

**SAN GABRIEL BASIN  
WATER QUALITY AUTHORITY**

Basic Financial Statements

For the Year ended June 30, 2010

**SAN GABRIEL BASIN WATER QUALITY AUTHORITY**

**Basic Financial Statements**

For the Year ended June 30, 2010

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

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the San Gabriel Basin Water Quality Authority (the "Authority") as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. The prior year partial comparative data has been derived from the financial statements of the Authority for the year ended June 30, 2009 and, in our report dated February 18, 2010, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Gabriel Basin Water Quality Authority as of June 30, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *Managements Discussion and Analysis* is not a required part of the financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries with management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Board of Directors  
San Gabriel Basin Water Quality Authority  
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In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2011 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Mayer Hoffman McCann P.C.*

Irvine, California  
March 31, 2011

# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

### DESCRIPTION OF FINANCIAL STATEMENTS

The San Gabriel Basin Water Quality Authority (WQA) is a special district whose major functions are to develop, finance and implement groundwater treatment programs in the San Gabriel Valley. The WQA presents its financial statements using the economic resources measurement focus and the full accrual basis of accounting. As an enterprise fund, the WQA's basic financial statements include the statements of net assets, statements of revenues, expenses and changes in net assets and statements of cash flows. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

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

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

The *statement of cash flows* is related to the other financial statements by the way it links changes in assets and liabilities to the effect on cash and cash equivalents over the course of the fiscal year.

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

**SAN GABRIEL BASIN WATER QUALITY AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2010

**SUMMARY FINANCIAL INFORMATION AND ANALYSIS**

The following condensed financial information provides an overview of WQA's financial position and financial activities for the fiscal years ended June 30, 2010 and 2009.

	June 30		Dollar Change	Percentage Change
	2010	2009		
<b>Assets</b>				
Current assets	\$ 18,415,276	\$ 18,641,999	\$ (226,723)	-1.2%
Capital assets	6,861,689	8,182,916	(1,321,227)	-16.1%
Construction in progress	30,021,920	99,510,199	(69,488,279)	-69.8%
Noncurrent assets	4,944,403	5,230,634	(286,231)	-5.5%
Total assets	<u>60,243,288</u>	<u>131,565,748</u>	<u>(71,322,460)</u>	<u>-54.2%</u>
<b>Liabilities</b>				
Current liabilities	2,773,731	4,403,387	(1,629,656)	-37.0%
Noncurrent liabilities	4,921,815	5,208,046	(286,231)	-5.5%
Total liabilities	<u>7,695,546</u>	<u>9,611,433</u>	<u>(1,915,887)</u>	<u>-19.9%</u>
<b>Net Assets</b>				
Invested in capital assets	6,861,689	8,182,916	(1,321,227)	-16.1%
Invested in CIP	30,021,920	99,510,199	(69,488,279)	-69.8%
Restricted	12,650,258	11,120,465	1,529,793	13.8%
Unrestricted	3,013,875	3,140,735	(126,860)	-4.0%
Total net assets	<u>52,547,742</u>	<u>121,954,315</u>	<u>(69,406,573)</u>	<u>-56.9%</u>
<b>Total liabilities and net assets</b>	<u>\$ 60,243,288</u>	<u>\$ 131,565,748</u>	<u>\$ (71,322,460)</u>	<u>-54.2%</u>

# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

### Summary of Statement of Net Assets

*Current Assets* - For the year ended June 30, 2010, current assets decreased slightly by \$226,723 or -1.2%. Current assets are comprised primarily of cash and cash equivalents, \$14,742,384; accounts receivable, \$2,856,208; inventory \$343,093; prepaid expenses, \$26,116; interest receivable from the Local Agency Investment Fund of \$20,627 and the current portion of the note receivable and related interest receivable of \$286,231 and \$140,617, respectively.

As of June 30, 2010, accounts receivable include \$1,347,864 of pending reimbursements from the United States Bureau of Reclamation (USBR) for capital and treatment and remediation costs incurred for projects in the Puente Valley (PVOU), El Monte (EMOU) and Baldwin Park (BPOU) Operable Units. This represents a decrease of \$4,060,047 or -301% from FY 2009. Accounts receivable also include \$1,475,567 primarily related to project costs in the BPOU which were accrued at year end to be paid by the Responsible Parties (RPs). This represents a decrease of \$2,271,994 or -154% from FY 2009. Inventory is comprised of the various replacement parts and other non-chemical consumables that are used for the operation and maintenance of the treatment facilities in the BPOU. The interest and note receivable is related to the loan with Department of Toxic Substances (see the description under Noncurrent Assets/Noncurrent Liabilities).

*Capital Assets* - During the FY 2010, purchases of new office equipment totaled \$8,715. The SEMOU Barrier Project with a net book value of \$1,007,335 was disposed of (cost of \$1,419,305 and related accumulated depreciation of \$411,970). It was written off as obsolete, in accordance with WQA's procedures. Included with the disposal costs are demolition costs of \$13,437. The current year transactions, including depreciation of \$322,607, resulted in a net decrease in capital assets of \$1,321,227, or -16.1%.

# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

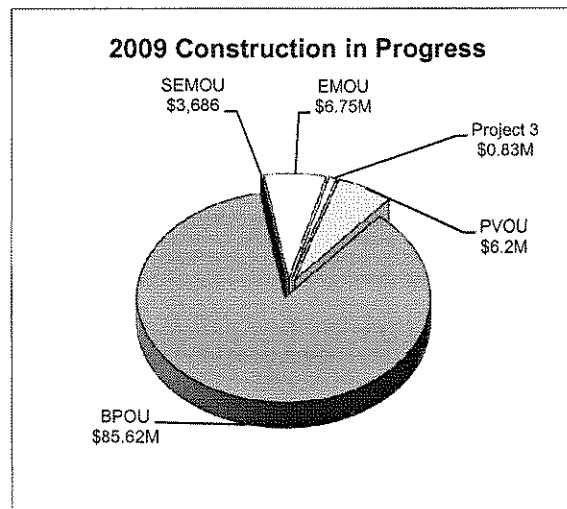
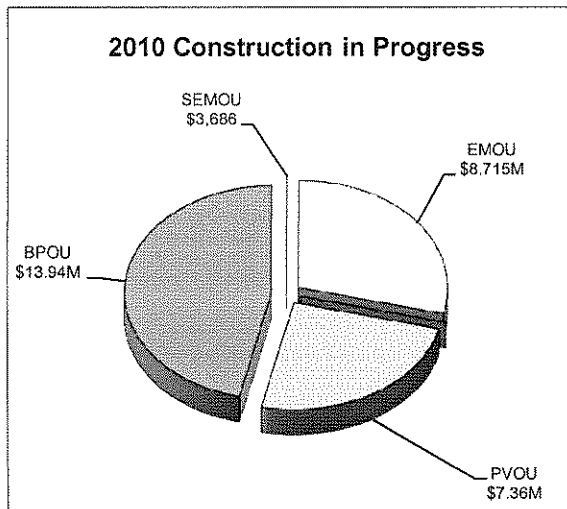
June 30, 2010

### Summary of Statement of Net Assets (continued)

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

As of June 30, 2010, CIP totaled \$30,021,920, a net decrease of \$69,488,278 or -69.8% from FY 2009. Approximately 46% of the CIP costs are related to BPOU projects, 29% are related to EMOU projects and 25% are related to the PVOU. During 2010, CIP costs totaled \$9.2M for the continuing design and construction of single pass treatment facilities in the BPOU and the continuing design and construction of the treatment facilities in the EMOU and PVOU. The net decrease in costs is a result of the transfer of \$78.6M of completed capital projects to the water producers, of which 99% was related to the BPOU.

Shown below is a composition of CIP by operable unit as of June 30, 2010 and 2009.





# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

### Summary of Statement of Net Assets (continued)

*Construction in Progress (CIP) (continued)* - Listed below is a general description of the major projects currently under construction and included in CIP as of June 30, 2010.

#### **BALDWIN PARK OPERABLE UNIT**

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

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

##### *La Puente Valley County Water District Treatment Facility*

Current costs relate primarily to the replacement of the existing regenerable ion exchange treatment equipment with more efficient single pass ion exchange treatment equipment thereby eliminating waste brine discharges. In addition to the new ion exchange treatment equipment, LPVCWD almost completed the construction of a new onsite production well. Additional costs related to the Waste Brine Treatability Study. The results of this study helped determine the most cost effective technology that will treat waste brine produced from the ion exchange facilities in the BPOU.

#### **EL MONTE OPERABLE UNIT**

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

Current costs relate primarily to the design and construction of monitoring wells, VOC treatment facilities and conveyance pipelines.

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

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

# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

### Summary of Statement of Net Assets (continued)

#### Construction in Progress (CIP) (continued)

#### PUENTE VALLEY OPERABLE UNIT

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

Current costs relate primarily to the design and construction of extraction wells, conveyance pipelines, and a VOC treatment facility located at San Gabriel Valley Water Company's Plant B7.

*Noncurrent Assets/Noncurrent Liabilities* - During prior years, WQA received a total of \$6,440,000 in loan proceeds from the Department of Toxic Substances Control through the State Water Resources Control Board for reimbursement of project costs related to the Valley County Water District Subarea 1 project located in the BPOU. As of June 30, 2010, noncurrent liabilities consisted of the noncurrent portion of the note payable of \$4,921,815. The BPOU RPs have an agreement with WQA to repay to WQA the amount of the loan and accrued interest, in accordance with WQA's repayment terms with the State Water Resources Control Board. According, the loan receivable is recorded as a noncurrent asset, with a balance of \$4,921,815 as of June 30, 2010.

*Restricted Net Assets* - For FY 2010, restricted net assets total \$12,650,258, which is an increase of \$1,529,793 or 13.8% from FY 2009. The balance of restricted net assets includes cash and receivables comprised primarily of federal funding and settlement funds. WQA has entered into several agreements with USBR to provide funding through two federal programs (Title XVI & Restoration Funds) for water treatment facilities located in the San Gabriel Basin. The funds are provided on a reimbursement basis and then applied to projects through WQA's Federal Funding Program Administration (FFPA). In addition to the funding from USBR, WQA has reached several financial settlements with RPs in the BPOU, SEMOU and EMOU. These settlement funds have been deposited into WQA accounts and are disbursed for capital and operations and maintenance costs (O&M) incurred or to be incurred in connection with the specific projects identified in the agreements.

