Water Quality Authority

San Gabriel Basin Water Quality Authority
Audited Financial Statements
As of and for the Years Ended June 30, 2017 and 2016
with Report of Independent Auditors

Vasquez & Company LLP
Certified Public Accountants and Business Consultants

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of the San Gabriel Basin Water Quality Authority (the Authority) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 13 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 January 29, 2018 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Vasquez & Company LLP

Los Angeles, California
January 29, 2018

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2017

INTRODUCTION

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

DESCRIPTION OF FINANCIAL STATEMENTS

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

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

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

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

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

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2017

SUMMARY FINANCIAL INFORMATION AND ANALYSIS

The following condensed financial information provides an overview of the Authority's financial position and financial activities as of and for the fiscal years ended June 30, 2017 and 2016.

	June 30		Dollar	Percentage
	2017	**2016**	Change	Change
Assets				
Current assets	$ 14,306,112	$ 16,320,996	$ (2,014,884)	-12.3%
Other capital assets , net	4,923,101	5,191,488	(268,387)	-5.2%
Construction in progress	23,280,081	22,382,285	897,796	4.0%
Noncurrent assets	2,712,428	3,057,326	(344,898)	-11.3%
Total assets	45,221,722	46,952,095	(1,730,373)	-3.7%
Liabilities				
Current liabilities	5,201,105	6,663,673	(1,462,568)	-21.9%
Noncurrent liabilities	2,689,716	3,034,630	(344,914)	-11.4%
Total liabilities	7,890,821	9,698,303	(1,807,482)	-18.6%
Net Position				
Investment in capital assets	28,203,182	27,573,773	629,409	2.3%
Restricted	6,056,770	7,349,198	(1,292,428)	-17.6%
Unrestricted	3,070,949	2,330,821	740,128	31.8%
Total net position	37,330,901	37,253,792	77,109	0.2%
Total liabilities and net position	$ 45,221,722	$ 46,952,095	$ (1,730,373)	-3.7%

Summary of Statements of Net Position

Current Assets - As of June 30, 2017, current assets totaled $14.3M and are comprised primarily of $11.9M of cash and investments and $1.4M of accounts receivable. As of June 30, 2016, current assets totaled $16.3M, and were composed primarily of $12.9M of cash and investments and $2.5M of accounts receivable. Current assets decreased $2.0M or 12.3% over the prior year, with the majority of the decrease related to cash and investments and receivables.

Cash and investments decreased by $974K or 7.5% from the prior year; this decrease was due primarily to payment of grants to water producers for capital costs in the BPOU.

Accounts receivable decreased $1.1M or 44% from the prior year primarily due to a decrease of $875K in federal grants receivable and a decrease of $250K in responsible parties funding receivable.

Other Capital Assets - During FY 2017, improvements at the SEMOU Whitmore Treatment Facility totaled $17.5K, and purchases of office equipment totaled $4.1K. These current year additions along with depreciation of $290K resulted in a net decrease in capital assets of $268K, or 5.2%.

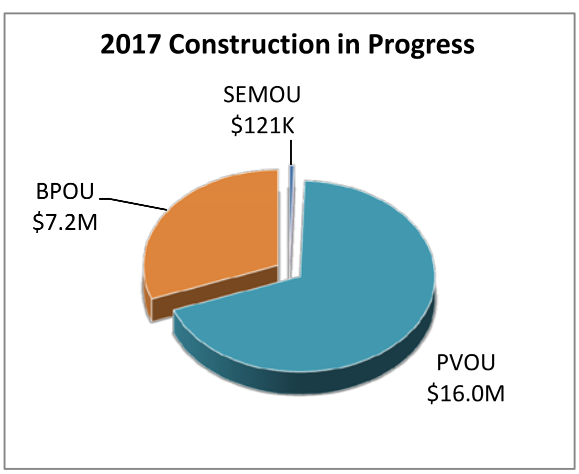
SAN GABRIEL BASIN WATER QUALITY AUTHORITY

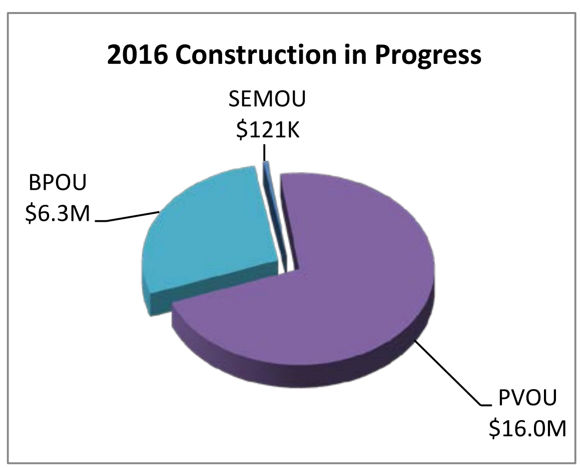
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2017

Summary of Statements of Net Position (continued)

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

Shown below is the composition of CIP by Operable Unit as of June 30, 2017 and 2016.





