Water Quality Authority

San Gabriel Basin Water Quality Authority
Audited Financial Statements
As of and for the Years Ended June 30, 2016 and 2015
with Report of Independent Auditors

An independently owned member
RSM US Alliance
RSM

Vasquez & Company LLP
Certified Public Accountants and Business Consultants

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Audited Financial Statements
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Vasquez & Company LLP
Certified Public Accountants and Business Consultants

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Report of Independent Auditors

The Honorable Members of the Board of Directors
San Gabriel Basin Water Quality Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the San Gabriel Basin Water Quality Authority (the Authority) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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 financial position of the Authority as of June 30, 2016, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 14 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.

2015 Financial Statements

The financial statements of the Authority, as of and for the year ended June 30, 2015, were audited by other auditors, whose report, dated February 26, 2016, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2017 on our consideration of the Authority'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 results 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 the Authority's internal control over financial reporting and compliance.

Vasquez & Company LLP

Los Angeles, California
February 22, 2017

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2016

INTRODUCTION

The San Gabriel Basin Water Quality Authority (Authority) is a special district whose major function is to facilitate the development, financing and implementation of groundwater treatment programs in the San Gabriel Valley. The groundwater treatment programs are located in Operable Units within the San Gabriel Valley - the Baldwin Park Operable Unit (BPOU), the El Monte Operable Unit (EMOU), the Puente Valley Operable Unit (PVOU), the South El Monte Operable Unit (SEMOU), Area Three Operable Unit (ATOU) and the Whittier Narrows Operable Unit (WNOU). Additionally, there are several treatment programs located outside of the defined Operable Units.

DESCRIPTION OF FINANCIAL STATEMENTS

The Authority's basic financial statements include the following three statements:

The *statements of net position* present information on all of the Authority's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the financial position of the Authority.

The *statements of revenues, expenses and changes in net position* present information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows, as revenues and expenses are recognized on the accrual basis of accounting.

The *statements of cash flows* are related to the other financial statements by the way they link changes in assets and liabilities to the effect on cash and cash equivalents over the course of the fiscal year.

The notes to the financial statements provide useful information regarding the Authority's significant accounting policies, and explain significant account balances and activities, certain material risks, obligations, commitments, contingencies and subsequent events, if any.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2016

SUMMARY FINANCIAL INFORMATION AND ANALYSIS

The following condensed financial information provides an overview of the Authority's financial position and financial activities for the fiscal years ended June 30, 2016 and 2015.

	June 30		Dollar	Percentage
	2016	**2015**	Change	Change
Assets				
Current assets	$ 16,320,996	$ 17,634,108	$ (1,313,112)	-7.4%
Other Capital assets , net	5,191,488	5,450,733	(259,245)	-4.8%
Construction in progress	22,382,285	32,076,202	(9,693,917)	-30.2%
Noncurrent assets	3,057,326	3,393,131	(335,805)	-9.9%
Total assets	46,952,095	58,554,174	(11,602,079)	-19.8%
Liabilities				
Current liabilities	6,663,673	7,496,613	(832,940)	-11.1%
Noncurrent liabilities	3,034,630	3,370,476	(335,846)	-10.0%
Total liabilities	9,698,303	10,867,089	(1,168,786)	-10.8%
Net Position				
Investment in capital assets	27,573,773	37,526,935	(9,953,162)	-26.5%
Restricted	7,349,198	7,600,908	(251,710)	-3.3%
Unrestricted	2,330,821	2,559,242	(228,421)	-8.9%
Total net position	37,253,792	47,687,085	(10,433,293)	-21.9%
Total liabilities and net position	$ 46,952,095	$ 58,554,174	$ (11,602,079)	-19.8%

Summary of Statement of Net Position

Current Assets - As of June 30, 2016, current assets totaled $16.3M, and are composed primarily of $12.9M of cash and investments and $2.5M of accounts receivable. As of June 30, 2015, current assets totaled $17.6M, and were composed primarily of $13.6M of cash and investments and $3.2M of accounts receivable. Current assets decreased $1.31M or 7.4% over the prior year, with the majority of the decrease related to cash and investments and receivables.

Cash and investments decreased by $635K or 4.7% from the prior year; this decrease was due primarily to payment of grants and Treatment and Remediation (T & R) costs for treatment facilities in the SEMOU and EMOU.

Accounts receivable decreased $.7M or 28% from the prior year primarily due to a $879K decrease in accounts receivable due from federal funding sources. The majority of this decrease was due to the closeout of a federal grant for which a receivable of $626K was recorded for 2015. No similar receivable was recorded for 2016. Additionally, the receivable from EPA for T & R costs was reduced by $253K. These decreases was partially offset by a $150K increase in accounts receivable from RPs related to project T & R costs.

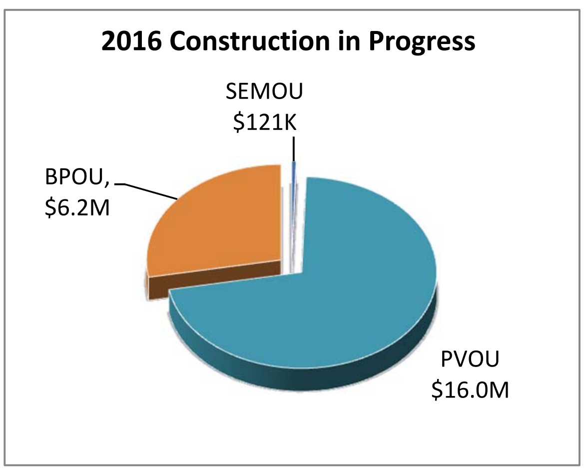
At June 30, 2016, accounts receivable includes $1.1M due from the U.S. Environmental Protection Agency (EPA) for pending reimbursements for treatment and remediation (T & R) costs incurred for projects in the SEMOU. The EPA receivable decreased $253K or 19.0% from FY 2015, due to a decrease in SEMOU T & R costs for the current fiscal year. The prior year balance also included a $626K receivable from USBR for project capital costs - the receivable was collected during the current year and no further receivables are recorded from USBR. Additionally, accounts receivable also includes $1.3M due from Responsible Parties related to project T & R costs. This is an increase of $150K or 12.8% from FY 2015.

