

**SAN GORGONIO PASS
WATER AGENCY
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
JUNE 30, 2017 AND 2016**

SAN GORGONIO PASS WATER AGENCY
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June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Gorgonio Pass Water Agency
Beaumont, California

We have audited the accompanying financial statements of San Gorgonio Pass Water Agency (Agency), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. 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 auditor's 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.



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Opinion

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

Adjustments to Prior-Period Financial Statements

The financial statements of the Agency as of June 30, 2016 were audited by other auditors whose report dated December 6, 2017 expressed an unmodified opinion on those financial statements. As discussed in Note 13 to the financial statements, the Agency has adjusted its 2016 financial statements to correct an error. The other auditors reported on the financial statements before the retrospective adjustment.

As part of our audit of the 2017 financial statements, we also audited the adjustment to the 2016 financial statements to correct an error as described in Note 13. In our opinion, the adjustment is appropriate and has been properly applied. We were not engaged to audit, review, or apply any procedures to the Agency's 2016 financial statements other than with respect to the adjustment and, accordingly, we do not express an opinion or any other form of assurance on the 2016 financial statements as a whole.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and information related to the pension and other postemployment benefits plan on pages 3-9 and 42-44, respectively, 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The organizational information and schedule of board of directors and insurance coverage are presented for purposes of additional information and are not a required part of the basic financial statements. The organizational information and schedule of board of directors and insurance coverage have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Eakie and Payne LLP

October 12, 2017
Riverside, California

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

The Agency

The San Gorgonio Pass Water Agency is one of 29 local government organizations, called State Water Contractors, who have contracted with the State of California to import water to their local service areas through the State Water Project. The Agency was created by the Legislature of the State of California under Senate Bill 8, Chapter 40, which was signed into law by Governor Edmund "Pat" Brown in April 19, 1961. The purpose for creating this public agency by special law was for the "planning, conservation, development, distribution, control and use of an adequate water supply for the public good and for the protection of life and property therein." As part of the act, the Agency was given taxing authority similar to the taxing power of other local governments.

The Agency has entered into a contract with the State Department of Water Resources to receive an annual allotment of 17,300 acre-feet from the State Water Project. However, water did not get delivered to the region, which extends from Calimesa through the San Gorgonio Pass area to Cabazon, until the completion of the East Branch Extension Phase 1 in 2003. The Department of Water Resources is currently completing Phase 2, which will increase the capacity of the facilities to deliver water by adding an additional pipeline, an additional reservoir, additional pumps, and expanding an existing reservoir.

The Basic Financial Statements

The San Gorgonio Pass Water Agency is a special purpose government organization (Special District) engaged only in activities that support themselves through user and capacity fees and tax levies. Accordingly, the accompanying financial statements are presented in the format prescribed for proprietary funds by the Governmental Accounting Standards Board.

These financial statements consist of three interrelated statements designed to provide the reader with relevant, understandable data about the Agency's financial condition and operating results. They are the Statement of Net Position; the Statement of Revenues, Expense, and Changes in Net Position; and the Statement of Cash Flows.

The Statement of Net Position presents the Agency's assets and liabilities and the difference, or net, between what is owned and what is owed as of the last day of the Agency's fiscal year. The Statement of Revenues, Expenses, and Changes in Net Position describes the financial results of the Agency's operations for the years reported. The results, or changes in net assets, are the increases or decreases in the bottom line of the Statement of Net Position.

The Statement of Cash Flows conveys to financial statement readers how the Agency managed cash resources during the year. This statement converts the Change in Net Position presented on the Statement of Revenues, Expenses, and Changes in Net Position into actual cash provided by or used for operations. The Statement of Cash Flows also details how the Agency obtains cash through financing and investing activities and, conversely, how cash is spent for these purposes.

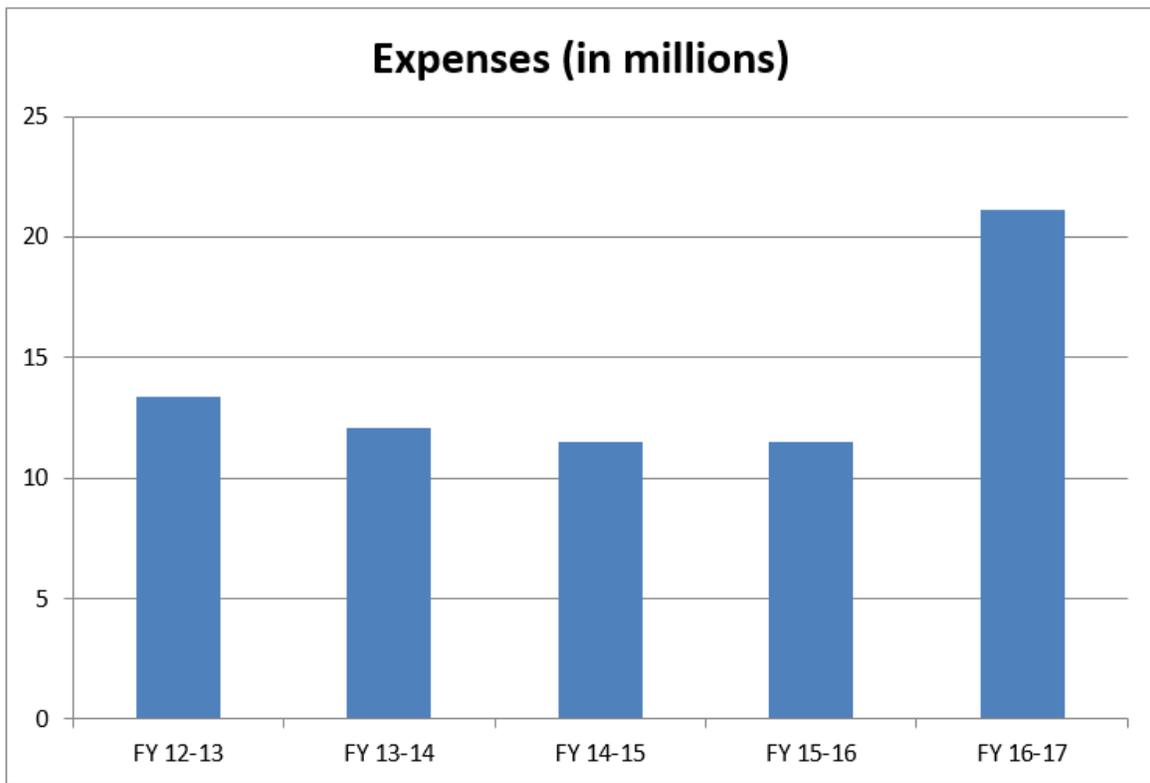
SAN GORGONIO PASS WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
June 30, 2017 and 2016

Summary Financial Information and Analysis

The Agency exists for two major purposes: one is to deliver water to retail customers, and the other is to pay its portion of the indebtedness and maintenance and operations of the State Water Project. Because of this, the financial statements typically look a bit different from other organizations that have only one major type of income.

The Agency receives two major sources of funding: revenue from water sales, and revenue from property taxes. Revenue from water sales falls into the operations portion of the statements, and revenue from property taxes falls into the non-operations portion of the statements.

However, the expenses to maintain the operations portion of the Agency's efforts exceed its income from operations at this time. Examination of just the operations portion of the statements reveals what looks like a loss. However, tax revenue, by design, has been enacted to pay for some of the operations expense, but is relegated to the non-operations portion of the statements by accounting convention. So, even though operations looks like a loss, in actuality, by viewing the statements as a whole, it is clear that the Agency is receiving at least enough to cover its expenses.



Graph of Combined Operating and Non-Operating Expenses

SAN GORGONIO PASS WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
June 30, 2017 and 2016

By reviewing the table below, it is possible to see that overall income (Operating and Non-operating) totals \$27.85 million for FY 2016-17, an increase of \$4.86 million from FY 2015-16. Overall expenses (Operating and Non-Operating) totaled \$21.17 million for FY 2016-17, an increase of \$9.58 million from FY 2015-16. Two items, purchased water because of the significant rainfall during the winter, and a big increase in amortization of State Water Rights, made up most of the increase. The resulting Net Income is \$6.70 million.

Total Assets and Deferred Outflows of Resources for FY 2016-17 are \$175.33 million, an increase of \$7.11 million from the previous fiscal year. Total assets is divided into three categories: Current Assets (cash and investments that can be liquidated in 12 months), Restricted Assets (assets that are designated for a particular purpose) and Capital Assets (assets that have a life longer than 1 year and are not intended for sale during the normal course of business). Current Assets increased \$1.55 million, Restricted Assets increased \$5.19 million and Capital Assets increased \$0.3 million.