Summary of Statements of Net Position (continued)

Construction in Progress (CIP) (continued) - At June 30, 2017, CIP totaled $23.3M, a net increase of $898K or 4.0% from FY 2016. Approximately 30.7% of CIP is related to the BPOU, 68.8% is related to the PVOU with the remainder related to the SEMOU. During 2017, the Authority incurred $898K of CIP for the continuing design and construction of the treatment facilities for the BPOU single pass treatment facilities.

Listed below is a general description of the major projects currently under construction and included in CIP as of June 30, 2017.

BALDWIN PARK OPERABLE UNIT

Valley County Water District (VCWD) Single Pass Treatment Facility

$4.6M related primarily to the design and construction of a single pass ion exchange treatment system, replacing the existing regenerable ion exchange treatment equipment, the rehabbing of an existing well at Subarea1 (SA1), construction of two extraction wells and a treated water pipeline.

California Domestic Water Company (CDWC) Well 10

$896K related primarily to the construction of a Perchlorate Treatment Facility at Well 10, including exhaust towers, carbon vessels, resin, and plant work. Also included is the construction of a pipeline between the CDWC water system and the SGVWC water system.

San Gabriel Valley Water Company (SGVWC) Plant B6

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

PUENTE VALLEY OPERABLE UNIT

Intermediate Zone Remedy - Northrop Grumman

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

Summary of Statements of Net Position (continued)

Current Liabilities - At 2017, current liabilities totaled $5.2M, a decrease of $1.5M from the prior fiscal year 2016, and are comprised primarily of accounts payable and unearned revenue. Accounts payable is $1.8M for the current year which is a decrease of approximately $1.4M from FY 2016 primarily due to a decrease in accounts payable for BPOU projects of $216K and a decrease in payables to SEMOU Water Producers of $1.2M. The decreases are due to fluctuations in capital and T & R project costs for the current fiscal year, and are controlled by the timing and amount of submittals for cost reimbursements from RPs and Water Producers. Unearned revenue relates to funds previously received by the Authority by way of various settlement agreements with SEMOU RPs. The funds are held to pay certain SEMOU project costs as per agreement. During the current year, $79K of unearned revenue was recognized as income related to payment of T & R costs to two of the SEMOU water producers. Accordingly, the unearned revenue balance decreased from $3.0M to $2.9M.

Noncurrent Assets/Noncurrent Liabilities - Between the years of 2003 through 2005, the Authority received a total of $6,440,000 in loan proceeds from the Department of Toxic Substances Control through the State Water Resources Control Board (SWRCB) for reimbursement of project costs related to the VCWD SA1 project located in the BPOU. At June 30, 2017, the noncurrent portion of the note payable totaled $2.7M. The Authority has a corresponding note receivable from the BPOU RPs of $2.7M. The proceeds from the note receivable are used by the Authority to repay the note payable in accordance with the Authority's repayment terms with the SWRCB. Accordingly, the noncurrent portion of the receivable is recorded as a noncurrent asset, with a balance of $2.7M as of June 30, 2017. Noncurrent assets and noncurrent liabilities both decreased by $345K during the current year due to payments from the BPOU RPs under the note receivable and the Authority's corresponding payments made on the note payable to SWRCB.

Summary of Statements of Net Position (continued)

Net Position - Investment in Capital Assets - For FY 2017, investment in capital assets totaled $28.2M and was comprised of CIP of $23.3M and other capital assets, net of depreciation, of $4.9M. The increase of $629K or 2.3% from FY 2016 resulted from an increase in CIP of $898K related to construction in the BPOU and a decrease in other capital assets of $268K due primarily to depreciation expense.

