



Water Quality Authority

San Gabriel Basin Water Quality Authority
Audited Financial Statements
As of and for the Years Ended June 30, 2020 and 2019
with Independent Auditor's Report

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San Gabriel Basin Water Quality Authority
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Independent Auditor's Report

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), which comprise the statements of net position as of June 30, 2020 and 2019, the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements (collectively, the Authority's basic financial statements).

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, 2020 and 2019, 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 September 15, 2021 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
September 15, 2021

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

June 30, 2020

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, 2020

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, 2020 and 2019.

	<u>June 30</u>		<u>Dollar Change</u>	<u>Percentage Change</u>
	<u>2020</u>	<u>2019</u>		
Assets				
Current assets	\$ 12,809,316	\$ 13,371,415	\$ (562,099)	-4.2%
Other capital assets , net	4,108,367	4,383,342	(274,975)	-6.3%
Construction in progress	23,617,790	22,035,972	1,581,818	7.2%
Noncurrent assets	<u>1,620,938</u>	<u>1,994,497</u>	<u>(373,559)</u>	<u>-18.7%</u>
Total assets	<u>\$ 42,156,411</u>	<u>\$ 41,785,226</u>	<u>\$ 371,185</u>	<u>0.9%</u>
Liabilities				
Current liabilities	\$ 6,849,716	\$ 6,854,626	\$ (4,910)	-0.1%
Noncurrent liabilities	<u>1,598,087</u>	<u>1,971,700</u>	<u>(373,613)</u>	<u>-18.9%</u>
Total liabilities	<u>8,447,803</u>	<u>8,826,326</u>	<u>(378,523)</u>	<u>-4.3%</u>
Net Position				
Investment in capital assets	27,726,157	26,419,314	1,306,843	4.9%
Restricted	2,710,394	3,510,394	(800,000)	-22.8%
Unrestricted	<u>3,272,057</u>	<u>3,029,192</u>	<u>242,865</u>	<u>8.0%</u>
Total net position	<u>33,708,608</u>	<u>32,958,900</u>	<u>749,708</u>	<u>2.3%</u>
Total liabilities and net position	<u>\$ 42,156,411</u>	<u>\$ 41,785,226</u>	<u>\$ 371,185</u>	<u>0.9%</u>

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

June 30, 2020

Summary of Statements of Net Position

Current Assets - At June 30, 2020, current assets totaled \$12.8M and were comprised primarily of \$7.2M of cash and investments and \$4.6M of accounts receivable. At June 30, 2019, current assets totaled \$13.4M and were comprised primarily of \$8.4M of cash and investments and \$4.0M of accounts receivable. Current assets decreased \$562K or 4.2% over the prior year, with cash and investments decreasing \$1.2 M and accounts receivable increasing by \$631K. The decrease in cash and investments of \$1.2M or 13.9% is due primarily to payments of grants to water entities for capital costs in the PVOU, as well as costs paid by the Authority for unfunded ongoing projects in the SEMOU. The increase in accounts receivable of \$631K or 15.9% is due primarily to an increase of \$863K in responsible parties funding receivable offset by a decrease in federal grants receivable of \$194K.

Other Capital Assets - During FY 2020, purchases of office equipment totaled \$19K. The current year additions along with depreciation of \$294K resulted in a net decrease in capital assets of \$275K, or 6.3%. During the prior FY 2019 purchases of office equipment totaled \$11K, with depreciation of \$289K resulting in a net decrease in capital assets of \$278K, or 6.0%.