**SAN GABRIEL BASIN WATER QUALITY AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2010

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

	June 30		Dollar Change	Percentage Change
	2010	2009		
Total Operating Revenues	\$ 25,022,783	\$ 28,900,301	\$ (3,877,518)	-13.4%
Total Operating Expenses	25,446,299	29,491,795	(4,045,496)	-13.7%
Operating Loss	(423,516)	(591,494)	167,978	-28.4%
Nonoperating Revenues	88,722	218,804	(130,082)	-59.5%
Nonoperating (Expenses)	(79,713,353)	(1,359)	(79,711,994)	5865488.9%
Loss before Capital				
Contributions	(80,048,147)	(374,049)	(79,674,098)	21300.4%
Net Capital				
Contributions	10,641,574	16,838,270	(6,196,696)	-36.8%
Changes in net assets	(69,406,573)	16,464,221	(85,870,794)	-521.6%
Beginning net assets	121,954,315	105,490,094	16,464,221	15.6%
Ending net assets	\$ 52,547,742	\$ 121,954,315	\$ (69,406,573)	-56.9%

# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

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

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

*RP Contributions* - By agreement, operations and maintenance (O & M) costs for projects located primarily in the BPOU and SEMOU are paid through WQA. For FY 2010, WQA received and recognized as revenue \$17,938,255 in funding from the RPs for costs related to these projects.

*WQA Federal Funding Awards* - WQA recognizes as income certain federal awards paid for project capital and O&M costs. During FY 2010, \$4,938,916 was recognized as revenue for project capital and O&M costs and \$490,853 was recognized as revenue for USBR reimbursements paid to the Upper San Gabriel Valley Municipal Water District (USGVMWD) for its Water Recycling Project.

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

*Professional Services* - During FY 2010, the WQA incurred significant legal costs related to the SEMOU and litigation with potential RPs. These costs are consistent with costs incurred for the prior FY 2009. For FY 2010, the WQA also incurred legal costs related to certain internal reorganization issues.

*Project O&M Costs* - These costs relate primarily to projects in the BPOU and SEMOU. The costs and the corresponding revenues are recognized when they are paid by the WQA. Although the majority of these costs were funded through RPs and water producer contributions, approximately \$1.67M in costs were funded by federal funding sources.

# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

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

*Project Grants* - The items included in this category include certain payments for project capital & O&M costs and USBR reimbursements related to the USGVMWD Water Recycling Project. For FY 2010, the project grant expense related to federal funding payments for capital and O&M totaled \$3,273,201 and USBR reimbursements related to the USGVMWD Water Recycling Project totaled \$490,853. For FY 2009, project grant expense included federal funding payments for capital and O&M costs in the amount of \$3,347,067 and USBR reimbursements totaling \$877,081 related to the USGVMWD Water Recycling Project and CBMWD Southeast Water Reliability Project.

*Nonoperating Expenses* - This item includes the transfers of completed capital projects that totaled \$78.69M described at page 6 in the category "Construction in Progress" as well as the loss on impairment of capital asset discussed on page 5 in the category "Capital Assets". The loss on impairment totaled \$1.02M, and includes the write-off the the Barrier Project, which had a net book value of \$1,007,335 as well as the demolition costs of \$13,437.

### Capital Contributions

	June 30	
	2010	2009
Governmental - Federal	\$ 3,712,753	\$ 6,013,134
Governmental - State	-	-
Responsible Parties	7,054,686	10,917,247
Water Producers	-	(161,347)
Capital Assessment	(125,865)	69,236
Capital Contributions	10,641,574	16,838,270

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

**SAN GABRIEL BASIN WATER QUALITY AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2010

**Budgetary Highlights - Operating Budget**

	<b><u>Fiscal Year</u></b> <b><u>2010 Actual</u></b>	<b><u>Fiscal Year</u></b> <b><u>2010 Budget</u></b>	<b><u>Variance</u></b>
<b><u>Operating Revenues</u></b>			
Assessment	\$ 1,558,538	\$ 1,713,833	\$ (155,295)
Responsible Parties	17,938,255	18,033,658	(95,403)
WQA Federal Funding Awards	5,429,769	574,058	4,855,711
State Funding Awards	96,221	151,000	(54,779)
Water Producers	<u>-</u>	<u>3,617,344</u>	<u>(3,617,344)</u>
 Total Operating Revenues	 <u>\$ 25,022,783</u>	 <u>\$ 24,089,893</u>	 <u>\$ 932,890</u>

*Assessment* - Assessment income is recognized during the year in which it is earned. For budget purposes, any unused assessment revenue from prior years is carried over to the next fiscal year and used as a factor to determine the subsequent years assessment. For FY 2010 the assessment was \$7.25. A total of \$1,432,689 was assessed during 2010

*Responsible Parties/Federal Funding Awards/Water Producers* - Included in the FY 2010 budget were costs related to projects in the SEMOU, PVOU, BPOU, EMOU, and Area Three Operable Unit (AOU). The majority of these costs were budgeted to be funded through contributions from RPs, federal funds, and water producers. The project costs are expensed and the corresponding contribution recognized as revenue when they are paid by the WQA. During the latter half of FY 2010, the WQA was able to fund an additional \$3.0M in federal awards that were not included in the budget for FY 09/10. Although the budget for water producers is shown as \$3.6M, these costs are not incurred by the WQA, but rather the water producers.

