

**SAN GABRIEL BASIN
WATER QUALITY AUTHORITY**

Basic Financial Statements

Year ended June 30, 2015

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

Basic Financial Statements

Year Ended June 30, 2015

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Independent Auditors' Report

Board of Directors
San Gabriel Basin Water Quality Authority
West Covina, California

Report on the Financial Statements

We have audited the accompanying financial statements of the San Gabriel Basin Water Quality Authority (Authority), as of and for the year ended June 30, 2015, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 auditor's 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 respective financial position of the Authority, as of June 30, 2015, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The financial statements of the Authority for the fiscal year ended June 30, 2014 were audited by other auditors whose report dated January 27, 2015 expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2016 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.

Davis Funn UP

Irvine, California
February 26, 2016

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

DESCRIPTION OF FINANCIAL STATEMENTS

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 Authority presents its financial statements using the economic resources measurement focus and the full accrual basis of accounting. As an enterprise fund, the Authority's basic financial statements include the statements of net position, statements of revenues, expenses and changes in net position and statements of cash flows. The financial statements also include notes that explain information in the financial statements and provide more detailed data.

The *statements of net position* presents 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 financial position of the Authority.

The *statements of revenues, expenses and changes in net position* presents 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

June 30, 2015

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, 2015 and 2014.

| | <u>June 30</u> | | <u>Dollar Change</u> | <u>Percentage Change</u> |
|---|----------------------|----------------------|--------------------------|------------------------------|
| | <u>2015</u> | <u>2014</u> | | |
| Assets | | | | |
| Current assets | \$ 17,634,108 | \$ 18,262,072 | \$ (627,964) | -3.4% |
| Capital assets | 5,450,733 | 5,744,459 | (293,726) | -5.1% |
| Construction in progress | 32,076,202 | 29,415,077 | 2,661,125 | 9.0% |
| Noncurrent assets | <u>3,393,131</u> | <u>3,720,080</u> | <u>(326,949)</u> | <u>-8.8%</u> |
| Total assets | <u>58,554,174</u> | <u>57,141,688</u> | <u>1,412,486</u> | <u>2.5%</u> |
| Liabilities | | | | |
| Current liabilities | 7,496,613 | 8,492,857 | (996,244) | -11.7% |
| Noncurrent liabilities | <u>3,370,476</u> | <u>3,697,492</u> | <u>(327,016)</u> | <u>-8.8%</u> |
| Total liabilities | <u>10,867,089</u> | <u>12,190,349</u> | <u>(1,323,260)</u> | <u>-10.9%</u> |
| Net Position | | | | |
| Invested in capital assets | 5,450,733 | 5,744,459 | (293,726) | -5.1% |
| Invested in construction in progress | 32,076,202 | 29,415,077 | 2,661,125 | 9.0% |
| Restricted | 7,600,908 | 7,825,939 | (225,031) | -2.9% |
| Unrestricted | <u>2,559,242</u> | <u>1,965,864</u> | <u>593,378</u> | <u>30.2%</u> |
| Total net position | <u>47,687,085</u> | <u>44,951,339</u> | <u>2,735,746</u> | <u>6.1%</u> |
| Total liabilities and net position | <u>\$ 58,554,174</u> | <u>\$ 57,141,688</u> | <u>\$ 1,412,486</u> | <u>2.5%</u> |

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

Summary of Statement of Net Position

Current Assets - For the year ended June 30, 2015, current assets total \$17.6M, and are composed primarily of \$13.6M of cash and investments and \$3.2M of accounts receivable. Current assets decreased \$627K or 3.4% over the prior year, with the majority of the decrease related to cash and investments. For the prior year ended June 30, 2014, current assets totaled \$18.3M, and were composed primarily of \$14.0M of cash and investments and \$3.4M of accounts receivable

At June 30, 2015, accounts receivable includes \$626K due from the United States Bureau of Reclamation (USBR) for Title XVI grants related to capital costs. This is an increase of \$478K over FY 2014. Also included is \$1.3M due from the U.S. Environmental Protection Agency (EPA) for pending reimbursements for treatment and remediation (T & R) costs incurred for projects in the South El Monte Operable Unit (SEMOU). The EPA receivable represents an increase of \$485K or 58.0% from FY 2014. Accounts receivable also includes \$1.2M due from Potentially Responsible Parties (PRPs) related to project Capital Costs and T & R costs. This represents a decrease of \$91K or 7.2% from FY 2014. Also included in current assets is \$378K of Spare Parts Inventory, comprised of various replacement parts and other non-chemical consumables used for the T & R of the treatment facilities in the BPOU and \$327K representing the current portion of a note receivable and interest receivable related to a loan with the State Water Resources Control Board Department of Toxic Substances (see the description under Noncurrent Assets/Noncurrent Liabilities).

