



Water Quality Authority

San Gabriel Basin Water Quality Authority
Audited Financial Statements
As of and for the Years Ended June 30, 2018 and 2017
with Report of Independent Auditors

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San Gabriel Basin Water Quality Authority
Table of Contents

	<u>PAGE</u>
REPORT OF INDEPENDENT AUDITORS	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	3
BASIC FINANCIAL STATEMENTS	
Statements of Net Position	14
Statements of Revenues, Expenses and Changes in Net Position	15
Statements of Cash Flows	16
Notes to the Financial Statements	18

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, 2018 and 2017, 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, 2018 and 2017, 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 February 12, 2019 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 solely 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 effectiveness of the Authority's 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.

**Glendale, California
February 12, 2019**

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

June 30, 2018

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, 2018

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, 2018 and 2017.

	<u>June 30</u>		<u>Dollar Change</u>	<u>Percentage Change</u>
	<u>2018</u>	<u>2017</u>		
Assets				
Current assets	\$ 13,976,599	\$ 14,306,112	\$ (329,513)	-2.3%
Other capital assets, net	4,661,667	4,923,101	(261,434)	-5.3%
Construction in progress	26,541,121	23,280,081	3,261,040	14.0%
Noncurrent assets	<u>2,358,248</u>	<u>2,712,428</u>	<u>(354,180)</u>	<u>-13.1%</u>
Total assets	<u><u>47,537,635</u></u>	<u><u>45,221,722</u></u>	<u><u>2,315,913</u></u>	<u><u>5.1%</u></u>
Liabilities				
Current liabilities	6,252,655	5,201,105	1,051,550	20.2%
Noncurrent liabilities	<u>2,335,490</u>	<u>2,689,716</u>	<u>(354,226)</u>	<u>-13.2%</u>
Total liabilities	<u><u>8,588,145</u></u>	<u><u>7,890,821</u></u>	<u><u>697,324</u></u>	<u><u>8.8%</u></u>
Net Position				
Investment in capital assets	31,202,788	28,203,182	2,999,606	10.6%
Restricted	4,704,128	6,056,770	(1,352,642)	-22.3%
Unrestricted	<u>3,042,574</u>	<u>3,070,949</u>	<u>(28,375)</u>	<u>-0.9%</u>
Total net position	<u><u>38,949,490</u></u>	<u><u>37,330,901</u></u>	<u><u>1,618,589</u></u>	<u><u>4.3%</u></u>
Total liabilities and net position	<u><u>\$ 47,537,635</u></u>	<u><u>\$ 45,221,722</u></u>	<u><u>\$ 2,315,913</u></u>	<u><u>5.1%</u></u>

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

June 30, 2018

Summary of Statements of Net Position

Current Assets - As of June 30, 2018, current assets totaled \$14.0M and were comprised primarily of \$10.0M of cash and investments and \$3.0M of accounts receivable. As of the prior year June 30, 2017, current assets totaled \$14.3M and were comprised primarily of \$11.9M of cash and investments and \$1.4M of accounts receivable. Current assets have a net decrease of \$330K or 2.3% over the prior year, with cash and investments decreasing \$1.9M and accounts receivable increasing by \$1.6M. The decrease in cash and investments of \$1.9M or 16.1% due primarily to payments of grants to water producers for capital costs in the BPOU and SEMOU. The increase in accounts receivable of \$1.6M or 110% was due primarily to an increase of \$1.4M in federal grants receivable and an increase of \$151K in responsible parties funding receivable.

Other Capital Assets - During FY 2018 purchases of office equipment totaled \$26.5K. These current year additions along with depreciation of \$288K resulted in a net decrease in capital assets of \$261K, or 5.3%.