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

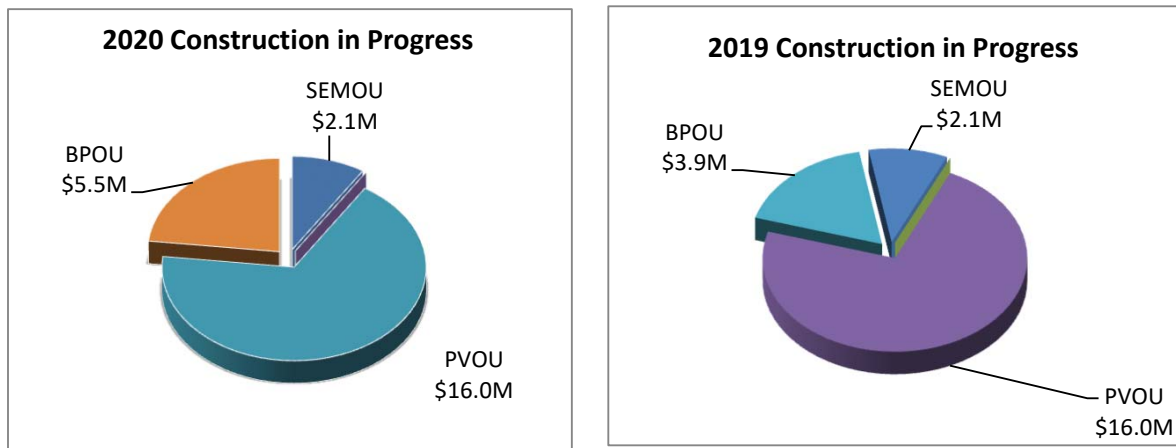
MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

June 30, 2020

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, 2020 and 2019.



At June 30, 2020, CIP totaled \$23.6M, a net increase of \$1.6M or 7.2% from FY 2019. Approximately 23.2% of CIP is related to the BPOU, 67.8% is related to the PVOU with the remaining 9.0% related to the SEMOU. During FY 2020, the Authority incurred \$1.2M of CIP for the UV/Flex modular treatment system at the San Gabriel Valley Water Company B-6 treatment facility as well as \$300K for the La Puente Valley County Water District future nitrate treatment. At the prior year ended June 30, 2019, CIP totaled \$22.0M, with approximately 17.7% of CIP related to the BPOU, 72.7% related to the PVOU and the remaining 9.6% related to the SEMOU. During FY 18/19 the Authority incurred \$1.6M of CIP for the continuing design and construction of the Arrow Well Rehab project at the treatment facility for the BPOU Valley County Water District. Additionally, CIP was reduced by \$6.1M related to the completion of BPOU treatment facility projects that were transferred to the Water Producers. The transfer of the completed CIP is included in the 2019 financial statements as a nonoperating expense on the Statements of Revenue, Expenses and Changes in Net Position. No such transfer occurred for the fiscal year ended June 30, 2020.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

June 30, 2020

Listed below are descriptions of the major projects currently under construction and included in CIP as of June 30, 2020.

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

\$2.4M related primarily to the Arrow Well Rehab project including sitework, discharge and rubber dams, equipment, permitting and engineering.

San Gabriel Valley Water Company (SGVWC) Plant B6

\$2.8M 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, 2020

Summary of Statements of Net Position (continued)

Current Liabilities - At 2020, current liabilities totaled \$6.8M, a increase of \$5.0k from the fiscal year 2019, and are comprised primarily of accounts payable and unearned revenue. At 2019, current liabilities totaled \$6.9M, and are also comprised primarily of accounts payable and unearned revenue.

Accounts payable is \$5.1M for the current year which is an increase of \$748K from FY 2019 primarily due to an increase in payables for BPOU projects of \$1.0M offset by a decrease in payables to SEMOU water producers of \$165K. Both the increase in BPOU payables and decrease in SEMOU payables are due to fluctuations in capital and T & R project costs for the current fiscal year, and are controlled by the timing and amount of submittals for cost reimbursements from RPs and Water Producers.

Unearned revenue relates to funds previously received by the Authority by way of various settlement agreements with SEMOU RPs. The funds are held to pay certain SEMOU project costs as per agreement. During the current year, \$749K 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 \$2.0M to \$1.2M. During the prior year, \$364K of unearned revenue was recognized as income.