Capital Assets - During FY 2015, improvements at the SEMOU Whitemore Treatment Facility totaled \$1,353. The current year transactions, including depreciation of \$295,079, resulted in a net decrease in capital assets of \$293,726, or 5.1%.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

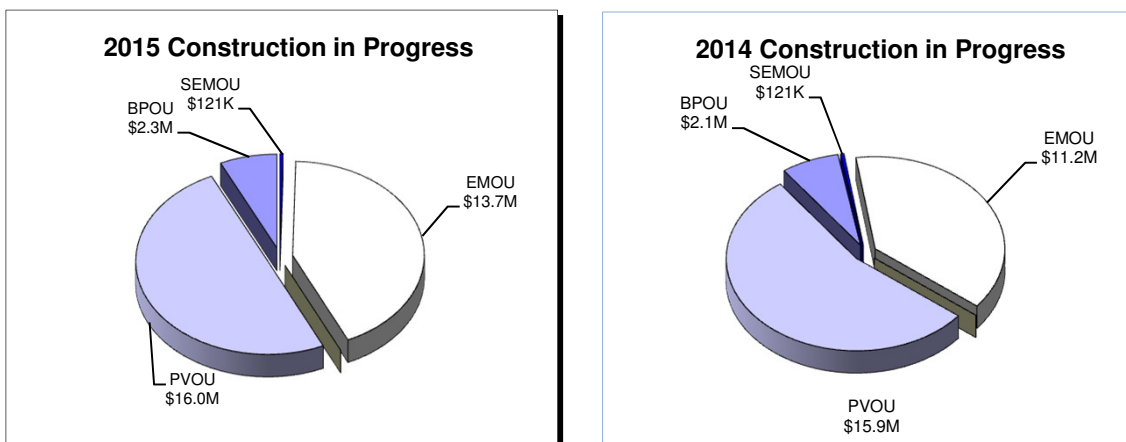
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

Summary of Statement of Net Position (continued)

Construction in Progress (CIP) - The Authority, through agreements with local water producers and PRPs has agreed to provide capital funding for various projects in the San Gabriel Basin. Capital costs associated with these projects are categorized and accounted for as CIP. Project capital costs include land acquisition costs, construction costs, professional fees, labor costs and other related project costs. Through agreement, the projects have been funded by the Authority's Assessments, PRPs, Water Producers, and Federal Funding and State Funding contributions. The contributions received for projects under construction are recorded as capital contributions. Upon completion, costs related to projects owned by the Authority are transferred to capital assets and depreciated, and costs related to projects where title is retained by the water producer are retired from CIP and the associated capital costs are distributed from contributed capital.

As of June 30, 2015, CIP totaled \$32.1M, a net increase of \$2.7K or 9.0% from FY 2014. Approximately 7.0% of the CIP costs are related to the BPOU, 42.7% are related to the El Monte Operable Unit (EMOU) and 49.9% are related to the Puente Valley Operable Unit (PVOU). During 2015, the Authority incurred CIP costs totaling \$2.5M for the continuing design and construction of the treatment facilities in the EMOU, and costs of \$144K for the PVOU design and the BPOU single pass treatment facilities. Shown below is the composition of CIP by operable unit as of June 30, 2015 and 2014.



SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

Summary of Statement of Net Position (continued)

Construction in Progress (CIP) (continued) - Listed below is a general description of the major projects currently under construction and included in CIP as of June 30, 2015.

BALDWIN PARK OPERABLE UNIT

Valley County Water District Single Pass Treatment Facility

Current costs relate primarily to the design and construction of a single pass ion exchange treatment system, replacing the existing regenerable ion exchange treatment equipment.

EL MONTE OPERABLE UNIT

Eastside Shallow / Southeast Deep Remedy - Eastside Performing Settling Defendants

Current costs relate primarily to the design and construction activities of extraction wells, re-injection wells, conveyance pipelines and a VOC Treatment Facility.

PUENTE VALLEY OPERABLE UNIT

Intermediate Zone Remedy - San Gabriel Valley Water Company Plant B7 - Northrop

Current costs relate primarily to the design and construction of extraction wells, conveyance pipelines, and a VOC treatment facility located at a site in the Puente Valley Operable Unit.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

Summary of Statement of Net Position (continued)

Noncurrent Assets/Noncurrent Liabilities - During prior years, the Authority received a total of \$6,440,000 in loan proceeds from the Department of Toxic Substances Control through the State Water Resources Control Board for reimbursement of project costs related to the Valley County Water District Subarea 1 (SA1) project located in the BPOU. At June 30, 2015, the noncurrent portion of the note payable totaled \$3.4M. The BPOU PRPs have an agreement with the Authority to repay the amount of the loan and accrued interest, in accordance with the Authority's repayment terms with the State Water Resources Control Board. Accordingly, the noncurrent portion of the loan receivable is recorded as a noncurrent asset, with a balance of \$3.4M as of June 30, 2015.

Restricted Net Assets - For FY 2015, restricted net assets total \$7.6M, which is a decrease of \$225K or 2.5% from FY 2015. The restricted net assets includes cash, investments and receivables comprised primarily from federal funding and settlement funds. The Authority has entered into several agreements with 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 a Cooperative Agreement with EPA to provide funding for water treatment facilities in the SEMOU. These funds are provided on an advance basis and once received by the Authority 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 PRPs in the BPOU, SEMOU and EMOU. These 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