	<b><u>Fiscal Year</u></b> <b><u>2010 Actual</u></b>	<b><u>Fiscal Year</u></b> <b><u>2010 Budget</u></b>	<b><u>Budget</u></b> <b><u>Variance</u></b>
<b><u>Project Expenses</u></b>			
Project Grants/Awards	\$ 3,764,054	\$ 5,456,109	\$ (1,692,055)
Project O&M	<u>19,042,711</u>	<u>21,718,375</u>	<u>(2,675,664)</u>
 Total Project Expenses	 <u>\$ 22,806,765</u>	 <u>\$ 27,174,484</u>	 <u>\$ (4,367,719)</u>

# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

### Budgetary Highlights - Operating Budget (continued)

*Project Grants/Awards & Project O&M* - The variance in Project Grants/Awards is attributable to grants to EMOU, PVOU and SEMOU for construction costs which had been expected to be incurred in 2010, but are now expected to be incurred in 2011 and 2012. The Project O & M variance is attributable primarily to the SEMOU, as O & M costs were budgeted but were not incurred by the WQA during 2010. The O & M costs are funded by RPs, federal funding and water producer contributions; the Project Grants/Awards are funded by federal funding and RP contributions. Costs related to these projects are recorded when invoices are received by the WQA and the supporting documentation is in accordance with WQA procedures.

### Budgetary Highlights - Capital Budget

	<u>Fiscal Year</u> <u>2010 Actual</u>	<u>Fiscal Year</u> <u>2010 Budget</u>	<u>Budget</u> <u>Variance</u>
<b><u>El Monte Operable Unit</u></b>			
• <i>Prime Contractor Costs</i>	\$ 2,051,542	\$ 5,552,421	\$ (3,500,879)

The budgeted costs relate to the Shallow West, Shallow East, and the ESPSD/City of El Monte projects. The Shallow West, Shallow East and the ESPSD/City of El Monte projects were delayed by institutional and regulatory processes. The projects are being funded through a combination of federal funding and RPs contributions.

### **Baldwin Park Operable Unit**

• <i>Prime Contractor Costs</i>	\$ 6,175,503	\$ 10,174,308	\$ (3,998,805)
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The Prime contractor costs for the BPOU included projects for SGVWC's B5 and B6 facilities, VCWD's SA-1 facility and LPVCWD's treatment facilities. The projects costs are lower than budgeted due to costs being lower than budgeted as well as unforeseen delays in the construction process. Project costs incurred were funded by RPs and federal funding contributions.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

Budgetary Highlights - Capital Budget (continued)

	<u>Fiscal Year</u> <u>2010 Actual</u>	<u>Fiscal Year</u> <u>2010 Budget</u>	<u>Budget</u> <u>Variance</u>
<u>Puente Valley Operable Unit</u>			
• <i>Prime Contractor Costs</i>	\$ 1,061,045	\$ 1,947,603	\$ (886,558)

The costs incurred for the PVOU SGVWC Plant B7 project are significantly under budget for 2010. The construction phase began in FY 2008, but was delayed in 2009 and 2010 due to institutional and regulatory processes. The project is being funded through contributions from federal funding, RPs, and a water producer.

South El Monte Operable Unit

• <i>Prime Contractor Costs</i>	\$ -	\$ 3,648,675	\$ (3,648,675)
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The Prime Contractor costs for the SEMOU include projects for the City of Monterey Park's Wells 5 and 6 and SGVWC's Plant 8. These projects have been delayed, and are anticipated to start construction in FY 2012. The funding for these projects is being provided by federal funding, water producers and the City of Monterey Park.



# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

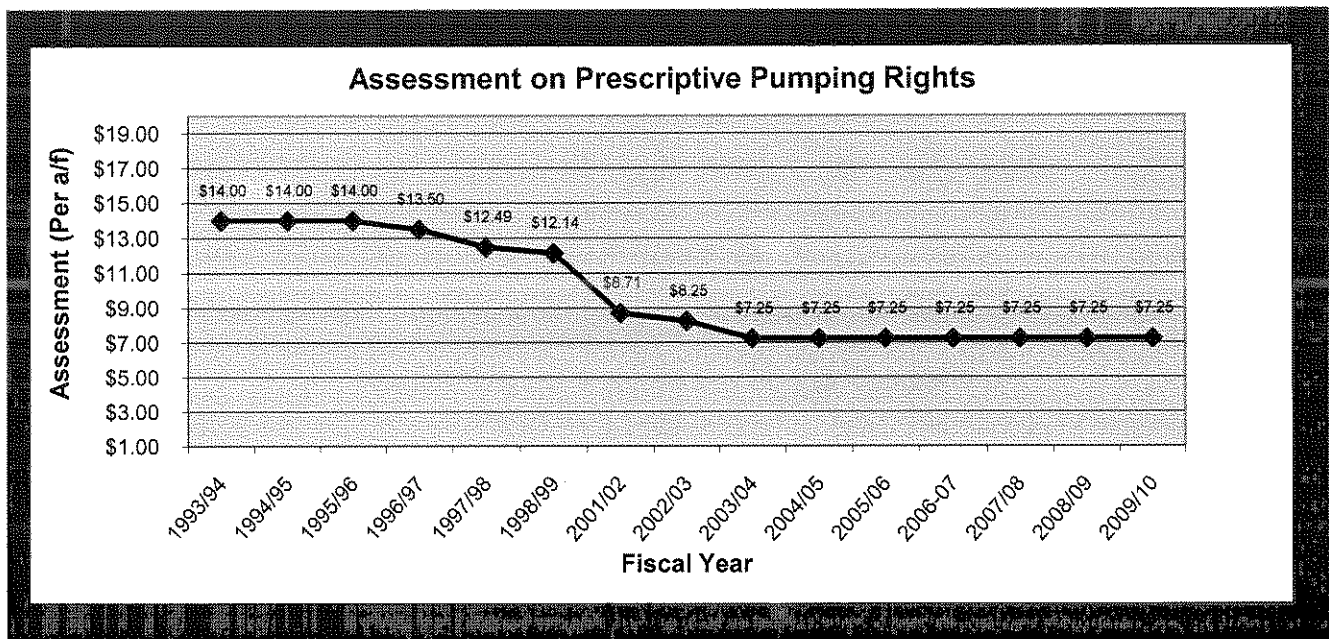
## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

### Economic Factors

*Assessment* - The WQA's Board of Directors and management considered many factors when determining the FY 2010 assessment. By securing funding from outside sources such as the USBR, State, and RPs, WQA has been able to minimize assessment dollars needed to fund administrative and project costs. As such, for FY 2010 WQA's assessment remained at \$7.25 per acre foot for the seventh consecutive year. The table below presents the historical annual assessment rate per acre foot since WQA's inception.

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



**SAN GABRIEL BASIN WATER QUALITY AUTHORITY**

**Statements of Net Assets**

June 30, 2010

(with comparative information for 2009)

	2010	2009
<u>Assets:</u>		
Current assets:		
Cash and investments (note 2)	\$ 14,742,384	8,604,660
Accounts receivable (note 3)	2,856,208	9,201,923
Inventories	343,093	343,093
Prepaid expenses and other receivables	26,116	28,599
Interest receivable	161,244	185,018
Current portion of note receivable (note 4)	286,231	278,706
Total current assets	18,415,276	18,641,999
Noncurrent assets:		
Capital assets (note 5):		
Construction in progress	30,021,920	99,510,199
Other capital assets, net of accumulated depreciation	6,861,689	8,182,916
Deposits	22,588	22,588
Note receivable, net of current portion (note 4)	4,921,815	5,208,046
Total noncurrent assets	41,828,012	112,923,749
Total Assets	\$ 60,243,288	131,565,748
<u>Liabilities:</u>		
Current liabilities:		
Accounts payable	\$ 1,447,650	3,873,451
Accrued expenses	899,233	103,088
Interest payable	140,617	148,142
Current portion of note payable (note 6)	286,231	278,706
Total current liabilities	2,773,731	4,403,387
Noncurrent liabilities:		
Note payable, net of current portion (note 6)	4,921,815	5,208,046
Total noncurrent liabilities	4,921,815	5,208,046
Total liabilities	7,695,546	9,611,433
<u>Net Assets:</u>		
Invested in capital assets, net of related debt	36,883,609	107,693,115
Restricted	12,650,258	11,120,465
Unrestricted	3,013,875	3,140,735
Total net assets	52,547,742	121,954,315
Total liabilities and net assets	\$ 60,243,288	131,565,748

See accompanying notes to basic financial statements.

**SAN GABRIEL BASIN WATER QUALITY AUTHORITY**

**Statements of Revenues, Expenditures, and Changes in Net Assets**

Year ended June 30, 2010

(with comparative information for 2009)

	2010	2009
<b>Operating Revenues:</b>		
Pumping right assessments	\$ 1,558,538	1,363,436
Responsible party contributions	17,938,255	23,413,214
WQA federal funding awards	5,429,769	3,983,786
WQA state funding	96,221	139,865
Total operating revenues	25,022,783	28,900,301
<b>Operating Expenses:</b>		
Administrative salaries	754,507	730,696
Fringe benefits	271,938	264,357
Consulting	303,359	318,673
Professional services	522,229	416,064
Office rent	90,563	90,563
Supplies	14,754	20,666
Insurance	30,641	32,398
Public relations	68,542	67,180
Travel and conferences	38,705	46,314
Telephone and utilities	9,609	10,316
Dues and subscriptions	15,449	14,317
Board member fees	51,439	42,402
Equipment rent and maintenance	49,314	41,254
Depreciation	322,607	332,406
Miscellaneous expense	3,835	856
Settlement expense, net	92,043	-
Project O&M costs	19,042,711	22,839,185
Project grants	3,764,054	4,224,148
Total operating expenses	25,446,299	29,491,795
Operating income (loss)	(423,516)	(591,494)
<b>Nonoperating revenues (expenses):</b>		
Interest income	82,093	213,154
Other income	6,629	5,650
Transfer of capital assets to water producers	(78,692,581)	-
Loss on impairment of asset	(1,020,772)	-
Loss on disposal of capital assets	-	(1,359)
Net nonoperating revenues (expenses)	(79,624,631)	217,445
Capital contributions	10,641,574	16,838,270
Changes in net assets	(69,406,573)	16,464,221
Net assets at beginning of year	121,954,315	105,490,094
Net assets at end of year	\$ 52,547,742	121,954,315

See accompanying notes to basic financial statements.