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.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

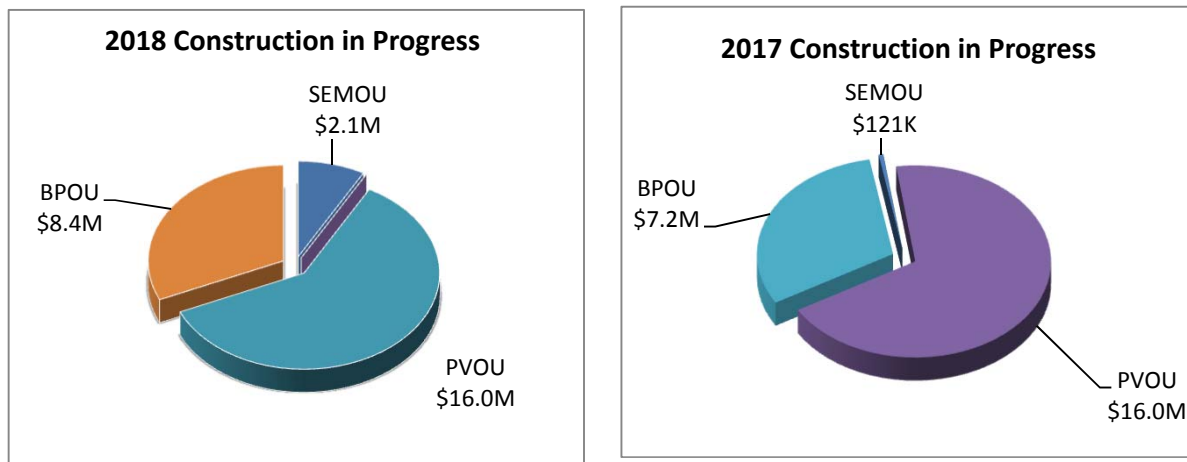
MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

June 30, 2018

Summary of Statements of Net Position (continued)

Construction in Progress (CIP) (continued) - Shown below is the composition of CIP by Operable Unit as of June 30, 2018 and 2017.



At June 30, 2018, CIP totaled \$26.5M, a net increase of \$3.3M or 14.0% from FY 2017. Approximately 31.6% of CIP is related to the BPOU, 60.4% is related to the PVOU with the remaining 8.0% related to the SEMOU. During 2018, the Authority incurred \$1.2M of CIP for the continuing design and construction of the treatment facilities for the BPOU single pass treatment facilities and \$2.0M for the advanced oxidation treatment system equipment for the SEMOU.

Listed on the next page are descriptions of the major projects currently under construction and included in CIP as of June 30, 2018.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

June 30, 2018

Summary of Statements of Net Position (continued)

Construction in Progress (CIP) (continued)

BALDWIN PARK OPERABLE UNIT

Valley County Water District (VCWD) Single Pass Treatment Facility

\$5.6M 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 Sub Area 1 (SA1), construction of two extraction wells and a treated water pipeline.

California Domestic Water Company (CDWC) Well 10 Treatment Facility

\$1.16M 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.

SOUTH EL MONTE OPERABLE UNIT

San Gabriel Valley Water Company (SGVWC) 1,4 Dioxane Treatment Facility

\$2.1M related to the design of and equipment for an advanced oxidation system for the treatment of 1,4 dioxane contamination at SGVWC's Plant 8.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

June 30, 2018

Summary of Statements of Net Position (continued)

Current Liabilities - At 2018, current liabilities totaled \$6.3M, an increase of \$1.1M from the fiscal year 2017, and are comprised primarily of accounts payable and unearned revenue.

Accounts payable is \$3.4M for the current year which is an increase of \$1.6M from FY 2017 primarily due to an increase in payables to SEMOU water producers of \$1.8M and a decrease in payables for BPOU projects of \$216K. The increase in the payables to SEMOU related to a delay in the approval process of T & R project costs that resulted in the costs being paid after the fiscal year end. The decrease in BPOU payables is 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, \$535K of unearned revenue was recognized as income related to payment of T & R costs to the SEMOU water producers. Accordingly, the unearned revenue balance decreased from \$2.9M to \$2.3M.

