,000				\$ 5,748,000	\$ 14,370,000
San Diego, City of	4905-130	12/19/12				\$ 9,595,804				\$ 9,595,804
San Diego, City of	4905-140	12/19/12				\$ 5,178,775				\$ 5,178,775
San Diego, City of	5068-110	12/19/12		\$ 6,840,000						\$ 6,840,000
San Diego, City of	5069-110	12/19/12		\$ 7,203,500						\$ 7,203,500
San Diego, City of	7840-110	12/19/12		\$ 5,280,000						\$ 5,280,000
San Diego, City of	7617-110	12/20/12		\$ 12,000,000						\$ 12,000,000
Santa Clarita Valley Sanitation District	7045-110	01/02/13		\$ 4,335,543						\$ 4,335,543
Mokelumne Hill Sanitary District	7821-110	01/10/13	Y			\$ 299,690				\$ 299,690
Vista, City of	5700-110	02/07/13				\$ 7,524,344				\$ 7,524,344
Los Angeles County Sanitation District No. 29	7830-110	02/21/13				\$ 1,069,500				\$ 1,069,500
Paso Robles, City of	5400-110	03/12/13		\$ 47,853,395						\$ 47,853,395
Rio Alto Water District	7823-110	05/16/13		\$ 1,215,000						\$ 1,215,000
Valley Center MWD	7454-110	05/23/13					\$ 1,701,000			\$ 1,701,000
Valley Center MWD	7454-120	05/23/13			\$ 9,464,500					\$ 9,464,500
Valley Center MWD	7454-130	05/23/13						\$ 2,331,500		\$ 2,331,500
El Toro Water District	5006-110	06/20/13			\$ 15,000,000			\$ 15,000,000		\$ 30,000,000
Planada CSD	7649-210	06/25/13	Y	\$ 3,411,999						\$ 3,411,999
Castro Valley Sanitary District	5351-140	06/26/13				\$ 3,600,000				\$ 3,600,000
Los Angeles County Sanitation District No. 2	7694-110	06/26/13				\$ 34,482,000				\$ 34,482,000
TOTAL:	29		8	\$ 88,139,437	\$ 77,329,682	\$ 76,171,688	\$ 11,658,921	\$ 368,926	\$ 23,079,500	\$ 276,748,154

NEED CATEGORIES (CAT.)

- | | |
|---|---|
| I Secondary Treatment | VII-C NPS Silviculture |
| II Advance Treatment | VII-D NPS Urban (Except Septic Systems) |
| III-A Infiltration/Inflow Correction | VII-E NPS Ground Water - Unknown Source |
| III-B Major Sewer System Rehabilitation | VII-F NPS Marinas |
| IV-A New Collector Sewers | VII-H NPS Brownfields |
| IV-B New Interceptors & Appurtenances | VII-K NPS Hydromodification |
| VI Storm Sewers | VII-L NPS Septic Systems |
| VII-A NPS Agricultural Cropland | X Recycled Water Distribution |

NOTES:

In SFY 2012/13 there were 29 binding commitments totaling \$276,748,154 based on funding agreement amounts as of July 1, 2013. Additional adjustments made during the final funding agreement amendment process for CWSRF projects will be reflected in NIMS and CBR.