Noncurrent Assets/Noncurrent Liabilities - Between the years of 2003 through 2005, the Authority received loan proceeds totaling \$6.4M 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, 2020, the note payable totaled \$1.9M, of which the current portion is \$374K and the noncurrent portion is \$1.6M. The Authority has a corresponding note receivable from the BPOU RPs of \$1.90M. 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 \$1.6M as of June 30, 2020. Noncurrent assets and noncurrent liabilities both decreased by \$374K 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, 2020

Summary of Statements of Net Position (continued)

Net Position - Investment in Capital Assets - For FY 2020, investment in capital assets totaled \$27.7M and was comprised of CIP of \$23.6M and other capital assets net of depreciation of \$4.1M. For FY 2019, investment in capital assets totaled \$26.4M and was comprised of CIP of \$22.0M and other capital assets, net of depreciation, of \$4.4M. The increase of \$1.3M or 4.9% from FY 2019 resulted primarily from an increase in CIP of \$1.65M in construction activities and a decrease in other capital assets due depreciation expense of \$294K offset by purchases of office equipment of \$19K.

Net Position - Restricted - For FY 2020, net position-restricted totaled \$2.7M, which is a decrease of \$800K or 22.8% from FY 2019. The decrease is due to the payment of funding awards to water entities through the FFPA program. 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.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

June 30, 2020

Summary of Revenues, Expenses and Changes in Net Position

	Year ended June 30		Dollar Change	Percentage Change
	2020	2019		
Total operating revenues	\$ 22,127,069	\$ 20,198,202	\$ 1,928,867	9.5%
Total operating expenses	22,349,123	20,575,435	1,773,688	8.6%
Operating loss	(222,054)	(377,233)	155,179	-41.1%
Nonoperating revenues	170,463	218,721	(48,258)	-22.1%
Nonoperating expenses	(53,236)	(6,136,036)	6,082,800	-99.1%
Loss before capital contributions	(104,827)	(6,294,548)	6,189,721	-98.3%
Capital contributions	854,535	303,958	550,577	181.1%
Change in net position	749,708	(5,990,590)	6,740,298	-112.5%
Beginning net position	32,958,900	38,949,490	(5,990,590)	-15.4%
Ending net position	<u>\$ 33,708,608</u>	<u>\$ 32,958,900</u>	<u>\$ 749,708</u>	<u>2.3%</u>

Operating Revenues - Total operating revenues increase by \$1.9M or 9.5% in the current year due primarily to an increase of \$851K in RP contributions, an increase in assessment revenue of \$395K and an increase of \$725K in federal funding.

RP Contributions - Through agreements, T & R costs for projects located primarily in the BPOU and SEMOU are paid through the Authority. For FY 2020, the Authority recognized as revenue of \$16.1M in funding from the BPOU RPs and \$749K from the SEMOU RPs for costs related to these projects, an overall increase of \$851K or 5.3% over the prior year. The increase is due primarily to increases in T & R costs for the BPOU and SEMOU projects. For the prior year 2019, the Authority recognized as revenue \$15.6M from the BPOU RPs and \$364K from the SEMOU RPs.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

June 30, 2020

Summary of Revenues, 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 2020, \$2.9M was recognized as income from federal grants, an increase of \$725K or 33.7%, which was due primarily to the federal grant for the SEMOU. The increase is due to the timing of the approval of reimbursements to the Water Producers. Certain federal funds that would typically have been included in FY 2019 were not approved by the grantor until the subsequent FY 2020 year, and therefore were not included in the 2019 fiscal year. These federal funds were included in the 2020 fiscal year.

Operating Expenses - Total operating expenses increased by \$1.8M or 8.6% in the current year primarily due to a \$1.5M increase in project T & R costs and a \$188K increase in project grants.

Professional Services - Professional services for FY 2020 are \$98K. Costs incurred during 2020 include costs for general legal counsel and the services of certain professional firms, including project legal costs, a database and mapping consultant, an outside accountant, and audit services. There is a \$57K net decrease in the current year over the prior year due primarily to a decrease in database and mapping costs of \$79K and an increase in project legal costs of \$18.5K.