Net Position - Restricted - For FY 2017, net position-restricted totaled $6.1M, which is a decrease of $1.3M or 17.6% from FY 2016. Net position-restricted includes cash, investments and receivables comprised primarily from federal funding and settlement funds that are restricted for use under various agreements as discussed below. The Authority has entered into several agreements with the United States Bureau of Reclamation (USBR) to provide funding through two federal programs (Title XVI and Restoration Funds) for water treatment facilities located in the San Gabriel Basin. The funds are provided to the Authority on a reimbursement basis and then applied to projects through the Authority's Federal Funding Program Administration (FFPA) program. The Authority has also entered into Cooperative Agreements with the United States Environmental Protection Agency (EPA) to provide funding for water treatment facilities in the SEMOU. These funds are received by the Authority on an advance basis and must be paid to the Water Producers within a few days. In addition to the funding from USBR and EPA, the Authority has reached several financial settlements with RPs in the BPOU, EMOU, PVOU and SEMOU. Certain of the settlement funds are deposited into the Authority accounts and are disbursed for capital and T & R costs incurred in connection with the specific projects identified in the agreements.

The $1.3M decrease is due primarily to the payment of funding awards to water producers through the FFPA program.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2017

Summary of Revenue, Expenses and Changes in Net Position

	June 30		Dollar Change	Percentage Change
	2017	**2016**		
Total operating revenues	$ 17,044,529	$ 19,496,672	$ (2,452,143)	-12.6%
Total operating expenses	17,340,579	19,703,797	(2,363,218)	-12.0%
Operating loss	(296,050)	(207,125)	(88,925)	42.9%
Nonoperating revenues	151,054	131,200	19,854	15.1%
Nonoperating (expenses)	(81,935)	(13,799,087)	13,717,152	-99.4%
Loss before capital contributions	(226,931)	(13,875,012)	13,648,081	-98.4%
Capital contributions	304,040	3,441,719	(3,137,679)	-91.2%
Changes in net position	77,109	(10,433,293)	10,510,402	-100.7%
Beginning net position	37,253,792	47,687,085	(10,433,293)	-21.9%
Ending net position	$ 37,330,901	$ 37,253,792	$ 77,109	0.2%

Operating Revenues - Total operating revenues decreased $2.5M or 12.6% in the current year due primarily to a decrease of $1.4M in RP contributions and a decrease of $1.1M in federal funding from EPA.

RP Contributions - Through agreements, T & R costs for projects located primarily in the BPOU and SEMOU are paid through the Authority. For FY 2017, the Authority received and recognized as revenue $14.3M in funding from the RPs for costs related to these projects, a decrease of $1.4M or 9.0% over the prior year. The decrease is due primarily to a decrease in T & R costs for the BPOU projects. For FY 2016, the Authority received and recognized as revenue $15.7M in funding from the RPs for costs related to these projects.

<u>Summary of Revenue, Expenses and Changes in Net Position (continued)</u>

Federal Funding - The Authority recognizes as income certain federal grants that are used to pay for project capital and T & R costs. During FY 2017, $645K was recognized as revenue from federal grants, a decrease of $1.1M or 61.3% over the prior year. The decrease was due primarily to a decrease in revenue from the EPA grant for SEMOU, which resulted from a delay in funding of $1.1M that had been projected for the FY 2017 but is now projected for FY 2018.

***Operating Expenses* -** Total operating expenses decreased $2.4M or 12.0% in the current year primarily due to a $2.5M decrease in project T & R costs, partially offset by an increase in professional services of $128K.

Professional Services - Costs incurred during 2017 include legal costs related to negotiations on certain agreements with RPs, costs for general legal counsel, and the services of certain professional firms, including a database and mapping consultant, an outside accountant, and audit services. The $128K increase in the current year is due primarily to the costs for the negotiations with RPs.

Project T & R Costs - These costs relate primarily to projects within the BPOU and SEMOU. Although the majority of these costs are funded through RPs, for FY 2017 approximately $431K in costs were funded by federal funding sources. The $2.5M decrease in the current year is due to decreasing costs in the treatment and remediation process in the BPOU and the delay in reimbursement of costs for the SEMOU that had been projected for FY 2017, but are now projected for reimbursement in FY 2018.

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

Nonoperating Revenues (Expenses) - Nonoperating Revenues (Expenses) include interest income and interest expense, as well as transfers of completed capital projects. During FY 2017 there were no transfers of completed projects. In the FY 2016, the EMOU Eastside Shallow and Southeast Deep Remedy projects, totaling $13.7M, were completed and transferred to a Water Producer.