Current Liabilities are \$0.98 million, an increase of \$0.34 million from FY 2015-16. Long Term Liabilities are \$0.65 million, an increase of \$0.16 million. Therefore, Net Position (the combination of Total Assets, Liabilities, Deferred Inflows and Deferred Outflows) for FY 2016-17 are \$173.67 million, a net increase of \$6.70 million.

Financial Statement Summary
(in millions)

	6/30/17	6/30/16	6/30/15
Current Assets	\$14.90	\$13.35	\$11.45
Restricted Assets	44.89	39.70	38.92
Capital Assets	115.24	114.97	105.86
Deferred Outflows	0.30	0.20	0.32
Current Liabilities	0.98	0.64	0.37
Noncurrent Liabilities	0.65	0.49	0.54
Deferred Inflows	0.03	0.11	0.16
Net Position	173.67	166.97	155.48
Operating Revenues	4.75	1.86	1.48
Operating Expenses	(21.09)	(11.52)	(11.18)
Non-Operating Revenues			
Interest	0.48	0.31	0.14
Property Taxes	22.78	20.64	19.39
Miscellaneous	(0.17)	0.17	0.04
Non-Operating Expenses	(0.08)	(0.07)	(0.05)
Change in Net Position	6.70	11.49	9.81

SAN GORGONIO PASS WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
June 30, 2017 and 2016

In addition, this is the third year that new reporting standards regarding pension liabilities have been required. The new standard changes the way pension expenses and liabilities are recorded, and has had a minor impact on the statements of the Agency.

Previously, contributions to the CalPERS defined benefit pension plan were recorded as current expenses. Notes to the financial statements provided information about the composition and status of the investment pool that the Agency was assigned to by CalPERS.

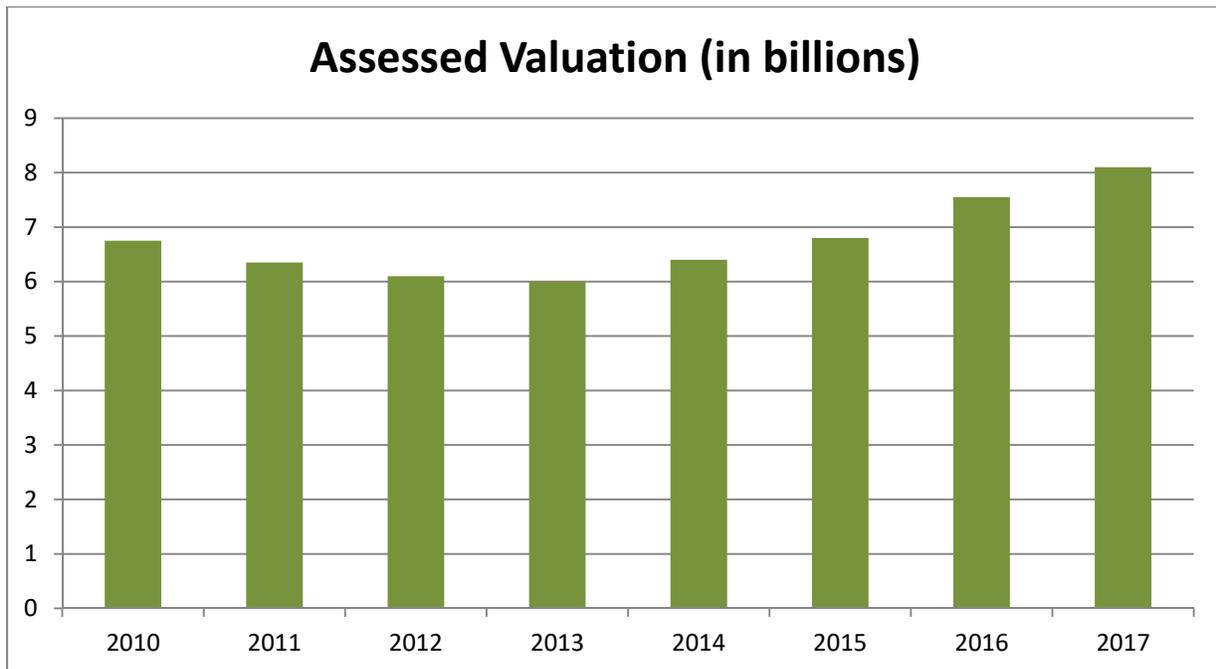
Now, in an attempt to more accurately categorize the transactions associated with current and future pension costs, Agency contributions to pension plans have been reclassified. In the Agency's financial statements, current-year pension contributions are recorded as deferred outflows. In addition, the statements include deferred outflows and deferred inflows for the effects of other changes in net pension liability that are not included in pension expense, such as differences between projected and actual earnings on pension plan investments and changes in assumptions.

The potential future pension cost is determined by an actuarial study, which takes into account a number of factors, including current employees of the Agency, their years of service, retired employees of the Agency, and estimates for future earnings of investments made by CalPERS. The Agency has been assigned to an investment pool that is managed by CalPERS. The estimate of the pension liability of the entire pool is a current estimate of the difference between the estimated pension cost and the funded status of the pool. The Agency is allocated a proportionate share of the entire pool. This proportionate share is listed as Net Pension Liability, a Noncurrent Liability in the Liability section of the Statement of Net Position.

This year, a consultant was hired to more accurately determine pension reporting amounts. This resulted in a slight change in methodology, which resulted in a prior-period adjustment of \$122,793 credit to Net Position.

Assessed Valuation

The following chart reflects the Agency's assessed property tax valuations. Assessed valuations increased significantly from the years ending June 30, 2005 to 2008; however as a result of the economic downturn, assessed values leveled off for the year ending in 2009, and declined by about 15% by the year ending in 2013. Assessed valuations finally increased in 2014, and have increased each year since.



Categories of Assets

The Agency is required to present its assets in three categories: Net Investment in Capital Assets, Restricted Assets and Unrestricted Assets.

Net Investment in Capital Assets

At June 30, 2017, Capital Assets totaled \$115.24 million (net of Accumulated Depreciation and Amortization) and consisted of Investment in State Water Rights, Utility Plant in Service, and Construction in Progress. Utility Plant in Service is divided into additional categories of Land and Rights of Way, Source of Supply, Transmission and Distribution, Buildings, Furniture and Fixtures, Technical Equipment, and Transportation Equipment. The table on the next page groups these assets by whether they are depreciated or amortized, or not.