June 30, 2015

Summary of Revenue, Expenses and Changes in Net Position

| | June 30 | | Dollar Change | Percentage Change |
|---|----------------------|----------------------|---------------------|----------------------|
| | 2015 | 2014 | | |
| Total Operating Revenues | \$ 18,885,239 | \$ 22,413,492 | \$ (3,528,253) | -15.7% |
| Total Operating Expenses | 18,599,764 | 22,744,674 | (4,144,910) | -18.2% |
| Operating Income (Loss) | 285,475 | (331,182) | 616,657 | -186.2% |
| Nonoperating Revenues | 123,263 | 134,241 | (10,978) | -8.2% |
| Nonoperating (Expenses) | (99,832) | (7,110,754) | 7,010,922 | -98.6% |
| Income (Loss) before Capital Contributions | 308,906 | (7,307,695) | 7,616,601 | -104.2% |
| Capital Contributions | 2,426,840 | 5,148,245 | (2,721,405) | -52.9% |
| Changes in net position | 2,735,746 | (2,159,450) | 4,895,196 | -226.7% |
| Beginning net position | 44,951,339 | 47,110,789 | (2,159,450) | -4.6% |
| Ending net position | <u>\$ 47,687,085</u> | <u>\$ 44,951,339</u> | <u>\$ 2,735,746</u> | <u>6.1%</u> |

Operating Revenues - The primary revenue variances were related to revenues and contributions from PRPs and federal funding awards.

PRP Contributions - By agreement, T & R costs for projects located primarily in the BPOU and SEMOU are paid through the Authority. For FY 2015, the Authority received and recognized as revenue \$14.3M in funding from the PRPs for costs related to these projects, a decrease of \$2.8M or 16.6% over the prior year. For FY 2014, the Authority received and recognized as revenue \$17.1M in funding from the PRPs for costs related to these projects.

WQA Federal Funding Awards - The Authority recognizes as income certain federal awards paid for project capital and T & R costs. During FY 2015, \$2.5M was recognized as revenue from federal awards, a decrease of \$1.1M or 31.3% over the prior year. During FY 2014, \$3.6M was recognized as revenue from federal awards.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

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

Operating Expenses - The five major areas of expense variances that developed during the fiscal year were related to professional services, consulting, discharge permitting activities, project T & R costs, and project grants.

Professional Services - Costs incurred during 2015 include legal costs related to the SEMOU and litigation with potential PRPs, costs for general legal counsel, the services of a computer consultant, an outside accountant, audit services and an engineering firm. For FY 2015 professional services totaled \$123K which is an overall decrease of \$9K, or 7.0% from the prior year. This is due primarily to a reduction in costs for general legal counsel as well as a reduction in legal fees related to the resolution of issues in the SEMOU. The cost of professional services are expected to increase in the next fiscal year as the Authority is entering negotiations on certain agreements with PRPs.

Consulting - The Authority engages consultants to assist with efforts in Washington D.C. and Sacramento to find outside sources of funding for clean-up projects. Costs incurred for FY 2015 totaled \$513K which is a reduction of \$25K or 4.7% from FY 2014 in which costs associated with consulting totaled \$538K.

Discharge Permitting Activities - During FY 2012, the Authority became involved in an effort to assist in the resolution of discharge permitting issues for water producers and PRPs in the San Gabriel Basin. Costs for the overall project were budgeted at \$415K, with \$17K expended in 2015, \$126K expended in FY 2014, \$165K in FY 2013 and \$103K during FY 2012. The project has been completed in FY 2015, and any on-going costs will be a result of assisting water producers with the permitting process.

Project T & R Costs - These costs relate primarily to projects operating in the BPOU and SEMOU. The costs and the corresponding revenues are recognized when they are paid by the Authority. Although the majority of these costs are funded through PRPs, for FY 2015 approximately \$757K in costs were funded by federal funding sources. T & R costs totaled \$15.6M in FY 2015, a decrease of approximately \$2.7M from FY 2014, in which costs totaled \$18.3M. The decrease is due primarily to improved technologies and increased efficiencies in the treatment and remediation process.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

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

Project Grants - The items included in this category include certain payments for project capital and T & R costs. For FY 2015, project grant expense totaled \$755K, a reduction of \$1.3M from FY 2014, in which project grant expense totaled \$2.0M. This is due primarily to a reduction in award payments for the PVOU and EMOU projects during FY 2015.

Nonoperating Revenues (Expenses)- For FY 2015, this item is comprised of interest income and expense. For FY 2014, although the item included interest income and expense, there were also transfers of completed capital projects totaling \$7.0M - these are described on page 6 in the category "Construction in Progress". There were no completed capital projects for FY 2015.

Capital Contributions

| | June 30 | |
|------------------------|------------|------------|
| | 2015 | 2014 |
| Governmental - Federal | \$ 676,760 | \$ 148,223 |
| Governmental - State | 1,353 | 3,877 |
| Responsible Parties | 1,770,209 | 5,068,033 |
| Capital Assessment | 28,518 | (71,888) |
| Capital Contributions | 2,476,840 | 5,148,245 |

The majority of the current year capital contributions were derived from PRPs. 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.

| | Fiscal Year 2015 Actual | Fiscal Year 2015 Budget | Variance |
|----------------------------------|------------------------------------|------------------------------------|-----------------|
| <u>Operating Revenues</u> | | | |
| Assessment | \$ 1,947,582 | \$ 1,798,731 | \$ 148,851 |
| Responsible Parties | 14,295,716 | 31,769,054 | (17,473,338) |
| Authority Federal Funding Awards | 2,483,846 | 2,288,227 | 195,619 |
| State Funding Awards | 158,095 | 304,560 | (146,465) |
| Water Producers | - | 233,527 | (233,527) |
| Total Operating Revenues | \$ 18,885,239 | \$36,394,099 | \$(17,508,860) |

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

Budgetary Highlights - Operating Budget (continued)

Operating Revenues (continued)

Assessment - Assessment income is recognized during the year in which it is earned. For budget purposes, any unused assessment revenue from prior years is carried over to the next fiscal year and used as a factor to determine the subsequent years assessment. For FY 2015 the assessment was \$10.00 per acre foot of prescriptive pumping rights. A total of \$1.9M was assessed during 2015.