Noncurrent Assets/Noncurrent Liabilities - Between the years of 2003 through 2005, the Authority received loan proceeds totaling \$6,440,000 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, 2018, the noncurrent portion of the note payable totaled \$2.3M. The Authority has a corresponding note receivable from the BPOU RPs of \$2.3M. 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 \$2.3M as of June 30, 2018. Noncurrent assets and noncurrent liabilities both decreased by \$354K 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.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

June 30, 2018

Summary of Statements of Net Position (continued)

Net Position - Investment in Capital Assets - For FY 2018, investment in capital assets totaled \$31.2M and was comprised of CIP of \$26.5M and other capital assets, net of depreciation, of \$4.7M. The increase of \$3.0M or 10.6% from FY 2017 resulted from increases in CIP of \$3.3M for construction activities in the SEMOU and BPOU and a decrease in other capital assets due primarily to depreciation expense.

Net Position - Restricted - For FY 2018, net position-restricted totaled \$4.7M, which is a decrease of \$1.4M or 22.3% from FY 2017. 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 of the receipt of funds. 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 \$1.4M 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, 2018

Summary of Revenue, Expenses and Changes in Net Position

	<u>June 30</u>		<u>Dollar Change</u>	<u>Percentage Change</u>
	<u>2018</u>	<u>2017</u>		
Total operating revenues	\$ 21,837,242	\$ 17,044,529	\$ 4,792,713	28.1%
Total operating expenses	22,242,558	17,340,579	4,901,979	28.3%
Operating loss	(405,316)	(296,050)	(109,266)	36.9%
Nonoperating revenues	184,261	151,054	33,207	22.0%
Nonoperating (expenses)	(72,622)	(81,935)	9,313	-11.4%
Loss before capital contributions	(293,677)	(226,931)	(66,746)	29.4%
Capital contributions	1,912,266	304,040	1,608,226	529.0%
Change in net position	1,618,589	77,109	1,541,480	1999.1%
Beginning net position	37,330,901	37,253,792	77,109	0.2%
Ending net position	<u>\$ 38,949,490</u>	<u>\$ 37,330,901</u>	<u>\$ 1,618,589</u>	<u>4.3%</u>

Operating Revenues - Total operating revenues increased by \$4.8M or 28.1% in the current year due primarily to an increase of \$3.2M in RP contributions and an increase of \$1.6M 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 2018, the Authority recognized as revenue \$16.9M in funding from the BPOU RPs and \$535K from the SEMOU RPs for costs related to these projects, an overall increase of \$3.2M or 22.4% over the prior year. The increase is due primarily to increases in T & R costs for the BPOU and SEMOU projects. For FY 2017, the Authority recognized as revenue \$14.3M in funding from the RPs for costs related to these projects.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

June 30, 2018

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

Federal Funding - The Authority recognizes as income certain federal grants that are used to pay for project T & R costs. During FY 2018, \$2.0M was recognized as income from federal grants, an increase of \$1.6M or 363.0%, which was due primarily to the EPA grant for SEMOU. Included in the increase is \$1.1M of funding that was delayed from 2017 and recognized in 2018. The remaining increase of \$500K is due to increased project T & R costs for 2018.

Operating Expenses - Total operating expenses increased by \$4.9M or 28.3% in the current year primarily due to a \$4.8M increase in project T & R costs and a \$233K increase in project grants, partially offset by a decrease in professional services of \$278K.

Professional Services - Costs incurred during 2018 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 \$278K decrease in the current year is due primarily to a significant reduction in legal costs related to 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 2018 approximately \$2.2M in costs were funded by federal funding sources. The \$4.8M increase in the current year is due to increasing costs in the treatment and remediation process in the BPOU and the reimbursement of costs for the SEMOU that had been projected for FY 2017, but are instead reimbursed in FY 2018.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

June 30, 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 2018 there were no transfers of completed projects.

