

SAN GORGONIO PASS WATER AGENCY
1210 Beaumont Avenue, Beaumont, CA
Board of Directors Meeting
Agenda
October 16, 2017 at 1:30 p.m.

- 1. Call to Order, Flag Salute, Invocation and Roll Call**
- 2. Adoption and Adjustment of Agenda**
- 3. Public Comment:** Members of the public may address the Board at this time concerning items relating to any matter within the Agency's jurisdiction. To comment on specific agenda items, please complete a speaker's request form and hand it to the board secretary.
- 4. Consent Calendar:** If any board member requests that an item be removed from the Consent Calendar, it will be removed so that it may be acted upon separately.
 - A. Approval of the Minutes of the Regular Board Meeting, October 2, 2017* (p. 2)
 - B. Approval of the Minutes of the Engineering Workshop, October 9, 2017* (p. 7)
- 5. Reports:**
 - A. General Manager's Report
 1. Operations Report
 2. General Agency Updates
 - B. General Counsel Report* (p. 9)
 - C. Directors' Reports
 - D. Water Conservation and Education Committee Report* (p. 10)
- 6. New Business:**
 - A. Consideration of and Possible Action on Agency' Annual Financial Audit (Eden Casareno, Eadie & Payne)* (p. 11)
 - B. Consideration of and Possible Action on Resolution 2017-15 Authorizing Agency to Apply for Two SGMA Grants Under Proposition 1* (p. 68)
 - C. Consideration of and Possible Action on Joint Funding Agreement with United States Geological Survey for 2017-2018* (p. 72)
 - D. Consideration of and Possible Action on Surplus Water Sale Agreement with San Bernardino Valley Municipal Water District* (p. 91)
- 7. Topics for Future Agendas**
- 8. Announcements:**
 - A. Finance and Budget Workshop, October 23, 2017 at 1:30 p.m.
 - B. San Gorgonio Pass Regional Water Alliance, October 25, 2017 at 5:30 p.m. – Banning City Council Chambers
 - C. Regular Board Meeting, November 6, 2017 at 1:30 p.m.
- 9. Adjournment**

***Information included in Agenda Packet**

(1) Materials related to an item on this Agenda submitted to the Board of Directors after distribution of the agenda packet are available for public inspection in the Agency's office at 1210 Beaumont Avenue, Beaumont during normal business hours. (2) Pursuant to Government Code section 54957.5, non-exempt public records that relate to open session agenda items and are distributed to a majority of the Board less than seventy-two (72) hours prior to the meeting will be available for public inspection at the Agency's office, located at 1210 Beaumont Avenue, Beaumont, California 92223, during regular business hours. When practical, these public records will also be made available on the Agency's Internet Web site, accessible at: www.sgpwa.com (3) Any person with a disability who requires accommodation in order to participate in this meeting should telephone the Agency (951 845-2577) at least 48 hours prior to the meeting in order to make a request for a disability-related modification or accommodation.

SAN GORGONIO PASS WATER AGENCY
1210 Beaumont Avenue, Beaumont, California 92223
Minutes of the
Board of Directors Meeting
October 2, 2017

Directors Present: David Fenn, President
Ron Duncan, Vice President
Lenny Stephenson, Treasurer
Blair Ball, Director (arrived at 1:45pm, left at 3:27pm)
David Castaldo, Director
Stephen Lehtonen, Director
Michael Thompson, Director

Staff Present: Jeff Davis, General Manager
Jeff Ferre, General Counsel
Thomas Todd, Finance Manager
Cheryle Rasmussen, Executive Assistant

1. **Call to Order, Flag Salute, Invocation, and Roll Call:** The meeting of the San Gorgonio Pass Water Agency Board of Directors was called to order by Board President Fenn at 1:30 p.m., October 2, 2017 in the Agency Boardroom at 1210 Beaumont Avenue, Beaumont, California. President Fenn led the Pledge of Allegiance to the flag. Director Thompson gave the invocation. A quorum was present.
2. **Adoption and Adjustment of Agenda:** *President Fenn asked if there were any adjustments to the agenda. There were no adjustments to the agenda. The Agenda was adopted as published.*
3. **Public Comment:** *President Fenn asked if there were any members of the public that wished to make a public comment on items that are within the jurisdiction of the Agency. There were no members of the public that wished to comment at this time.*
4. **Consent Calendar:**
 - A. Approval of the Minutes of the Regular Board Meeting, September 18, 2017
 - B. Approval of the Minutes of the Finance and Budget Workshop, September 25, 2017
 - C. Approval of the Finance and Budget Workshop Report, September 25, 2017
 - D. Acceptance of August 2017 Bank Reconciliation

Director Stephenson made a motion, seconded by Director Duncan, to adopt the consent calendar as presented. Motion passed 6-0, with Director Ball absent. Director Lehtonen asked that item 4D be reviewed separately, as this item had not been reviewed at the September 25th Finance and Budget Workshop. President Fenn agreed with Director Lehtonen's request, and asked that item 4D be approved separately. Director Stephenson amended his motion to reflect

approval of items 4A, 4B and 4C. Director Duncan seconded the motion. Motion passed 6-0, with Director Ball absent.