Responsible Parties/Federal Funding Awards/Water Producers - The FY 2015 budget included costs related to projects in the SEMOU, PVOU, BPOU, EMOU, Area Three Operable Unit (ATOU), Whittier Narrows Operable Unit (WNOU) and three projects located outside of a designated Operable Unit. The costs were budgeted to be funded through contributions from PRPs, federal funds, state funds, water producers and assessments. The costs are expensed and the corresponding contributions recognized as revenue when paid by the Authority. The FY 2015 revenues are lower than budgeted due to the timing of the cost reimbursements as well as costs and revenues included in the budget that do not flow through the Authority. For example, the budget for water producers is shown as \$233K. However these costs are not incurred by the Authority, but rather the water producers and therefore are not included as revenues for the Authority.

Project Expenses

| | <u>Fiscal Year</u> <u>2015 Actual</u> | <u>Fiscal Year</u> <u>2015 Budget</u> | <u>Budget</u> <u>Variance</u> |
|-------------------------------|--|--|----------------------------------|
| Project Grants/Awards | \$ 754,563 | \$ 4,742,985 | \$ (3,988,422) |
| Project T & R | <u>15,606,868</u> | <u>18,469,777</u> | <u>(2,862,909)</u> |
| Total Project Expenses | <u>\$ 16,361,431</u> | <u>\$23,212,762</u> | <u>\$ (6,851,331)</u> |

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

Budgetary Highlights - Operating Budget (continued)

Project Expenses (continued)

Project Grants/Awards & Project T & R - The variance in Project Grants/Awards is attributable to EPA grants totaling \$1.7M that were recorded as T & R costs rather than Project Grants/Awards for FY 2015. Additionally, grants for projects scheduled for FY 2015 are behind schedule and are now budgeted for completion in either FY 2016 or FY 2017. The T & R variance is attributable to the SEMOU as \$1.7M in T& R costs had been budgeted as Project Grants/Awards and the BPOU, and also T & R costs for BPOU were less than budgeted. The T & R costs are funded by PRPs, federal funding, state funding and water producer contributions; the Project Grants/Awards are funded by federal funding and PRP contributions.

Budgetary Highlights - Capital Budget

| | <u>Fiscal Year</u> <u>2015 Actual</u> | <u>Fiscal Year</u> <u>2015 Budget</u> | <u>Budget</u> <u>Variance</u> |
|--|--|--|----------------------------------|
|--|--|--|----------------------------------|

El Monte Operable Unit

- | | | | |
|---------------------------------|--------------|--------------|----------------|
| • <i>Prime Contractor Costs</i> | \$ 2,516,459 | \$ 7,721,576 | \$ (5,205,117) |
|---------------------------------|--------------|--------------|----------------|

The budgeted costs relate to the Eastside Shallow project and Southeast Deep ESPSD/City of El Monte project. The Shallow East and Southeast Deep ESPSD/ City of El Monte projects started construction early 2014, and the projects are expected to be completed in the spring of 2015. The projects are funded through a combination of federal funding and PRPs contributions. The budget for FY 2015 reflected total construction costs for the project for FY 2015, however, costs totaling \$2.5M were paid by the Authority with the remainder of the costs paid directly by the PRPs.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

Budgetary Highlights - Capital Budget (continued)

| | <u>Fiscal Year</u> <u>2015 Actual</u> | <u>Fiscal Year</u> <u>2015 Budget</u> | <u>Budget</u> <u>Variance</u> |
|--|--|--|----------------------------------|
|--|--|--|----------------------------------|

Baldwin Park Operable Unit

- *Prime Contractor Costs* \$ 131,949 \$ 7,329,850 \$ (7,197,901)

The budgeted Prime Contractor costs for the BPOU included projects for Treatment Facilities at CDWC's Well 14, VCWD's SA-1, and Covina Irrigating Company's Wellhead. The projects costs are lower than budgeted due to unforeseen delays in the construction process; the FY 2015 project costs relate to VCWD's SA-1 project. Project costs incurred are funded by PRPs and federal funding contributions.

Puente Valley Operable Unit

- *Prime Contractor Costs* \$ 12,717 \$ 200,000 \$ (187,283)

The costs incurred for the PVOU Intermediate Zone Remedy project are under budget for 2015. Although the design and construction phase began in FY 2008, the project has been delayed due to institutional and regulatory processes. A new site for the treatment facility has been acquired and the project is now expected to be completed by FY 2018. The project is funded through contributions from federal funding, PRPs, and a water producer.