**SAN GORGONIO PASS WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
June 30, 2017 and 2016**

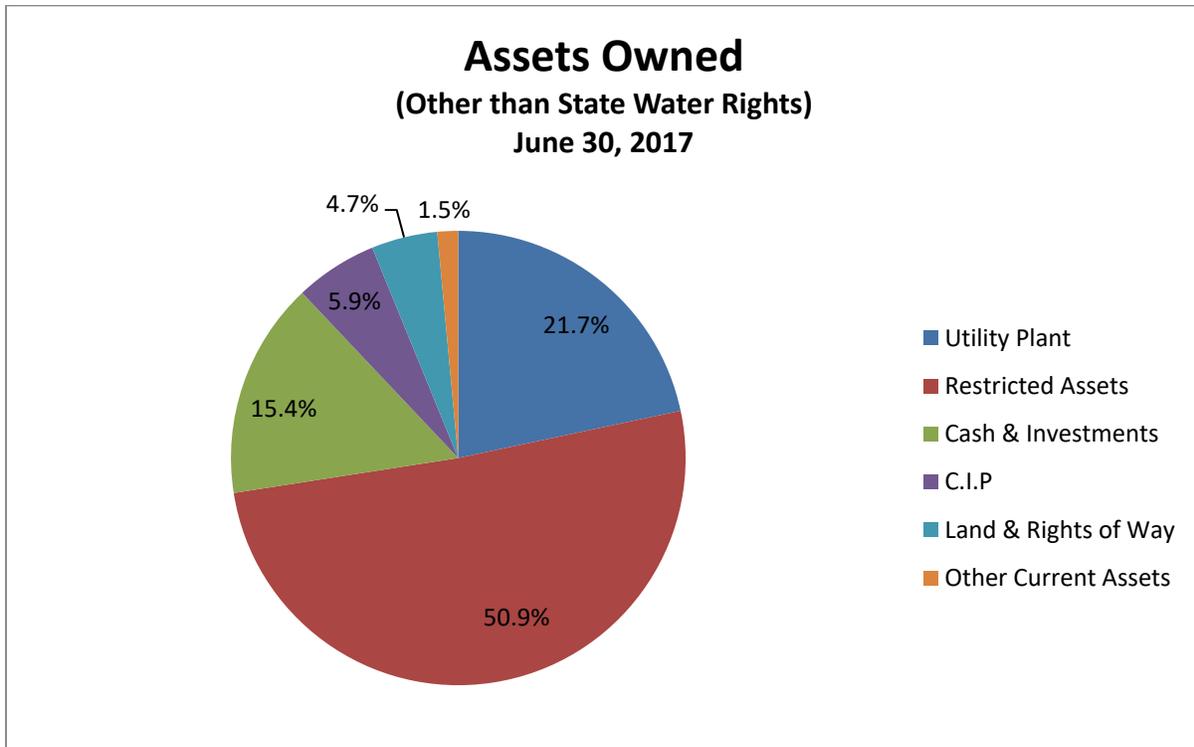
Capital Asset Activity for the Year

	Balance July 1, 2015	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Capital Assets, not being depreciated					
Land and Rights of Way	\$ 4,138,966	\$ 4,138,966	-	-	\$ 4,138,966
Construction in Progress	4,216,149	4,410,422	\$ 763,858	-	5,174,280
Total Capital Assets, not being depreciated	8,355,115	8,549,388	763,858	-	9,313,246
Capital Assets, being depreciated/amortized					
Investment in State Water Rights	116,868,931	129,511,413	10,615,704	-	140,127,117
Source of Supply	15,758,338	15,758,338	-	-	15,758,338
Transmission and Distribution	1,351,614	1,351,614	-	-	1,351,614
Buildings and Improvements	1,524,909	1,524,909	-	-	1,524,909
Furniture and Fixtures	174,261	172,961	-	-	172,961
Technical Equipment	214,823	214,823	-	-	214,823
Transportation Equipment	52,060	74,463	-	-	74,463
Total Capital Assets being depreciated or amortized	\$ 135,944,936	\$ 148,608,521	\$ 10,615,704	\$ -	\$ 159,224,225
Total Capital Assets	\$ 144,300,051	\$ 157,157,909	\$ 11,379,562	\$ -	\$ 168,537,471

The Agency made payments to the Department of Water Resources during the year totaling \$15.14 million, net of credits and refunds for participation rights in the State Water Project.

State Water Project deliveries through the East Branch Extension and the Cherry Valley Pump Station to the Agency service area started in July, 2003. Deliveries to the Little San Gorgonio Creek Recharge Facility in FY 2016-17 totaled 4 acre-feet. Deliveries to retailers in FY 2016-17 totaled 15,010 AF which is significantly more than the previous fiscal year, because of the dramatic increase in rainfall in northern California during the 2016-17 water year.

Construction in Progress increased by \$0.77 million between July 1, 2016 and June 30, 2017. The projects currently in Construction in Progress include improvements to the East Branch Extension Phase1 project, a new recharge facility, plans for a pipeline for water delivery to the City of Banning, the East Branch Extension Phase 2 project, a feasibility study for the Beaumont Cherry Valley Water District regarding their connection to the Agency's delivery system, and participation rights in a feasibility study to build a new reservoir to increase the reliability of the State Water Project named Sites Reservoir.



Restricted Assets

The Agency had Restricted Assets of \$44.89 million, which consisted of tax proceeds that were levied for State Water Project payments less actual State Water Project related expenditures.

Unrestricted Assets

The Agency had Unrestricted Assets of \$13.54 million, which consisted primarily of water sales, general purpose tax proceeds, and investment income, less general and administrative expenses not related to State Water Project expenditures.

Contacting the Agency's Financial Management

This financial report is designed to provide our customers, taxpayers, and creditors with an overview of the Agency's financial operations and condition. If you have questions about this report or need additional information, please contact the Agency's Finance Manager at 1210 Beaumont Ave., Beaumont, California 92223.

BASIC FINANCIAL STATEMENTS - AUDITED

SAN GORGONIO PASS WATER AGENCY
STATEMENTS OF NET POSITION
June 30, 2017 and 2016

	June 30,	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current assets			
Cash and cash equivalents	\$	1,933,126	\$ 1,449,062
Cash in Local Agency Investment Fund		11,655,212	10,675,678
Accounts receivable		601,188	528,421
Property taxes receivable, less allowance of \$0 and \$8,832 in 2017 and 2016, respectively		640,926	639,909
Interest receivable		63,143	47,395
Other		6,730	6,630
Total current assets		<u>14,900,325</u>	<u>13,347,095</u>
Restricted assets			
Cash in Local Agency Investment Fund		4,602,522	1,655,119
Investments		37,615,075	35,237,114
Property taxes receivable, less allowance of \$0 and \$76,168 in 2017 and 2016, respectively		<u>2,671,919</u>	<u>2,804,400</u>
Total restricted assets		<u>44,889,516</u>	<u>39,696,633</u>
Noncurrent assets			
Capital assets			
Investment in State Water Project		140,127,118	129,511,413
Utility plant in service		19,097,108	19,097,108
Less accumulated depreciation and amortization		(53,298,305)	(42,184,563)
Land and rights of way		4,138,966	4,138,966
Construction in progress		<u>5,174,280</u>	<u>4,410,422</u>
Total noncurrent assets		<u>115,239,167</u>	<u>114,973,346</u>
Total assets		<u>175,029,008</u>	<u>168,017,074</u>
Deferred outflows of resources			
Pension related			
Pension contributions		95,564	109,010
Difference between expected and actual experience		2,367	6,064
Change in proportion		50,015	83,037
Net difference between projected and actual earnings on plan investments		<u>151,165</u>	
Total deferred outflows of resources		<u>299,111</u>	<u>198,111</u>
Total assets and deferred outflows of resources		<u>\$ 175,328,119</u>	<u>\$ 168,215,185</u>

The accompanying notes are an integral part of these financial statements.

SAN GORGONIO PASS WATER AGENCY
STATEMENTS OF NET POSITION
June 30, 2017 and 2016

	June 30,	2017	2016
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
Current liabilities			
Accounts payable	\$	828,561	\$ 507,487
Accrued vacation and sick leave		124,875	110,463
Construction deposit		25,000	25,000
Total current liabilities		978,436	642,950
Noncurrent liabilities			
Net pension liability		652,703	490,726
Total noncurrent liabilities		652,703	490,726
Total liabilities		1,631,139	1,133,676
Deferred inflows of resources			
Pension related			
Difference between actual and projected contributions		674	24,636
Changes in assumptions		29,044	57,373
Net difference between projected and actual earnings on plan investments			28,762
Total deferred inflows of resources		29,718	110,771
Net position			
Net investment in capital assets, including State			
Water Project costs		115,239,167	114,973,346
Restricted for State Water Project		44,889,516	39,696,633
Unrestricted		13,538,579	12,300,759
Total net position		173,667,262	166,970,738
Total liabilities, deferred inflows of resources, and net position		\$ 175,328,119	\$ 168,215,185

The accompanying notes are an integral part of these financial statements.

SAN GORGONIO PASS WATER AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
For the Years Ended JUNE 30, 2017 AND 2016

	For the Years Ended June 30,	2017	2016
Operating revenues			
Water sales		\$ 4,751,979	\$ 1,859,344
Operating expenses			
Source of supply			
Maintenance		4,883,703	5,168,558
Purchased water		3,517,989	1,197,421
Total source of supply		8,401,692	6,365,979
Transmission and distribution			
Utilities		10,055	9,509
Maintenance		25,900	24,433
Total transmission and distribution		35,955	33,942
General and administrative expenses			
Salaries		445,797	418,698
Director expense		122,709	128,480
Payroll taxes		37,094	36,038
Employee health benefits		65,579	60,765
Employee retirement benefits		89,583	116,245
Office supplies and expense		25,145	29,481
Travel expenses		23,460	20,480
Automotive expense		-	9,048
Utilities and telephone		15,116	14,119
Repairs and maintenance		28,035	21,868
Insurance		31,196	30,632
Administrative expense		4,444	4,994
Membership dues and assessments		29,845	27,706
Public relations		34,464	17,040
Sponsorships		1,000	1,000
Election expense		61,604	-
Legal services		237,933	166,020
Engineering and consulting services		254,444	216,280
Accounting and auditing		21,301	21,755
Outside professional services		9,600	4,350
Depreciation		645,978	648,643
Amortization		10,467,763	3,122,834
Total general and administrative		12,652,090	5,116,476
Total operating expenses		21,089,737	11,516,397
Operating loss		\$ (16,337,758)	\$ (9,657,053)

The accompanying notes are an integral part of these financial statements.

SAN GORGONIO PASS WATER AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
For the Years Ended JUNE 30, 2017 AND 2016

	For the Years Ended June 30,	2017	2016
Operating loss		\$ (16,337,758)	\$ (9,657,053)
Nonoperating revenues (expenses)			
Property taxes - general purpose		2,267,676	2,136,273
Property taxes - debt service		20,511,507	18,506,495
Investment income		484,731	306,338
Unrealized gain (loss) on investments		(282,523)	152,539
Other		112,265	24,720
County collection charge		(75,374)	(66,351)
Total nonoperating revenues (expenses)		23,018,282	21,060,014
Income before capital contributions		6,680,524	11,402,961
Capital contributions - government		16,000	85,086
Change in net position		6,696,524	11,488,047
Net position			
Beginning of year, as previously reported		166,970,738	155,359,898
Less: Prior-period adjustment in net pension (Note 13)			122,793
Beginning of year, as restated		166,970,738	155,482,691
Net position, end of year		\$ 173,667,262	\$ 166,970,738

The accompanying notes are an integral part of these financial statements.