NPS - Non point Source

Percentage of Projects Serving Disadvantaged Communities (DAC) = 8 of 29 = 28%

Exhibit C

SFY 2012/2013 INTENDED USE PLAN PROJECTS LIST OF NON-FUNDED PROJECTS

LOAN RECIPIENT NAME	PROJECT NUMBER	IUP PROJECTED AMOUNT	PRIORITY CLASS	REASON FOR DELAY	PROJECT TYPE
SOUTH TAHOE PUBLIC UTILITY DISTRICT	5608-110	\$ 5,599,964	C	6,7	POTW
BANNING, CITY OF	5061-110	\$ 13,200,000	C	6	POTW
MADERA, COUNTY OF	7489-110	\$ 1,250,000	A	1,2	POTW
FRESNO, COUNTY OF	5541-110	\$ 1,200,000	D	2	POTW
IDYLLWILD WATER DISTRICT	7808-110	\$ 1,000,000	C	2	POTW
GLENDORA, CITY OF	7502-110	\$ 5,382,500	D	6	POTW
VISALIA, CITY OF	7215-110	\$ 92,425,000	C	2	POTW
JACKSON, CITY OF	7671-110	\$ 8,300,000	A	2	POTW
LOS ANGELES COUNTY SANITATION DISTRICT	5892-110	\$ 10,400,000	C	2	POTW
LOS ANGELES COUNTY SANITATION DISTRICT	4701-420	\$ 10,349,687	B	5,6	POTW
PATTERSON, CITY OF	5814-110	\$ 12,444,800	D	6	POTW
LOS ANGELES COUNTY SANITATION DISTRICT	4001-480	\$ 14,905,554	B	5,6	POTW
LOS ANGELES COUNTY SANITATION DISTRICT	4001-560	\$ 36,950,932	B	5,6	POTW
LOS ANGELES COUNTY SANITATION DISTRICT	4001-630	\$ 7,063,817	B	5,6	POTW
LOS ANGELES COUNTY SANITATION DISTRICT	4001-640	\$ 20,360,250	B	5,6	POTW
HOLTVILLE, CITY OF	7827-110	\$ 4,100,000	C	2	POTW
HOLTVILLE, CITY OF	7828-110	\$ 5,474,000	A	2,9	POTW
STOCKTON, CITY OF	7085-110	\$ 3,250,000	D	2	POTW
POPLAR COMMUNITY SERVICES DISTRICT	7835-110	\$ 252,100	D	9	POTW
HI-DESERT WATER DISTRICT	5295-110	\$ 125,000,000	A	2	POTW
PLANADA COMMUNITY SERVICES DISTRICT	7649-110	\$ 380,000	C	9	POTW
TULARE COUNTY	5939-110	\$ 453,000	B	9	POTW
TULARE COUNTY	7836-110	\$ 293,621	D	9	POTW
WILLOW CREEK COMMUNITY SERVICES DISTRICT	5957-110	\$ 75,000	D	9	POTW
STRATFORD PUBLIC UTILITY DISTRICT	7767-110	\$ 360,320	C	9	POTW
VICTOR VALLEY WASTEWATER RECLAMATION AUTHORITY	7833-110	\$ 4,500,000	D	2	POTW
FRESNO COUNTY WATERWORKS DISTRICT NO. 38	7109-110	\$ 500,000	D	2	POTW
EL CAJON, CITY OF	7612-110	\$ 12,528,000	B	2	POTW
ASSOCIATION OF BAY AREA GOVERNMENTS	6441-120	\$ 3,000,000	A	2	EXP USE
INLAND EMPIRE UTILITIES AGENCY	5318-110	\$ 11,812,500	C	2	POTW
EASTERN MUNICIPAL WATER DISTRICT	7831-110	\$ 16,810,000	C	2	POTW
LINCOLN, CITY OF	5231-110	\$ 6,379,100	D	2	POTW
SOUTH TAHOE PUBLIC UTILITY DISTRICT	5611-110	\$ 1,030,000	C	2	POTW
VICTOR VALLEY WASTEWATER REC AUTHORITY	4806-110	\$ 26,400,651	C	2	POTW
VICTOR VALLEY WASTEWATER REC AUTHORITY	4807-110	\$ 33,508,515	C	2	POTW