South El Monte Operable Unit

- *Prime Contractor Costs* \$ - \$ 115,000 \$ (115,000)

The Prime Contractor costs for the SEMOU include a project for the design of a treatment facility at SGVWC's Plant 8. This project has been delayed, and it is anticipated construction will start in FY 2017. The funding for this project is being provided by federal funding, PRPs, and a water producer.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

Economic Factors

Assessment - Section 605 of WQA'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 WQA the authority 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 2014 is 26.1 percent, resulting in an allowable maximum assessment of \$12.92.

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 PRPs as well as utilizing its reserve that had been built up in previous years. As such, the Authority was able to keep the assessment at \$7.25 per acre foot for eleven consecutive years through FY 2014.

The Authority's Board of Directors and management considered many factors when determining the FY 2015 assessment. An analysis of the past several years showed that project and administrative costs paid for by assessments exceeded assessments collected. The Authority's reserve was being depleted.

For FY 2015, the Authority increased its assessment to \$10.00 per acre foot. This will allow 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.

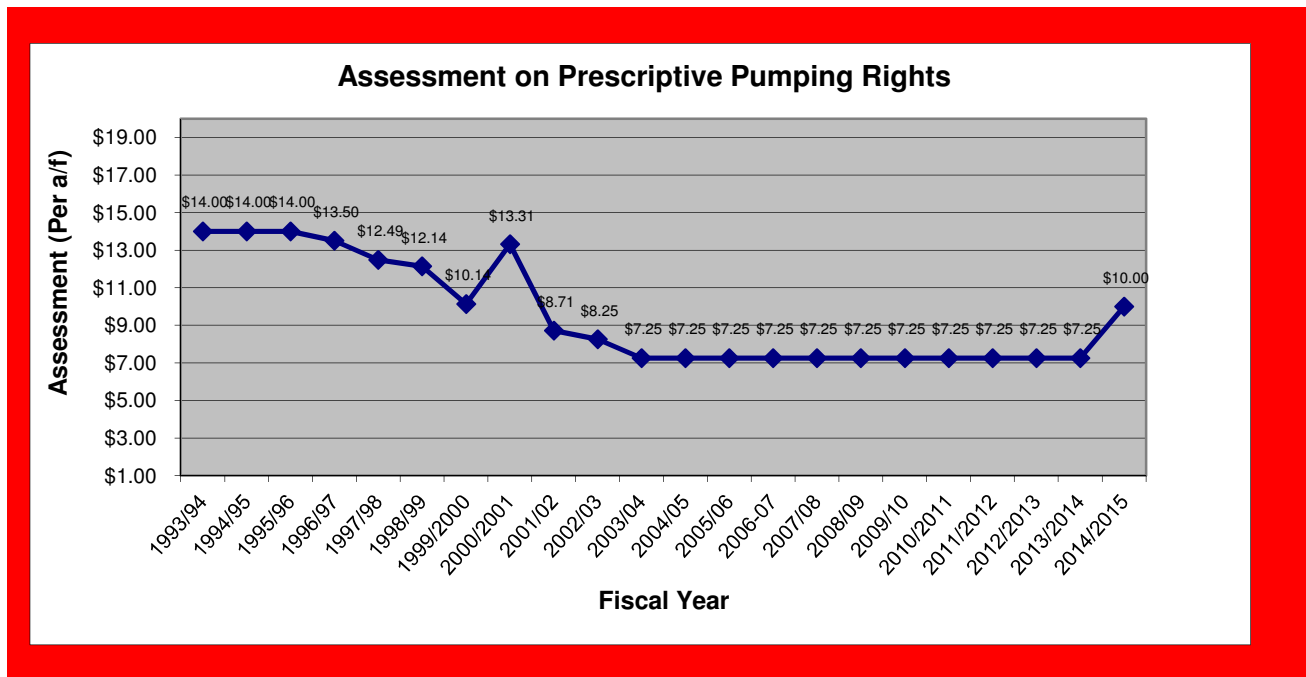
The table on the next page presents the historical annual assessment rate per acre foot since the Authority's inception.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

Economic Factors (continued)



SAN GABRIEL BASIN WATER QUALITY AUTHORITY

Statement of Net Position

June 30, 2015
(with comparative information for 2014)

| | 2015 | 2014 |
|---|---------------|------------|
| <u>Assets</u> | | |
| Current assets: | | |
| Cash and investments (note 2) | \$ 13,552,304 | 13,967,114 |
| Accounts receivable (note 3) | 3,212,089 | 3,419,932 |
| Inventories | 377,802 | 377,802 |
| Prepaid expenses and other receivables | 56,073 | 62,866 |
| Interest receivable | 108,824 | 115,939 |
| Current portion of note receivable (note 4) | 327,016 | 318,419 |
| Total current assets | 17,634,108 | 18,262,072 |
| Noncurrent assets: | | |
| Capital assets (note 5): | | |
| Construction in progress | 32,076,202 | 29,415,077 |
| Other capital assets, net of accumulated depreciation | 5,450,733 | 5,744,459 |
| Deposits | 22,655 | 22,588 |
| Note receivable, net of current portion (note 4) | 3,370,476 | 3,697,492 |
| Total noncurrent assets | 40,920,066 | 38,879,616 |
| Total Assets | \$ 58,554,174 | 57,141,688 |
| <u>Liabilities</u> | | |
| Current liabilities: | | |
| Accounts payable | \$ 3,496,710 | 4,218,605 |
| Accrued expenses | 67,646 | 66,887 |
| Interest payable | 99,832 | 108,430 |
| Unearned revenue | 3,505,409 | 3,780,516 |
| Current portion of note payable (note 6) | 327,016 | 318,419 |
| Total current liabilities | 7,496,613 | 8,492,857 |
| Noncurrent liabilities: | | |
| Note payable, net of current portion (note 6) | 3,370,476 | 3,697,492 |
| Total noncurrent liabilities | 3,370,476 | 3,697,492 |
| Total liabilities | 10,867,089 | 12,190,349 |
| <u>Net Position</u> | | |
| Investment in capital assets | 37,526,935 | 35,159,536 |
| Restricted | 7,600,908 | 7,825,939 |
| Unrestricted | 2,559,242 | 1,965,864 |
| Total net position | 47,687,085 | 44,951,339 |
| Total liabilities and net position | \$ 58,554,174 | 57,141,688 |