Capital Contributions

	June 30	
Capital Contributions	**2017**	**2016**
Governmental - Federal	$ -	$ 4,926
Governmental - State	17,542	20,873
Responsible Parties	286,498	3,415,920
Capital Assessment	-	-
Total Capital Contributions	304,040	3,441,719

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. Capital contributions decreased $3.1M in the current year due to a $2.9M decrease in capital contributions from the BPOU RPs and net distribution of FFPA awards totaling $214K to the BPOU. The decrease in the capital contributions from the BPOU RPs results from a reduction in construction reimbursements for the VCWD SA1 project and the SGVWC B-6 project.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

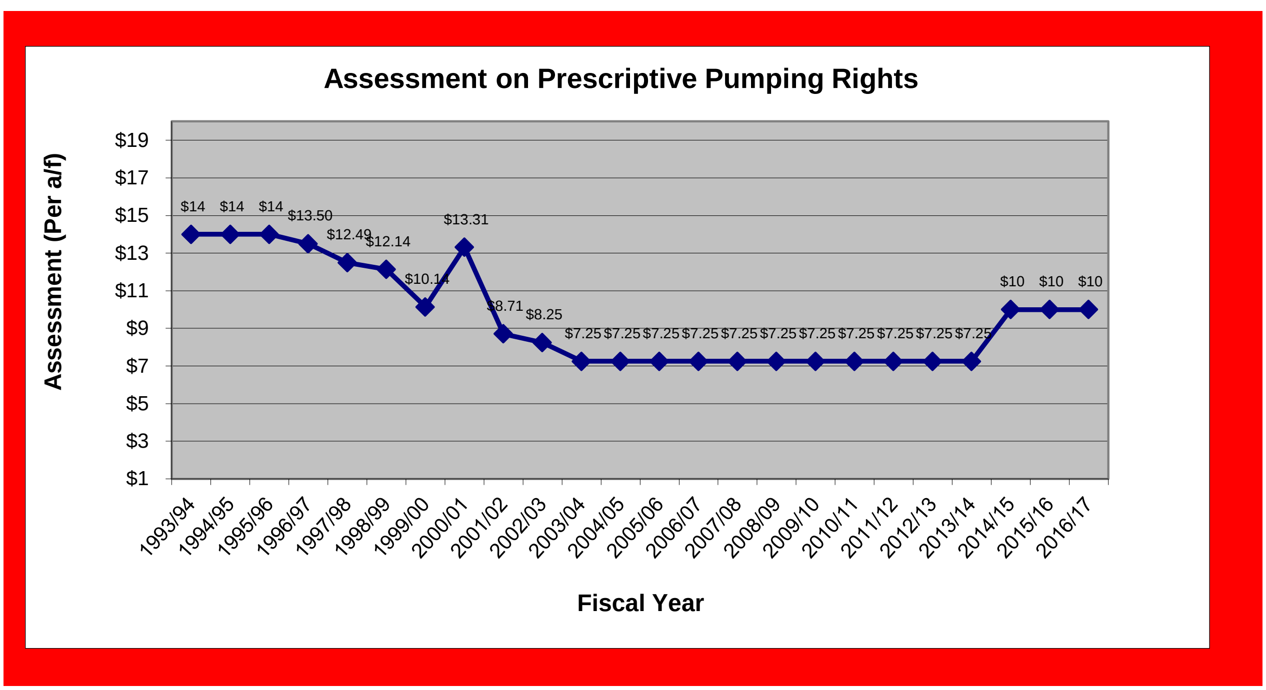
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2017

Economic Factors

Assessment - Section 605 of the Authority's enabling Act, as amended effective January 1, 2004, grants the Authority the ability to impose an annual pumping right assessment not to exceed $10 per acre-foot. Additionally, Section 608 of the enabling Act grants the Authority the ability to annually adjust the assessment rate by an amount not to exceed the percentage change in the LA/Riverside Consumer Price Index - All Urban Consumers (CPI). The increase in the CPI from 2004 to 2016 is 28.5%, resulting in an allowable maximum assessment of $13.24 per acre-foot.

Prior to FY 2015, the Authority had been able to minimize assessment dollars needed by securing funding from outside sources such as federal funding, state funding, and funding from RPs as well as utilizing its reserve that had been built up in previous years. As such, the Authority had been able to maintain the assessment at $7.25 per acre-foot for eleven consecutive years through FY 2014. During FY 2015, the assessment was increased to $10 per acre-foot, and has remained at this rate through the FY 2017.