Capital Contributions

Capital Contributions	June 30	
	2018	2017
Governmental - Federal	\$ -	\$ -
Governmental - State	-	17,542
Responsible Parties	1,030,838	286,498
Water Producers	881,428	-
Total Capital Contributions	<u>\$ 1,912,266</u>	<u>\$ 304,040</u>

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 increased \$1.61M in the current year due to \$1.0M net capital contributions from the BPOU RPs and an \$881K contribution from an SEMOU water producer. The increase in the capital contributions from the BPOU RPs results from construction reimbursements for the VCWD SA1 project and the CDWC Well 10 project and the increase in the Water Producer contribution relates to the construction of the 1,4 Dioxane Treatment Facility at SEMOU's Plant 8.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

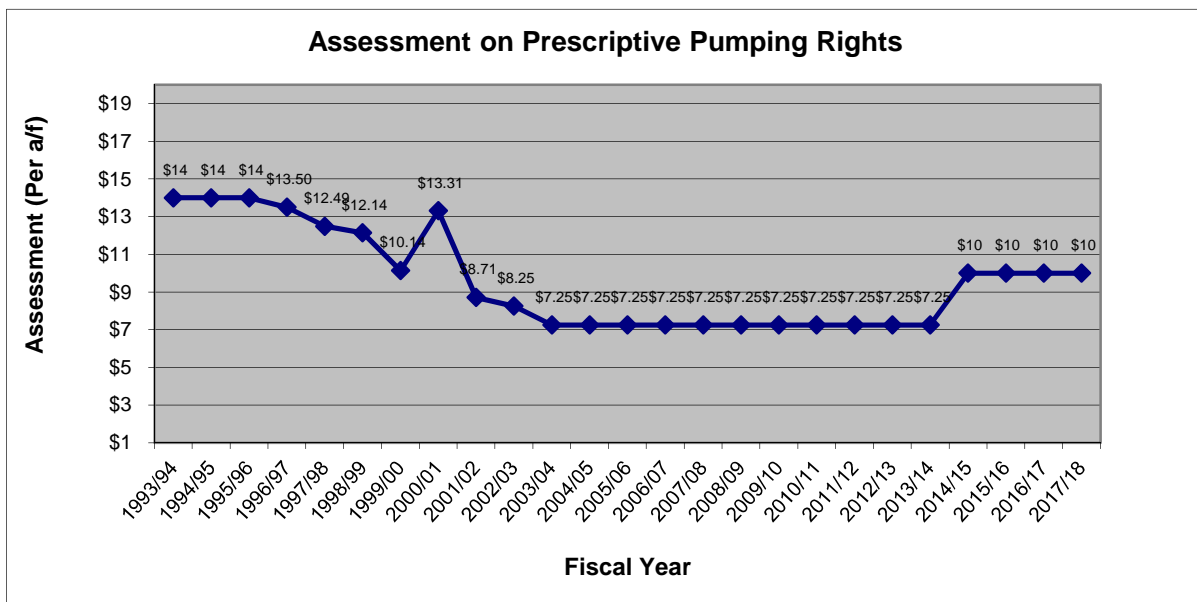
June 30, 2018

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 2018 is 31.2%, resulting in an allowable maximum assessment of \$13.59 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 2018.