**SAN GABRIEL BASIN WATER QUALITY AUTHORITY**

**Statements of Cash Flows**

Year ended June 30, 2010

(with comparative information for 2009)

	2010	2009
Cash flows from operating activities:		
Cash from all operating revenues	\$ 31,370,981	23,799,325
Cash paid to suppliers for goods and services	(26,012,279)	(27,271,905)
Cash paid to employees for services	(754,507)	(743,629)
Net cash (used) provided by operating activities	4,604,195	(4,216,209)
Cash flows from noncapital financing activities:		
Other income	6,630	5,650
Proceeds received from note receivable	278,706	271,379
Payments on note payable	(278,706)	(271,379)
Net cash provided (used) by noncapital financing activities	6,630	5,650
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(8,715)	(6,275)
Construction in progress expenditures	(9,204,302)	(14,960,400)
Capital contributions	10,641,574	16,838,270
Net cash (used) provided by capital and related financing activities	1,428,557	1,871,595
Cash flows from investing activities:		
Interest received on investments	98,342	215,817
Net cash provided by (used for) investing activities	98,342	215,817
Net increase (decrease) in cash and cash equivalents	6,137,724	(2,123,147)
Cash and cash equivalents at beginning of year	8,604,660	10,727,807
Cash and cash equivalents at end of year	\$ 14,742,384	8,604,660

(Continued)

See accompanying notes to basic financial statements.

**SAN GABRIEL BASIN WATER QUALITY AUTHORITY**

**Statements of Cash Flows**

(Continued)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Operating income (loss)	\$ (423,516)	(591,494)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	322,607	332,406
Nonoperating expenses	(13,438)	-
(Increase) decrease in accounts receivable	6,345,715	(4,954,020)
(Increase) decrease in inventories	-	52,188
(Increase) decrease in prepaid expenses	2,483	(3,100)
Increase (decrease) in accounts payable and accrued liabilities	<u>(1,629,656)</u>	<u>947,811</u>
Net cash provided by (used for operating activities)	<u>\$ 4,604,195</u>	<u>(4,216,209)</u>
 Noncash capital, investing and financing activities:		
	<u>2010</u>	<u>2009</u>
Loss on impairment of capital asset	\$ 1,020,772	-
Transfer of capital assets to water producers	78,692,581	-

See accompanying notes to basic financial statements.

# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## Notes to Basic Financial Statements

For the Year ended June 30, 2010

### (1) Summary of Significant Accounting Policies

#### (a) Nature of Organization

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

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

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

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

# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## Notes to Basic Financial Statements

(Continued)

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

The Authority applies all applicable GASB pronouncements in accounting and reporting for proprietary operations as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradicts GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's) of the Committee on Accounting Procedure.

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

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

Net assets of the Authority have been reported as restricted when their use is constrained more narrowly than the reporting unit in which they are reported as a result of state laws governing such use. When both restricted and unrestricted resources are available for use, the Authority uses unrestricted resources first, and then restricted resources as they are needed. For capital expenditures, legally available restricted bond proceeds are used first, and then other restricted resources, then unrestricted resources are used if needed.

#### (c) Inventories

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

#### (d) Accounts Receivable

Accounts receivable are recorded at net realizable value. Management believes that accounts receivable are fully collectible. Therefore, no allowance for doubtful accounts is reflected on the Statement of Net Assets at June 30, 2010.

# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## Notes to Basic Financial Statements

(Continued)

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

#### (e) Capital Assets

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

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

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

#### (f) Construction in Progress

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

Water being treated in the treatment facilities frequently requires more than one type of treatment. A treatment facility may be operational but construction is ongoing to develop additional treatment processes to remediate newly detected contamination or to more efficiently address existing contamination. In these circumstances, if the construction is ongoing, the Authority will retain the project in construction-in-progress until the entire project is completed, even though that same project may be incurring costs associated with treatment and remediation.

#### (g) Cash Equivalents

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



# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## Notes to Basic Financial Statements

(Continued)

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

#### (h) Investment

Investments are reported in the accompanying Statement of Net Asset at fair value, except for certain investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Changes in fair value that occur during the fiscal year are recognized as *interest income* reported for that fiscal year. *Interest income* also includes interest earnings.

#### (i) Pumping Right Assessments

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

Pumping right assessments are imposed, on an as needed basis, after other revenue sources, such as private party, state and federal funding, are budgeted. During the fiscal year ended June 30, 2010, the annual pumping right assessment was \$7.25 per acre-foot.