Exhibit C

..... continued

SFY 2012/2013 INTENDED USE PLAN PROJECTS LIST OF NON-FUNDED PROJECTS

LOAN RECIPIENT NAME	PROJECT NUMBER	IUP PROJECTED AMOUNT	PRIORITY CLASS	REASON FOR DELAY	PROJECT TYPE
HUMBOLDT COMMUNITY SERVICES DISTRICT	7829-110	\$ 8,500,000	B	2	POTW
CASTRO VALLEY SANITARY DISTRICT	5351-120	\$ 1,500,000	C	6	POTW
CASTRO VALLEY SANITARY DISTRICT	5351-130	\$ 2,000,000	C	6	POTW
SAN JUAN BAUTISTA, CITY OF	7819-110	\$ 1,000,000	C	6	POTW
SAN MATEO COUNTY BURLINGAME HILLS SEWER MAINTENANCE DISTRICT	7810-110	\$ 1,000,000	C	2	POTW
SAN MATEO COUNTY CRYSTAL SPRINGS SEWER MAINTENANCE DISTRICT	7811-110	\$ 1,000,000	C	2	POTW
SAN MATEO COUNTY DEVONSHIRE SEWER MAINTENANCE DISTRICT	7813-110	\$ 2,400,000	C	2	POTW
SAN MATEO COUNTY FAIR OAKS SEWER MANITENANCE DISTRICT	7814-110	\$ 5,400,000	C	2	POTW
HILLSBOROUGH, TOWN OF	5402-110	\$ 8,000,000	A	2	POTW
SAN FRANCISCO PUBLIC UTILITIES COMMISSION	6310-110	\$ 1,100,185	D	6	POTW
ANAHEIM, CITY OF	7621-110	\$ 1,200,000	C	2	POTW
ANAHEIM, CITY OF	7623-110	\$ 400,000	C	2	POTW
ANAHEIM, CITY OF	7624-110	\$ 600,000	C	2	POTW
ANAHEIM, CITY OF	7625-110	\$ 700,000	C	2	POTW
ANAHEIM, CITY OF	7629-110	\$ 3,000,000	C	2	POTW
THERMALITO WATER AND SEWER DISTRICT	7646-110	\$ 4,000,000	C	2	POTW
NEVADA COUNTY SANITATION DISTRICT #1	7638-110	\$ 5,000,000	A	2	POTW
RIO VISTA, CITY OF	5717-110	\$ 4,315,000	A	2	POTW
VISTA, CITY OF	6110-110	\$ 973,349	D	5,6	EXP USE
VISTA, CITY OF	5696-110	\$ 2,021,400	D	2	POTW
CHANNEL ISLANDS BEACH COMMUNITIES SERVICE DISTRICT	7446-110	\$ 1,995,000	A	2	POTW
MONTEREY, CITY OF	5228-110	\$ 13,200,000	D	2	POTW
PLACER, COUNTY OF	5274-110	\$ 96,000,000	C	2,4	POTW
LA MESA, CITY OF	7822-110	\$ 20,000,000	C	2,4	POTW
LA MESA, CITY OF	7824-110	\$ 5,000,000	C	2,4	POTW
TOTAL:	60	\$687,244,245			

REASON FOR DELAY:

1. Change to the project's scope or objectives
2. Application requires additional studies, more documents, and/or more hearings
3. Changes in design
4. Delays in the bidding process
5. N/A- financed with other (non-CWSRF) financing
6. N/A- application withdrawn
7. N/A - funded as part of another CWSRF financing agreement
8. N/A - CWSRF financing agreement is pending.
9. N/A- financed with CWSRF - SCG financing

Exhibit D

SFY 2012/2013 DBE ANNUAL REPORT

		MBE	WBE	TOTAL
Semi-Annual ARRA	April – September 2012	\$ 77,251.05	\$ 104,671.97	\$ 181,923.02
Semi-Annual Non-ARRA	April – September 2012	\$ 7,568,285.78	\$ 1,686,251.88	\$ 9,254,537.66
Semi-Annual ARRA	October 2012 – March 2013	\$ 102,863.79	\$ 2,039.50	\$ 104,903.29
Semi-Annual Non-ARRA	October 2012 – March 2013	\$ 5,808,594.11	\$ 782,369.71	\$ 6,590,963.82
Cumulative Total	Fiscal Year 2012/13	\$ 13,556,994.73	\$ 2,575,333.06	\$ 16,132,327.79
TOTAL DISBURSEMENTS 12/13				\$198,561,300.64
Percentage to Total Disbursements	Fiscal Year 2012/13	6.83 %	1.30 %	8.12 %

NOTE: Percentage of DBE participation is determined by taking the percentage of MBE and WBE as compared to the total disbursements for the fiscal year for each category. Total Federal Disbursements equal \$198,561,300.64. DBE reports are collected semi-annually based on the Federal Fiscal Year.