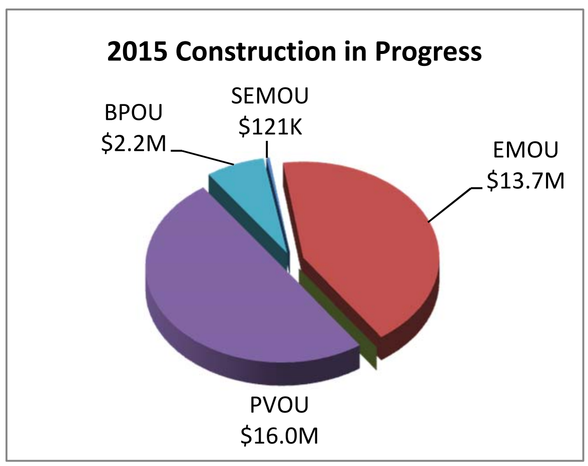
Other Capital Assets - During FY 2016, improvements at the SEMOU Whitmore Treatment Facility totaled $20.9K, and purchases of office equipment totaled $8.3K. The current year transactions, including depreciation of $288K, resulted in a net decrease in capital assets of $259K, or 4.8%.

Summary of Statement of Net Position (continued)

Construction in Progress (CIP) - Each Operable Unit within the San Gabriel Basin has unique terms to describe the parties responsible for contamination of the groundwater. These terms include Responsible Parties (RPs), Cooperating Respondents, Performing Settling Defendants, Settling Defendants, Potentially Responsible Parties, and Work Parties. Hereafter, these parties shall be collectively referenced as RPs. The Authority, through agreements with various RPs and local Water Producers has agreed to provide capital funding for various projects in the San Gabriel Basin. Capital costs associated with these projects are accounted for as CIP. Project capital costs include land acquisition costs, design costs, construction costs, professional fees, labor costs and other related project costs. Through agreements, the projects have a variety of funding sources, including the Authority's pumping right assessments, and capital contributions from RPs, Water Producers, and federal and state grants. Such funding received for projects under construction are recorded as capital contributions. Upon completion of a project, if the related asset is owned by the Authority, it is transferred to capital assets and depreciated. For completed projects where title is retained by the Water Producer, the Authority transfers the asset to the Water Producer.

Shown below is the composition of CIP by Operable Unit as of June 30, 2016 and 2015.





__Summary of Statement of Net Position (continued)__

Construction in Progress (CIP) (continued) - At June 30, 2016, CIP totaled $22.4M, which is a net decrease of $9.7M or 30.2% from FY 2015. Approximately 28.0% of CIP is related to the BPOU, 71.6% is related to the PVOU with the remainder related to the SEMOU. During 2016, the Authority incurred $4.0M of CIP for the continuing design and construction of the treatment facilities for the BPOU single pass treatment facilities. Additionally, the EMOU Eastside Shallow and Southeast Deep Remedy Projects totaling $13.7M were completed and the projects were transferred to Water Producers.

Listed below is a general description of the major projects currently under construction and included in CIP as of June 30, 2016.

BALDWIN PARK OPERABLE UNIT

Valley County Water District (VCWD) Single Pass Treatment Facility

$4.4M related primarily to the design and construction of a single pass ion exchange treatment system, replacing the existing regenerable ion exchange treatment equipment.

San Gabriel Valley Water Company (SGVWC) Plant B6

$1.4M related to the design and construction of an additional fixed bed ion exchange treatment system for the removal of nitrates.

PUENTE VALLEY OPERABLE UNIT

Intermediate Zone Remedy - Northrop Grumman

$16.0M related primarily to the design and construction of extraction wells, conveyance pipelines, and the design of a treatment facility located at a site in the PVOU.

Summary of Statement of Net Position (continued)

Current Liabilities - At 2016, current liabilities totaled $6.7M, a decrease of $833K from the prior fiscal year 2015, and are comprised primarily of accounts payable and unearned revenue. Accounts payable is $3.2M for the current year which is a decrease of approximately $303K from FY 2015. This change includes an increase in accounts payable for BPOU projects of $531K, a decrease in payables to EMOU RPs of $510K, a decrease in payables to SEMOU Water Producers of $342K, and an increase in accounts payable for operating expenses of $18K. The increases and decreases are due to fluctuations in capital and T & R project costs for the current fiscal year, and are controlled by the submittals for cost reimbursements from RPs and Water Producers. Unearned revenue relates to funds previously received by the Authority by way of various settlement agreements with SEMOU RPs. The funds are held to pay certain SEMOU project costs as per agreement. During the current year, $543K of unearned revenue was recognized as income. Accordingly, the unearned revenue balance decreased from $3.5M to $3.0M.

Noncurrent Assets/Noncurrent Liabilities - Between the years of 2003 through 2005, the Authority received a total of $6,440,000 in loan proceeds from the Department of Toxic Substances Control through the SWRCB for reimbursement of project costs related to the VCWD Subarea 1 (SA1) project located in the BPOU. At June 30, 2016, the noncurrent portion of the note payable totaled $3.0M. The Authority has a corresponding note receivable due from the BPOU RPs. The proceeds from the note receivable are used by the Authority to repay the note payable in accordance with the Authority's repayment terms with the SWRCB. Accordingly, the noncurrent portion of the receivable is recorded as a noncurrent asset, with a balance of $3.0M as of June 30, 2016. Noncurrent assets and noncurrent liabilities both decreased by $330K during the current year due to payments received from the note receivable due from the BPOU RPs and the Authority's payments made on the note payable to SWRCB.