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



San Gabriel Basin Water Quality Authority
Statements of Net Position

		June 30	
		2018	2017
ASSETS			
Current assets			
Cash and investments	\$	10,022,593	\$ 11,942,455
Accounts receivable		2,961,250	1,410,669
Inventories		444,879	441,377
Prepaid expenses and other receivables		75,303	57,885
Interest receivable		118,348	108,812
Current portion of note receivable		354,226	344,914
Total current assets		13,976,599	14,306,112
Noncurrent assets			
Capital assets:			
Construction in progress		26,541,121	23,280,081
Other capital assets, net of accumulated depreciation		4,661,667	4,923,101
Total capital assets, net		31,202,788	28,203,182
Deposits		22,758	22,712
Note receivable, net of current portion		2,335,490	2,689,716
Total noncurrent assets		33,561,036	30,915,610
Total assets	\$	47,537,635	\$ 45,221,722
LIABILITIES			
Current liabilities			
Accounts payable	\$	3,375,663	\$ 1,811,179
Accrued expenses		101,813	79,825
Interest payable		72,622	81,935
Unearned revenue		2,348,331	2,883,252
Current portion of note payable		354,226	344,914
Total current liabilities		6,252,655	5,201,105
Noncurrent liabilities			
Note payable, net of current portion		2,335,490	2,689,716
Total noncurrent liabilities		2,335,490	2,689,716
Total liabilities		8,588,145	7,890,821
NET POSITION			
Investment in capital assets		31,202,788	28,203,182
Restricted		4,704,128	6,056,770
Unrestricted		3,042,574	3,070,949
Total net position		38,949,490	37,330,901
Total liabilities and net position	\$	47,537,635	\$ 45,221,722

See notes to the financial statements.

San Gabriel Basin Water Quality Authority
Statements of Revenues, Expenses and Changes in Net Position

	Years ended June 30	
	2018	2017
Operating revenues		
Pumping right assessments	\$ 1,976,118	\$ 1,976,123
Responsible party contributions	17,475,140	14,273,568
Federal funding sources	2,233,530	644,956
State funding	152,454	149,882
Total operating revenues	21,837,242	17,044,529
Operating expenses		
Administrative salaries	814,718	770,447
Fringe benefits	251,080	248,379
Consulting	489,222	523,340
Professional services	118,202	396,597
Office rent	89,275	89,275
Supplies	12,109	17,741
Insurance	24,918	4,781
Public relations	156,981	115,680
Travel and conferences	35,389	34,893
Telephone and utilities	5,427	6,061
Dues and subscriptions	19,186	19,348
Board member fees	35,265	37,507
Equipment rent and maintenance	38,826	44,057
Depreciation	287,899	290,049
Miscellaneous expense	861	995
Project treatment and remediation costs	19,284,391	14,404,235
Project grants	570,516	337,194
Discharge permit activities	8,293	-
Total operating expenses	22,242,558	17,340,579
Operating loss	(405,316)	(296,050)
Nonoperating revenues (expenses)		
Interest income	184,261	151,054
Interest expense	(72,622)	(81,935)
Net nonoperating revenues (expenses)	111,639	69,119
Loss before capital contributions	(293,677)	(226,931)
Capital contributions	1,912,266	304,040
Change in net position	1,618,589	77,109
Net position at beginning of year	37,330,901	37,253,792
Net position at end of year	\$ 38,949,490	\$ 37,330,901

See notes to the financial statements.

San Gabriel Basin Water Quality Authority
Statements of Cash Flows

	Years ended June 30	
	2018	2017
Cash flows from operating activities		
Cash from operating revenues	\$ 20,283,159	\$ 18,091,522
Cash paid to suppliers for goods and services	(19,284,588)	(17,373,938)
Cash paid to or on behalf of employees for services	(1,101,063)	(1,056,333)
Net cash used in operating activities	(102,492)	(338,749)
Cash flows from noncapital financing activities		
Proceeds received from note receivable	344,914	335,846
Interest received from note receivable	81,935	91,003
Payments on note payable	(344,914)	(335,846)
Interest paid on note payable	(81,935)	(91,003)
Net cash provided by noncapital financing activities	-	-
Cash flows from capital and related financing activities		
Acquisition of capital assets	(26,465)	(21,662)
Construction in progress expenditures	(3,261,040)	(897,796)
Capital contributions received	1,377,345	225,167
Net cash used in capital and related financing activities	(1,910,160)	(694,291)
Cash flows from investing activities		
Interest received on investments	92,790	58,589
Net cash provided by investing activities	92,790	58,589
Net change in cash and cash equivalents	(1,919,862)	(974,451)
Cash and cash equivalents at beginning of year	11,942,455	12,916,906
Cash and cash equivalents at end of year	\$ 10,022,593	\$ 11,942,455

See notes to the financial statements.