Exhibit E

SFY 2012/2013 FUNDED PROJECTS REPORTED TO FFATA

Financial Assistance Recipient Name	Project Number	Agreement Date	FFATA Reporting Due	Date Reported	FFATA* Reporting Amount	Total Agreement Amount
Fallbrook Public Utilities District	7613-110	11/02/12	12/31/12	12/10/12	\$ 22,154,148	\$ 22,154,148
San Clemente, City of	4516-110	11/16/12	12/31/12	12/10/12	\$ 12,370,000	\$ 14,370,000
San Diego, City of	4905-130	12/19/12	01/31/13	01/25/12	\$ 9,595,804	\$ 9,595,804
San Diego, City of	4905-140	12/19/12	01/31/13	01/25/12	\$ 5,178,775	\$ 5,178,775
San Diego, City of	5068-110	12/19/12	01/31/13	01/25/12	\$ 6,840,000	\$ 6,840,000
San Diego, City of	7617-110	12/20/12	01/31/13	01/25/12	\$ 12,000,000	\$ 12,000,000
San Diego, City of	7840-110	12/19/12	01/31/13	01/25/12	\$ 5,280,000	\$ 5,280,000
Paso Robles, City of	5400-110	03/12/13	04/30/13	03/26/13	\$ 27,661,273	\$ 47,853,395
TOTAL:	8				\$101,080,000	\$ 123,272,122

*BASED ON FFY 2012 CAPITALIZATION GRANT OF \$101,080,000

Exhibit F

SFY 2012/2013 PROJECTS WITH FINANCING SERVICING FEES

FUND 3147 – ADMIN SERVICE FEE (1% of outstanding principal balance)

CONTRACT NUMBER	PROJECT NUMBER	RECIPIENT
00-808	4521-110	Riverbank, City of
07-810	5051-110	Reedley, City of
07-812	4699-110	Crescent City, City of
07-828	4438-110	Colusa, City of
07-829	5085-110	Union Sanitary District
08-804	4729-130	La Mesa, City of
08-813	5055-110	Patterson, City of
08-814	4352-110	Lake Arrowhead Community Services Dist.
08-815	4680-110	Ventura, County of
08-817	4148-110	Rosamond Community Services Dist
08-838	5139-110	Hughson, City of
08-854	4729-140	La Mesa, City of
09-850	4688-110	Oakdale, City of
09-856	5043-110	Galt, City of

FUND 9739 – SMALL COMMUNITY GRANT FEE (percentage of outstanding principal balance)

CONTRACT NUMBER	PROJECT NUMBER	RECIPIENT
00-801	4610-120	Vacaville, City of
00-802	4665-110	Stege Sanitary District
00-804	4486-110	Templeton Community Services District
00-809	4708-110	Redding, City of
00-818	4062-220	Santa Rosa, City of
00-825	4062-170	Santa Rosa, City of
00-831	4062-250	Santa Rosa, City of
01-803	4053-110	McCloud Community Services District
01-810	4062-160	Santa Rosa, City of
01-811	4062-230	Santa Rosa, City of
01-813	6036-110	Santa Cruz, County of
01-814	4062-150	Santa Rosa, City of
02-821	4812-110	Napa Sanitation District
02-825	4658-110	Victor Valley Wastewater Rec. Authority
02-826	4845-110	Santa Margarita Water District
02-827	4802-110	Corona, City of
03-804	4657-110	Tahoe-Truckee Sanitation Agency
03-806	4528-210	Benicia, City of
03-846	4783-110	Los Angeles County Sanitation District
03-847	4783-210	Los Angeles County Sanitation District
04-802	6085-110	The Nature Conservancy
04-814	4450-110	Coachella Sanitary District
04-815	4252-510	La Canada Flintridge, City of
05-803	4693-110	Petaluma, City of
05-809	4665-210	Stege Sanitary District
05-810	4200-110	Yucaipa Valley Water District
05-811	4729-110	La Mesa, City of
06-803	4971-110	Redding, City of
07-815	4632-110	Alturas, City of
07-816	4728-120	South San Francisco, City of
07-818	4729-120	La Mesa, City of
07-819	4971-210	Redding, City of
07-825	4303-110	East Bay Municipal Utility District
93-805	6006-110	Davis, City of
93-810	6022-110	Pacheco Water District
93-819	4330-110	Goleta Sanitary District
94-806	4108-110	Cambria Community Services District
96-805	6014-110	San Luis Water District