D. Acceptance of August 2017 Bank Reconciliation

President Fenn turned the discussion on this item over to Director Stephenson. Director Stephenson stated that at the September 25, 2017 Finance and Budget Workshop the deposit summary portion of the August 2017 Bank Reconciliation was not available for review. Director Stephenson turned the discussion over to Finance Manager Thomas Todd. Mr. Todd reviewed the August 2017 Bank Reconciliation and deposit summary with the Board. Director Duncan made a motion, seconded by Director Lehtonen, to approve item 4D. Motion passed 6-0, with Director Ball absent.

5. Reports:

A. General Manager's Report:

(1) Operations Report: (a) SWP Water Deliveries: The Agency delivered a total of 1387 acre-feet to the Noble Creek Connection, for the month of September; an average of 23 CFS.

(2) General Agency Updates: (a) DWR: The State of California Department of Water Resources has a new Director, Grant Davis. Director Grant Davis, is a strong supporter of the California Water Fix. **(b) Lake Oroville Spillway Ceremony:** Director Grant Davis (DWR) wants to have a ceremony on Wednesday, November 1st for meeting the deadline of the repairs for the spillway. He has invited all general managers and board of directors of State Water Contractors to attend. General Manager Davis will be attending and welcomed any board member to attend with him. **(c) Yucaipa Valley Water District – Capacity Fee:** YVWD will be implementing its own Capacity Fee. Resolution No. 2017-23 was adopted by its Board on September 19th, after a public hearing. The Resolution establishes the methodology to calculate and the collection of facility capacity charges related to the purchase of water resources from new development within the boundary of the SGPWA and the City of Calimesa. **(d) San Bernardino Valley Municipal Water District – Surplus Water:** Negotiations to receive a portion of SBVMWD's surplus water has been ongoing for several years. SBVMWD staff will be presenting a draft agreement to its Board next week. The Agency Board had approved the principles of the agreement at a workshop last year. The Agency's Board will be reviewing the agreement at either the October 16th or the November 6th Board meeting for final approval. **(e) Agency's Information Technology:** Board members will be receiving an Agency email account within the next couple of months.

B. General Counsel Report: General Counsel Jeff Ferre referred the Board to his written report that was attached to the agenda packet.

C. Directors Reports: (1) Director Stephenson reported on the Yucaipa Valley Water District meeting that he attended on September 26th. **(2) Director Thompson** reported on the SGPRWA meeting that he attended on September 27th. He stated

that General Manager Davis gave an update on the funding options for the Nickel water purchase and other potential water supply acquisitions. During the meeting Dan Jagggers (YVWD) stated that manager's meetings and combined board meetings are critical in developing a master plan for the region, which Director Thompson stated that he supports. He stated that the Alliance has requested that all local general managers be present for the November 29th meeting to discuss future water deals; the meeting will take place at 5:00pm. The December meeting has been canceled. (3) **Director Castaldo** reported that he had attended the YVWD Board meeting. He commented on its Board decision to obtain only permanent water rights through its capacity fee. (4) President Fenn reported on the September 27th SGPRWA meeting. He reiterated what General Manager Davis had reported at the meeting, that long-term leases will most likely be available and not permanent water rights. He also attended the Riverside County Water Task Force on September 22nd; speakers were Executive Officer Hope Smythe of the Santa Ana Regional Water Quality Control Board and E. Joaquin Esquivel of the State Water Resources Control Board. General Manager Davis commented that the next SGPRWA is scheduled to take place during one of the ACWA Conference days. He stated that he would attend the SGPRWA meeting, as requested.

6. **New Business:**

A. Presentation on California WaterFix: A staff report and a copy of the PowerPoint presentation were included in the agenda packet. General Manager Davis commented that he had not had the opportunity to provide a formal presentation of the California WaterFix for the past couple of years, although he has consistently informed the Board on its ongoing progress. During the presentation, General Manager Davis reviewed the benefits to the agency, and potential costs to the Agency. He noted that the cost of the water fix is negligible to the Agency in comparison with its benefits.