Project T & R Costs - Project T & R costs total \$18.9M and are related primarily to projects within the BPOU and SEMOU. Although the majority of these costs are funded through RPs, for FY 2020 approximately \$2.1M in costs were funded by federal funding sources. The \$1.48M increase in the current year is due to increases in costs related to the treatment and remediation process in the BPOU, as well as the timing of approval of the reimbursements for the SEMOU T & R costs.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

June 30, 2020

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

Nonoperating Revenues (Expenses)- For FY 2020 Nonoperating Revenues (Expenses) include interest income and interest expense. For FY 2019 Nonoperating Revenues (Expenses) include interest income, interest expense as well as transfers of \$6.1M of completed capital projects that were transferred to Water Producers. During FY 2020 there were no transfers of completed projects.

Capital Contributions

Capital Contributions	Years ended June 30	
	2020	2019
Responsible Parties	\$ 854,535	\$ 303,958
Total Capital Contributions	\$ 854,535	\$ 303,958

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 by \$551K in the current year due to an increase in the CIP during FY 2020. The capital contributions were received from the BPOU RPs for construction reimbursements for the SGVWC B6 project and the LPVCWD Nitrate project.

SAN GABRIEL BASIN WATER QUALITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

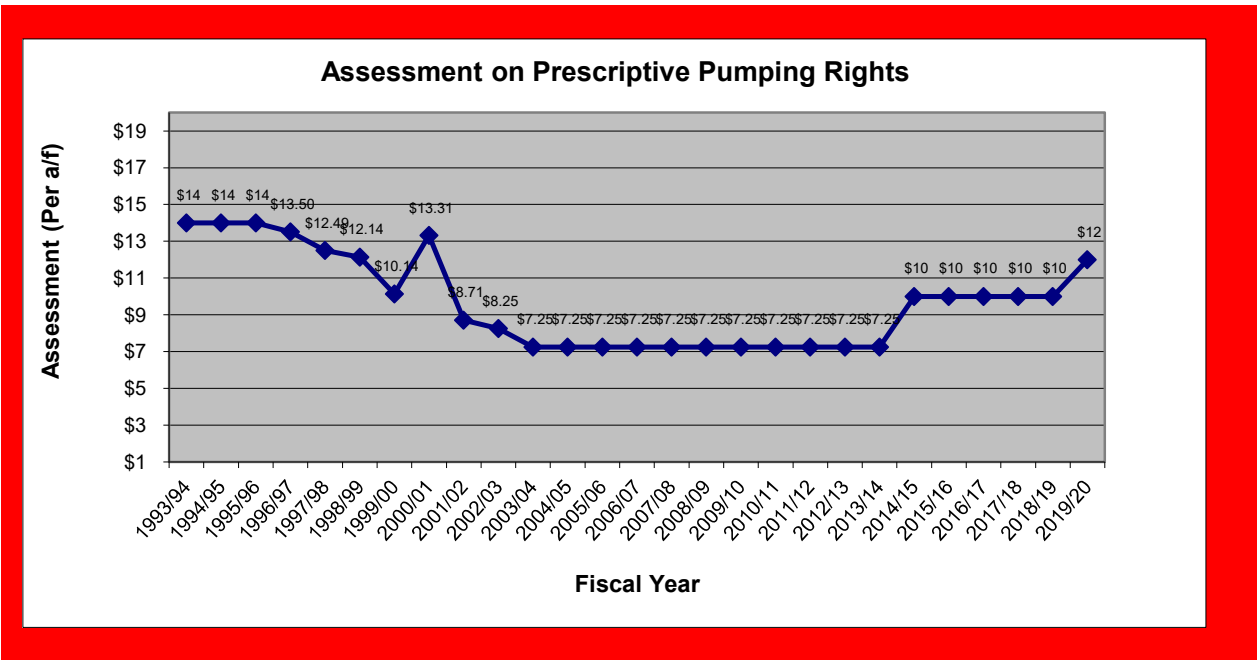
June 30, 2020

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/Long Beach/Anaheim Consumer Price Index - All Urban Consumers (CPI). The increase in the CPI from 2004 to 2019 is 38.5%, resulting in an allowable maximum assessment of \$14.60 per acre-foot.

Prior to FY 2015, the Authority had minimized assessment dollars needed by securing funding from outside sources such as federal funding, state funding, RP funding 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 remained at that rate through FY 2019. For FY 2020, the assessment was increased to \$12 per acre-foot.