96-820	4360-110	Davis, City of
97-804	4001-220	Los Angeles County Sanitation District
97-809	4505-110	Placerville, City of
97-813	6031-110	Mammoth Lakes, Town of
97-814	4648-110	Rialto, City of
97-817	4251-110	Colton, City of
97-827	4614-110	South San Francisco, City of
98-813	4262-110	Humboldt County Res. Imp. Dist. 1
98-818	4001-250	Los Angeles County Sanitation District
98-837	4452-110	Santa Ana Watershed Project Authority
99-802	4704-110	Windsor, Town of
99-805	4610-110	Vacaville, City of
99-807	4679-110	Los Angeles, County of
99-811	4429-120	Thousand Oaks, City of
99-819	4666-110	American Canyon, City of
99-829	4616-110	Calistoga, City of

FUND 3147 AND 9739 (percentage of outstanding principal balance)

CONTRACT NUMBER	PROJECT NUMBER	RECIPIENT
00-805	4596-110	Hilmar County Water District
00-806	4685-110	Sacramento, City of
00-815	4465-110	Yreka, City of
00-816	4062-140	Santa Rosa, City of
00-819	4086-110	Lake County Sanitation District
01-802	4173-110	Laguna County Sanitation District
01-804	4655-110	Piedmont, City of
01-815	4771-110	Union Sanitary District
01-816	4684-110	Ventura, County of
01-817	4062-240	Santa Rosa, City of
01-821	4800-110	Redlands, City of
01-825	4790-110	Vallejo Sanitation & Flood Dist.
02-804	4252-410	La Canada Flintridge, City of
02-809	4846-130	Inland Empire Utilities Agency
02-810	4772-110	Burlingame, City of
02-811	6061-120	Napa, County Of, Flood Control and Water
02-816	4801-110	North San Mateo County Sanitation District
02-817	4655-120	Piedmont, City of
02-818	4307-110	San Luis Obispo, City of
02-823	4007-610	Alameda, City of
02-824	4728-110	South San Francisco, City of
03-801	4695-110	Escondido, City of
03-811	4655-130	Piedmont, City of
03-848	4783-310	Los Angeles County Sanitation District
05-808	4844-110	North Marin Water District
06-801	4823-110	Sonoma Valley County Sanitation District
06-802	6090-110	The Conservation Fund
06-806	4969-110	Nevada County Sanitation District #1
07-813	5053-110	Union Sanitary District
07-817	6093-110	St Helena, City of
07-820	4790-120	Vallejo Sanitation & Flood Dist.
07-835	5045-110	Union Sanitary District
07-836	4470-110	Colfax, City of
08-816	4916-110	Los Angeles County Sanitation District
98-811	6050-110	Merced, County of
98-816	4429-110	Thousand Oaks, City of
98-817	4001-260	Los Angeles County Sanitation District
98-826	6026-110	South Lake Tahoe, City of
98-828	6061-110	Napa, County Of, Flood Control and Water
99-830	4452-140	Santa Ana Watershed Project Authority
99-831	4653-110	Sacramento, City of