Summary of Statement of Net Position (continued)

Net Position* - *Restricted - For FY 2016, net position-restricted totaled $7.3M, which is a decrease of $252K or 3.3% from FY 2015. The net position-restricted includes cash, investments and receivables comprised primarily from federal funding and settlement funds that are restricted for use under various agreements discussed below. The Authority has entered into several agreements with the United States Bureau of Reclamation (USBR) to provide funding through two federal programs (Title XVI and Restoration Funds) for water treatment facilities located in the San Gabriel Basin. The funds are provided on a reimbursement basis and then applied to projects through the Authority's Federal Funding Program Administration (FFPA). The Authority has also entered into Cooperative Agreements with EPA to provide funding for water treatment facilities in the SEMOU. These funds are received by the Authority on an advance basis and must be paid to the Water Producers within a few days. In addition to the funding from USBR and EPA, the Authority has reached several financial settlements with RPs in the BPOU, EMOU, PVOU and SEMOU. Certain of the settlement funds are deposited into the Authority accounts and are disbursed for capital and T & R costs incurred or to be incurred in connection with the specific projects identified in the agreements.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2016

Summary of Revenue, Expenses and Changes in Net Position

	June 30 2016	June 30 2015	Dollar Change	Percentage Change
Total Operating Revenues	$ 19,496,672	$ 18,885,239	$ 611,433	3.2%
Total Operating Expenses	19,703,797	18,599,764	1,104,033	5.9%
Operating Income (Loss)	(207,125)	285,475	(492,600)	-172.6%
Nonoperating Revenues	131,200	123,263	7,937	6.4%
Nonoperating (Expenses)	(13,799,087)	(99,832)	(13,699,255)	13722.3%
Income (Loss) before Capital Contributions	(13,875,012)	308,906	(14,183,918)	-4591.7%
Capital Contributions	3,441,719	2,426,840	1,014,879	41.8%
Changes in net position	(10,433,293)	2,735,746	(13,169,039)	-481.4%
Beginning net position	47,687,085	44,951,339	2,735,746	6.1%
Ending net position	$ 37,253,792	$ 47,687,085	$ (10,433,293)	-21.9%

Operating Revenues - Total operating revenues increased $611K or 3.2% in the current year due to an increase of $1.4M in RP contributions which were partially offset by an $816K decrease in federal funding awards.

RP Contributions - Through agreements, T & R costs for projects located primarily in the BPOU and SEMOU are paid through the Authority. For FY 2016, the Authority received and recognized as revenue $15.7M in funding from the RPs for costs related to these projects, an increase of $1.4M or 9.9% over the prior year. The increase is due primarily to an increase in T & R costs for the BPOU projects. For FY 2015, the Authority received and recognized as revenue $14.3M in funding from the RPs for costs related to these projects.

Summary of Revenue, Expenses and Changes in Net Position (continued)

Federal Funding Awards - The Authority recognizes as income certain federal awards paid for project capital and T & R costs. During FY 2016, $1.7M was recognized as revenue from federal awards, a decrease of $816K or 32.8% over the prior year. The prior year included revenue of $510K for an EMOU capital project. No such revenue was recorded for 2016 as the federal award was finalized in 2015. Additionally revenue from the EPA grant for SEMOU decreased due to a reduction in cost reimbursements submitted by the SEMOU Water Producers.

Operating Expenses **-** Total operating expenses increased $1.1M or 5.9% in the current year primarily due to a $145K increase in professional services and a $1.3M increase in project T & R costs which was partially offset by a $445K decrease in project grants expense.

Professional Services - Costs incurred during 2016 include legal costs related to negotiations on certain agreements with RPs, costs for general legal counsel, and the services of several professional firms, including a database and mapping consultant, an outside accountant, audit services and a firm engaged to scan the Authority's archived documents. The $145K increase in the current year is due primarily to the costs for the negotiations with RPs, and the costs for scanning services and database services.

Project T & R Costs - These costs relate primarily to projects within the BPOU and SEMOU. Although the majority of these costs are funded through RPs, for FY 2016 approximately $1.5M in costs were funded by federal funding sources. The $1.3M increase in the current year is due to increasing costs in the treatment and remediation process.

Project Grants - The items included in this category include certain payments for project capital and T & R costs. The $445K decrease in project grant expense for 2016 is due to a reduction in award payments for projects during FY 2016. The prior year included $510K awarded for an EMOU capital project. No such grant was awarded during 2016. Additionally, the project grants expense category fluctuates from year to year based on the grant requests received by the Authority from the various Water Producers throughout the San Gabriel Basin. Increases and decreases in this account are expected.

Summary of Revenues, Expenses and Changes in Net Position (continued)

Nonoperating Revenues (Expenses) - Nonoperating Revenues (Expenses) include interest income and interest expense, as well as transfers of completed capital projects. The EMOU Eastside Shallow and Southeast Deep Remedy projects were completed during the year totaling $13.7M transferred to a Water Producer.

Capital Contributions

	June 30	
Capital Contributions	**2016**	**2015**
Governmental - Federal	$ 4,926	$ 676,760
Governmental - State	20,873	1,353
Responsible Parties	3,415,920	1,770,209
Capital Assessment	-	28,518
Total Capital Contributions	3,441,719	2,476,840

Capital contributions increased $965K in the current year primarily due to a $1.6M increase in capital contributions from the BPOU RPs which was partially offset by a $672K decrease in Federal capital contributions for the EMOU. Revenues that are restricted for capital expenditures are recorded as capital contributions. As funding is received for capital projects, it is recorded as a capital contribution and the corresponding costs are recorded as CIP. The increase in the capital contributions from the BPOU RPs is a result of construction for the VCWD SA-1 project and the SGVWC B-6 project. The decrease in federal contributions is due to the completion of the EMOU project which was partially funded by federal funding.

Economic Factors

Assessment - Section 605 of the Authority's enabling Act, as amended effective January 1, 2004, grants the Authority the authority to impose an annual pumping right assessment not to exceed $10 per acre-foot. Additionally, Section 608 of the enabling Act grants the Authority the ability to annually adjust the assessment rate by an amount not to exceed the percentage change in the LA/Riverside Consumer Price Index - All Urban Consumers (CPI). The increase in the CPI from 2004 to 2015 is 26.6 percent, resulting in an allowable maximum assessment of $12.98.

Previously the Authority had been able to minimize assessment dollars needed by securing funding from outside sources such as federal funding, state funding, and funding from RPs as well as utilizing its reserve that had been built up in previous years. As such, the Authority had been able to keep the assessment at $7.25 per acre foot for eleven consecutive years through FY 2014. For FY 2015, the assessment was increased to $10 per acre foot.