SAN GORGONIO PASS WATER AGENCY
STATEMENTS OF CASH FLOWS
For the Years Ended JUNE 30, 2017 AND 2016

	For the Years Ended June 30,	2017	2016
Cash flows from operating activities			
Cash received from customers		\$ 4,679,112	\$ 1,513,678
Cash paid to suppliers and employees		(9,660,585)	(7,422,365)
Net cash used in operating activities		(4,981,473)	(5,908,687)
Cash flows from noncapital financing activities			
Property taxes		22,910,647	20,741,586
Net pension liability			(49,345)
Net cash provided by noncapital financing activities		22,910,647	20,692,241
Cash flows from capital and related financing activities			
Purchase of capital assets		(11,379,563)	(12,881,705)
Other revenue		112,265	24,720
Contributed capital		16,000	85,086
Construction deposit		-	25,000
Other expenses		(75,374)	(66,351)
Net cash used in capital and related financing activities		(11,326,672)	(12,813,250)
Cash flows from investing activities			
Purchased investments		(2,660,484)	(30,106,513)
Proceeds from maturing investments and return of principal		-	1,000,000
Interest received		468,983	318,288
Net cash used in investing activities		(2,191,501)	(28,788,225)
Net change in cash and cash equivalents		4,411,001	(26,817,921)
Cash and cash equivalents			
Balance, beginning of year		13,779,859	40,597,780
Balance, end of year		\$ 18,190,860	\$ 13,779,859

The accompanying notes are an integral part of these financial statements.

SAN GORGONIO PASS WATER AGENCY
STATEMENTS OF CASH FLOWS
For the Years Ended JUNE 30, 2017 AND 2016

For the Years Ended June 30,	2017	2016
Reconciliation of cash and cash equivalents to statements of net position		
Unrestricted cash and cash equivalents	\$ 1,933,126	\$ 1,449,062
Unrestricted cash in Local Agency Investment Fund	11,655,212	10,675,678
Restricted cash in Local Agency Investment Fund	4,602,522	1,655,119
Total cash and cash equivalents	<u>\$ 18,190,860</u>	<u>\$ 13,779,859</u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (16,337,758)	\$ (9,657,053)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation and amortization	11,113,741	3,771,477
Noncash pension expense	(20,075)	(141,747)
(Increase) decrease in:		
Accounts receivable	(72,767)	(345,666)
Other current assets	(100)	(250)
Pension deferrals		212,291
Increase (decrease) in:		
Accounts payable	321,074	247,897
Accrued vacation and sick	14,412	4,364
Net cash used in operating activities	<u>\$ (4,981,473)</u>	<u>\$ (5,908,687)</u>

The accompanying notes are an integral part of these financial statements.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 1- REPORTING ENTITY

The San Gorgonio Pass Water Agency (the "Agency"), a special district of the state of California, is one of 29 state water contractors created by the state legislature. The Agency will ultimately manage water resources and supply water to local water districts. The Agency's service area extends from Calimesa to Cabazon through the San Gorgonio Pass area in Riverside County (the "County").

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Measurement Focus

The Agency reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Agency is that the costs of providing goods or services to the general public on a continuing basis (including depreciation) be financed or recovered primarily through user charges. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. An enterprise fund is accounted for on the flow of economic resources measurement focus. This means that all assets and liabilities associated with the activity (whether current or noncurrent) are included on the statements of net position.

The Agency distinguishes operating revenues and expenses from those revenues and expenses that are nonoperating. Operating revenues are those revenues that are generated by water sales while operating expenses pertain directly to the furnishing of those services. Nonoperating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business of supplying water services.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Agency considers all short-term debt securities purchased with an original maturity of three months or less to be cash equivalents. The Agency invests funds with the State of California's Local Agency Investment Fund (LAIF). Due to the high liquidity of this investment, the funds are classified as cash equivalents. For credit risk purposes, the fund is not rated.

Investments

Investments are reported in the accompanying statements of net position at fair value based on the last reported sales price published on the national exchange. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

Property Taxes

The County of Riverside Assessor's Office assesses all real and personal property within the County each year. The County of Riverside Tax Collector's Office bills and collects the Agency's share of property taxes and assessments. The County of Riverside Treasurer's Office remits current and delinquent property tax collections to the Agency throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at 1.0 percent of countywide assessed valuations.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property taxes receivable at year-end are related to property taxes collected by the County of Riverside, which have not been credited to the Agency's cash balance as of June 30. The property tax calendar is as follows:

Lien date:	January 1
Levy date:	July 1
Due date:	November 1 - 1st installment February 1 - 2nd installment
Collection date:	December 10 - 1st installment April 10 - 2nd installment

The County will designate property taxes relating to debt service (restricted) or general purposes. Funds have been established by the Agency to account for the use of these designated assets. As of June 30, 2017, certain taxes levied by the County and allocated to the Agency remain uncollected. The Agency has established allowances to estimate the extent of uncollectible property taxes.

Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. Agency policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated acquisition value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

<u>Assets</u>	<u>Years</u>
Pipelines	20 - 40
Spreading ground facilities	20
Buildings	25
Furniture and fixtures	5 - 10
Technical equipment	5
Transportation	5

Participation rights are being amortized on a unit-rate basis. The unit-rate has been determined by dividing the total estimated capital costs to be charged to the Agency by total estimated water deliveries over the project repayment period. The resulting rate, which will be adjusted periodically to reflect changes in estimates, would then be applied to actual water deliveries in the current year.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued Vacation and Sick Leave

The Agency has a policy whereby an employee can accumulate unused sick leave and vacation. Sick leave is to be used for extended periods of sickness; however, upon termination or retirement, a portion will be paid as additional benefits to the employee. At retirement or termination, employees will be paid for 50 percent of the then unused sick leave up to the maximum 480 hours at their regular payroll rates in effect at the date of termination. The Agency has provided for these future costs by accruing 50 percent of the earned and unused sick leave up to the maximum number of hours and 100 percent of the earned and unused vacation.

Pension Accounting

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by California Public Employees' Retirement System (CalPERS) Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position

The financial statements utilize a net position presentation. The net position is categorized as follows:

Net investment in Capital Assets, including State Water Project costs - This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction, or improvement of those assets.

Restricted for State Water Project - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position - This component of the net position consists of a net position that does not meet the definition of restricted or net investment in capital assets.

Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the Agency's practice to use restricted resources first, then unrestricted resources as they are needed.

Budgetary Policies

The Agency adopts an annual nonappropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures made in the accompanying notes to the financial statements. While management believes these estimates are adequate, actual results could differ from those estimates.

Net Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources, and Pension Expense

Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* (GASB 68), provides requirements for how pension costs and obligations are measured and reported in the basic financial statements. When an organization's pension liability exceeds the pension plan's net position available for paying benefits, there is a net pension liability which must be reported in the basic financial statements. In addition, GASB 68 requires that projected benefit payments be discounted to their actuarial present value using a single rate that reflects (1) a long-term expected rate of return on pension plan investments to the extent that the pension plan's fiduciary net position is projected to be sufficient to pay benefits and pension plan assets are expected to achieve that rate and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions under (1) are not met.

New Accounting Pronouncements

The Agency is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB statement:

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75), which establishes new accounting and financial reporting requirements for OPEB improving the accounting and financial reporting by state and local governments for OPEB and provides information provided by state and local government employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and GASB 57. GASB 75 is effective for the Agency's fiscal year ending June 30, 2018.