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



		June 30		
		2017		2016
ASSETS				
Current assets				
Cash and investments	**$**	**11,942,455**	$	12,916,906
Accounts receivable		**1,410,669**		2,521,237
Inventories		**441,377**		377,802
Prepaid expenses and other receivables		**57,885**		61,855
Interest receivable		**108,812**		107,350
Current portion of note receivable		**344,914**		335,846
Total current assets		**14,306,112**		16,320,996
Noncurrent assets				
Capital assets:				
Construction in progress		**23,280,081**		22,382,285
Other capital assets, net of accumulated depreciation		**4,923,101**		5,191,488
Total capital assets, net		**28,203,182**		27,573,773
Deposits		**22,712**		22,696
Note receivable, net of current portion		**2,689,716**		3,034,630
Total noncurrent assets		**30,915,610**		30,631,099
Total assets	**$**	**45,221,722**	$	46,952,095
LIABILITIES				
Current liabilities				
Accounts payable	**$**	**1,811,179**	$	3,194,026
Accrued expenses		**79,825**		80,673
Interest payable		**81,935**		91,003
Unearned revenue		**2,883,252**		2,962,125
Current portion of note payable		**344,914**		335,846
Total current liabilities		**5,201,105**		6,663,673
Noncurrent liabilities				
Note payable, net of current portion		**2,689,716**		3,034,630
Total noncurrent liabilities		**2,689,716**		3,034,630
Total liabilities		**7,890,821**		9,698,303
NET POSITION				
Investment in capital assets		**28,203,182**		27,573,773
Restricted		**6,056,770**		7,349,198
Unrestricted		**3,070,949**		2,330,821
Total net position		**37,330,901**		37,253,792
Total liabilities and net position	**$**	**45,221,722**	$	46,952,095

See notes to the financial statements.

	Years ended June 30	
	2017	2016
Operating revenues		
Pumping right assessments	**$ 1,976,123**	$ 1,976,111
Responsible party contributions	**14,273,568**	15,714,266
Federal funding sources	**644,956**	1,668,199
State funding	**149,882**	138,096
Total operating revenues	**17,044,529**	19,496,672
Operating expenses		
Administrative salaries	**770,447**	753,591
Fringe benefits	**248,379**	234,475
Consulting	**523,340**	504,532
Professional services	**396,597**	268,990
Office rent	**89,275**	89,275
Supplies	**17,741**	10,478
Insurance	**4,781**	25,068
Public relations	**115,680**	140,010
Travel and conferences	**34,893**	48,659
Telephone and utilities	**6,061**	4,616
Dues and subscriptions	**19,348**	18,697
Board member fees	**37,507**	49,760
Equipment rent and maintenance	**44,057**	39,122
Depreciation	**290,049**	288,417
Miscellaneous expense	**995**	3,793
Project treatment and remediation costs	**14,404,235**	16,912,493
Project grants	**337,194**	310,096
Discharge permit activities	**-**	1,725
Total operating expenses	**17,340,579**	19,703,797
Operating loss	**(296,050)**	(207,125)
Nonoperating revenues (expenses)		
Interest income	**151,054**	131,200
Interest expense	**(81,935)**	(91,003)
Transfer of capital assets to water producers	**-**	(13,708,084)
Net nonoperating revenues (expenses)	**69,119**	(13,667,887)
Loss before capital contributions	**(226,931)**	(13,875,012)
Capital contributions	**304,040**	3,441,719
Change in net position	**77,109**	(10,433,293)
Net position at beginning of year	**37,253,792**	47,687,085
Net position at end of year	**$ 37,330,901**	$ 37,253,792

See notes to the financial statements.

	Years ended June 30	
	2017	2016
Cash flows from operating activities		
Cash from operating revenues	**$ 18,091,522**	$ 20,187,524
Cash paid to suppliers for goods and services	**(17,373,938)**	(18,673,034)
Cash paid to employees on or behalf of employees for services	**(1,056,333)**	(1,037,826)
Net cash provided by (used in) operating activities	**(338,749)**	476,664
Cash flows from noncapital financing activities		
Proceeds received from note receivable	**335,846**	327,016
Interest received from note receivable	**91,003**	99,832
Payments on note payable	**(335,846)**	(327,016)
Interest paid on note payable	**(91,003)**	(99,832)
Net cash provided by noncapital financing activities	**-**	-
Cash flows from capital and related financing activities		
Acquisition of capital assets	**(21,662)**	(29,172)
Construction in progress expenditures	**(897,796)**	(4,014,167)
Capital contributions received	**225,167**	2,898,435
Net cash used in capital and related financing activities	**(694,291)**	(1,144,904)
Cash flows from investing activities		
Interest received on investments	**58,589**	32,842
Net cash provided by investing activities	**58,589**	32,842
Net change in cash and cash equivalents	**(974,451)**	**(635,398)**
Cash and cash equivalents at beginning of year	**12,916,906**	13,552,304
Cash and cash equivalents at end of year	**$ 11,942,455**	$ 12,916,906

See notes to the financial statements.