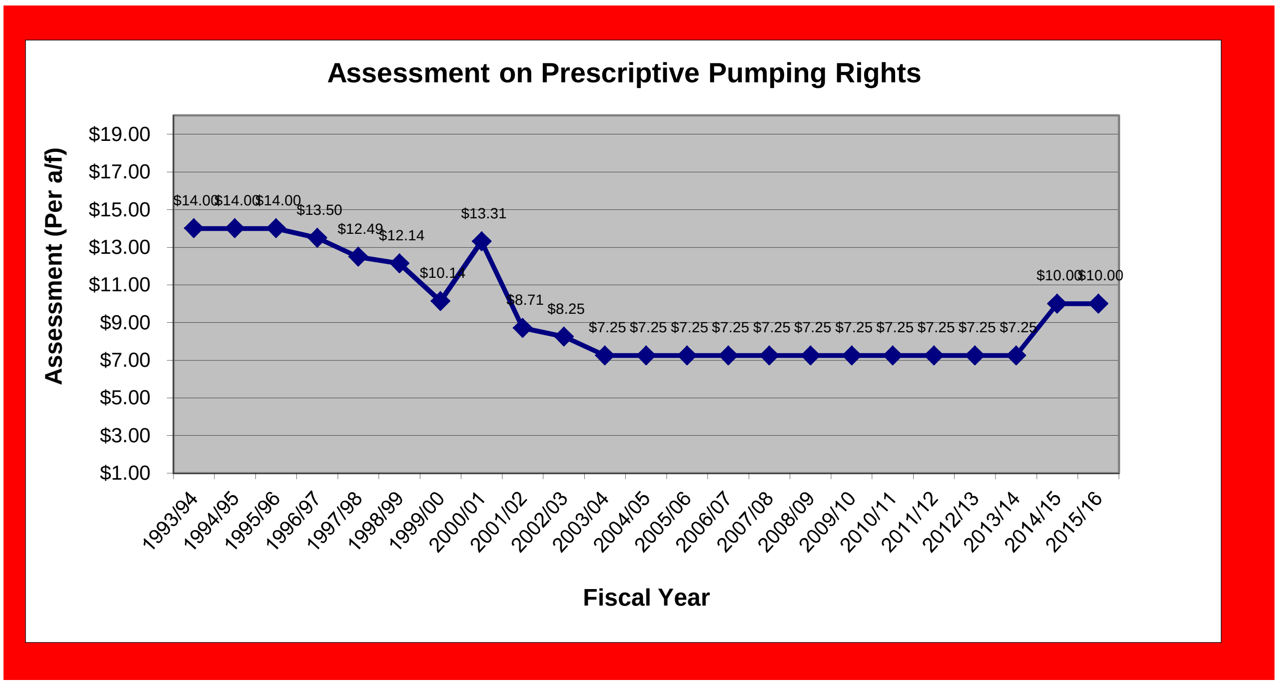
For FY 2016, the Authority's assessment remained at $10.00 per acre foot. This is allowing it to cover the necessary annual administrative and project costs as well as build up the reserves. Barring any unanticipated circumstances, the Authority expects to keep the assessment at $10.00 per acre foot for a minimum of five years before requesting another increase.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2016

Economic Factors (continued)

The following table presents the historical annual assessment rate per acre foot since the Authority's inception.



	June 30	
	2016	2015
ASSETS		
Current assets		
Cash and investments	**$ 12,916,906**	$ 13,552,304
Accounts receivable	**2,521,237**	3,212,089
Inventories	**377,802**	377,802
Prepaid expenses and other receivables	**61,855**	56,073
Interest receivable	**107,350**	108,824
Current portion of note receivable	**335,846**	327,016
Total current assets	**16,320,996**	17,634,108
Noncurrent assets		
Capital assets:		
Construction in progress	**22,382,285**	32,076,202
Other capital assets, net of accumulated depreciation	**5,191,488**	5,450,733
Total capital assets, net	**27,573,773**	37,526,935
Deposits	**22,696**	22,655
Note receivable, net of current portion	**3,034,630**	3,370,476
Total noncurrent assets	**30,631,099**	40,920,066
Total assets	**$ 46,952,095**	$ 58,554,174
LIABILITIES		
Current liabilities		
Accounts payable	**$ 3,194,026**	$ 3,496,710
Accrued expenses	**80,673**	67,646
Interest payable	**91,003**	99,832
Unearned revenue	**2,962,125**	3,505,409
Current portion of note payable	**335,846**	327,016
Total current liabilities	**6,663,673**	7,496,613
Noncurrent liabilities		
Note payable, net of current portion	**3,034,630**	3,370,476
Total noncurrent liabilities	**3,034,630**	3,370,476
Total liabilities	**9,698,303**	10,867,089
NET POSITION		
Investment in capital assets	**27,573,773**	37,526,935
Restricted	**7,349,198**	7,600,908
Unrestricted	**2,330,821**	2,559,242
Total net position	**37,253,792**	47,687,085
Total liabilities and net position	**$ 46,952,095**	$ 58,554,174

See notes to the financial statements.

	Years ended June 30	
	2016	2015
Operating revenues		
Pumping right assessments	**$ 1,976,111**	$ 1,947,582
Responsible party contributions	**15,714,266**	14,295,716
WQA federal funding awards	**1,668,199**	2,483,846
WQA state funding	**138,096**	158,095
Total operating revenues	**19,496,672**	18,885,239
Operating expenses		
Administrative salaries	**753,591**	699,457
Fringe benefits	**234,475**	226,039
Consulting	**504,532**	512,983
Professional services	**268,990**	123,626
Office rent	**89,275**	89,275
Supplies	**10,478**	3,984
Insurance	**25,068**	13,240
Public relations	**140,010**	89,522
Travel and conferences	**48,659**	49,850
Telephone and utilities	**4,616**	5,188
Dues and subscriptions	**18,697**	18,671
Board member fees	**49,760**	55,703
Equipment rent and maintenance	**39,122**	37,938
Depreciation	**288,417**	295,079
Miscellaneous expense	**3,793**	637
Project treatment and remediation costs	**16,912,493**	15,606,868
Project grants	**310,096**	754,563
Discharge permit activities	**1,725**	17,141
Total operating expenses	**19,703,797**	18,599,764
Operating income (loss)	**(207,125)**	285,475
Nonoperating revenues (expenses)		
Interest income	**131,200**	123,263
Interest expense	**(91,003)**	(99,832)
Transfer of capital assets to water producers	**(13,708,084)**	-
Net nonoperating revenues (expenses)	**(13,667,887)**	23,431
Income (loss) before capital contributions	**(13,875,012)**	308,906
Capital contributions	**3,441,719**	2,426,840
Change in net position	**(10,433,293)**	2,735,746
Net position at beginning of year	**47,687,085**	44,951,339
Net position at end of year	**$ 37,253,792**	$ 47,687,085

See notes to the financial statements.