See accompanying notes to basic financial statements.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2015
(with comparative information for 2014)

| | 2015 | 2014 |
|---|---------------|-------------|
| Operating Revenues: | | |
| Pumping right assessments | \$ 1,947,582 | 1,504,560 |
| Responsible party contributions | 14,295,716 | 17,144,241 |
| WQA federal funding awards | 2,483,846 | 3,617,482 |
| WQA state funding | 158,095 | 147,209 |
| Total operating revenues | 18,885,239 | 22,413,492 |
| Operating Expenses: | | |
| Administrative salaries | 699,457 | 673,798 |
| Fringe benefits | 226,039 | 219,541 |
| Consulting | 512,983 | 538,382 |
| Professional services | 123,626 | 132,988 |
| Office rent | 89,275 | 89,275 |
| Supplies | 3,984 | 10,046 |
| Insurance | 13,240 | 34,319 |
| Public relations | 89,522 | 108,243 |
| Travel and conferences | 49,850 | 42,121 |
| Telephone and utilities | 5,188 | 6,638 |
| Dues and subscriptions | 18,671 | 18,934 |
| Board member fees | 55,703 | 49,067 |
| Equipment rent and maintenance | 37,938 | 32,566 |
| Depreciation | 295,079 | 305,403 |
| Miscellaneous expense | 637 | 3,196 |
| Project treatment and remediation costs | 15,606,868 | 18,347,178 |
| Project grants | 754,563 | 2,007,019 |
| Discharge permit activities | 17,141 | 125,960 |
| Total operating expenses | 18,599,764 | 22,744,674 |
| Operating income (loss) | 285,475 | (331,182) |
| Nonoperating revenues (expenses): | | |
| Interest income | 123,263 | 134,241 |
| Interest expense | (99,832) | (108,430) |
| Transfer of capital assets to water producers | - | (7,002,324) |
| Net nonoperating revenues (expenses) | 23,431 | (6,976,513) |
| Income (loss) before capital contributions | 308,906 | (7,307,695) |
| Capital contributions | 2,426,840 | 5,148,245 |
| Changes in net position | 2,735,746 | (2,159,450) |
| Net position at beginning of year | 44,951,339 | 47,110,789 |
| Net position at end of year | \$ 47,687,085 | 44,951,339 |

See accompanying notes to basic financial statements.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

Statement of Cash Flows

Year ended June 30, 2015
(with comparative information for 2014)

| | 2015 | 2014 |
|--|---------------|--------------|
| Cash flows from operating activities: | | |
| Cash from operating revenues | \$ 18,991,378 | 22,461,851 |
| Cash paid to suppliers for goods and services | (17,992,654) | (20,981,734) |
| Cash paid to employees or on behalf of employees for services | (924,737) | (893,339) |
| Net cash provided by operating activities | 73,987 | 586,778 |
| Cash flows from noncapital financing activities: | | |
| Proceeds received from note receivable | 318,419 | 310,047 |
| Interest received from note receivable | 108,430 | 116,801 |
| Payments on note payable | (318,419) | (310,047) |
| Interest paid on note payable | (108,430) | (116,801) |
| Net cash provided by noncapital financing activities | - | - |
| Cash flows from capital and related financing activities: | | |
| Acquisition of capital assets | (1,353) | (8,670) |
| Construction in progress expenditures | (2,661,125) | (7,181,500) |
| Capital contributions received | 2,151,733 | 4,445,552 |
| Net cash provided by (used for) capital and related financing activities | (510,745) | (2,744,618) |
| Cash flows from investing activities: | | |
| Interest received on investments | 21,948 | 28,180 |
| Net cash provided by (used for) investing activities | 21,948 | 28,180 |
| Net increase (decrease) in cash and cash equivalents | (414,810) | (2,129,660) |
| Cash and cash equivalents at beginning of year | 13,967,114 | 16,096,774 |
| Cash and cash equivalents at end of year | \$ 13,552,304 | 13,967,114 |

(Continued)

See accompanying notes to basic financial statements.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

