

**SAN GABRIEL BASIN  
WATER QUALITY AUTHORITY**

Basic Financial Statements

Year ended June 30, 2012

# **SAN GABRIEL BASIN WATER QUALITY AUTHORITY**

## **Basic Financial Statements**

Year ended June 30, 2012

### **TABLE OF CONTENTS**

|  | <b><u>Page</u></b> |
|--|--------------------|
| Independent Auditors' Report                               | 1                  |
| Management's Discussion and Analysis                       | 3                  |
| Basic Financial Statements:                                |                    |
| Statements of Net Assets                                   | 16                 |
| Statements of Revenues, Expenses and Changes in Net Assets | 17                 |
| Statements of Cash Flows                                   | 18                 |
| Notes to Basic Financial Statements                        | 20                 |



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

## **INDEPENDENT AUDITORS' REPORT**

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, 2012, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. The prior year partial comparative data has been derived from the financial statements of the Authority for the year ended June 30, 2011 and, in our report dated March 21, 2012, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Gabriel Basin Water Quality Authority as of June 30, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that *management's discussion and analysis* information on pages 3 to 15 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 the 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 regarding 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.

In accordance with Government Auditing Standards, we have also issued a report dated January 17, 2013 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Mayer Hoffman McCann P.C.*

Irvine, California  
January 17, 2013



# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

### 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 assets, statements of revenues, expenses and changes in net assets 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 assets* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of financial position of the Authority.

The *statements of revenues, expenses and changes in net assets* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets 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* is related to the other financial statements by the way it links 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, 2012

### 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, 2012 and 2011.

|   | <u>June 30</u>       |                      | <u>Dollar</u>       | <u>Percentage</u> |
|---|----------------------|----------------------|---------------------|-------------------|
|   | <u>2012</u>          | <u>2011</u>          | <u>Change</u>       | <u>Change</u>     |
| <b>Assets</b>                           |                      |                      |                     |                   |
| Current assets                          | \$ 21,618,492        | \$ 18,911,823        | \$ 2,706,669        | 14.3%             |
| Capital assets                          | 6,342,438            | 6,612,837            | (270,399)           | -4.1%             |
| Construction in progress                | 33,095,529           | 28,884,954           | 4,210,575           | 14.6%             |
| Noncurrent assets                       | <u>4,348,548</u>     | <u>4,650,443</u>     | <u>(301,895)</u>    | <u>-6.5%</u>      |
| Total assets                            | <u>65,405,007</u>    | <u>59,060,057</u>    | <u>6,344,950</u>    | <u>10.7%</u>      |
| <b>Liabilities</b>                      |                      |                      |                     |                   |
| Current liabilities                     | 8,569,700            | 6,019,755            | 2,549,945           | 42.4%             |
| Noncurrent liabilities                  | <u>4,325,959</u>     | <u>4,627,855</u>     | <u>(301,896)</u>    | <u>-6.5%</u>      |
| Total liabilities                       | <u>12,895,659</u>    | <u>10,647,610</u>    | <u>2,248,049</u>    | <u>21.1%</u>      |
| <b>Net Assets</b>                       |                      |                      |                     |                   |
| Invested in capital assets              | 6,342,438            | 6,612,837            | (270,399)           | -4.1%             |
| Invested in construction<br>in progress | 33,095,529           | 28,884,954           | 4,210,575           | 14.6%             |
| Restricted                              | 10,710,452           | 11,527,351           | (816,899)           | -7.1%             |
| Unrestricted                            | <u>2,360,929</u>     | <u>1,387,305</u>     | <u>973,624</u>      | <u>70.2%</u>      |
| Total net assets                        | <u>52,509,348</u>    | <u>48,412,447</u>    | <u>4,096,901</u>    | <u>8.5%</u>       |
| Total liabilities and net assets        | <u>\$ 65,405,007</u> | <u>\$ 59,060,057</u> | <u>\$ 6,344,950</u> | <u>10.7%</u>      |



# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

### Summary of Statement of Net Assets

**Current Assets** - For the year ended June 30, 2012, current assets totaled \$21.6M, an increase of \$2.7M or 14.3% over the prior year. Current assets are composed primarily of \$17.4M of cash and investments and \$3.3M of accounts receivable. For the prior year ended June 30, 2011, current assets totaled \$18.9M, and were composed primarily of \$13.7M of cash and investments and \$4.4M of accounts receivable.

At June 30, 2012, accounts receivable included \$1.6M due from the U.S. Environmental Protection Agency (EPA) for pending reimbursements for operations and maintenance (O&M) costs incurred for projects in the South El Monte Operable Unit (SEMOU). This receivable represents a decrease of \$895K or 35.6% from FY 2011. Accounts receivable also included \$1.7M due from Potentially Responsible Parties (PRPs) primarily related to project O&M costs in the Baldwin Park Operable Unit (BPOU). This represents a decrease of \$141K or 8.8% from FY 2011. Also included in current assets is \$378K of Spare Parts Inventory, comprised of various replacement parts and other non-chemical consumables used for the O&M of the treatment facilities in the BPOU and \$427K 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 2012, purchases of new office equipment and software totaled \$28,755. The current year transactions, including depreciation of \$299,153, resulted in a net decrease in capital assets of \$270,398, or 4.1%.

# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

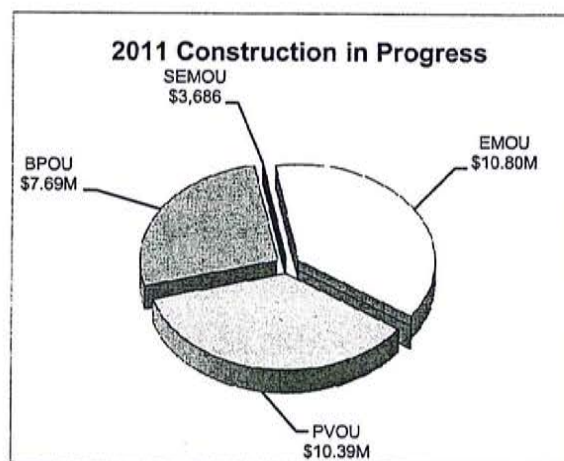
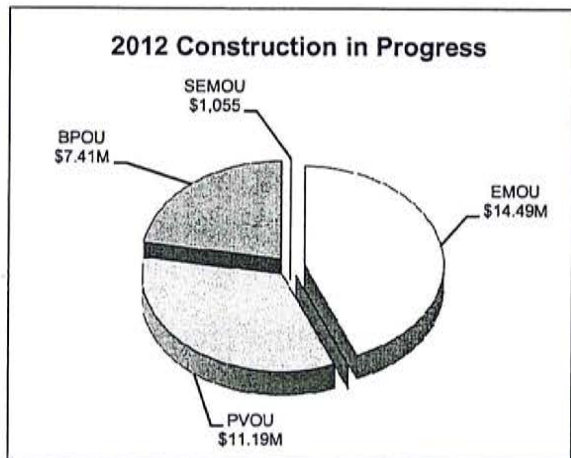
## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

### Summary of Statement of Net Assets (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 in 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 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, 2012, CIP totaled \$33.1M, a net increase of \$4.2M or 14.6% from FY 2011. Approximately 22% of the CIP costs are related to the BPOU, 44% are related to the El Monte Operable Unit (EMOU) and 34% are related to the Puente Valley Operable Unit (PVOU). During 2012, CIP costs totaled \$4.6M for the continuing design and construction of the treatment facilities in the EMOU and PVOU and the continuing design and construction of single pass treatment facilities in the BPOU. CIP was reduced by \$425K, of which \$398K was the transfer of completed capital projects to the water producers and \$27K was reclassified as expense rather than CIP. Shown below is a composition of CIP by operable unit as of June 30, 2012 and 2011.





# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

### Summary of Statement of Net Assets (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, 2012.

#### BALDWIN PARK OPERABLE UNIT

##### *San Gabriel Valley Water Company Plant B6 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

##### *Westside Shallow Remedy - Westside Performing Settling Defendants*

Current costs relate primarily to the construction of the VOC treatment facilities and conveyance pipelines.

##### *Eastside Shallow / Southeast Deep Remedy - Eastside Performing Settling Defendants*

Current costs relate primarily to the design and pre-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 San Gabriel Valley Water Company's Plant B7.

# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

### Summary of Statement of Net Assets (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, 2012, the noncurrent portion of the note payable totaled \$4.3M. 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 \$4.3M as of June 30, 2012.

**Restricted Net Assets** - For FY 2012, restricted net assets total \$10.7M, which is a decrease of \$817K or 7.1% from FY 2011. 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 O&M 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, 2012

### Summary of Revenue, Expenses and Changes in Net Assets

|                                      | June 30       |               | Dollar<br>Change | Percentage<br>Change |
|--------------------------------------|---------------|---------------|------------------|----------------------|
|                                      | 2012          | 2011          |                  |                      |
| Total Operating Revenues             | \$ 25,127,954 | \$ 27,228,190 | \$ (2,100,236)   | -7.7%                |
| Total Operating Expenses             | 25,473,768    | 27,538,760    | (2,064,992)      | -7.5%                |
| Operating Loss                       | (345,814)     | (310,570)     | (35,244)         | 11.3%                |
| Nonoperating Revenues                | 46,668        | 67,572        | (20,904)         | -30.9%               |
| Nonoperating (Expenses)              | (398,115)     | (6,769,887)   | 6,371,772        | -94.1%               |
| Loss before Capital<br>Contributions | (697,261)     | (7,012,885)   | 6,315,624        | -90.1%               |
| Capital Contributions                | 4,794,162     | 2,877,590     | 1,916,572        | 66.6%                |
| Changes in net assets                | 4,096,901     | (4,135,295)   | 8,232,196        | -199.1%              |
| Beginning net assets                 | 48,412,447    | 52,547,742    | (4,135,295)      | -7.9%                |
| Ending net assets                    | \$ 52,509,348 | \$ 48,412,447 | \$ 4,096,901     | 8.5%                 |

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

**PRP Contributions** - By agreement, O&M costs for projects located primarily in the BPOU and SEMOU are paid through the Authority. For FY 2012, the Authority received and recognized as revenue \$19.8M in funding from the PRPs for costs related to these projects, an increase of \$1.6M or 5.7% over the prior year. For FY 2011, the Authority received and recognized as revenue \$18.2M 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 O&M costs. During FY 2012, \$3.5M was recognized as revenue for project capital and O&M costs, a decrease of \$3.5M, or 50%. During FY 2011, \$7.0M was recognized as revenue for project capital and O&M costs.



# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

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

**Operating Expenses** - The five major areas of expense variances that developed during the fiscal year were related to professional services, discharge permitting activities, public relations, project O&M costs, and project grants.

**Professional Services** - Costs incurred during 2012 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 and an engineering firm. FY 2012 professional services totaled \$331K, a decrease of \$242K, or 42.3% from the prior year. This decrease was expected and is due primarily to a reduction in legal fees related to the resolution of issues in the SEMOU and litigation with potential PRPs and also the resolution of certain internal reorganization issues.