	Years ended June 30	
	2016	2015
Cash flows from operating activities		
Cash from operating revenues	**$ 20,187,524**	$ 18,991,378
Cash paid to suppliers for goods and services	**(18,673,034)**	(17,992,654)
Cash paid to employees on or behalf of employees for services	**(1,037,826)**	(924,737)
Net cash provided by operating activities	**476,664**	73,987
Cash flows from noncapital financing activities		
Proceeds received from note receivable	**327,016**	318,419
Interest received from note receivable	**99,832**	108,430
Payments on note payable	**(327,016)**	(318,419)
Interest paid on note payable	**(99,832)**	(108,430)
Net cash provided by noncapital financing activities	**-**	-
Cash flows from capital and related financing activities		
Acquisition of capital assets	**(29,172)**	(1,353)
Construction in progress expenditures	**(4,014,167)**	(2,661,125)
Capital contributions received	**2,898,435**	2,151,733
Net cash used in capital and related financing activities	**(1,144,904)**	(510,745)
Cash flows from investing activities		
Interest received on investments	**32,842**	21,948
Net cash provided by investing activities	**32,842**	21,948
Net change in cash and cash equivalents	**(635,398)**	(414,810)
Cash and cash equivalents at beginning of year	**13,552,304**	13,967,114
Cash and cash equivalents at end of year	**$ 12,916,906**	$ 13,552,304

See notes to the financial statements.

		Years ended June 30		
		2016		2015
Cash flows from operating activities				
Operating income (loss)	**$**	**(207,125)**	$	285,475
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation		**288,417**		295,079
Decrease in accounts receivable		**690,852**		207,843
(Increase) decrease in prepaid expenses		**(5,782)**		6,793
(Increase) in deposits		**(41)**		(67)
(Decrease) in accounts payable and accrued expenses		**(289,657)**		(721,136)
Net cash provided by operating activities		**476,664**		73,987
Noncash capital, investing and financing activities:				
Transfer of capital assets to water producers	**$**	**13,708,084**	$	-

See notes to the financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The San Gabriel Basin Water Quality Authority, initially named as the Main San Gabriel Basin Water Quality Authority, was formed in 1990 as a joint powers authority (JPA) in order to finance and construct treatment facilities to purify the contaminated groundwater within the San Gabriel Valley. The Main San Gabriel Basin Watermaster, Upper San Gabriel Valley Municipal Water District, Three Valleys Municipal Water District and San Gabriel Valley Municipal Water District were members of this JPA and provided it with a source of funding for its operations. On February 11, 1993, the Main San Gabriel Basin Water Quality Authority was converted by the State Legislature (SB 1679 – The San Gabriel Basin Water Quality Authority Act) (the Act) from a JPA to a special district and renamed the San Gabriel Basin Water Quality Authority (Authority). Under the direction of a seven-member Board, the major functions of the Authority are to develop, finance and implement groundwater treatment programs in the San Gabriel Valley. The legislative act authorized the Authority to impose pumping right assessments to carry out its treatment activities.

Senate Bill No. 429 became law in September 2013, amending certain sections of the Act and extending the Act until July 1, 2030.

Basis of Accounting and Financial Statement Presentation

The Authority is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges. The Authority utilizes the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from pumping right assessments, grants and contributions. Operating expenses include project expenses, general and administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Capital contributions consist of contributed capital assets, and other charges that are legally restricted for capital expenditures by state law or by the Board action that established those charges.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories
Inventories consist of replacement parts for various treatment facilities. Inventories are stated at lower of cost or market on the first-in, first-out basis.

Accounts Receivable
Accounts receivable are recorded at net realizable value. Management believes that accounts receivable are fully collectible. Therefore, no allowance for doubtful accounts is reflected on the Statements of Net Position at June 30, 2016 and 2015.

Capital Assets
Capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated assets are valued at their estimated fair market value on the date received. The Authority capitalizes all assets with a historical cost of at least $5,000 and a useful life of at least 5 years. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciation is computed utilizing the straight-line method over the following estimated useful lives:

Office equipment	3 to 5 years
Office furniture	10 years
Treatment plant equipment	10 years
Treatment plants	35 years
Monitoring wells	35 years

Construction in Progress
Project capital costs are accumulated as construction in progress over the life of the construction. The Authority believes that it is responsible for management of the asset during the construction phase. Once a project is completed, the asset is "transferred" to the related water entity who takes over the management and maintenance of the asset at that time.

Water being treated in the treatment facilities frequently requires more than one type of treatment. A treatment facility may be operational but construction is ongoing to develop additional treatment processes to remediate newly detected contamination or to more efficiently address existing contamination. In these circumstances, if the construction is ongoing, the Authority will retain the project in construction in progress until the entire project is completed, even though portions of that project may have some involvement in water treatment activities.

Cash Equivalents
For the purposes of the Statements of Cash Flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near to their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of 3 months or less.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments
Investments are reported at fair value, except for certain investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates. Changes in fair value that occur during the fiscal year are recognized as interest income reported for that fiscal year. Interest income also includes interest earnings.

Pumping Right Assessments
On September 19, 1992, the California state legislature approved legislation to allow the Authority to levy a pumping right assessment on holders of prescriptive (as determined by Superior Court Judgment) pumping rights. Prior to the fiscal year ended June 30, 2002, the pumping right assessment consisted of two components, a capital assessment and an administrative assessment. Assembly Bill 2544 amended this practice and combined the capital and administrative assessment into one annual pumping right assessment.