The Authority records all incoming funds as operating revenues. Funds are received from the United States Bureau of Reclamation ("USBR"), United States Environmental Protection Agency ("EPA"), Water Producers, Potentially Responsible Parties ("PRPs"), California State Water Resource Control Board ("SWRCB") and assessments on water rights holders in the San Gabriel Basin. The Authority incurs three types of costs: project costs (capital) operating and maintenance costs (project operating costs) and administrative costs.

# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## Notes to Basic Financial Statements

(Continued)

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

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

The Authority records accounts payable liabilities when invoices are approved for payment by the authorizing entity, which can be the Authority, PRPs or Water Entities.

##### Administrative Costs

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

##### Project Costs incurred by the Authority

These costs include legal, government relations, community relations, and costs related to projects owned and operated by the Authority. These costs are either funded by PRPs (Baldwin Park Operable Unit, ("BPOU")), partially funded by PRPS (El Monte Operable Unit, ("EMOU") and Puente Valley Operable Unit, ("PVOU")) or funded by the Authority's assessments (EMOU, PVOU, South El Monte Operable Unit, ("SEMOU") and The Area Three Operable Unit, ("ATOU"). Generally, the liability is recorded in the same time period as the cost is incurred.

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

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

# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## Notes to Basic Financial Statements

(Continued)

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

#### (k) Use of Estimates

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

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

#### (l) Comparative Financial Statements and Reclassifications

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

### (2) Cash and Cash Equivalents

Cash and investments as of June 30, 2010 consist of the following:

Cash on hand	\$ 300
Deposits with financial institutions	75,006
Investments	<u>14,667,078</u>
Total cash and investments	<u>\$14,742,384</u>

**SAN GABRIEL BASIN WATER QUALITY AUTHORITY**

**Notes to Basic Financial Statements**

(Continued)

(2) Cash and Cash Equivalents

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

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

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

# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## Notes to Basic Financial Statements

(Continued)

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

#### Custodial Credit Risk

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

#### Disclosure Relating to Credit Risk

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

#### Disclosures Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

**SAN GABRIEL BASIN WATER QUALITY AUTHORITY**

**Notes to Basic Financial Statements**

(Continued)

(2) Cash and Cash Equivalents, (continued)

	<u>Amount</u>	<u>Remaining Maturity</u>			
		<u>12 Months Or Less</u>	<u>13 to 36 Months</u>	<u>37-60 Months</u>	<u>Over 60 Months</u>
<u>Investment</u>					
Local Agency Investment Fund*	<u>\$14,667,078</u>	<u>14,667,078</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$14,667,078</u>	<u>14,667,078</u>	<u>-</u>	<u>-</u>	<u>-</u>

\* The local agency investment fund is not rated.

Investment in State Investment Pool

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

(3) Accounts Receivable

Accounts receivable consist of the following at June 30, 2010:

Federal funding	\$1,347,864
State funding	15,621
Other water agencies	7,912
Responsible parties (PRPs)	1,475,547
Assessments	4,097
Other	<u>5,167</u>
	<u>\$2,856,208</u>

(4) Note Receivable

During the years ended June 30, 2004 and 2005, the Authority loaned funds to certain cooperating respondents for reimbursement of costs it incurred in connection with construction of a treatment facility at the Arrow/Lante Well site. The Authority started obtaining repayment of the loans during the 2006 fiscal year. The repayments will occur over a twenty-year term on a fully amortizable basis. Interest accrues at the rate of 2.7% per annum. At June 30, 2010, the note receivable for the Authority was \$5,208,046.

**SAN GABRIEL BASIN WATER QUALITY AUTHORITY**

**Notes to Basic Financial Statements**

(Continued)

**(5) Capital Assets**

A summary of changes in capital assets at June 30, 2010 follows:

	<u>Beginning Balance 6/30/09</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance 6/30/10</u>
Capital assets, not being depreciated:				
Construction in progress	\$ 99,510,199	9,204,302	(78,692,581)	30,021,920
Total capital assets not being depreciated	<u>99,510,199</u>	<u>9,204,302</u>	<u>(78,692,581)</u>	<u>30,021,920</u>
Capital assets, being depreciated:				
Office furniture and equipment	163,486	8,715	-	172,201
BPOU monitoring wells	8,792,835	-	-	8,792,835
South El Monte barrier project	1,400,361	-	(1,400,361)	-
SEM sentinel well	102,437	-	-	102,437
SEM Barrier upgrades	18,944	-	(18,944)	-
SEM Bozung Treatment Facility	<u>890,309</u>	<u>-</u>	<u>-</u>	<u>890,309</u>
	11,368,372	8,715	(1,419,305)	9,957,782
Less accumulated depreciation	<u>(3,185,456)</u>	<u>(332,607)</u>	<u>411,970</u>	<u>(3,096,093)</u>
Total capital assets being depreciated, net	<u>8,182,917</u>	<u>(313,892)</u>	<u>(1,007,336)</u>	<u>6,861,689</u>
Total capital assets, net	<u>\$107,693,116</u>	<u>8,880,410</u>	<u>(79,699,617)</u>	<u>36,883,609</u>

During the year ended June 30, 2010, the Authority decided to dispose of the South El Monte Barrier Project as the Authority determined the Project was no longer required. As a result of the asset impairment, \$1,419,305 of capital assets and \$411,970 of accumulated depreciation was removed from the accounting records. The Authority also incurred \$13,436 in costs to remove the asset and restore the land to its original condition.