**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 project are estimated to be \$230K, with \$102K incurred during FY 2012.

**Public Relations** - During FY 2012, the Authority expanded its public and community relations. Efforts included informational advertorials in the local newspapers, a social media campaign, and planning for participation in an informational water forum to be held locally with participation by Water Producers, PRPS, local legislators, and other interested parties. The Authority also published its first annual report.

**Project O&M Costs** - These costs relate primarily to projects 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 were funded through PRPs, approximately \$1.6M in costs were funded by federal funding sources.

**Project Grants** - The items included in this category include certain payments for project capital and O&M costs. For FY 2012, project grant expense included federal funding payments in the amount of \$2.1M. For FY 2011, the project grant expense related to federal funding payments for capital and O&M totaled \$2.1M and USBR reimbursements related to the USGVMWD Water Recycling Project totaled \$164,718.

# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

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

**Nonoperating Expenses** - This item relates to the transfers of completed capital projects that totaled \$398K described at page 6 in the category "Construction in Progress".

#### Capital Contributions

|                        | June 30          |                  |
|------------------------|------------------|------------------|
|                        | 2012             | 2011             |
| Governmental - Federal | \$ 158,509       | \$ (1,551,251)   |
| Governmental - State   | -                | -                |
| Responsible Parties    | 4,831,796        | 4,894,858        |
| Water Producers        | -                | -                |
| Capital Assessment     | (196,143)        | (466,017)        |
| Capital Contributions  | <u>4,794,162</u> | <u>2,877,590</u> |

The majority of the current year capital contributions were derived from PRPs. Contributions received are used to fund capital projects and project O&M or project grant costs. As funding is received for capital projects, it is recorded as a capital contribution and the corresponding costs are recorded as CIP. Upon completion of the capital projects, where title is retained by the water producer, capital funding is distributed from contributed capital and the associated costs are relieved from CIP. When these related costs are incurred and expensed on the statement of revenues and expenses, funds are transferred from capital contributions and recognized as revenue.

### Budgetary Highlights - Operating Budget

|                                  | Fiscal Year<br>2012 Actual | Fiscal Year<br>2012 Budget | Variance              |
|----------------------------------|----------------------------|----------------------------|-----------------------|
| <u>Operating Revenues</u>        |                            |                            |                       |
| Assessment                       | \$ 1,628,816               | \$ 1,619,294               | \$ 9,522              |
| Responsible Parties              | 19,836,479                 | 32,750,084                 | (12,913,605)          |
| Authority Federal Funding Awards | 3,520,656                  | 8,825,504                  | (5,304,848)           |
| State Funding Awards             | 142,003                    | 161,000                    | (18,997)              |
| Water Producers                  | -                          | 11,188,613                 | (11,188,613)          |
| Total Operating Revenues         | <u>\$ 25,127,954</u>       | <u>\$ 54,544,495</u>       | <u>\$(29,416,541)</u> |



# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

### Budgetary Highlights - Operating Budget (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 2012 the assessment was \$7.25 per acre foot of prescriptive pumping rights. A total of \$1.4M was assessed during 2012.

**Responsible Parties/Federal Funding Awards/Water Producers** - The FY 2012 budget included costs related to projects in the SEMOU, PVOU, BPOU, EMOU, and Area Three Operable Unit (ATOU). The costs were budgeted to be funded through contributions from PRPs, federal funds, and water producers. The costs are expensed and the corresponding contributions recognized as revenue when paid by the Authority. The FY 2012 revenues are lower than budgeted due to the timing of the cost reimbursements. The budget for water producers is shown as \$11.2M, however these costs are not incurred by the Authority, but rather the water producers and therefore are not included as revenues for the Authority.

| <u>Project Expenses</u>       | <u>Fiscal Year<br/>2012 Actual</u> | <u>Fiscal Year<br/>2012 Budget</u> | <u>Budget<br/>Variance</u> |
|-------------------------------|------------------------------------|------------------------------------|----------------------------|
| Project Grants/Awards         | \$ 2,088,633                       | \$ 4,207,637                       | \$ (2,119,004)             |
| Project O&M                   | <u>20,815,762</u>                  | <u>15,832,264</u>                  | <u>4,983,498</u>           |
| <b>Total Project Expenses</b> | <b><u>\$ 22,904,395</u></b>        | <b><u>\$ 20,039,901</u></b>        | <b><u>\$ 2,864,494</u></b> |

**Project Grants/Awards & Project O&M** - The variance in Project Grants/Awards is attributable primarily to EPA grants totaling \$1.6M that were recorded as O&M costs rather than Project Grants/Awards for FY 2012. If included as Project Grants/Awards, the actual would have been less than budget by \$519K. The O&M variance is attributable primarily to the BPOU, as O&M costs exceeded budgeted costs by \$2.8M and the SEMOU as \$1.6M in O&M costs had been budgeted as Project Grants/Awards. The O&M costs are funded by PRPs, federal funding and water producer contributions; the Project Grants/Awards are funded by federal funding and PRP contributions. Costs related to these projects are recorded when invoices are received by the Authority and the supporting documentation is in accordance with the Authority procedures.



# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

### Budgetary Highlights - Capital Budget

|                                      | <u>Fiscal Year<br/>2012 Actual</u> | <u>Fiscal Year<br/>2012 Budget</u> | <u>Budget<br/>Variance</u> |
|--------------------------------------|------------------------------------|------------------------------------|----------------------------|
| <b><u>El Monte Operable Unit</u></b> |                                    |                                    |                            |
| • <i>Prime Contractor Costs</i>      | \$ 3,667,000                       | \$ 9,789,000                       | \$ (6,122,000)             |

The budgeted costs relate to the Shallow West project, the Shallow East project, and the ESPSD/City of El Monte project. The Shallow West project is expected to be completed early FY 2013. The Shallow East and ESPSD/ City of El Monte Projects are delayed by institutional and regulatory processes. The projects are funded through a combination of federal funding and PRPs contributions.

### Baldwin Park Operable Unit

|                                 |            |              |                |
|---------------------------------|------------|--------------|----------------|
| • <i>Prime Contractor Costs</i> | \$ 110,380 | \$ 4,416,000 | \$ (4,305,620) |
|---------------------------------|------------|--------------|----------------|

The 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. Project costs incurred are funded by PRPs and federal funding contributions.

### Puente Valley Operable Unit

|                                 |            |              |                |
|---------------------------------|------------|--------------|----------------|
| • <i>Prime Contractor Costs</i> | \$ 817,800 | \$ 7,246,000 | \$ (6,428,200) |
|---------------------------------|------------|--------------|----------------|

The costs incurred for the PVOU SGVWC Plant B7 project are significantly under budget for 2012. The construction phase began in FY 2008, but has been delayed due to institutional and regulatory processes. The project is expected to be completed during 2013. The project is funded through contributions from federal funding, PRPs, and a water producer.

# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

### Budgetary Highlights - Capital Budget (continued)

|  | <u>Fiscal Year</u><br><u>2012 Actual</u> | <u>Fiscal Year</u><br><u>2012 Budget</u> | <u>Budget</u><br><u>Variance</u> |
|--|--|--|----------------------------------|
| <b><u>South El Monte Operable Unit</u></b> |  |  |                                  |
| • <i>Prime Contractor Costs</i>            | \$ -                                     | \$ 1,665,000                             | \$ (1,665,000)                   |

The Prime Contractor costs for the SEMOU include projects for the City of Monterey Park's Wells 5 and 6 and SGVWC's Plant 8. These projects have been delayed, and are anticipated to start construction in FY 2013. The funding for these projects is being provided by federal funding, water producers and the City of Monterey Park.

### Other Projects

|                                 |      |              |                |
|---------------------------------|------|--------------|----------------|
| • <i>Prime Contractor Costs</i> | \$ - | \$ 5,517,500 | \$ (5,517,500) |
|---------------------------------|------|--------------|----------------|

The Prime Contractor costs for the Other Projects Category are related to treatment facility projects for the City of Monrovia and the City of Arcadia. These projects have been delayed, and are anticipated to start construction in FY 2013. The funding for these projects is being provided by federal funding and the Cities.



# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

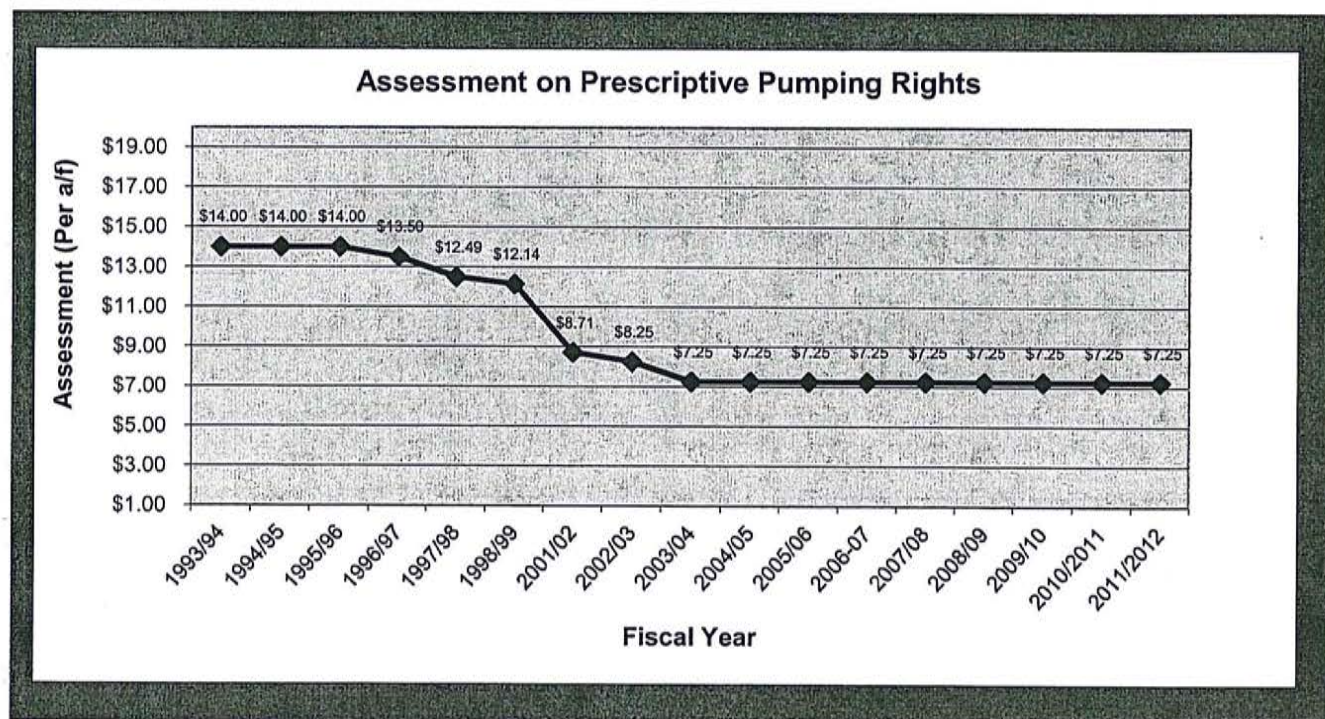
## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

### Economic Factors

**Assessment** - The Authority's Board of Directors and management considered many factors when determining the FY 2012 assessment. By securing funding from outside sources such as the USBR, State, and PRPs, the Authority has been able to minimize assessment dollars needed to fund administrative and project costs. As such, for FY 2012 the Authority's assessment remained at \$7.25 per acre foot for the ninth consecutive year. The table below presents the historical annual assessment rate per acre foot since the Authority's inception.