		Years ended June 30		
		2017		2016
Cash flows from operating activities				
Operating loss	**$**	**(296,050)**	$	(207,125)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities				
Depreciation		**290,049**		288,417
Decrease in accounts receivable		**1,110,568**		690,852
(Increase) decrease in prepaid expenses and other receivables		**3,970**		(5,782)
(Increase) in deposits		**(16)**		(41)
(Increase) in inventories		**(63,575)**		-
(Decrease) in accounts payable and accrued expenses		**(1,383,695)**		(289,657)
Net cash provided by (used in) operating activities		**(338,749)**		476,664
Noncash capital, investing and financing activities:				
Transfer of capital assets to water producers	**$**	**-**	$	13,708,084

See notes to the financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The San Gabriel Basin Water Quality Authority, initially named as the Main San Gabriel Basin Water Quality Authority, was formed in 1990 as a joint powers authority (JPA) in order to finance and construct treatment facilities to purify the contaminated groundwater within the San Gabriel Valley. The Main San Gabriel Basin Watermaster, Upper San Gabriel Valley Municipal Water District, Three Valleys Municipal Water District and San Gabriel Valley Municipal Water District were members of this JPA and provided it with a source of funding for its operations. On February 11, 1993, the Main San Gabriel Basin Water Quality Authority was converted by the State Legislature (SB 1679 – The San Gabriel Basin Water Quality Authority Act) (the Act) from a JPA to a special district and renamed the San Gabriel Basin Water Quality Authority (Authority). Under the direction of a seven-member Board, the major functions of the Authority are to develop, finance and implement groundwater treatment programs in the San Gabriel Valley. The legislative act authorized the Authority to impose pumping right assessments to carry out its treatment activities. Senate Bill No. 429 became law in September 2013, amending certain sections of the Act and extending the Act until July 1, 2030

The groundwater treatment programs are located in Operable Units within the San Gabriel Valley - the Baldwin Park Operable Unit (BPOU), the El Monte Operable Unit (EMOU), the Puente Valley Operable Unit (PVOU), the South El Monte Operable Unit (SEMOU), Area Three Operable Unit (ATOU) and the Whittier Narrows Operable Unit (WNOU). Additionally, there are several treatment programs located outside of the defined Operable Units.

Basis of Accounting and Financial Statement Presentation

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Accounts Receivable
Accounts receivable are recorded at net realizable value. Management believes that accounts receivable are fully collectible. Therefore, no allowance for doubtful accounts is reflected on the Statements of Net Position at June 30, 2017 and 2016.

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

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

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

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

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

Pumping Right Assessments

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

Pumping right assessments are imposed, on an as needed basis, after other revenue sources, such as private party, state and federal grant funding are budgeted. During the fiscal years ended June 30, 2017 and 2016, the annual pumping right assessment was $10 per acre-foot.

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

Accrued Liabilities and Accounts Payable

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

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Project Costs Incurred by RPs, 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 RPs are financially responsible. Typically, these costs will be incurred by Water Producers and then submitted by the Water Producers to the Authority to be considered for reimbursement. The process required to approve these costs for reimbursement requires input from various parties. Once a cost has been approved for reimbursement, the Authority reports an expense and a liability for the qualified cost (to reflect the amount due to the Water Producer). An equal amount of revenue (and a receivable) is also reported for the amount of reimbursement approved for collection from the RPs. In the event that a cost is not approved for reimbursement, the Authority has no liability and the cost remains an unrecovered expense of the Water Producer.

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

Unearned Revenue
The Authority records unearned revenue when it receives funds from the SEMOU RPs through the various settlement agreements. Under these agreements, the funds received are required to be used to pay eligible project costs to the Water Producers. The funds are not considered earned until the Water Producers submit requests for reimbursement to the Authority and the Authority is in agreement that the costs are eligible for reimbursement. Unearned revenue as of June 30, 2017 and 2016 was $2,883,252 and $2,962,125, respectively.

Deferred Outflows/Inflows of Resources
In addition to assets, the Statements of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority does not have any items that qualify in this category as of June 30, 2017 and 2016.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition to liabilities, the Statements of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority does not have any items that qualify for this category as of June 30, 2017 and 2016.

Net Position

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

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

Pollution Remediation

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

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Implementation of New Accounting Pronouncements

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016. The implementation of this Statement did not materially impact the Authority's financial statements for the fiscal year ended June 30, 2017.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged. The implementation of this Statement did not materially impact the Authority's financial statements for the fiscal year ended June 30, 2017

GASB Statement No. 77, *Tax Abatement Disclosures.* The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. The implementation of this Statement did not materially impact the Authority's financial statements for the fiscal year ended June 30, 2017.

GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. The implementation of this Statement did not materially impact the Authority's financial statements for the fiscal year ended June 30, 2017.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. The requirements of this Statement were effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23-26, and 40, which are effective for reporting periods beginning after December 15, 2015. The implementation of this Statement did not materially impact the Authority's financial statements for the fiscal year ended June 30, 2017.

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The implementation of this Statement did not materially impact the Authority's financial statements for the fiscal year ended June 30, 2017.

GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73.* The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The implementation of this Statement did not materially impact the Authority's financial statements for the fiscal year ended June 30, 2017.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

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

NOTE 2 CASH AND INVESTMENTS

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

		2017		2016
Cash on hand	**$**	**250**	$	250
Deposits with financial institutions		**702,984**		900,685
Investments		**11,239,221**		12,015,971
Total	**$**	**11,942,455**	$	12,916,906

Investment in State Investment Pool

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

Investments Authorized by the California Government Code, the California Water Code, and the Authority's Investment Policy

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

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

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

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

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

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

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

At June 30, 2017, the Authority's deposits (bank balances) exceeded the maximum deposit insurance amount by $465,745.

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

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

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

Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity as of June 30, 2017 and 2016:

	June 30, 2017				
	Remaining Maturity				
Investment	**Amount**	**12 Months or Less**	**13 to 36 Months**	**37 to 60 Months**	**Over 60 Months**
LAIF *	$ **11,239,221**	$ **11,239,221**	$ -	$ -	$ -
Total	$ **11,239,221**	$ **11,239,221**	$ -	$ -	$ -

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

* LAIF is not rated.

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at June 30, 2017 and 2016:

	2017	2016
Federal grants	**$ 197,113**	$ 1,071,975
State grants	**24,697**	64,689
Responsible party contributions	**1,066,840**	1,317,314
Pumping right assessments	**121,874**	67,114
Other	**145**	145
Total accounts receivable	**$ 1,410,669**	$ 2,521,237

NOTE 4 NOTE RECEIVABLE

Between the years ended June 30, 2003 through 2005, the Authority loaned funds to certain RPs for reimbursement of costs incurred in connection with construction of a treatment facility at the Arrow/Lante Well site. The RPs started repaying the loans in July 2005. The repayments are occurring over a twenty-year term on a fully amortizable basis. Interest accrues at the rate of 2.7 percent per annum. At June 30, 2017, the note receivable for the Authority is $3,034,630, of which $344,914 is receivable within the next 12 months.

NOTE 5 CAPITAL ASSETS

A summary of changes in capital assets at June 30, 2017, is as follows:

	Beginning Balance June 30, 2016	Additions	Deletions	Transfers to Water Producers	Ending Balance June 30, 2017
Capital assets, not being depreciated					
Construction in progress	$ 22,382,285	$ 897,796	$ -	-	$ 23,280,081
Total capital assets, not being depreciated	22,382,285	897,796	-	-	23,280,081
Capital assets being depreciated					
Office furniture and equipment	199,384	4,121	(4,072)	-	199,433
BPOU monitoring wells	8,792,835	-	-	-	8,792,835
SEM sentinel well	102,437	-	-	-	102,437
SEM Bozung Treatment Facility	916,413	17,541	-	-	933,954
Total capital assets being depreciated	10,011,069	21,662	(4,072)	-	10,028,659
Less accumulated depreciation					
Office furniture and equipment	(183,090)	(9,404)	4,072	-	(188,422)
BPOU monitoring wells	(4,384,891)	(251,224)	-	-	(4,636,115)
SEM sentinel well	(35,122)	(2,927)	-	-	(38,049)
SEM Bozung Treatment Facility	(216,478)	(26,494)	-	-	(242,972)
Total accumulated depreciation	(4,819,581)	(290,049)	4,072	-	(5,105,558)
Total capital assets being depreciated, net	5,191,488	(268,387)	-	-	4,923,101
Total capital assets, net	$ 27,573,773	$ 629,409	$ -	-	$ 28,203,182

NOTE 5 CAPITAL ASSETS (CONTINUED)

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

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

NOTE 6 NOTE PAYABLE

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

Changes in long-term debt for the year ended June 30, 2017, are as follows:

	Beginning Balance June 30, 2016	Additions	Payments	Ending Balance June 30, 2017	Due Within One Year
Note payable	$ 3,370,476	$ -	$ (335,846)	$ 3,034,630	$ 344,914

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

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

NOTE 6 NOTE PAYABLE (CONTINUED)