**(6) Note Payable**

During the year ended June 30, 2004, the Authority applied for, and was granted, a loan from the State Water Resources Control Board. As of June 30, 2005, \$6,440,000 had been funded from the loan. The loan accrues interest at a rate of 2.7% per annum from the dates funds were disbursed and the interest accrued was included in a fully amortized balance with payments over a twenty-year period commencing in July 2005.

**SAN GABRIEL BASIN WATER QUALITY AUTHORITY**

**Notes to Basic Financial Statements**

(Continued)

(6) Note Payable, (Continued)

The funds received under this agreement were loaned to certain cooperating respondents in connection with the construction of a groundwater remediation facility. The Authority will be repaid under terms identical to those granted it by the State Water Resources Control Board.

Changes in long-term debt for the year ended June 30, 2010 is as follows:

	Beginning Balance <u>6/30/09</u>	<u>Additions</u>	<u>Deletions</u>	Ending Balance <u>6/30/10</u>	Due Within <u>One year</u>
Note payable	<u>\$5,634,894</u>	<u>140,617</u>	<u>(426,848)</u>	<u>5,348,663</u>	<u>286,231</u>

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

<u>Years ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	286,231	140,617	426,848
2012	293,960	132,889	426,849
2013	301,897	124,952	426,849
2014	310,048	116,801	426,849
2015	318,419	108,430	426,849
2016-2020	1,725,792	408,450	2,134,242
2021-2025	<u>1,971,700</u>	<u>162,543</u>	<u>2,134,243</u>
	<u>\$5,208,047</u>	<u>1,194,682</u>	<u>6,402,729</u>



# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## Notes to Basic Financial Statements

(Continued)

### (7) Contributed Capital

Contributed capital includes the following:

#### Capital Assessment

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

#### Governmental

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

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

#### Water Producers

The Authority has entered into agreements with water producers for the design, construction and operation of treatment facilities in the BPOU, SEMOU, PVOU and EMOU operable units.

#### Responsible Parties

The United States Environmental Protection Agency (EPA) identified several private companies referred to as Potentially Responsible Parties (PRPs) as being responsible for groundwater contamination in the Main San Gabriel Basin (the Basin). Several companies named by the EPA as PRPs have formed coalitions to facilitate the cleanup of the Basin's groundwater supply by providing funding for capital construction in the BPOU, SEMOU, PVOU and EMOU.

During the year ended June 30, 2002, the Authority was party to the BPOU Project Agreement. Under the agreement cooperating respondents agreed to provide funding for the design, construction, operation, maintenance and management of groundwater extraction, treatment and distribution facilities within the BPOU.

During the year ended June 30, 2003, the SEMOU Cooperating Parties Agreement was finalized. It calls for the SEMOU Cooperating Parties to provide funding to pay, partially pay or reimburse the water entities for capital and operating and maintenance costs incurred or to be incurred in connection with certain projects outlined in the Agreement.

**SAN GABRIEL BASIN WATER QUALITY AUTHORITY**

**Notes to Basic Financial Statements**

(Continued)

(8) Pension Plan

The Authority sponsors a Money Purchase Pension Plan under Internal Revenue Code section 401(a) for the benefit of its employees who have attained the age of 21 and have completed 1,000 hours of service. The Authority contributes on behalf of the Executive Director 16.726% and on behalf of the employees 12.726% of their covered compensation up to and not to exceed the lesser of \$30,000 or 25% of covered compensation. The Authority's contributions to the Plan totaled \$108,732 for the year ended June 30, 2010.

(9) Deferred Compensation Plan

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all Authority employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency.

(10) Commitments and Contingencies

Leases

The Authority leases certain equipment under operating leases expiring at various dates through 2013. Total rent expense for the year ended June 30, 2010 under the operating leases was \$101,709.

Future minimum lease payments under these operating lease agreements as of June 30, 2010 are as follows:

<u>Year ending June 30</u>	
2011	\$11,147
2012	10,071
2013	<u>9,582</u>
Total	<u>\$30,800</u>

# SAN GABRIEL BASIN WATER QUALITY AUTHORITY

## Notes to Basic Financial Statements

(Continued)

### (11) Pooled Arrangements

The Authority is a member of the Association of California Water Agencies Joint Powers Insurance Authority (JPIA).

The JPIA is a risk-pooling, self-insurance authority, created under provisions of California Government Code Sections 6500 et seq. The purpose of the JPIA is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. The JPIA provides coverage to the Authority for property losses and general liability. Members of the JPIA share the costs of professional risk management claims, administration and excess insurance. The Authority establishes a self-insured retention amount which represents the Authority's deductible per occurrence and the JPIA provides self-insured coverage up to established pool limits for the various types of insurance coverage.

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

### (12) Pollution Remediation

A pollution remediation obligation is an obligation to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities. For example, obligations to clean up spills of hazardous wastes or hazardous substances and obligations to remove contamination such as asbestos are pollution remediation obligations. An entity must recognize a liability when the government commences, or legally obligates itself to commence, cleanup activities or monitoring or operation and maintenance of the remediation effort.

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