Statement of Cash Flows

(Continued)

| | <u>2015</u> | <u>2014</u> |
|--|------------------|------------------|
| Cash flows from operating activities: | | |
| Operating income (loss) | \$ 285,475 | (331,182) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | |
| Depreciation | 295,079 | 305,403 |
| (Increase) decrease in accounts receivable | 207,843 | 165,375 |
| (Increase) decrease in prepaid expenses | 6,793 | (213) |
| (Increase) decrease in deposits | (67) | - |
| Increase (decrease) in accounts payable and accrued liabilities | <u>(721,136)</u> | <u>447,395</u> |
| Net cash provided by operating activities | <u>\$ 73,987</u> | <u>586,778</u> |
| Noncash capital, investing and financing activities: | | |
| Transfer of capital assets to water producers | <u>\$ -</u> | <u>7,002,324</u> |

See accompanying notes to basic financial statements.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

Notes to Basic Financial Statements

Year Ended June 30, 2015

(1) Summary of Significant Accounting Policies

(a) 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 clean up projects 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) 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 San Gabriel Basin Water Quality Authority Act and extending the Act until July 1, 2030.

(b) 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 non-operating 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 non-operating 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.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies (Continued)

(b) Basis of Accounting and Financial Statement Presentation (Continued)

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.

(c) 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.

(d) 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 Statement of Net Position at June 30, 2015.

(e) 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 |

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies (Continued)

(f) 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 the asset's management 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.

(g) Cash Equivalents

For the purposes of the statement 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.

(h) Investments

Investments are reported in the accompanying Statement of Net Position 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.

(i) 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 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.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies (Continued)

(i) Pumping Right Assessments (Continued)

Pumping right assessments are imposed, on an as needed basis, after other revenue sources, such as private party, state and federal funding, are budgeted. During the fiscal year ended June 30, 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, Potentially Responsible Parties (PRPs), California State Water Resource Control Board (SWRCB) and assessments on water rights holders in the San Gabriel Basin. The Authority incurs three types of costs: project costs, treatment and remediation costs and administrative costs.

(j) 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, PRPs or Water Entities.

Administrative Costs

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.

Project Costs incurred by the Authority

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 PRPs (Baldwin Park Operable Unit, (BPOU)), partially funded by PRPs (El Monte Operable Unit, (EMOU)) and Puente Valley Operable Unit, (PVOU)) or funded by the Authority's assessments (EMOU, PVOU, South El Monte Operable Unit, (SEMOU)) and the Area Three Operable Unit, (ATOU). Generally, the liability is recorded in the same time period as the cost is incurred.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies (Continued)

(j) Accrued Liabilities and Accounts Payable (Continued)

Project Costs Incurred by PRPs and Water Producers and Paid by the Authority

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 PRPs 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 producer). An equal amount of revenue (and a receivable) is also reported for the amount of reimbursement approved for collection from the PRP. 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 maybe 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.

(k) Unearned Revenue

The Authority records unearned revenue when it receives funds from the PRPs through the various Cooperating Parties Agreements. By agreement, the funds 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 are in agreement that the costs are eligible for reimbursement.

(l) 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.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies (Continued)

(l) Use of Estimates (Continued)

Estimates are also required to determine potential impairment of long-lived assets such as property, plant and equipment. 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.

(m) Comparative Financial Statements and Reclassifications

The information included in the accompanying financial statements for the prior year has been presented for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Certain amounts presented in the prior year financial statements have been reclassified in order to be consistent with the current year's presentation.

(n) Deferred Outflows/Inflows of Resources

In addition to assets, the statement 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.

In addition to liabilities, the statement 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.

(o) Net position flow assumption

Sometimes the government 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 government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies (Continued)

(p) Pollution Remediation

GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations relates to whether a pollution remediation obligation exists and how the 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, obligations to clean up contaminated groundwater is a pollution remediation obligation.

When a government knows or reasonably believes a site is polluted, it should determine whether it should be recognizable 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, PRPs, as well as local, state and federal government agencies. The Authority itself has not committed or legally obligated itself to commence cleanup activities. As such, under these rules, the Authority does not have a requirement to record a liability for the future estimated pollution remediation cost.

(2) Cash and Investments

Cash and investments as of June 30, 2015, consist of the following:

| | | |
|--------------------------------------|----|---------------------|
| Cash on hand | \$ | 295 |
| Deposits with financial institutions | | 831,627 |
| Investments | | <u>12,720,382</u> |
| Total cash and investments | | <u>\$13,552,304</u> |

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.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

Notes to Basic Financial Statements

(Continued)

(2) Cash and Investments (Continued)

| <u>Authorized Investment type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage Allowed</u> | <u>Maximum Investment In One Issuer</u> |
|---|-------------------------|-----------------------------------|---|
| 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

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% 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% of the secured public deposits.

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.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

Notes to Basic Financial Statements

(Continued)

(2) Cash and Investments (Continued)

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:

| <u>Investment</u> | <u>Amount</u> | <u>Remaining Maturity</u> | | | |
|-------------------|---------------------|------------------------------|----------------------------|-------------------------|---------------------------|
| | | <u>12 Months Or Less</u> | <u>13 to 36 Months</u> | <u>37-60 Months</u> | <u>Over 60 Months</u> |
| LAIF* | <u>\$12,720,382</u> | <u>12,720,382</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$12,720,382</u> | <u>12,720,382</u> | <u>-</u> | <u>-</u> | <u>-</u> |

* LAIF is not rated.