NOTE 3 - STATE WATER PROJECT

The Agency has contracted with the State Department of Water Resources to participate in the State Water Project to convey water from Northern California into the Southern California area. This participation requires payments in varying amounts by the Agency for many years into the future, including capital costs in connection with the transportation facilities, conservation (O.M.P. and R.) costs, and variable costs for the actual delivery of water.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 3 - STATE WATER PROJECT (Continued)

The Agency has been billed formally through calendar year 2017 only. The policy of the Agency is not to accrue any amounts which are due after the fiscal year-end. The payments which have been billed but are not reflected on the books and are not due until after the fiscal year-end of the Agency are approximately as follows:

**Charges for Capital and Minimum Operations, Maintenance,
Power and Replacement Components**

Water System Revenue Bond	
Due July 1, 2017	\$ 230,319
Due January 1, 2018	216,501
Due July 1, 2018	216,500
Capital Cost Components	
Delta Water Charges	
Due July 1, 2017	157,999
Due January 1, 2018	169,927
Due July 1, 2018	169,926
Transportation Charges	
Due July 1, 2017	51,907
Due January 1, 2018	(577,783)
Due July 1, 2018	(577,784)
Minimum O.M.P. & R.	
Delta Water Charge	
Due monthly, starting July 1, 2017	68,560
Total for six months	411,360
Due monthly, starting January 1, 2018	67,428
Total for six months	404,568
Due monthly, starting July 1, 2018	67,428
Total for six months	404,568
Transportation Charge	
Due monthly, starting July 1, 2017	344,900
Total for six months	2,069,400
Due monthly, starting January 1, 2018	153,846
Total for six months	923,076
Due monthly, starting July 1, 2018	153,845
Total for six months	923,070

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 3 - STATE WATER PROJECT (Continued)

Charges for the Devil Canyon-Castaic Contract

Debt Service on Bonds	
Due July 1, 2017	\$ 48,824
Due January 1, 2018	48,884
Due July 1, 2018	48,884
O.M.P.& R. Component	
Due monthly, starting July 1, 2017	15,344
Total for six months	92,064
Due monthly, starting January 1, 2018	14,053
Total for six months	84,318
Due monthly, starting July 1, 2018	14,053
Total for six months	84,318

Charges for Off-Aqueduct Power Facilities

Maintenance	
Due monthly, starting July 1, 2017	29
Total for six months	174
Due monthly, starting January 1, 2018	181
Total for six months	1,086
Due monthly, starting July 1, 2018	181
Total for six months	1,086
RG4 Seperation	
Due monthly, starting July 1, 2017	745
Total for six months	4,470
Due monthly, starting January 1, 2018	666
Total for six months	3,996
Due monthly, starting July 1, 2018	666
Total for six months	3,996

Charges for East Branch Extension Facilities

Allocated Charges	
Due July 1, 2017	8,631,799
Due January 1, 2018	4,880,762
Due July 1, 2018	9,318,438

Charges for Tehachapi Second Afterbay Facilities

Capital Cost of Transportation Charge	
Due July 1, 2017	22,917
Due January 1, 2018	22,069
Due July 1, 2018	22,067

Totals for All Charges of the State Water Project

Total Due July 1, 2017	11,721,233
Total Due January 1, 2018	6,177,404
Total Due for FY 2017-18	<u>17,898,637</u>
Total Due July 1, 2018	<u>10,615,069</u>
Total Due for Calendar Year 2018	<u><u>\$16,792,473</u></u>

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 3 - STATE WATER PROJECT (Continued)

The Agency has committed to purchase other components of water that may become available at reasonable prices in the future. The future payments for this excess water are not determinable at this time.

NOTE 4 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

The Agency's investment practices are prescribed by various provisions of the California Government Code and by administrative policies. The Agency's investment policy is approved annually by the Board.

Cash, cash equivalents, and investments are included in the statements of net position as follows:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents - unrestricted	\$13,588,338	\$12,124,740
Cash and cash equivalents - restricted	<u>4,602,522</u>	<u>1,655,119</u>
Total cash and cash equivalents	18,190,860	13,779,859
Investments	<u>37,615,075</u>	<u>35,237,114</u>
	<u>\$55,805,935</u>	<u>\$49,016,973</u>

For purposes of the following discussion, these accounts have been classified as follows:

	<u>2017</u>	<u>2016</u>
Deposits	\$ 1,933,126	\$ 1,449,062
Investments	<u>53,872,809</u>	<u>47,567,911</u>
	<u>\$55,805,935</u>	<u>\$49,016,973</u>

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 4 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Investments Authorized by the Agency's Investment Policy

Under the provisions of the Agency's investment policy, adopted by Board Resolution No. 2015-10 in September 2015, which is in accordance with California Government Code Sections 53600 through 53686 et seq., the types of investments authorized for deposit are identified in the following table:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>
U.S. Treasury Federal agency Municipal bonds	2 years
Negotiable certificates of deposit	30 months
Repurchase agreements	1 year
Medium term notes	5 years
Money market mutual funds	
Local Agency Investment Fund (LAIF)	
CalTRUST short-term fund	2 years
CalTRUST medium-term fund	3 ½ years

Concentration of Credit Risk

There were no investments in any one issuer, other than U.S. Treasury Securities, LAIF and CalTRUST that represent 5 percent or more of the total investments of the Agency at June 30, 2017 or 2016.

Custodial Credit Risk

The Agency maintains deposits with financial institutions in excess of federal depository insurance limits. California law requires banks and savings and loan institutions to pledge government securities with a market value of 110 percent of the Agency's cash on deposit or first trust deed mortgage notes with a market value of 150 percent of the deposit, as collateral for these deposits. Under California law this collateral is held in a separate investment pool by another institution in the Agency's name and places it ahead of general creditors of the institution.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 4 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Interest Rate Risk

Interest rate risk is the possibility 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. As a means of highlighting exposure to interest rate risk, the current values of all securities are reported quarterly to the board for investments. Investment fair value and duration at June 30 are as follows:

Authorized Investment Type	2017	Effective Duration (YR)
U.S. agency securities	\$ 1,028,549	2020
U.S. Government bonds	\$ 3,985,400	2018
U.S. Government bonds	\$ 1,984,270	2019
U.S. Government bonds	\$ 992,160	2020
Negotiable certificates of deposit	\$ 4,724,749	2017
Negotiable certificates of deposit	\$ 2,675,231	2018
Negotiable certificates of deposit	\$ 2,476,524	2019

Authorized Investment Type	2016	Effective Duration (YR)
U.S. agency securities	\$ 2,050,933	2020
U.S. Government bonds	\$ 4,000,060	2018
U.S. Government bonds	\$ 1,000,040	2019
U.S. Government bonds	\$ 1,002,310	2020
Negotiable certificates of deposit	\$ 7,737,117	2017
Negotiable certificates of deposit	\$ 1,444,420	2018
Negotiable certificates of deposit	\$ 750,399	2019

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 4 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Disclosures Relating to Credit Risk

Information about the risk that an issuer or other counterparty to an investment will not fulfill its obligations is provided by the following tables:

Authorized Investment	Amount	Exempt from Disclosure	Aaa	A(1-3)	Not Rated	% of Portfolio
As of June 30, 2017:						
Cash	\$ 100				\$ 100	N/A
Deposits with financial institutions	1,933,026			\$ 1,933,026		N/A
U.S. Government bonds	6,961,830		\$6,961,830			12.92%
U.S. agency securities	1,028,549		1,028,549			1.91%
Negotiable certificates of deposit	9,876,504			9,876,504		18.33%
CalTRUST short-term fund	5,060,642	\$ 5,060,642				9.39%
CalTRUST medium-term fund	14,687,550	14,687,550				27.26%
LAIF	16,257,734	16,257,734				30.19%
	<u>\$55,805,935</u>	<u>\$ 36,005,926</u>	<u>\$7,990,379</u>	<u>\$11,809,530</u>	<u>\$ 100</u>	<u>100.00%</u>

Authorized Investment	Amount	Exempt from Disclosure	Aaa	A(1-3)	Not Rated	% of Portfolio
As of June 30, 2016:						
Cash	\$ 100				\$ 100	N/A
Deposits with financial institutions	1,448,962			\$ 1,448,962		N/A
Money markets	77,453		\$ 77,453			0.16%
U.S. Government bonds	6,002,410		6,002,410			12.62%
U.S. agency securities	2,050,933		2,050,933			4.31%
Negotiable certificates of deposit	9,931,936			9,931,936		20.88%
CalTRUST short-term fund	4,024,219	\$ 4,024,219				8.46%
CalTRUST medium-term fund	13,150,164	13,150,164				27.65%
LAIF	12,330,796	12,330,796				25.92%
	<u>\$49,016,973</u>	<u>\$ 29,505,179</u>	<u>\$8,130,796</u>	<u>\$11,380,898</u>	<u>\$ 100</u>	<u>100.00%</u>

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 4 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Deposits

The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: 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 Agency deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. At June 30, 2017 and 2016, the carrying amount of the Agency's deposits was \$1,933,126 and \$1,449,062, respectively, and the bank balances were \$1,953,028 and \$1,455,324, respectively. The Agency has cash in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000, and the remaining balance is collateralized in accordance with the California Government Code.

LAIF

The Agency is a voluntary participant in LAIF that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. For LAIF's annual financial report, contact the California State Treasurer at: 915 Capitol Mall, Room 106, Sacramento, California 95814.

CalTRUST

The Agency is participating in CalTRUST, a Joint Exercise of Powers Agreement of the Investment Trust of California. The principal executive office is located at 1100 K Street, Suite 101, Sacramento, California 95814. CalTRUST is subject to the California Joint Exercise of Powers Act. Each participant in CalTRUST must be a California Public Agency. The purpose of CalTRUST is to consolidate investment activities of its participants and thereby reduce duplication, achieve economies of scale and carry out coherent and consolidated investment strategies through the issuance of shares of beneficial interest in investments purchased by CalTRUST.