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	
		2020	2019
ASSETS			
Current assets			
Cash and investments	\$	7,230,272	\$ 8,401,955
Accounts receivable		4,609,727	3,978,956
Inventories		444,879	444,879
Prepaid expenses and other receivables		72,703	65,732
Interest receivable		78,122	116,103
Current portion of note receivable		373,613	363,790
Total current assets		12,809,316	13,371,415
Noncurrent assets			
Capital assets:			
Construction in progress		23,617,790	22,035,972
Other capital assets, net of accumulated depreciation		4,108,367	4,383,342
Total capital assets, net		27,726,157	26,419,314
Deposits		22,851	22,797
Note receivable, net of current portion		1,598,087	1,971,700
Total noncurrent assets		29,347,095	28,413,811
Total assets	\$	42,156,411	\$ 41,785,226
LIABILITIES			
Current liabilities			
Accounts payable	\$	5,112,240	\$ 4,363,820
Accrued expenses		75,955	79,841
Interest payable		53,236	63,058
Unearned revenue		1,234,672	1,984,117
Current portion of note payable		373,613	363,790
Total current liabilities		6,849,716	6,854,626
Noncurrent liabilities			
Note payable, net of current portion		1,598,087	1,971,700
Total noncurrent liabilities		1,598,087	1,971,700
Total liabilities		8,447,803	8,826,326
NET POSITION			
Investment in capital assets		27,726,157	26,419,314
Restricted		2,710,394	3,510,394
Unrestricted		3,272,057	3,029,192
Total net position		33,708,608	32,958,900
Total liabilities and net position	\$	42,156,411	\$ 41,785,226

See notes to financial statements.

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

	Years ended June 30	
	2020	2019
Operating revenues		
Pumping right assessments	\$ 2,371,336	\$ 1,976,112
Responsible party contributions	16,822,720	15,972,158
Federal funding sources	2,878,347	2,153,579
State funding	54,666	96,353
Total operating revenues	22,127,069	20,198,202
Operating expenses		
Project treatment and remediation costs	18,884,128	17,404,127
Project grants	928,347	739,977
Administrative salaries	902,722	806,085
Consulting	520,343	521,911
Depreciation	293,724	289,600
Fringe benefits	268,171	259,392
Public relations	155,198	108,335
Professional services	97,804	154,568
Office rent	91,668	89,689
Board member fees	39,855	38,105
Equipment rent and maintenance	36,683	43,090
Travel and conferences	30,667	33,459
Discharge permit activities	29,943	16,717
Insurance	28,101	27,696
Dues and subscriptions	23,855	22,737
Supplies	10,692	13,037
Telephone and utilities	6,481	5,383
Miscellaneous expense	741	1,527
Total operating expenses	22,349,123	20,575,435
Operating loss	(222,054)	(377,233)
Nonoperating revenues (expenses)		
Interest income	170,463	218,721
Interest expense	(53,236)	(63,058)
Transfer of capital assets to water producers	-	(6,072,978)
Net nonoperating revenues (expenses)	117,227	(5,917,315)
Loss before capital contributions	(104,827)	(6,294,548)
Capital contributions	854,535	303,958
Change in net position	749,708	(5,990,590)
Net position at beginning of year	32,958,900	38,949,490
Net position at end of year	\$ 33,708,608	\$ 32,958,900

See notes to financial statements.

San Gabriel Basin Water Quality Authority
Statements of Cash Flows

	Years ended June 30	
	2020	2019
Cash flows from operating activities		
Cash from operating revenues	\$ 20,746,853	\$ 18,816,282
Cash paid to suppliers for goods and services	(20,107,142)	(18,206,536)
Cash paid to or on behalf of employees for services	(1,210,748)	(1,103,582)
Net cash used in operating activities	(571,037)	(493,836)
Cash flows from noncapital financing activities		
Proceeds received from note receivable	363,790	354,226
Interest received from note receivable	63,058	72,622
Payments on note payable	(363,790)	(354,226)
Interest paid on note payable	(63,058)	(72,622)
Net cash provided by noncapital financing activities	-	-
Cash flows from capital and related financing activities		
Acquisition of capital assets	(18,749)	(11,275)
Construction in progress expenditures	(1,581,818)	(1,567,829)
Capital contributions received	854,535	303,958
Net cash used in capital and related financing activities	(746,032)	(1,275,146)
Cash flows from investing activities		
Interest received on investments	145,386	148,344
Cash provided by investing activities	145,386	148,344
Net change in cash and cash equivalents	(1,171,683)	(1,620,638)
Cash and cash equivalents at beginning of year	8,401,955	10,022,593
Cash and cash equivalents at end of year	\$ 7,230,272	\$ 8,401,955

See notes to financial statements.