Pumping right assessments are imposed, on an as needed basis, after other revenue sources, such as private party, state and federal grant funding are budgeted. During the fiscal years ended June 30, 2016 and 2015, the annual pumping right assessment was $10 per acre-foot.

The Authority records incoming funds as operating revenues. Funds are received from the United States Bureau of Reclamation (USBR), United States Environmental Protection Agency (EPA), Water Producers, California State Water Resource Control Board (SWRCB) and assessments on prescriptive pumping rights holders in the San Gabriel Basin, as well as from the parties responsible for contamination which include Responsible Parties, Cooperating Respondents (CRs), Performing Settling Defendants (PSDs), Settling Defendants (SDs), Work Parties, and Potentially Responsible Parties (PRPs). Hereafter, the parties responsible for contamination will be collectively referred to as Responsible Parties (RPs)

Accrued Liabilities and Accounts Payable
The Authority records accounts payable liabilities when invoices are approved for payment by the authorizing entity, which can be the Authority, EPA, RPs or Water Entities. The Authority incurs two types of costs: administrative costs and project costs.

<u>Administrative Costs</u>
These costs relate to administrative costs, including payroll and benefits, incurred by the Authority, and are funded by assessments. A liability is recorded when an invoice is approved by the Authority. The liability is recorded in the same time period as the cost/expense is incurred.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

<u>Project Costs</u>
These costs include legal, government relations, community relations, and costs related to projects owned and operated by the Authority. These costs are either funded by RPs or funded by the Authority's assessments. Generally, the liability is recorded in the same time period as the cost is incurred.

<u>Project Costs Incurred by RPs, and Water Producers and Paid by the Authority</u>
As a part of its role in managing the quality of the water in the San Gabriel Basin, the Authority will pay for certain costs for which the RPs are financially responsible. Typically, these costs will be incurred by Water Producers and then submitted by the Water Producers to be considered for reimbursement. The process required to approve these costs for reimbursement requires input from various parties. Once a cost has been approved for reimbursement, the Authority reports an expense and a liability for the qualified cost (to reflect the amount due to the Water Producer). An equal amount of revenue (and a receivable) is also reported for the amount of reimbursement approved for collection from the RPs. In the event that a cost is not approved for reimbursement, the Authority has no liability and the cost remains an unrecovered expense of the Water Producer.

Contingent Liabilities
The Authority has received funds from various federal, state, and local grant programs. It is possible that at some future date it may be determined that the Authority was not in compliance with applicable grant requirements. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although management does not expect such disallowed amounts, if any, to materially affect the financial statements.

Unearned Revenue
The Authority records unearned revenue when it receives funds from the SEMOU RPs through the various settlement agreements. Under these agreements, the funds received are required to be used to pay eligible project costs to the Water Producers. The funds are not considered earned until the Water Producers submit requests for reimbursement to the Authority and the Authority is in agreement that the costs are eligible for reimbursement.

Deferred Outflows/Inflows of Resources
In addition to assets, the Statements of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority does not have any items that qualify in this category as of June 30, 2016 and 2015.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition to liabilities, the Statements of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority does not have any items that qualify for this category as of June 30, 2016 and 2015.

Net position

Net position is presented in three components: net investment in capital assets, restricted, and unrestricted. Net position of the Authority has been reported as restricted when its use is constrained more narrowly than the reporting unit in which they are reported as a result of state laws governing such use. When both restricted and unrestricted resources are available for use, the Authority uses unrestricted resources first, and then restricted resources as they are needed. For capital expenditures, other restricted resources are used first, then unrestricted resources are used if needed.

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Pollution Remediation

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* addresses pollution remediation obligations and how such costs should be recognized and disclosed. A pollution remediation obligation is an obligation to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities. For example, an obligation to clean up contaminated groundwater is a pollution remediation obligation.

Under GASB Statement No. 49, when a government knows or reasonably believes a site is polluted, it should determine whether a pollution remediation obligation exists and should be recorded as a liability. There are several criteria under which an entity must recognize a liability, one of which occurs when a government voluntarily commits or legally obligates itself to commence cleanup activities or monitoring or operation and maintenance of the remediation effort.

The Authority was created by the State of California to facilitate the development, financing and implementation of groundwater treatment programs in the San Gabriel Valley, the purpose of which is to clean up contaminated groundwater. As such, the Authority works with Water Producers, RPs as well as local, state and federal government agencies. The Authority has not committed or legally obligated itself to commence cleanup activities. As such, the Authority does not have a requirement to record a liability for the future estimated pollution remediation cost.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Implementation of New Accounting Pronouncements
During the fiscal year ended June 30, 2016, the Authority adopted the following new Statements of the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 72, *Fair Value measurements and Applications.* This statement provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of this statement did not have a significant impact on the Authority's financial statements for the fiscal year ended June 30, 2016 as the Authority's only investments are in LAIF as discussed in Note 2.

- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. The implementation of this statement did not materially impact the Authority's financial statements for the fiscal year ended June 30, 2016.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Estimates are also required to determine potential impairment of long-lived assets such as capital assets. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Such events or circumstances include, but are not limited to, a significant decrease in the fair value of the equipment due to obsolescence, or a significant decrease in benefits realized from the equipment. Management is not aware of any circumstances that would lead to a material impairment of any long-lived assets.

NOTE 2 CASH AND INVESTMENTS

Cash and investments as of June 30 consist of the following:

		2016		2015
Cash on hand	$	**250**	$	295
Deposits with financial institutions		**900,685**		831,627
Investments		**12,015,971**		12,720,382
Total	$	**12,916,906**	$	13,552,304

Investment in State Investment Pool
The Authority is a voluntary participant in LAIF that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Investments Authorized by the California Government Code, the California Water Code, and the Authority's Investment Policy
The following table identifies the investment types that are authorized for the Authority by the California Government Code, and the Authority's investment policy, whichever is most restrictive. The table also identifies certain provisions of the California Government Code, and the Authority's investment policy that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Authority, rather than the general provisions of the California Government Code or the Authority's investment policy.