Future assessments will largely be determined by Congressional appropriations, pending litigation and potential settlements with PRPs.





# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## Statement of Net Assets

June 30, 2012

(with comparative information for 2011)

|   | 2012          | 2011       |
|---|---------------|------------|
| <u>Assets:</u>  |               |            |
| Current assets:                                       |               |            |
| Cash and investments (note 2)                         | \$ 17,436,201 | 13,676,753 |
| Accounts receivable (note 3)                          | 3,295,222     | 4,404,737  |
| Inventories   | 377,802       | 343,094    |
| Prepaid expenses and other receivables                | 67,140        | 43,554     |
| Interest receivable                                   | 140,230       | 149,725    |
| Current portion of note receivable (note 4)           | 301,897       | 293,960    |
| Total current assets                                  | 21,618,492    | 18,911,823 |
| Noncurrent assets:                                    |               |            |
| Capital assets (note 5):                              |               |            |
| Construction in progress                              | 33,095,529    | 28,884,954 |
| Other capital assets, net of accumulated depreciation | 6,342,439     | 6,612,837  |
| Deposits  | 22,588        | 22,588     |
| Note receivable, net of current portion (note 4)      | 4,325,959     | 4,627,855  |
| Total noncurrent assets                               | 43,786,515    | 40,148,234 |
| Total Assets  | \$ 65,405,007 | 59,060,057 |
| <u>Liabilities:</u>                                   |               |            |
| Current liabilities:                                  |               |            |
| Accounts payable                                      | \$ 2,420,913  | 2,076,449  |
| Accrued expenses                                      | 2,451,150     | 3,516,457  |
| Interest payable                                      | 124,952       | 132,889    |
| Deferred revenue                                      | 3,270,788     | -          |
| Current portion of note payable (note 6)              | 301,897       | 293,960    |
| Total current liabilities                             | 8,569,700     | 6,019,755  |
| Noncurrent liabilities:                               |               |            |
| Note payable, net of current portion (note 6)         | 4,325,959     | 4,627,855  |
| Total noncurrent liabilities                          | 4,325,959     | 4,627,855  |
| Total liabilities                                     | 12,895,659    | 10,647,610 |
| <u>Net Assets:</u>                                    |               |            |
| Invested in capital assets, net of related debt       | 39,437,967    | 35,497,791 |
| Restricted  | 10,710,452    | 11,527,351 |
| Unrestricted  | 2,360,929     | 1,387,305  |
| Total net assets                                      | 52,509,348    | 48,412,447 |
| Total liabilities and net assets                      | \$ 65,405,007 | 59,060,057 |

See accompanying notes to basic financial statements.

**SAN GABRIEL BASIN WATER QUALITY AUTHORITY**  
**Statements of Revenues, Expenses, and Changes in Net Assets**

Year ended June 30, 2012

(with comparative information for 2011)

|   | <u>2012</u>          | <u>2011</u>        |
|---|----------------------|--------------------|
| Operating Revenues:                           |                      |                    |
| Pumping right assessments                     | \$ 1,628,816         | 1,898,690          |
| Responsible party contributions               | 19,836,479           | 18,162,674         |
| WQA federal funding awards                    | 3,520,657            | 7,022,299          |
| WQA state funding                             | 142,002              | 144,527            |
| Total operating revenues                      | <u>25,127,954</u>    | <u>27,228,190</u>  |
| Operating Expenses:                           |                      |                    |
| Administrative salaries                       | 657,886              | 987,478            |
| Fringe benefits                               | 242,795              | 242,660            |
| Consulting                                    | 543,044              | 512,281            |
| Professional services                         | 330,529              | 572,758            |
| Office rent                                   | 81,429               | 81,987             |
| Supplies                                      | 14,982               | 14,869             |
| Insurance                                     | 34,327               | 31,048             |
| Public relations                              | 114,804              | 100,168            |
| Travel and conferences                        | 37,412               | 33,976             |
| Telephone and utilities                       | 6,043                | 8,313              |
| Dues and subscriptions                        | 17,649               | 17,960             |
| Board member fees                             | 50,402               | 51,735             |
| Equipment rent and maintenance                | 33,352               | 38,326             |
| Depreciation                                  | 299,152              | 290,140            |
| Miscellaneous expense                         | 2,878                | 6,595              |
| Project O&M costs                             | 20,815,762           | 22,250,403         |
| Project grants                                | 2,088,633            | 2,298,063          |
| Discharge permit activities                   | 102,689              | -                  |
| Total operating expenses                      | <u>25,473,768</u>    | <u>27,538,760</u>  |
| Operating income (loss)                       | <u>(345,814)</u>     | <u>(310,570)</u>   |
| Nonoperating revenues (expenses):             |                      |                    |
| Interest income                               | 46,612               | 67,539             |
| Other income                                  | 56                   | 33                 |
| Transfer of capital assets to water producers | (398,115)            | (6,769,887)        |
| Net nonoperating revenues (expenses)          | <u>(351,447)</u>     | <u>(6,702,315)</u> |
| Capital contributions                         | <u>4,794,162</u>     | <u>2,877,590</u>   |
| Changes in net assets                         | 4,096,901            | (4,135,295)        |
| Net assets at beginning of year               | <u>48,412,447</u>    | <u>52,547,742</u>  |
| Net assets at end of year                     | <u>\$ 52,509,348</u> | <u>48,412,447</u>  |

See accompanying notes to basic financial statements.

# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## Statements of Cash Flows

Year ended June 30, 2012

(with comparative information for 2011)

|   | <u>2012</u>          | <u>2011</u>        |
|---|----------------------|--------------------|
| Cash flows from operating activities:                                   |                      |                    |
| Cash from all operating revenues  | \$ 26,111,216        | 25,662,223         |
| Cash paid to suppliers for goods and services                           | (24,926,797)         | (23,015,120)       |
| Cash paid to employees for services                                     | (900,691)            | (987,478)          |
| Net cash (used) provided by operating activities                        | <u>283,728</u>       | <u>1,659,625</u>   |
| <br>Cash flows from noncapital financing activities:                    |                      |                    |
| Other income  | 56                   | 33                 |
| Proceeds received from note receivable                                  | 293,959              | 286,231            |
| Payments on note payable  | (293,959)            | (286,231)          |
| Net cash provided (used) by noncapital<br>financing activities          | <u>56</u>            | <u>33</u>          |
| <br>Cash flows from capital and related financing activities:           |                      |                    |
| Acquisition of capital assets   | (28,766)             | (41,287)           |
| Construction in progress expenditures                                   | (4,635,598)          | (5,632,918)        |
| Capital contributions   | 8,091,858            | 2,877,590          |
| Net cash (used) provided by capital and<br>related financing activities | <u>3,427,494</u>     | <u>(2,796,615)</u> |
| <br>Cash flows from investing activities:                               |                      |                    |
| Interest received on investments  | 48,170               | 71,326             |
| Net cash provided by (used for) investing activities                    | <u>48,170</u>        | <u>71,326</u>      |
| <br>Net increase (decrease) in cash and cash equivalents                | 3,759,448            | (1,065,631)        |
| <br>Cash and cash equivalents at beginning of year                      | <u>13,676,753</u>    | <u>14,742,384</u>  |
| <br>Cash and cash equivalents at end of year                            | <u>\$ 17,436,201</u> | <u>13,676,753</u>  |

(Continued)

See accompanying notes to basic financial statements.



# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## Statements of Cash Flows

(Continued)

|   | <u>2012</u>       | <u>2011</u>      |
|---|-------------------|------------------|
| Cash flows from operating activities:   |                   |                  |
| Operating income (loss)   | \$ (345,814)      | (310,570)        |
| Adjustments to reconcile operating income<br>(loss) to net cash provided by (used for)<br>operating activities: |                   |                  |
| Depreciation  | 299,152           | 290,140          |
| (Increase) decrease in accounts receivable  | 1,109,530         | (1,548,529)      |
| (Increase) decrease in inventories  | (34,708)          | -                |
| (Increase) decrease in prepaid expenses   | (23,586)          | (17,438)         |
| Increase (decrease) in accounts payable and accrued liabilities   | <u>(720,846)</u>  | <u>3,246,022</u> |
| Net cash provided by (used for operating activities)  | <u>\$ 283,728</u> | <u>1,659,625</u> |
| Noncash capital, investing and financing activities:  |                   |                  |
|   | <u>2012</u>       | <u>2011</u>      |
| Transfer of capital assets to water producers   | \$ 398,115        | 6,769,887        |

See accompanying notes to basic financial statements.

# **SAN GABRIEL BASIN WATER QUALITY AUTHORITY**

## **Notes to Basic Financial Statements**

Year ended June 30, 2012

### **(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 act district and renamed the San Gabriel Basin Water Quality Authority (the "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.

Assembly Bill AB1010 became law in October 2007, amending certain sections of the San Gabriel Basin Water Quality Authority Act and extending the Act until July 1, 2017.

#### **(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 applies all applicable GASB pronouncements in accounting and reporting for proprietary operations as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradicts GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's) of the Committee on Accounting Procedure. The Authority has elected to not adopt private sector guidelines issues after November 30, 1989.



# **SAN GABRIEL BASIN WATER QUALITY AUTHORITY**

## **Notes to Basic Financial Statements**

(Continued)

### Summary of Significant Accounting Policies, (Continued)

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

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from pumping right assessments 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.

Net assets of the Authority have been reported as restricted when their 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, legally available restricted bond proceeds are used first, and then other restricted resources, 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 Assets at June 30, 2012.

# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## Notes to Basic Financial Statements

(Continued)

### (1) Summary of Significant Accounting Policies, (Continued)

#### (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          | 5 years  |
| Office furniture          | 10 years |
| Treatment plant equipment | 10 years |
| Treatment plants          | 35 years |
| Monitoring wells          | 35 years |

#### (f) Construction in Progress

Project capital costs are accumulated as construction in progress over the life of the project. 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 that same project may be incurring costs associated with treatment and remediation.

#### (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.



# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## Notes to Basic Financial Statements

(Continued)

### (1) Summary of Significant Accounting Policies, (Continued)

#### (h) Investments

Investments are reported in the accompanying Statement of Net Assets 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.

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, 2012, the annual pumping right assessment was \$7.25 per acre-foot.

The Authority records all 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 (capital) operating and maintenance costs (project operating 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.