Exhibit G

SFY 2012/2013 SMALL COMMUNITY GRANT (SCG) PROJECTS

FINANCIAL ASSISTANCE RECIPIENT NAME	PROJECT NUMBER	PLANNING PROJECT	2012/2013 SCG FUNDING COMMITMENT
Tulelake, City of	4930-110		\$3,763,084
Willow Creek Community Services District *	5957-110	x	\$195,523
Davenport County Sanitation District	7843-110	x	\$125,000
Tulare, County of	5939-110	x	\$453,000
Madera, County of *	7211-110	x	\$284,800
Planada CSD	7649-110	x	\$380,000
Planada CSD	7649-210		\$2,531,276
Stratford Public Utility District	7767-110	x	\$499,750
Poplar Community Service District	7835-110	x	\$278,900
Tulare, County of	7836-110	x	\$223,621
Easton Community Services District	7864-110	x	\$488,000
Mokelumne Hill Sanitary District	7821-110		\$899,071
San Andreas Sanitary District	7842-110	x	\$482,000
Valley Springs Public Utility District	7848-110	x	\$415,000
Murphys Sanitary District	7849-110	x	\$335,000
Calaveras County Water District	7850-110	x	\$200,000
Plymouth, City of	7852-110	x	\$445,975
TOTAL:	17	14	\$12,000,000

* Funds from 2012/2013 allocation supplemented with funds from 2013/2014 allocation as follows:
 Willow Creek: \$195,523 from 2012/2013 plus \$304,282 from 2013/2014 = \$499,805 total
 Madera County: \$285,800 from 2012/2013 plus \$168,200 from 2013/2014 = \$453,000 total

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ANNUAL REPORT SEPTEMBER 2013

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Members & Executive Director

STATE WATER RESOURCES CONTROL BOARD



Felicia Marcus
BOARD CHAIR

Felicia Marcus is chair of the State Water Resources Control Board. Before her appointment to the Water Board, she was Western Director for the Natural Resources Defense Council (NRDC). Prior to joining NRDC, she served as Executive VP/ COO of the Trust for Public Land, a national non-profit devoted to conserving land for people. She also served as the Regional Administrator of the U.S. EPA Region IX in the Clinton Administration and, prior to that, she headed the Los Angeles Department of Public Works.



Frances Spivy-Weber
BOARD VICE CHAIR

Frances Spivy-Weber of Redondo Beach is vice chair of the State Water Resources Control Board. Before being appointed to the Water Board, she served as the executive director of the Mono Lake Committee. She also served as the director of international programs for the National Audubon Society, was a legislative assistant for the Animal Welfare Institute, and a member of the Bay-Delta Public Advisory Committee. She has a Master's degree from the Johns Hopkins University School of Advanced International Studies and a Bachelor's degree from the University of Texas.



Tom Howard
EXECUTIVE DIRECTOR

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

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Tam M. Doduc
BOARD MEMBER

Tam Doduc serves as the civil engineer on the State Water Resources Control Board. Before being appointed to the Water Board, Doduc served as Deputy Secretary at the California Environmental Protection Agency (Cal/EPA), A licensed civil engineer, Ms. Doduc earned a Bachelor of Science in BioEngineering from the University of California at Berkeley, and a Master of Science in Civil Engineering from the California State University in Sacramento. She also earned a Master of Business Administration from the University of California at Berkeley.



Steven Moore
BOARD MEMBER

Steven Moore is the professional engineer on the State Water Resources Control Board. Before joining the Water Board he was a civil engineer in Marin County. He has worked more than 20 years on water issues as a consultant, and as both staff and a Board Member with the San Francisco Bay Regional Water Board. He served on the Federal Aquatic Nuisance Species Task Force from 2002 to 2006. Mr. Moore was actively involved in the 2007 update of the San Francisco Bay Estuary's Comprehensive Conservation and Management Plan.



Dorene D'Adamo
BOARD MEMBER

Dorene D'Adamo is the attorney member on the Board. Before her appointment she served on the California Air Resources Board. She was also a representative on the CALFED team and "Red Team" for UC Merced, and has served in a variety of roles within California's criminal justice system. Currently she also serves on the Valley Coalition for UC Merced's Medical School and on the board of the Governor's Partnership for the San Joaquin Valley. Ms. D'Adamo earned a bachelor's degree from the University of California at Davis and a Juris Doctor from the University of the Pacific, McGeorge School of Law.



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