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

	Years ended June 30	
	2020	2019
Cash flows from operating activities		
Operating loss	\$ (222,054)	\$ (377,233)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation	293,724	289,600
(Increase) in accounts receivable	(630,771)	(1,017,706)
(Increase) decrease in prepaid expenses and other receivables	(6,971)	9,571
(Increase) in deposits	(54)	(39)
Increase in accounts payable and accrued expenses	744,534	966,185
Decrease in unearned revenue	(749,445)	(364,214)
Net cash used in operating activities	\$ (571,037)	\$ (493,836)

See notes to 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, 2020 and 2019.

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/sentinel 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. For the fiscal years ended June 30, 2020 and 2019, the annual pumping right assessment was \$12 per acre-foot and \$10 per acre-foot, respectively.

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, 2020 and 2019 was \$1,234,672 and \$1,984,117, 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, 2020 and 2019.

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, 2020 and 2019.

Net Position

Net position is presented in three components: 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:

	2020	2019
Cash on hand	\$ 250	\$ 250
Deposits with financial institutions	486,366	539,718
Investments	6,743,656	7,861,987
Total	\$ 7,230,272	\$ 8,401,955

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.

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

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

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

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.

San Gabriel Basin Water Quality Authority
Notes to Financial Statements
Years ended June 30, 2020 and 2019

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

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, 2020, the Authority's deposits (bank balances) exceeded the maximum deposit insurance amount by \$236,366.

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, 2020 and 2019:

June 30, 2020					
Remaining Maturity					
Investment	Amount	12 Months or Less	13 to 36 Months	37 to 60 Months	Over 60 Months
LAIF *	\$ 6,743,656	\$ 6,743,656	\$ -	\$ -	\$ -
Total	\$ 6,743,656	\$ 6,743,656	\$ -	\$ -	\$ -

June 30, 2019					
Remaining Maturity					
Investment	Amount	12 Months or Less	13 to 36 Months	37 to 60 Months	Over 60 Months
LAIF *	\$ 7,861,987	\$ 7,861,987	\$ -	\$ -	\$ -
Total	\$ 7,861,987	\$ 7,861,987	\$ -	\$ -	\$ -

* LAIF is not rated.

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Fair Value Measurement

The Authority follows GASB Statement No. 72, *Fair Value Measurement and Application*. GASB 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

Level 1: Inputs are quoted prices for identical assets or liabilities in active markets that government can access at the measurement date.

Level 2: Inputs are other than quoted prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable inputs for an asset or liability.

The following table represents the Authority's fair value hierarchy for its financial assets measured at fair value on a recurring basis:

<u>Investment Type</u>	<u>Totals as of June 30,</u>		<u>Level of Inputs</u>
	<u>2020</u>	<u>2019</u>	
Cash on Hand	\$ 250	\$ 250	Level 1
Deposits with financial institutions	486,366	539,718	Level 1
LAIF	6,743,656	7,861,987	Uncategorized
	<u>\$ 7,230,272</u>	<u>\$ 8,401,955</u>	

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Federal grants	\$ 1,096,562	\$ 1,290,604
State grants	7,023	68,053
Responsible party contributions	3,372,971	2,510,269
Pumping right assessments	133,126	109,950
Other	45	80
Total accounts receivable	<u>\$ 4,609,727</u>	<u>\$ 3,978,956</u>

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, 2020, the note receivable for the Authority is \$1,971,700, of which \$373,613 is receivable within the next 12 months.