**San Gabriel Basin Water Quality Authority
Statements of Cash Flows (Continued)**

	Years ended June 30	
	2018	2017
Cash flows from operating activities		
Operating loss	\$ (405,316)	\$ (296,050)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation	287,899	290,049
(Increase) decrease in accounts receivable	(1,550,581)	1,110,568
(Increase) decrease in prepaid expenses and other receivables	(17,418)	3,970
Increase in deposits	(46)	(16)
Increase in inventories	(3,502)	(63,575)
Increase (decrease) in accounts payable and accrued expenses	1,586,472	(1,383,695)
Net cash used in operating activities	\$ (102,492)	\$ (338,749)

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), the 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, 2018 and 2017.

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. When a project is completed, the asset is "transferred" to the related water entity which 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, 2018 and 2017, 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 right 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 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, 2018 and 2017 was \$2,348,331 and \$2,883,252, 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, 2018 and 2017.

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, 2018 and 2017.

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)

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:

	2018	2017
Cash on hand	\$ 250	\$ 250
Deposits with financial institutions	1,137,465	702,984
Investments	8,884,878	11,239,221
Total	\$ 10,022,593	\$ 11,942,455

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.

San Gabriel Basin Water Quality Authority
Notes to Financial Statements
Years ended June 30, 2018 and 2017

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, 2018, the Authority's deposits (bank balances) exceeded the maximum deposit insurance amount by \$887,465.

San Gabriel Basin Water Quality Authority
Notes to Financial Statements
Years ended June 30, 2018 and 2017

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, 2018 and 2017:

Investment	June 30, 2018				
	Remaining Maturity				
	Amount	12 Months or Less	13 to 36 Months	37 to 60 Months	Over 60 Months
LAIF *	\$ 8,884,878	\$ 8,884,878	\$ -	\$ -	\$ -
Total	\$ 8,884,878	\$ 8,884,878	\$ -	\$ -	\$ -

Investment	June 30, 2017				
	Remaining Maturity				
	Amount	12 Months or Less	13 to 36 Months	37 to 60 Months	Over 60 Months
LAIF *	\$ 11,239,211	\$ 11,239,211	\$ -	\$ -	\$ -
Total	\$ 11,239,211	\$ 11,239,211	\$ -	\$ -	\$ -

* LAIF is not rated.

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at June 30, 2018 and 2017:

	2018	2017
Federal grants	\$ 1,613,035	\$ 197,113
State grants	43,975	24,697
Responsible party contributions	1,217,448	1,066,840
Pumping right assessments	86,647	121,874
Other	145	145
Total accounts receivable	\$ 2,961,250	\$ 1,410,669

San Gabriel Basin Water Quality Authority
Notes to Financial Statements
Years ended June 30, 2018 and 2017

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, 2018, the note receivable for the Authority is \$2,689,716, of which \$354,226 is receivable within the next 12 months.

NOTE 5 CAPITAL ASSETS

A summary of changes in capital assets at June 30, 2018, is as follows:

	Beginning Balance <u>June 30, 2017</u>	Additions	Deletions	Transfers to Water Producers	Ending Balance <u>June 30, 2018</u>
Capital assets, not being depreciated					
Construction in progress	\$ 23,280,081	\$ 3,261,040	\$ -	-	\$ 26,541,121
Total capital assets, not being depreciated	<u>23,280,081</u>	<u>3,261,040</u>	<u>-</u>	<u>-</u>	<u>26,541,121</u>
Capital assets being depreciated					
Office furniture and equipment	199,433	26,465	(12,260)	-	213,638
BPOU monitoring wells	8,792,835			-	8,792,835
SEM sentinel well	102,437			-	102,437
SEM Bozung Treatment Facility	933,954			-	933,954
Total capital assets being depreciated	<u>10,028,659</u>	<u>26,465</u>	<u>(12,260)</u>	<u>-</u>	<u>10,042,864</u>
Less accumulated depreciation					
Office furniture and equipment	(188,422)	(7,065)	12,260	-	(183,227)
BPOU monitoring wells	(4,636,115)	(251,222)		-	(4,887,337)
SEM sentinel well	(38,049)	(2,927)		-	(40,976)
SEM Bozung Treatment Facility	(242,972)	(26,685)		-	(269,657)
Total accumulated depreciation	<u>(5,105,558)</u>	<u>(287,899)</u>	<u>12,260</u>	<u>-</u>	<u>(5,381,197)</u>
Total capital assets being depreciated, net	<u>4,923,101</u>	<u>(261,434)</u>	<u>-</u>	<u>-</u>	<u>4,661,667</u>
Total capital assets, net	<u>\$ 28,203,182</u>	<u>\$ 2,999,606</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 31,202,788</u>

San Gabriel Basin Water Quality Authority
Notes to Financial Statements
Years ended June 30, 2018 and 2017

NOTE 5 CAPITAL ASSETS (CONTINUED)

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	<u>22,382,285</u>	<u>897,796</u>	<u>-</u>	<u>-</u>	<u>23,280,081</u>
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	<u>10,011,069</u>	<u>21,662</u>	<u>(4,072)</u>	<u>-</u>	<u>10,028,659</u>
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	<u>(4,819,581)</u>	<u>(290,049)</u>	<u>4,072</u>	<u>-</u>	<u>(5,105,558)</u>
Total capital assets being depreciated, net	<u>5,191,488</u>	<u>(268,387)</u>	<u>-</u>	<u>-</u>	<u>4,923,101</u>
Total capital assets, net	<u>\$ 27,573,773</u>	<u>\$ 629,409</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 28,203,182</u>

NOTE 6 NOTE PAYABLE

In 2003, the Authority was granted a loan from the State Water Resources Control Board (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, 2018, are as follows:

	Beginning Balance June 30, 2017	Additions	Payments	Ending Balance June 30, 2018	Due Within One Year
Note payable	\$ 3,034,630	\$ -	\$ (344,914)	\$ 2,689,716	\$ 354,226

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

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
2019	\$ 354,226	\$ 72,622	\$ 426,848
2020	363,790	63,058	426,848
2021	373,613	53,235	426,848
2022	383,700	43,148	426,848
2023	394,060	32,788	426,848
2024-2025	820,327	33,371	853,698
Total	<u>\$ 2,689,716</u>	<u>\$ 298,222</u>	<u>\$ 2,987,938</u>

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 SWRCB has provided funding for capital improvements for a treatment facility in the SEMOU operable unit and has contributed \$0 and \$17,542 in fiscal years ended June 30, 2018 and 2017, 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. Funding of \$881,428 was contributed for a treatment facility in the SEMOU operable unit in the fiscal year ended June 30, 2018.

Responsible Parties

The EPA identified several private companies referred to as RPs, as being responsible for groundwater contamination in the San Gabriel Valley. 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 \$1,030,838 and \$286,498 in fiscal years ended June 30, 2018 and 2017, 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 \$54,000, or 25 percent of covered compensation. The Authority's contributions to the Pension Plan totaled \$100,883 and \$98,155 for the years ended June 30, 2018 and 2017, 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 \$720,406 as of June 30, 2018.

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 2023. Total rent expense for the years ended June 30, 2018 and 2017, under the operating leases, was \$96,976 and \$99,403, respectively.

Future minimum lease payments under these operating lease agreements as of June 30, 2018, are as follows:

Year ending June 30,	Amount
2019	\$ 95,511
2020	94,647
2021	96,609
2022	96,609
2023	1,235
Total	\$ 384,611

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 February 12, 2019, 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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