CalTRUST currently has a board of trustees that consists of 11 trustees who are responsible for the overall management, supervision and administration of CalTRUST including formulation of investment and operating policy guidelines of the funds.

The two funds the Agency has invested in are the Short-term fund and the Medium-term fund. The Short-term fund has a targeted portfolio duration of 0 to 2 years and the medium-term fund has a targeted portfolio duration of 1½ to 3½ years. Investment strategies are to attain as high a level of current income as is consistent with the preservation of principal.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 4 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

The shares in the two funds are not registered under any federal or state securities law nor under the Investment Company Act of 1940, and are thus not subject to the various protections of the 1940 Act which apply to certain pooled vehicles such as money market funds and other mutual funds. The short-term and medium-term funds are valued at net asset value which is calculated by dividing the total value of the securities and other assets, less any liabilities, by the total outstanding shares of each fund. Liabilities include all accrued expenses and fees of each fund. The value of the portfolio securities is determined on the basis of the market value of such securities or, if market quotations are not readily available, at fair value under guidelines established by the Trustees. Investments with short remaining maturities may be valued at amortized cost which the Trustees have determined to equal fair value.

Short-term fund deposits will be allowed to be invested on the business day they are received, while the medium-term fund deposits may be invested once per month on the last business day. Short-term funds can be redeemed at net asset value per share at the next determined date and/or time of calculation. Medium-term fund withdrawals can only occur once per month on the last business day of the month provided that notice of intent to withdraw is delivered prior to five business days before month end. Shares will be redeemed at net asset value per share determined by the accountant on the last business day of each month. For both funds the investment will remain in the fund until the day they are wired to the Agency. In the event of an emergency as defined by the Trustees, withdrawals may be made at such times and upon such prior notice within parameters defined by the Trustees. CalTRUST may, and is authorized by each participant to, redeem shares owned by such participant (i) to the extent necessary to reimburse CalTRUST for any loss it has sustained by reason of the failure of such participant to make full payment for shares purchased by such participant, (ii) to the extent necessary to collect any charge relating to a transaction effected for the benefit of such participant which is applicable to shares, or (iii) as otherwise deemed necessary and desirable by the Trustees for CalTRUST to effectively carry out its obligations under the agreement, comply with applicable law, or any other obligations in connection with the affairs of CalTRUST. Redemption payments may be made in whole or in part in securities or other property of the funds. Participants receiving any such securities or other property on redemption will bear any costs of sale. Transfers among the funds will be considered a withdrawal from one fund and a deposit to another fund subject to restrictions and limitations of a withdrawal and deposit.

Investments

Fair Value of Investments

GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72), provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under GASB 72 are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets as of the measurement date in active markets that the Agency has the ability to access. Fair values are determined using fund manager estimates.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 4 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Level 2 Inputs to the valuation methodology include quoted prices for similar assets in active markets; quoted prices for identical or similar assets in inactive markets; and model based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets.

Level 3 Inputs to the valuation methodology are unobservable and include situations where there is little, if any, market activity for the investment.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There has been no change in the methodologies used at June 30, 2017 and 2016:

Money markets: Valued at \$1 per share in accordance with industry practice.

U.S. Government bonds: Valued at the closing price reported in the active market on which the individual bonds are traded.

U.S. agency securities: Valued at the closing price reported in the active market on which the individual securities are traded.

Negotiable certificate of deposit: Valued at the closing price reported on the active market on which the negotiable paper is traded.

Ca/TRUST funds: The Agency is a voluntary participant in the Investment Trust of California, doing business as CalTRUST. CalTRUST is a joint powers authority that has been established by its members pursuant to the Joint Exercise of Powers Agreement. The fair value of the Agency's investment in CalTRUST is based upon the net asset value (NAV) of shares held by the Agency at year-end. The net asset value per share is computed by dividing the total value of the securities and other assets, less any liabilities, by the total outstanding shares. Liabilities include all accrued expenses and fees, including expenses of the trust. The market value of portfolio securities is determined on the basis of the market value of such securities, or, if market quotations are not readily available, at fair value under guidelines established by the trustees. Investments with short remaining maturities may be valued at amortized cost which the CalTRUST Board has determined to equal fair value.

State pooled funds (Local Agency Investment Fund): The Agency is a voluntary participant in LAIF that is regulated by the California Government Code under oversight by the Local Investment Advisory Board, which consists of five members, with the Treasurer of the State of California serving as chairman. The fair value of the Agency's investment in this pool is based upon the Agency'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).

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 4 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value. Furthermore, while the Agency believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Agency's investment assets at fair value as of June 30, 2017:

	Level 1	Level 2	Level 3	Total
U.S. government bonds	\$ 6,961,830			\$ 6,961,830
U.S. agency securities	1,028,549			1,028,549
Negotiable certificates of deposit	9,876,504			9,876,504
CalTRUST short-term fund		\$ 5,060,642		5,060,642
CalTRUST medium-term fund		14,687,550		14,687,550
State pooled funds (Local Agency Investment Fund)		16,257,734		16,257,734
	<u>\$17,866,883</u>	<u>\$36,005,926</u>	<u>\$ -</u>	<u>\$53,872,809</u>

The following table sets forth by level, within the fair value hierarchy, the Agency's investment assets at fair value as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Money markets	\$ 77,453			\$ 77,453
U.S. government bonds	6,002,410			6,002,410
U.S. agency securities	2,050,933			2,050,933
Negotiable certificates of deposit	9,931,936			9,931,936
CalTRUST short-term fund		\$ 4,024,219		4,024,219
CalTRUST medium-term fund		13,150,164		13,150,164
State pooled funds (Local Agency Investment Fund)		12,330,796		12,330,796
	<u>\$18,062,732</u>	<u>\$29,505,179</u>	<u>\$ -</u>	<u>\$47,567,911</u>

At June 30, 2017 and 2016, the Agency had no investments in repurchase and reverse repurchase agreements and did not invest in such during the years then ended.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 5 - CAPITAL ASSETS

For the year ended June 30, 2017, the changes in utility plant for the Agency were as follows:

	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
Investment in state water project	\$129,511,413	\$10,615,705		\$ 140,127,118
Land and rights of way	4,138,966			4,138,966
Source of supply	15,774,604			15,774,604
Recharge facilities	1,351,614			1,351,614
Technical equipment	94,439			94,439
Office building	1,508,644			1,508,644
Solar equipment	120,384			120,384
Furniture and fixtures	172,961			172,961
Transportation equipment	74,462			74,462
	<u>\$152,747,487</u>	<u>\$10,615,705</u>	<u>\$ -</u>	<u>\$ 163,363,192</u>

For the year ended June 30, 2017, the changes in accumulated depreciation and amortization for the Agency were as follows:

	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
Investment in state water project	\$ 34,826,958	\$10,467,763		\$ 45,294,721
Land and rights of way	-	1,628		1,628
Source of supply	5,413,653	495,171		5,908,824
Recharge facilities	844,759	67,581		912,340
Technical equipment	94,439			94,439
Office building	727,978	60,341		788,319
Solar equipment	66,241	12,031		78,272
Furniture and fixtures	172,032	237		172,269
Transportation equipment	38,503	8,990		47,493
	<u>\$ 42,184,563</u>	<u>\$11,113,742</u>	<u>\$ -</u>	<u>\$ 53,298,305</u>

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 5 - CAPITAL ASSETS (Continued)

For the year ended June 30, 2016, the changes in utility plant for the Agency were as follows:

	Balance July 1, 2015	Additions	Disposals	Balance June 30, 2016
Investment in state water project	\$116,868,930	\$12,642,483		\$ 129,511,413
Land and rights of way	4,138,966			4,138,966
Source of supply	15,774,603			15,774,604
Recharge facilities	1,351,614			1,351,614
Technical equipment	94,439			94,439
Office building	1,508,644			1,508,644
Solar equipment	120,384			120,384
Furniture and fixtures	174,261		\$ 1,300	172,961
Transportation equipment	52,060	44,948	22,545	74,462
	<u>\$140,083,901</u>	<u>\$12,687,431</u>	<u>\$ 23,845</u>	<u>\$ 152,747,487</u>

For the year ended June 30, 2016, the changes in accumulated depreciation and amortization for the Agency were as follows:

	Balance July 1, 2015	Additions	Disposals	Balance June 30, 2016
Investment in state water project	\$ 31,704,124	\$ 3,122,834		\$ 34,826,958
Source of supply	4,916,855	496,798		5,413,653
Recharge facilities	777,178	67,581		844,759
Technical equipment	94,439			94,439
Office building	667,637	60,341		727,978
Solar equipment	54,210	12,031		66,241
Furniture and fixtures	170,429	2,903	\$ 1,300	172,032
Transportation equipment	52,059	8,989	22,545	38,503
	<u>\$ 38,436,931</u>	<u>\$ 3,771,477</u>	<u>\$ 23,845</u>	<u>\$ 42,184,563</u>