Authorized Investment type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment In One Issuer
Local agency bonds (c)	5 years	None	None
U.S. Treasury obligations (a)(b)	5 years	None	None
U.S. Agency securities (a)(b)	5 years	None	None
Banker's acceptances (c)	180 days	40%	30%
Commercial paper (c)	270 days	25%	10%
Negotiable certificates of deposit (a)(b)	5 years	30%	None
Repurchase agreements (c)	1 year	None	None
Reverse repurchase agreements (c)	92 days	20%	None
Medium-term notes (c)	5 years	30%	None
Money market mutual funds (c)	N/A	20%	10%
Mortgage pass-through securities (c)	5 years	20%	None
Orange County Investment Pool (c)	N/A	None	None
Local Agency Investment Fund (LAIF) (a)	N/A	None	None

(a) Investment authorized by the Authority's Investment Policy
(b) The Authority's investment policy allows a term of 12 months or less
(c) Investment is not authorized by the Authority's investment policy

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk
Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public agency deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

Deposits are fully insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). Beginning January 1, 2013, the FDIC has insured noninterest-bearing transaction accounts, which generally provides each depositor up to $250,000 in coverage at each separately chartered insured depository institution.

Deposits are exposed to custodial credit risk if they are uninsured and are either:
a. Uncollateralized
b. Collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the depositor-government's name

At June 30, 2016, the Authority's deposits (bank balances) exceeded the maximum deposit insurance amount by $670,006.

Disclosure Relating to Credit Risk
Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized statistical rating organization.

Disclosures Relating to Interest Rate Risk
Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates.

Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity as of June 30, 2016 and 2015:

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

	June 30, 2016				
		Remaining Maturity			
Investment	**Amount**	**12 Months or Less**	**13 to 36 Months**	**37 to 60 Months**	**Over 60 Months**
LAIF *	$ **12,015,971**	$ **12,015,971**	$ -	$ -	$ -
Total	$ **12,015,971**	$ **12,015,971**	$ -	$ -	$ -

	June 30, 2015				
		Remaining Maturity			
Investment	**Amount**	**12 Months or Less**	**13 to 36 Months**	**37 to 60 Months**	**Over 60 Months**
LAIF *	$ 12,720,382	$ 12,720,382	$ -	$ -	$ -
Total	$ 12,720,382	$ 12,720,382	$ -	$ -	$ -

* LAIF is not rated.

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at June 30, 2016 and 2015:

	2016	2015
Federal grants	**$ 1,071,975**	$ 1,950,951
State grants	**64,689**	29,506
Responsible party contributions	**1,317,314**	1,168,015
Pumping right assessments	**67,114**	59,856
Other	**145**	3,761
Total accounts receivable	**$ 2,521,237**	$ 3,212,089

NOTE 4 NOTE RECEIVABLE

Between the years ended June 30, 2003 through 2005, the Authority loaned funds to certain RPs for reimbursement of costs incurred in connection with construction of a treatment facility at the Arrow/Lante Well site. The RPs started repaying the loans in July 2005. The repayments are occurring over a twenty-year term on a fully amortizable basis. Interest accrues at the rate of 2.7 percent per annum. At June 30, 2016, the note receivable for the Authority was $3,370,476, of which $335,846 is receivable within the next 12 months.

NOTE 5 CAPITAL ASSETS

A summary of changes in capital assets at June 30, 2016, is as follows:

	Beginning Balance June 30, 2015	Additions	Deletions	Transfers to Water Producers	Ending Balance June 30, 2016
Capital assets, not being depreciated					
Construction in progress	$ 32,076,202	$ 4,014,167	$ -	(13,708,084)	$ 22,382,285
Total capital assets, not being depreciated	32,076,202	4,014,167	-	(13,708,084)	22,382,285
Capital assets being depreciated					
Office furniture and equipment	252,141	8,299	(61,056)	-	199,384
BPOU monitoring wells	8,792,835	-	-	-	8,792,835
SEM sentinel well	102,437	-	-	-	102,437
SEM Bozung Treatment Facility	895,540	20,873	-	-	916,413
Total capital assets being depreciated	10,042,953	29,172	(61,056)	-	10,011,069
Less accumulated depreciation					
Office furniture and equipment	(235,427)	(8,719)	61,056	-	(183,090)
BPOU monitoring wells	(4,133,668)	(251,223)	-	-	(4,384,891)
SEM sentinel well	(32,195)	(2,927)	-	-	(35,122)
SEM Bozung Treatment Facility	(190,930)	(25,548)	-	-	(216,478)
Total accumulated depreciation	(4,592,220)	(288,417)	61,056	-	(4,819,581)
Total capital assets being depreciated, net	5,450,733	(259,245)	-	-	5,191,488
Total capital assets, net	$ 37,526,935	$ 3,754,922	$ -	(13,708,084)	$ 27,573,773

NOTE 5 CAPITAL ASSETS (CONTINUED)

A summary of changes in capital assets at June 30, 2015, is as follows:

	Beginning Balance June 30, 2014	Additions	Deletions	Transfers to Water Producers	Ending Balance June 30, 2015
Capital assets, not being depreciated					
Construction in progress	$ 29,415,077	$ 2,661,125	$ -	-	$ 32,076,202
Total capital assets, not being depreciated	29,415,077	2,661,125	-	-	32,076,202
Capital assets being depreciated					
Office furniture and equipment	252,141	-	-	-	252,141
BPOU monitoring wells	8,792,835	-	-	-	8,792,835
SEM sentinel well	102,437	-	-	-	102,437
SEM Bozung Treatment Facility	894,187	1,353	-	-	895,540
Total capital assets being depreciated	10,041,600	1,353	-	-	10,042,953
Less accumulated depreciation					
Office furniture and equipment	(220,084)	(15,343)	-	-	(235,427)
BPOU monitoring wells	(3,882,447)	(251,221)	-	-	(4,133,668)
SEM sentinel well	(29,268)	(2,927)	-	-	(32,195)
SEM Bozung Treatment Facility	(165,342)	(25,588)	-	-	(190,930)
Total accumulated depreciation	(4,297,141)	(295,079)	-	-	(4,592,220)
Total capital assets being depreciated, net	5,744,459	(293,726)	-	-	5,450,733
Total capital assets, net	$ 35,159,536	$ 2,367,399	$ -	-	$ 37,526,935

NOTE 6 NOTE PAYABLE

In 2003, the Authority was granted a loan from the SWRCB of $6,440,000. The loan accrues interest at a rate of 2.7 percent per annum from the dates funds were disbursed and the interest accrued was included in a fully amortized balance with payments over a twenty-year period commencing in July 2005. The funds received by the Authority under this agreement were then loaned to certain RPs in connection with the construction of a groundwater remediation facility. The Authority's note receivable from certain RPs has the same repayment terms as the Authority's note payable to SWRCB. See Note 4 for additional information.