# **SAN GABRIEL BASIN WATER QUALITY AUTHORITY**

## **Notes to Basic Financial Statements**

(Continued)

### (1) Summary of Significant Accounting Policies, (Continued)

#### (i) Accrued Liabilities and Accounts Payable, (Continued)

##### 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.

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

These costs include costs for capital projects and project operating and maintenance costs. These costs are generally funded by PRPs, federal funding participation awards and assessments. The costs funded by PRPs are subject to review and approval by the PRPs. Once the costs are approved by the PRPs, the invoices are submitted to WQA for payment. At that time the Authority also reviews the invoice based on its own internal established criteria. Once the invoice is approved by both the Authority and the PRPs, and funding is available, a liability is recorded by the Authority. Frequently, the invoices submitted by the water producers to the PRPs are for reimbursement of costs incurred in prior periods. The Authority has no liability to pay costs for a project until the invoices are approved by both the PRPs and the Authority and the funding is available. Therefore the timing of the expense and related liability recorded by the Authority does not correspond to the period in which the cost was incurred by the water producer. Instead the liability and related cost are recorded in the period in which the cost was approved and the funding is available for payment to the water entity.



# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## Notes to Basic Financial Statements

(Continued)

### (1) Summary of Significant Accounting Policies, (Continued)

#### (k) Deferred Revenue

The Authority records deferred 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 of eligible costs to the Authority.

#### (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.

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.

### (2) Cash and Investments

Cash and investments as of June 30, 2012 consist of the following:

|                                      |                     |
|--------------------------------------|---------------------|
| Cash on hand                         | \$ 295              |
| Deposits with financial institutions | 74,971              |
| Investments                          | <u>17,360,935</u>   |
| Total cash and investments           | <u>\$17,436,201</u> |

# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## Notes to Basic Financial Statements

(Continued)

### (2) Cash and Investments, (Continued)

#### 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.

| <u>Authorized Investment type</u>   | <u>Maximum Maturity</u> | <u>Maximum Percentage Allowed</u> | <u>Maximum Investment In One Issuer</u> |
|-------------------------------------|-------------------------|-----------------------------------|---|
| Local Agency Bonds                  | 5 years                 | None                              | None                                    |
| U.S. Treasury Obligations           | 5 years                 | None                              | None                                    |
| U.S. Agency Securities              | 5 years                 | None                              | None                                    |
| Banker's Acceptances                | 180 days                | 40%                               | 30%                                     |
| Commercial Paper                    | 270 days                | 25%                               | 10%                                     |
| Negotiable Certificates of Deposit  | 5 years                 | 30%                               | None                                    |
| Repurchase Agreements               | 1 year                  | None                              | None                                    |
| Reverse Repurchase Agreements       | 92 days                 | 20% of base value                 | None                                    |
| Medium-Term Notes                   | 5 years                 | 30%                               | None                                    |
| Money Market Mutual Funds           | N/A                     | 20%                               | 10%                                     |
| Mortgage Pass-Through Securities    | 5 years                 | 20%                               | None                                    |
| Orange County Treasury Pool         | N/A                     | None                              | None                                    |
| Local Agency Investment Fund (LAIF) | N/A                     | None                              | None                                    |



# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## Notes to Basic Financial Statements

(Continued)

### (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% 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.

#### 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 to changes in market interest rates. One of the ways that Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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:

# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## Notes to Basic Financial Statements

(Continued)

### (2) Cash and Investments, (continued)

| <u>Investment</u>                | <u>Amount</u>       | <u>Remaining Maturity</u>    |                            |                         |                           |
|----------------------------------|---------------------|------------------------------|----------------------------|-------------------------|---------------------------|
|                                  |                     | <u>12 Months<br/>Or Less</u> | <u>13 to 36<br/>Months</u> | <u>37-60<br/>Months</u> | <u>Over 60<br/>Months</u> |
| Local Agency<br>Investment Fund* | <u>\$17,360,935</u> | <u>17,360,935</u>            | <u>-</u>                   | <u>-</u>                | <u>-</u>                  |
| Total                            | <u>\$17,360,935</u> | <u>17,360,935</u>            | <u>-</u>                   | <u>-</u>                | <u>-</u>                  |

\* The local agency investment fund is not rated.

#### Investment in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (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 District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District'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, 2012:

|                            |                    |
|----------------------------|--------------------|
| Federal funding            | \$1,616,458        |
| State funding              | 61,110             |
| Responsible parties (PRPs) | 1,603,527          |
| Assessments                | 10,334             |
| Other                      | <u>3,793</u>       |
|                            | <u>\$3,295,222</u> |

### (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, 2012, the note receivable for the Authority was \$4,627,856.



# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## Notes to Basic Financial Statements

(Continued)

### (5) Capital Assets

A summary of changes in capital assets at June 30, 2012 follows:

|   | Beginning<br>Balance<br>June 30, 2011 | Additions        | Deletions        | Ending<br>Balance<br>June 30, 2012 |
|---|---------------------------------------|------------------|------------------|------------------------------------|
| Capital assets, not being depreciated:      |                                       |                  |                  |                                    |
| Construction in progress                    | \$ 28,884,954                         | 4,635,598        | (425,023)        | 33,095,529                         |
| Total capital assets not being depreciated  | <u>28,884,954</u>                     | <u>4,635,598</u> | <u>(425,023)</u> | <u>33,095,529</u>                  |
| Capital assets, being depreciated:          |                                       |                  |                  |                                    |
| Office furniture and equipment              | 213,489                               | 28,755           | -                | 242,244                            |
| BPOU monitoring wells                       | 8,792,835                             | -                | -                | 8,792,835                          |
| SEM sentinel well                           | 102,437                               | -                | -                | 102,437                            |
| SEM Bozung Treatment Facility               | <u>890,310</u>                        | <u>-</u>         | <u>-</u>         | <u>890,310</u>                     |
|   | 9,999,071                             | 28,755           | -                | 10,027,826                         |
| Less accumulated depreciation:              |                                       |                  |                  |                                    |
| Office furniture and equipment              | (147,944)                             | (19,564)         | -                | (167,508)                          |
| BPOU monitoring wells                       | (3,128,774)                           | (251,224)        | -                | (3,379,998)                        |
| SEM sentinel well                           | (20,488)                              | (2,927)          | -                | (23,415)                           |
| SEM Bozung Treatment Facility               | <u>(89,028)</u>                       | <u>(25,438)</u>  | <u>-</u>         | <u>(114,466)</u>                   |
|   | (3,386,234)                           | (299,153)        | -                | (3,685,387)                        |
| Total capital assets being depreciated, net | <u>6,612,837</u>                      | <u>(270,398)</u> | <u>-</u>         | <u>6,342,439</u>                   |
| Total capital assets, net                   | <u>\$ 35,497,791</u>                  | <u>4,365,200</u> | <u>(425,023)</u> | <u>39,437,968</u>                  |

### (6) Note Payable

During the year ended June 30, 2004, the Authority was granted a loan from the SWRCB. As of June 30, 2005, \$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.

# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## Notes to Basic Financial Statements

(Continued)

### (6) Note Payable, (Continued)

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.

Changes in long-term debt for the year ended June 30, 2012 are as follows:

|              | <u>Beginning<br/>Balance<br/>June 30, 2011</u> | <u>Additions</u> | <u>Payments</u>  | <u>Ending<br/>Balance<br/>June 30, 2012</u> | <u>Due<br/>Within<br/>One year</u> |
|--------------|--|------------------|------------------|---|------------------------------------|
| Note payable | <u>\$4,921,815</u>                             | <u>-</u>         | <u>(293,959)</u> | <u>4,627,856</u>                            | <u>301,897</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>     |
|-----------------------------|--------------------|-----------------|------------------|
| 2013                        | \$ 301,897         | 124,952         | 426,849          |
| 2014                        | 310,048            | 116,801         | 426,849          |
| 2015                        | 318,419            | 108,430         | 426,849          |
| 2016                        | 327,016            | 99,833          | 426,849          |
| 2017                        | 335,846            | 91,003          | 426,849          |
| 2018-2021                   | 1,820,243          | 313,999         | 2,134,242        |
| 2022-2025                   | <u>1,214,387</u>   | <u>66,159</u>   | <u>1,280,546</u> |
|                             | <u>\$4,627,856</u> | <u>921,177</u>  | <u>5,549,033</u> |

### (7) Contributed Capital

Contributed capital includes the following:

#### Capital Assessment

The Authority is authorized by the State Legislature to impose an annual pumping right assessment (see note 1).

#### Governmental

The United States Bureau of Reclamation (USBR), under the Title XVI and the Restoration Funds programs, has provided funding for design, planning, construction and treatment activities for treatment facilities in the Baldwin Park (BPOU), South El Monte (SEMOU), El Monte (EMOU) and Puente Valley (PVOU) Operable Units.



# **SAN GABRIEL BASIN WATER QUALITY AUTHORITY**

## **Notes to Basic Financial Statements**

(Continued)

### (7) Contributed Capital, (Continued)

#### Governmental, (Continued)

The United States Environmental Protection Agency (EPA) has provided funding for treatment and remediation costs for treatment facilities operated by three water producers located in the SEMOU.

#### 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 operable units.

#### Responsible Parties

The United States Environmental Protection Agency (EPA) identified several private companies referred to as Potentially Responsible Parties (PRPs) as being responsible for groundwater contamination in the Main San Gabriel Basin (the 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 Authority is a party to the SEMOU Cooperating Parties Agreements which 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 additional agreements with SEMOU Cooperating Parties were finalized.

### (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 \$84,186 for the year ended June 30, 2012.

# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## Notes to Basic Financial Statements

(Continued)

### (9) Deferred Compensation Plan

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all Authority employees, 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 2013. Total rent expense for the year ended June 30, 2012 under the operating leases was \$92,097.

Future minimum lease payments under these operating lease agreements as of June 30, 2012 are as follows:

| <u>Year ending June 30</u> |                  |
|----------------------------|------------------|
| 2013                       | \$ 89,275        |
| 2014                       | 89,275           |
| 2015                       | 89,275           |
| 2016                       | 89,275           |
| 2017                       | <u>89,275</u>    |
| Total                      | <u>\$446,375</u> |

### (11) Pooled Arrangements

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.



# **SAN GABRIEL BASIN WATER QUALITY AUTHORITY**

## **Notes to Basic Financial Statements**

(Continued)

### **(11) Pooled Arrangements, (Continued)**

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 \$1 million per occurrence for liability; replacement cost for property, subject to a \$1,000 deductible; and statutory limits for workers' compensation.

### **(12) Pollution Remediation**

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 spills of hazardous wastes or hazardous substances and obligations to remove contamination such as asbestos are pollution remediation obligations. An entity must recognize a liability when the government commences, or legally obligates itself to commence, cleanup activities or monitoring or operation and maintenance of the remediation effort.

Under these rules, the Authority has a requirement to record a liability for the future estimated pollution remediation costs. However, since the future liability is 100% offset by recoveries from other responsible parties, the net obligation for the Authority is \$0.