NOTE 6 - JOINT VENTURES (JOINT POWERS AGREEMENTS)

The Agency participates in a joint venture under a joint powers agreement (JPA) with the Association of California Water Agencies Joint Powers Insurance Authority (JPIA). The relationship between the Agency and the JPA is such that the JPA is not a component unit of the Agency for financial reporting purposes. Audited financial statements are available by contacting the JPIA at 2100 Professional Drive, Roseville, California 95661.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 6 - JOINT VENTURES (JOINT POWERS AGREEMENTS) (Continued)

The Association of California Water Agencies Joint Powers Insurance Authority arranges for and provides insurance coverage for its nearly 365 member districts. JPIA is governed by a board of directors and each member agency is required to designate one representative from its local board of directors to participate in the JPIA board. From the board of directors, nine members of a ten-member executive committee are elected and delegated the authority to make JPIA's preliminary policy decisions relying upon input received from other standing and ad hoc committees and subcommittees. These policy decisions, along with other matters such as financial and claims data, are ultimately brought before the full board for review and/or ratification. The board controls the operations of the JPIA, including selection of management and approval of operating budgets, independent of any influence by the member agencies beyond their representation on the board. JPIA provides joint protection coverage for losses in excess of the member districts' individually specified self-insurance retention levels. Individual claims (and aggregate public liability and property claims) in excess of specified levels are covered by excess insurance policies purchased from commercial insurance carriers.

Condensed audited financial information of the Association of California Water Agencies Joint Powers Insurance Authority for the years ended September 30 follows:

	2016	2015
Total assets	\$ 189,566,761	\$ 194,775,717
Deferred outflows of resources	1,065,779	625,003
Total assets and deferred outflows of resources	\$ 190,632,540	\$ 195,400,720
Total liabilities	\$ 121,474,323	\$ 113,620,777
Deferred inflows of resources	454,600	846,155
Net position	68,703,617	80,933,818
Total liabilities, deferred inflows, and net position	\$ 190,632,540	\$ 195,400,750
Total revenues	\$ 146,991,398	\$ 157,661,735
Total expenses	(161,601,971)	(164,195,428)
Total other income	2,380,372	2,738,962
Change in net position	\$ (12,230,201)	\$ (3,794,731)

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 7 - PENSION PLAN

(a) General Information about the Pension Plan

Plan Description

All full-time Agency employees are required to participate in the San Geronio Pass Water Agency Miscellaneous Plan with CalPERS, a cost-sharing multiple-employer public employee defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employee's Retirement Law. The Agency selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board approval. CalPERS issues a separate comprehensive annual report. Copies of CalPERS' annual financial report may be obtained from its Executive Office, 400 Q Street, Sacramento, CA 95811.

Benefits Provided

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are based on year of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for improved non-industrial disability benefits after five years of service. The Agency has chosen the Optional Settlement 2W Death Benefit.

Contribution Description

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance any unfunded accrued costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Agency is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The Agency's total employer contributions were \$95,564 and \$109,010 for the fiscal years ended June 30, 2017 and 2016, respectively.

Active plan members who were hired before January 1, 2013, sometimes referred to as "Classic" employees, are required to contribute 8 percent of their annual covered salary. A resolution passed by the Board of the Agency directed the Agency to pay this portion, called Employer Paid Member Contributions (EPMC) through December 31, 2012. Beginning January 1, 2013, the Agency established two classes of employees, as dictated by the newly enacted Public Employees Pension Reform Act (PEPRA). By Board action, "Classic" employees began paying a portion of the EPMC starting January 1, 2013. For calendar year 2013, they contributed 1.0 percent of the annual covered salary as a pre-tax deduction. For calendar year 2014, they paid 2 percent of their annual covered salary. For calendar year 2015, and continuing, they pay 3 percent of their annual covered salary. At June 30, 2017 and 2016 the Agency's pickup of the employee's 5% share was \$23,891 and \$23,093, respectively. There are no PEPRA members employed by the Agency.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 7 - PENSION PLAN (Continued)

The plan's provisions and benefits in effect at June 30, 2017 and 2016 are summarized as follows:

	<u>Miscellaneous</u>	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	3.0 percent at 60	2.0 percent at 62
Benefit vesting schedule	5 years	5 years
Benefit payments	Monthly for life	Monthly for life
Final average compensation period	12 months	12 months
Sick leave credit	Yes	Yes
Retirement age	60	62
Monthly benefits as a percent of eligible compensation	2.0 percent to 2.418 percent	2.0 percent to 2.5 percent
Cost-of-living adjustment	4.0 percent maximum	4.0 percent maximum
Required employee contribution rates		
2017	3.0 percent	8.0 percent
2016	3.0 percent	7.0 percent
Required employer paid member contributions		
2017	5.0 percent	0 percent
2016	5.0 percent	0 percent
Required employer contribution rates		
2017	15.723 percent	
2016	13.995 percent	

Net Pension Liability

The Agency's net pension liability for the Plan is measured as the proportionate share of the collective net pension liability of the Plan. As of June 30, 2017 and 2016, the Agency reported the following net pension liability measured as of June 30, 2016 and 2015, respectively:

	<u>2017</u>		<u>2016</u>	
	Amount	Proportion	Amount	Proportion
Total pension liability	\$3,022,005	0.02099%	\$2,899,622	0.02126%
Fiduciary net position	2,369,302	0.02169%	2,408,896	0.02211%
Net pension liability	<u>\$ 652,703</u>	<u>0.00754%</u>	<u>\$ 490,726</u>	<u>0.01789%</u>

The Agency's proportion of the collective net pension liability decreased by 0.01035% since the last measurement date.

(b) Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ending June 30, 2016 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2015 total pension liability determined in the June 30, 2015 actuarial accounting valuation.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 7 - PENSION PLAN (Continued)

The June 30, 2016 and 2015 total pension liability was based on the following actuarial methods and assumptions:

Actuarial cost method		Entry age normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:		
Discount rate	2016	7.65 percent
	2015	7.65 percent
Inflation		2.75 percent
Salary increases		Varies by entry age and service
Investment rate of return	2016	7.375 percent net of pension plan investment expenses, including inflation.
	2015	7.65 percent net of pension plan investment expenses, including inflation.
Mortality rate table		Derived using CalPERS' membership data for all funds
Post-retirement benefit increase		Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

The mortality table used was developed based on Ca/PERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

All other actuarial assumptions used in the June 30, 2016 and 2015 valuations were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability at June 30, 2016 and 2015 was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans. CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the discount rates used at June 30, 2016 and 2015 measurement dates were appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rates of 7.65 percent at June 30, 2016 and 2015 measurement dates were applied to all plans in the Public Employees Retirement Funds. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 7 - PENSION PLAN (Continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund (Public Employees' Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11 - 60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2014.

Asset Class	New Strategic Allocation		Real Return	
	2016	2015	Years 1-10¹	11+²
	2016	2015	2016 and 2015	2016 and 2015
Global equity	51%	51%	5.25%	5.71%
Global fixed income	20%	19%	99.00%	2.43%
Inflation sensitive	6%	6%	45.00%	3.36%
Private equity	10%	10%	6.83%	6.95%
Real estate	10%	10%	4.50%	5.13%
Infrastructure and forestland	2%	2%	4.50%	5.09%
Liquidity	1%	2%	-0.55%	-1.05%
Total	100%	100%		

¹ An expected inflation of 2.5 percent used for this period.

² An expected inflation of 3.0 percent used for this period.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 7 - PENSION PLAN (Continued)

(c) Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the Agency's proportionate share of the collective net pension liability of the plan as of the measurement date calculated using the discount rate of 7.65 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.0 percentage - 1.0 point lower (6.65 percent) or 1.0 percentage-point higher (8.65 percent) than current rate:

	Discount Rate -1.0% (6.65%)	Current Discount (7.65%)	Discount Rate +1.0% (8.65%)
2016	\$1,059,558	\$652,703	\$316,456
2015	\$1,028,914	\$613,519	\$270,563

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

(d) Pension Expense, Deferred Outflows and Deferred
Inflows of Resources Related to Pensions

For the year ended June 30, 2017 and 2016, the Agency recognized pension expense of \$75,488 and \$129,173, respectively. At June 30, 2017 and 2016, the Agency deferred inflows and outflows of resources related to pensions as follows:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2017	2016	2017	2016
Pension contributions subsequent to measurement date	\$ 95,564	\$ 109,010		
Net difference between projected and actual earnings on pension plan investments	151,165			\$ (28,762)
Difference between actual and projected contributions			\$ (674)	(24,636)
Changes in assumptions			(29,044)	(57,373)
Difference between expected and actual experience	2,367	6,064		
Change in proportion	50,015	83,037		
Total	\$299,111	\$198,111	\$ (29,718)	\$(110,771)

The amounts above are net of outflows and inflows recognized in the pension expense. The \$95,564 reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 7 - PENSION PLAN (Continued)

The net differences between projected and actual earnings on pension plan investments will be recognized in future pension expense as follows:

Fiscal Year Ending June 30,	Deferred Inflows (Outflows) of Resources
2018	\$30,391
2019	\$33,974
2020	\$70,310
2021	\$39,153
2022	-
Thereafter	-

NOTE 8 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

The Agency offers health care benefits to active and retired employees, as well as their qualified dependents through CalPERS. The CalPERS plan is an agent multiple-employer plan governed by the Public Employees' Medical & Hospital Care Act (PEMHCA). Under PEMHCA, health coverage for the employee continues into retirement for employees who have reached at least age 50 with a minimum of five years of service. Eligible retirees may enroll in any of the plans available through the CalPERS program. The Agency pays the entire cost of coverage for the retiree and their dependents. The Agency provided health care benefits continue for the life of the retiree and the spouse. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 "P" Street, Sacramento, California 95814.