Changes in long-term debt for the year ended June 30, 2016, are as follows:

	Beginning Balance June 30, 2015	Additions	Payments	Ending Balance June 30, 2016	Due Within One Year
Note payable	$ 3,697,492	$ -	$ (327,016)	$ 3,370,476	$ 335,846

NOTE 6 NOTE PAYABLE (CONTINUED)

Changes in long-term debt for the year ended June 30, 2015, are as follows:

	Beginning Balance June 30, 2014	Additions	Payments	Ending Balance June 30, 2015	Due Within One Year
Note payable	$ 4,015,911	$ -	$ (318,419)	$ 3,697,492	$ 327,016

Payments of principal and interest for each of the next five fiscal years increments thereafter are as follows:

Years ending June 30	Principal	Interest	Total
2017	$ 335,846	$ 91,003	$ 426,849
2018	344,914	81,935	426,849
2019	354,226	72,622	426,848
2020	363,790	63,058	426,848
2021	373,613	53,236	426,849
2022-2025	1,598,087	109,307	1,707,394
Total	$ 3,370,476	$ 471,161	$ 3,841,637

NOTE 7 CAPITAL CONTRIBUTIONS

Capital contributions include the following:

Governmental
The USBR, under the Title XVI and the Restoration Funds programs, has provided funding for design, planning and construction for treatment facilities in the BPOU, SEMOU, EMOU and PVOU operable units.

Water Producers
The Authority has entered into agreements with Water Producers for the design, construction and operation of treatment facilities in the BPOU, SEMOU, PVOU and EMOU, and ATOU operable units. The revenue restricted for capital is included in capital contributions on the Statements of Revenues, Expenses, and Changes in Net Position. The Water Producers made no contributions in fiscal years ended June 30, 2016 and 2015.

Responsible Parties
The EPA identified several private companies referred to as RPs, as being responsible for groundwater contamination in the Main San Gabriel Basin (Basin). Several companies named by the EPA as RPs have formed coalitions to facilitate the cleanup of the Basin’s groundwater supply by providing funding for capital construction in the BPOU, SEMOU, PVOU and EMOU operable units. RPs contributed $3,415,920 and $1,770,209 in fiscal years ended June 30, 2016 and 2015, respectively.

NOTE 7 CAPITAL CONTRIBUTIONS (CONTINUED)

During the year ended June 30, 2002, the Authority became a party to the BPOU Project Agreement. Under the agreement, RPs agreed to provide funding for the design, construction, operation, maintenance and management of groundwater extraction, treatment and distribution facilities within the BPOU. The portion related to the design and construction are recorded as capital contributions.

The Authority is a party to multiple SEMOU Settlement Agreements with RPs. The agreements called for the SEMOU RPs to provide funding to pay, partially pay or reimburse the Water Producers for capital and treatment and remediation costs incurred or to be incurred in connection with certain projects outlined in the Agreements.

NOTE 8 PENSION PLAN

The Authority sponsors a Money Purchase Pension Plan (the Pension Plan), a defined contribution plan, under Internal Revenue Code Section 401(a) for the benefit of its employees who have attained the age of 21 and have completed 1,000 hours of service. The Authority contributes on behalf of the employees, 12.726 percent of their covered compensation up to and not to exceed the lesser of $40,000, or 25 percent of covered compensation. The Authority's contributions to the Pension Plan totaled $95,224 and $90,899 for the years ended June 30, 2016 and 2015, respectively.

NOTE 9 DEFERRED COMPENSATION PLANS

The Authority offers its employees and board members deferred compensation plans (the Plans) under Internal Revenue Code Section 457. The Plans, available to all Authority employees and board members, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. The Authority is in compliance with this legislation. These assets are not the legal property of the Authority, and are not subject to claims of the Authority's general creditors. Unaudited market value of the Plans was $494,014 as of June 30, 2016.

The Authority has implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. Since the Authority has little administrative involvement and does not perform the investing function for the Plans, the assets and related liabilities are not shown on the statements of net position.

NOTE 10 COMMITMENTS AND CONTINGENCIES

Leases

The Authority leases certain equipment under operating leases expiring at various dates through 2018. Total rent expense for the years ended June 30, 2016 and 2015, under the operating leases, was $99,370.

Future minimum lease payments under these operating lease agreements as of June 30, 2016, are as follows:

Year ending June 30,		Amount
2017	$	97,990
2018		2,064
Total	$	100,054

NOTE 11 INSURANCE

The Authority is a member of the Association of California Water Agencies Joint Powers Insurance Authority (JPIA). The JPIA is a risk-pooling, self-insurance authority, created under provisions of California Government Code Sections 6500 et seq. The purpose of the JPIA is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. The JPIA provides coverage to the Authority for property losses and general liability. Members of the JPIA share the costs of professional risk management claims, administration and excess insurance. The Authority has established a self-insured retention amount which represents the Authority's deductible per occurrence and the JPIA provides self-insured coverage for the Authority up to established pool limits for the various types of insurance coverage. Coverage limits are $2 million per occurrence for liability; replacement cost for property, subject to a $1,000 deductible; and statutory limits for workers' compensation.

NOTE 12 SUBSEQUENT EVENTS

The Authority has evaluated events or transactions through February 22, 2017, the date on which the financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined no other subsequent matters require disclosure or adjustment to the accompanying financial statements.

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