San Gabriel Basin Water Quality Authority
Notes to Financial Statements
Years ended June 30, 2020 and 2019

NOTE 5 CAPITAL ASSETS

A summary of changes in capital assets at June 30, 2020, is as follows:

	Beginning Balance June 30, 2019	Additions	Deletions	Transfers to Water Producers	Ending Balance June 30, 2020
Capital assets, not being depreciated					
Construction in progress	\$ 22,035,972	\$ 1,581,818	\$ -		\$ 23,617,790
Total capital assets, not being depreciated	<u>22,035,972</u>	<u>1,581,818</u>	<u>-</u>	<u>-</u>	<u>23,617,790</u>
Capital assets being depreciated					
Office furniture and equipment	224,913	18,749		-	243,662
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>10,054,139</u>	<u>18,749</u>	<u>-</u>	<u>-</u>	<u>10,072,888</u>
Less accumulated depreciation					
Office furniture and equipment	(191,993)	(12,890)		-	(204,883)
BPOU monitoring wells	(5,138,559)	(251,223)		-	(5,389,782)
SEM sentinel well	(43,903)	(2,927)		-	(46,830)
SEM Bozung Treatment Facility	(296,342)	(26,684)		-	(323,026)
Total accumulated depreciation	<u>(5,670,797)</u>	<u>(293,724)</u>	<u>-</u>	<u>-</u>	<u>(5,964,521)</u>
Total capital assets being depreciated, net	<u>4,383,342</u>	<u>(274,975)</u>	<u>-</u>	<u>-</u>	<u>4,108,367</u>
Total capital assets, net	<u>\$ 26,419,314</u>	<u>\$ 1,306,843</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,726,157</u>

A summary of changes in capital assets at June 30, 2019, is as follows:

	Beginning Balance June 30, 2018	Additions	Deletions	Transfers to Water Producers	Ending Balance June 30, 2019
Capital assets, not being depreciated					
Construction in progress	\$ 26,541,121	\$ 1,567,829	\$ -	(6,072,978)	\$ 22,035,972
Total capital assets, not being depreciated	<u>26,541,121</u>	<u>1,567,829</u>	<u>-</u>	<u>(6,072,978)</u>	<u>22,035,972</u>
Capital assets being depreciated					
Office furniture and equipment	213,638	11,275		-	224,913
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>10,042,864</u>	<u>11,275</u>	<u>-</u>	<u>-</u>	<u>10,054,139</u>
Less accumulated depreciation					
Office furniture and equipment	(183,227)	(8,766)		-	(191,993)
BPOU monitoring wells	(4,887,337)	(251,222)		-	(5,138,559)
SEM sentinel well	(40,976)	(2,927)		-	(43,903)
SEM Bozung Treatment Facility	(269,657)	(26,685)		-	(296,342)
Total accumulated depreciation	<u>(5,381,197)</u>	<u>(289,600)</u>	<u>-</u>	<u>-</u>	<u>(5,670,797)</u>
Total capital assets being depreciated, net	<u>4,661,667</u>	<u>(278,325)</u>	<u>-</u>	<u>-</u>	<u>4,383,342</u>
Total capital assets, net	<u>\$ 31,202,788</u>	<u>\$ 1,289,504</u>	<u>\$ -</u>	<u>(6,072,978)</u>	<u>\$ 26,419,314</u>

San Gabriel Basin Water Quality Authority
Notes to Financial Statements
Years ended June 30, 2020 and 2019

NOTE 6 NOTE PAYABLE

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

Changes in long-term debt for the year ended June 30, 2020, are as follows:

	Beginning Balance <u>June 30, 2019</u>	Additions	Payments	Ending Balance <u>June 30, 2020</u>	Due Within <u>One Year</u>
Note payable \$	2,335,490	-	(363,790)	1,971,700	373,613

Changes in long-term debt for the year ended June 30, 2019, are as follows:

	Beginning Balance <u>June 30, 2018</u>	Additions	Payments	Ending Balance <u>June 30, 2019</u>	Due Within <u>One Year</u>
Note payable \$	2,689,716	-	(354,226)	2,335,490	363,790

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>
2021	\$ 373,613	\$ 53,235	\$ 426,848
2022	383,700	43,148	426,848
2023	394,060	32,788	426,848
2024	404,700	22,148	426,848
2025	415,627	11,221	426,848
Total	<u>\$ 1,971,700</u>	<u>\$ 162,540</u>	<u>\$ 2,134,240</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.