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

Years ending June 30	Principal	Interest	Total
2018	$ 344,914	$ 81,935	$ 426,849
2019	354,226	72,622	426,848
2020	363,790	63,058	426,848
2021	373,613	53,236	426,849
2022	383,700	43,148	426,848
2023-2025	1,214,387	66,159	1,280,546
Total	$ 3,034,630	$ 380,158	$ 3,414,788

NOTE 7 CAPITAL CONTRIBUTIONS

Capital contributions include the following:

Governmental
The USBR, under the Title XVI and the Restoration Funds programs, has provided funding for design, planning and construction for treatment facilities in the BPOU, SEMOU, EMOU and PVOU operable units. The State Water Resources Control Board (SWRCB) has provided funding for capital improvements for a treatment facility in the SEMOU operable unit and has contributed $17,542 and $20,873 in fiscal years ended June 30, 2017 and 2016, respectively.

Water Producers
The Authority has entered into agreements with Water Producers for the design, construction and operation of treatment facilities in the BPOU, SEMOU, PVOU and EMOU, and ATOU operable units. The revenue restricted for capital is included in capital contributions on the Statements of Revenues, Expenses, and Changes in Net Position. The Water Producers made no contributions to the Authority in fiscal years ended June 30, 2017 and 2016.

Responsible Parties
The EPA identified several private companies referred to as RPs, as being responsible for groundwater contamination in the Main San Gabriel Basin (Basin). Several companies named by the EPA as RPs have formed coalitions to facilitate the cleanup of the Basin's groundwater supply by providing funding for capital construction in the BPOU, SEMOU, PVOU and EMOU operable units. RPs contributed $286,498 and $3,415,920 in fiscal years ended June 30, 2017 and 2016, respectively.

NOTE 7 CAPITAL CONTRIBUTIONS (CONTINUED)

During the year ended June 30, 2002, the Authority became a party to the BPOU Project Agreement. During the year ended June 30, 2017, the BPOU Project Agreement was renegotiated and extended for an additional 10 years. Under the agreement, RPs agreed to provide funding for the design, construction, operation, maintenance and management of groundwater extraction, treatment and distribution facilities within the BPOU. The portion related to the design and construction is recorded as capital contributions.

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

NOTE 8 PENSION PLAN

The Authority sponsors a Money Purchase Pension Plan (the Pension Plan), a defined contribution plan, under Internal Revenue Code Section 401(a) for the benefit of its employees who have attained the age of 21 and have completed 1,000 hours of service. The Authority contributes on behalf of the employees, 12.726 percent of their covered compensation up to and not to exceed the lesser of $53,000, or 25 percent of covered compensation. The Authority's contributions to the Pension Plan totaled $98,155 and $95,224 for the years ended June 30, 2017 and 2016, respectively.

NOTE 9 DEFERRED COMPENSATION PLANS

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

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. The Authority is in compliance with this legislation. These assets are not the legal property of the Authority and are not subject to claims of the Authority's general creditors. The unaudited market value of the Plans' assets was $609,666 as of June 30, 2017.

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

NOTE 10 COMMITMENTS AND CONTINGENCIES

Leases

The Authority leases certain equipment under operating leases expiring at various dates through 2022. Total rent expense for the years ended June 30, 2017 and 2016, under the operating leases, was $99,403 and $99,370, respectively.

Future minimum lease payments under these operating lease agreements as of June 30, 2017, are as follows:

Year ending June 30,		Amount
2018	$	92,536
2019		90,473
2020		92,067
2021		91,668
2022		91,668
Total	$	458,412

NOTE 11 INSURANCE

The Authority is a member of the Association of California Water Agencies Joint Powers Insurance Authority (JPIA). The JPIA is a risk-pooling, self-insurance authority, created under provisions of California Government Code Sections 6500 et seq. The purpose of the JPIA is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. The JPIA provides coverage to the Authority for property losses, general liability and workers' compensation. Members of the JPIA share the costs of professional risk management claims, administration and excess insurance. The Authority has established a self-insured retention amount which represents the Authority's deductible per occurrence and the JPIA provides self-insured coverage for the Authority up to established pool limits for the various types of insurance coverage. Coverage limits are $5 million per occurrence for liability; replacement cost for property, subject to a $1,000 deductible; and statutory limits for workers' compensation.

NOTE 12 SUBSEQUENT EVENTS

The Authority has evaluated events or transactions through January 29, 2018, the date on which the financial statements were available to be issued, for potential recognition or disclosure in the financial statements and determined no other subsequent matters require disclosure or adjustment to the accompanying financial statements.

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