Funding Policy and Annual Other Postemployment Benefit Costs

Contribution requirements of the Agency are established and may be amended through board action to update the original Ordinance. The Agency's annual OPEB expense for the plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The remaining amortization period at June 30, 2017 was 23 years. The Agency's annual OPEB cost for the current year and the related information for the plan are shown below.

The Agency's annual OPEB cost, which is equal to its annual required contribution, has been paid during the normal course of business and a reimbursement has been requested from CERBT due to the other post-employment benefits being fully funded at June 30, 2016.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 8 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2017, 2016, and 2015 are presented below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/15	\$44,120	\$318,970	100%	-0-
6/30/16	\$45,958	-0-	100%	-0-
6/30/17	\$47,711	-0-	100%	-0-

The funded status of the plan as of June 30, 2017, based on the July 1, 2015 actuarial valuation is as follows:

	<u>Amount</u>
Actuarial accrued liability (AAL)	\$ 744,173
Actuarial value of trust assets	<u>659,378</u>
Unfunded Actuarial Accrued Liability	<u>\$ 84,795</u>
Funded ratio (actuarial value of trust assets/AAL)	89%
Covered payroll (active members)	\$ 482,829
UAAL as a percentage of covered payroll	18%

Actuarial valuations of the ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 8 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

Significant methods and assumptions were as follows:

Valuation date	July 1, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percent of covered payroll
Remaining amortization period	23 years as of the valuation date
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.280%
Payroll growth	3.25%
Healthcare trend rate (Estimated Increase)	
2016	8.30%
2017	8.00%
2018	7.75%
2019	7.50%
2020	7.25%

NOTE 9 - REIMBURSEMENT OF PRIOR-YEAR EXPENSES

During the year ended June 30, 2016, the Agency received refunds on various payments made by the State Department of Water Resources for the Agency's participation in the State Water Project. Some of these refunds were applicable to prior years. Since the Agency has no way to determine when and if the Agency will receive refunds from the State, these funds have been reflected in the year in which they were received and included in operating revenues.

NOTE 10 - RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts, theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance through participation in the Association of California Water Agencies Joint Powers Insurance Authority. See Note 6. The insurance purchased is for liability, property and workers' compensation insurance and there are various self-insured retention levels, similar to a deductible, per occurrence.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 11- CONTRACTUAL COMMITMENTS

The Agency has entered into various contractual agreements for engineering and consulting services. As of June 30, 2017, the remaining contractual commitment for geologic studies is \$106,476; the remaining commitment for various other agreements totals \$173,878. These commitments have not been recorded in the accompanying financial statements.

NOTE 12 - SUBSEQUENT EVENTS

In the preparation of these financial statements, the Agency considered subsequent events through October 12, 2017, which is the date these financial statements were issued.

NOTE 13 - PRIOR-PERIOD ADJUSTMENT OF NET POSITION

The net position at the beginning of 2016 has been restated to correct an error in calculating the Agency's proportionate share of the Plan's collective net pension liability in prior years. The effect of the restatement was to decrease the operating loss for years prior to 2016 by \$122,793.

	<u>AMOUNT</u>
Net Position, July 1, 2015, Originally Stated	\$155,359,898
Net Pension Liability	122,793
Net Position, July 1, 2015, Restated	<u><u>\$155,482,691</u></u>

SUPPLEMENTARY INFORMATION - UNAUDITED

SAN GORGONIO PASS WATER AGENCY
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
June 30, 2017

Schedule of Plan contributions¹

	2017	2016	2015
Actuarially determined contribution	\$ 95,564	\$ 109,010	\$ 112,491
Contributions in relation to the actuarially determined contribution	<u>(95,564)</u>	<u>(109,010)</u>	<u>(112,491)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$478,062	\$ 461,852	\$ 425,739
Contributions as a percentage of covered-employee payroll	19.99%	23.60%	26.42%

¹ *Historical information is required only for measurement periods for which GASB 68 is applicable.*

SAN GORGONIO PASS WATER AGENCY
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
June 30, 2017

Schedule of Proportionate Share of the Net Pension Liability and Related Ratios

	2017	2016	2015
Measurement Date	June 30, 2016	June 30, 2015	June 30, 2014
Proportion of the collective net pension liability	0.00754%	0.00715%	0.01065%
Proportionate share of the collective net pension liability	\$ 652,703	\$ 490,726	\$ 662,864
Covered-employee payroll	\$ 478,062	\$ 461,852	\$ 425,739
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	141.32%	106.25%	155.70%
Proportionate share of the fiduciary net position as a percentage of the plan's total pension liability	74.06%	78.04%	75.86%

¹ Historical information is required only for measurement periods for which GASB 68 is applicable.

SAN GORGONIO PASS WATER AGENCY
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
June 30, 2017

Funding Progress of Other Postemployment Benefits

The table below provides a history of the funded status of the Agency's OPEB obligation. The information reflects the most recent biennial actuarial valuation and the preceding valuations.

Actuarial Valuation Date	Entry Age Normal Accrued Liability	Actuarial Asset Value	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll
7/01/11	\$ 621,526	\$ 236,645	\$ 384,881	38.07%	\$487,977	79%
7/01/13	\$ 511,306	\$ 304,451	\$ 206,855	59.54%	\$414,397	50%
7/01/15*	\$ 744,173	\$ 659,378	\$ 84,795	88.61%	\$460,053	18%

*Most recent actuarial valuation date.

SAN GORGONIO PASS WATER AGENCY
ORGANIZATIONAL INFORMATION - UNAUDITED
JUNE 30 2017

Organization and Description of the Agency

San Gorgonio Pass Water Agency (the "Agency") was formed in 1961 by the Legislature of the State of California through the enactment of special legislation. The Agency was formed for the purpose of importing water by contracting for participation in the State Water Project of the State Department of Water Resources and for any other activities authorized by the Legislature as proper for the Agency to conduct. The Agency's contract for water provides for delivery of up to 17,300 acre feet of water per year, effective January 1, 2008.

The Agency is committed to pay its proportionate share of the capital and other costs of the State Water Project, including the capital costs in connection with both the transportation facilities and the conservation facilities, the operation and maintenance costs in connection therewith, and the variable costs incident to the actual delivery of water. Annually, the State Department of Water Resources issues a bulletin known as the 132 Series in which the capital and operating costs are estimated for the life of the project. On June 30 of each year, they bill for the costs to be paid during the next succeeding calendar year. The capital costs are being capitalized as utility plant while the other costs are charged to operations. The capital costs are being amortized on a unit rate based on water deliveries projected over the life of the State Water Project to the year 2035.

SAN GORGONIO PASS WATER AGENCY
SCHEDULE OF BOARD OF DIRECTORS AND
INSURANCE COVERAGE - UNAUDITED
JUNE 30 2017

Officers, Directors, and Senior Management

The officers, directors, and senior management of the Agency are listed below:

	<u>Term Expires</u>
David Fenn, President	November 2018
Ron Duncan, Vice President	November 2020
Lenard Stephenson, Treasurer	November 2020
Blair Ball, Director	November 2018
David Castaldo	November 2020
Steve Lehtonen	November 2018
Mike Thompson	November 2020
Jeff Davis, General Manager and Secretary of the Board	N/A

Insurance Coverage

The agreement with the Joint Powers Insurance Authority (JPIA) is for liability, property, and workers' compensation insurance.

For liability coverage, the first \$2,000,000 of basic coverage is pooled self-insured coverage. For coverage in excess of \$2,000,000, the JPIA has a number of excess liability policies and insures the Agency for the \$2,000,000 base through \$60,000,000.

For property coverage, there is a \$1,000 deductible for buildings, fixed equipment and personal property, and a \$500 deductible for vehicles.