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.

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 \$854,535 and \$303,958 in fiscal years ended June 30, 2020 and 2019, respectively.

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 \$57,000, or 25 percent of covered compensation. The Authority's contributions to the Pension Plan totaled \$115,375 and \$105,379 for the years ended June 30, 2020 and 2019, 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 \$687,587 as of June 30, 2020.

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 its office space and certain equipment under operating leases expiring at various dates through 2023. Expense for the years ended June 30, 2020 and 2019, for the office space was \$91,668 and \$89,689, respectively and for the equipment leases was \$5,694 and \$6,867 respectively. The expense for office equipment is included in Equipment Rental and Maintenance on the Statements of Revenues, Expenses and Changes in Net Position. Future minimum lease payments under the operating lease agreements as of June 30, 2020 are as follows:

<u>Years ending June 30</u>	<u>Amount</u>
2021	\$ 97,362
2022	97,362
2023	1,989
Total	<u>\$ 196,713</u>

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

On March 4, 2020, California Governor Gavin Newsom declared a State of Emergency in response to the spread of COVID-19 in the state of California. Water utilities are identified as critical infrastructure by the United States Department of Homeland Security and the Authority has activated its emergency response plan. The Authority has instituted guidelines prescribed by the Centers for Disease Control to help prevent the spread of COVID-19. Accordingly, as of report issuance date, there is no direct threat to the water supply from the COVID-19 pandemic and the Authority foresees no circumstances under which the Authority's groundwater services will be compromised.

Other than the event described above, no events have occurred subsequent to the balance sheet date through September 15, 2021, the date the financial statements were available to be issued, that require adjustment to, or disclosure in, the financial statements.

**NOTE 13 NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)
STATEMENTS ISSUED**

GASB Current Year Standards

GASB No. 95

In May 2020, the Governmental Accounting Standards Board issued Statement No. 95, "Postponement of the Effective Dates of Certain Authoritative Guidance." The Statement postponed the effective dates of certain Statements to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. The effective dates of the affected Statements listed above have been updated to reflect the impact of this Statement.

GASB Pending Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued several pronouncements, that have effective dates that may impact future financial presentations. Management has not yet determined any impact the implementation of the following statements may have on the financial statements of the District.

GASB No. 84

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84 "Fiduciary Activities". The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB No. 87

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87 "Leases". The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

GASB No. 89

In June 2018, the Governmental Accounting Standards Board issued Statement No. 89 "Accounting for Interest Cost Incurred before the End of a Construction Period". The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

GASB No. 90

In August 2018, the Governmental Accounting Standards Board issued Statement No. 90 "Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61". The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

GASB No. 91

In May 2019, the Governmental Accounting Standards Board issued Statement No. 91, "Conduit Debt Obligations." The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

**NOTE 13 NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)
STATEMENTS ISSUED (CONTINUED)**

GASB No. 92

In January 2020, the Governmental Accounting Standards Board issued Statement No. 92, "Omnibus 2020." The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

GASB No. 93

In March 2020, the Governmental Accounting Standards Board issued Statement No. 93, "Replacement of Interbank Offered Rates." The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

GASB No. 94

In May 2020, the Governmental Accounting Standards Board issued Statement No. 94, "Public-Private and Public-Public Partnerships and Availability Payment Arrangements." The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

GASB No. 96

In May 2020, the Governmental Accounting Standards Board issued Statement No. 96, "Subscription-Based Information Technology Arrangements." The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

GASB No. 97

In June 2020, the Governmental Accounting Standards Board issued Statement No. 97, "Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plan – an amendment of GASB Statements No. 14, 84, and a suppression of GASB Statement No. 32." The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.



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655 N Central Avenue, Suite 1550 • Glendale, California 91203-1437 • Ph. (213) 873-1700 • Fax (213) 873-1777