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.

(3) Accounts Receivable

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

| | |
|----------------------------|--------------------|
| Federal funding | \$1,950,951 |
| State funding | 29,506 |
| Responsible parties (PRPs) | 1,168,015 |
| Assessments | 59,856 |
| Other | <u>3,761</u> |
| Total accounts receivable | <u>\$3,212,089</u> |

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

Notes to Basic Financial Statements

(Continued)

(4) Note Receivable

During the years ended June 30, 2004 and 2005, the Authority loaned funds to certain PRPs for reimbursement of costs incurred in connection with construction of a treatment facility at the Arrow/Lante Well site. The PRPs 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% per annum. At June 30, 2015, the note receivable for the Authority was \$3,697,492.

(5) Capital Assets

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

| | Beginning Balance June 30, 2014 | Additions | Deletions | Ending Balance June 30, 2015 |
|---|---------------------------------------|------------------|-----------|------------------------------------|
| Capital assets, not being depreciated: | | | | |
| Construction in progress | <u>\$29,415,077</u> | <u>2,661,125</u> | <u>-</u> | <u>32,076,202</u> |
| Total capital assets not being depreciated | <u>29,415,077</u> | <u>2,661,125</u> | <u>-</u> | <u>32,076,202</u> |
| 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 | <u>894,187</u> | <u>1,353</u> | <u>-</u> | <u>895,540</u> |
| Total capital assets being depreciated | <u>10,041,600</u> | <u>1,353</u> | <u>-</u> | <u>10,042,953</u> |
| 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 | <u>(165,342)</u> | <u>(25,588)</u> | <u>-</u> | <u>(190,930)</u> |
| Total accumulated depreciation | <u>(4,297,141)</u> | <u>(295,079)</u> | <u>-</u> | <u>(4,592,220)</u> |
| Total capital assets being depreciated, net | <u>5,744,459</u> | <u>(293,726)</u> | <u>-</u> | <u>5,450,733</u> |
| Total capital assets, net | <u>\$35,159,536</u> | <u>2,367,399</u> | <u>-</u> | <u>37,526,935</u> |

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

Notes to Basic Financial Statements

(Continued)

(6) Note Payable

During the year ended June 30, 2004, the Authority was granted a loan from the SWRCB. \$6,440,000 had been funded from the loan. The loan accrues interest at a rate of 2.7% 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 under this agreement were loaned to certain PRPs in connection with the construction of a groundwater remediation facility. The Authority will be repaid under terms identical to those granted it by the SWRCB. See note 4 for additional information.

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

| | Beginning Balance <u>June 30, 2014</u> | <u>Additions</u> | <u>Payments</u> | Ending Balance <u>June 30, 2015</u> | Due Within <u>One year</u> |
|--------------|--|------------------|------------------|---|----------------------------------|
| Note payable | \$ <u>4,015,911</u> | <u>-</u> | <u>(318,419)</u> | <u>3,697,492</u> | <u>327,016</u> |

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

| <u>Years ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|--------------------|-----------------|------------------|
| 2016 | \$ 327,016 | 99,833 | 426,849 |
| 2017 | 335,846 | 91,003 | 426,849 |
| 2018 | 344,914 | 81,935 | 426,849 |
| 2019 | 354,226 | 72,623 | 426,849 |
| 2020 | 363,790 | 63,059 | 426,849 |
| 2021-2025 | <u>1,971,700</u> | <u>162,542</u> | <u>2,134,242</u> |
| Totals | <u>\$3,697,492</u> | <u>570,995</u> | <u>4,268,487</u> |

(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.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

Notes to Basic Financial Statements

(Continued)

(7) **Capital Contributions**

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.

Responsible Parties

The United States Environmental Protection Agency (EPA) identified several private companies referred to as PRPs as being responsible for groundwater contamination in the Main San Gabriel Basin (Basin). Several companies named by the EPA as PRPs 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.

During the year ended June 30, 2002, the Authority became a party to the BPOU Project Agreement. Under the agreement, PRPs 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 Cooperating Parties Agreements of which several were initially entered into in 2003. The agreements called for the SEMOU Cooperating Parties to provide funding to pay, partially pay or reimburse the water entities for capital and operating and maintenance costs incurred or to be incurred in connection with certain projects outlined in the Agreements. During the current year the final agreements with SEMOU Cooperating Parties were executed.

(8) **Pension Plan**

The Authority sponsors a Money Purchase Pension 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% of their covered compensation up to and not to exceed the lesser of \$30,000, or 25% of covered compensation. The Authority's contributions to the Plan totaled \$90,899 for the year ended June 30, 2015.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

Notes to Basic Financial Statements

(Continued)

(9) Deferred Compensation Plan

The Authority offers its employees and board members a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, 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.

(10) Commitments and Contingencies

Leases

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

Future minimum lease payments under these operating lease agreements as of June 30, 2015, are as follows:

| <u>Year ending June 30</u> | |
|----------------------------|------------------|
| 2016 | \$ 99,371 |
| 2017 | 97,990 |
| 2018 | <u>2,064</u> |
| Total | <u>\$199,425</u> |

(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 establishes a self-insured retention amount which represents the Authority's deductible per occurrence and the JPIA provides self-insured coverage 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.