B. Consideration and Possible Action on Resolution 2017-14 Regarding Support of the California WaterFix: A staff report and Resolution No. 2017-14 were included in the agenda packet. General Manager Davis stated that the purpose of this proposed Board action is to consider a Resolution that states the Agency is in support of the California WaterFix. General Manager Davis read the Resolution and went into detail on the cost share to the Agency. After discussion, a motion was made by Director Castaldo, seconded by Director Duncan, to adopt Resolution 2017-14 as presented. Motion passed 7-0.

D. Discussion and Possible Action regarding Changing the Number of Paid Meetings for Board Members: A staff report, a copy of Ordinance 7, and related material were included in the Agenda packet. President Fenn stated that he was not at the last meeting when this item was discussed, but did get an update. General Counsel Ferre stated that Staff will need direction from the Board as to whether the Board would like to add or change the number of meetings. Legal Counsel Ferre clarified with the Board the types of meetings that Board members would be paid for. After discussion, Director Ball made a motion to keep in place the current Ordinance allowing a maximum of five meetings per month. The motion failed for lack of a

second. President Fenn made a motion, seconded by Director Stephenson, to increase the maximum number of paid meetings from five to eight. Further discussion took place pertaining to the purpose of increasing the number of paid meetings. Legal Counsel Ferre clarified with the Board that the motion is to direct Staff to set the Public Hearing pertaining to a draft Ordinance, changing the number of maximum paid meetings from five to eight, if the current motion passes. President Fenn stated that was his motion, which was seconded by Director Stephenson. President Fenn requested a roll call vote on the motion.

<u>Roll Call:</u>	<i>Aye</i>	<i>Noes</i>	<i>Absent</i>	<i>Abstain</i>
Director Thompson	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Director Duncan	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Director Castaldo	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Director Lehtonen	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Director Ball	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Director Stephenson	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
President Fenn	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Motion passed 5-2.

7. Topics for Future Agendas: There were no requests made.

8. Announcements:

- A. Engineering Workshop October 9, 2017 at 1:30 p.m.
- B. Regular Board Meeting, October 16, 2017 at 1:30 p.m.
- C. Finance and Budget Workshop October 23, 2017 at 1:30 p.m.

9. Closed Session (Two Items)

Time: 3:27 p.m.

- A. CONFERENCE WITH REAL PROPERTY NEGOTIATORS
 Pursuant to Government Code section 54956.8
 Property: Potential water rights/supplies offers from the South Mesa Water Company
 Agency negotiator: Jeff Davis, General Manager
 Negotiating parties: David Armstrong, General Manager, South Mesa Water Company
 Under negotiation: price and terms of payment

- B. CONFERENCE WITH REAL PROPERTY NEGOTIATORS
 Pursuant to Government Code section 54956.8
 Property: Potential water rights/supplies offers from the Priest Valley
 Agency negotiator: Jeff Davis, General Manager
 Negotiating parties: Ceil Howe
 Under negotiation: price and terms of payment

The meeting reconvened to open session at: Time: 4:23 pm

General Counsel Ferre stated that there was no action taken during closed session that is reportable under the Brown Act.

10. Adjournment

Time: 4:23 pm

Jeffrey W. Davis, Secretary of the Board
cmr

SAN GORGONIO PASS WATER AGENCY
1210 Beaumont Avenue, Beaumont, CA 92223
Minutes of the
Board of Directors Engineering Workshop
October 9, 2017

Directors Present: David Fenn, President
Blair Ball, Director (arrived at 1:32 pm)
David Castaldo, Director
Ron Duncan, Director
Steve Lehtonen, Director
Leonard Stephenson, Director
Michael Thompson, Director

Staff Present: Jeff Davis, General Manager
Jeff Ferre, General Counsel

1. Call to Order, Flag Salute and Roll Call. The Engineering workshop of the San Gorgonio Pass Water Agency Board of Directors was called to order by Director Duncan at 1:30 p.m., October 9, 2017 in the Agency Board room at 1210 Beaumont Avenue, Beaumont, California. Director Thompson led the Pledge of Allegiance to the flag. A quorum was present.

2. Public Comment. No members of the public wished to speak at this time.

3. Recent Developments under the Sustainable Groundwater Management Act of Statewide and Agency Significance. Director Duncan turned the meeting over to General Counsel Ferre, who introduced Deborah Wordham of Best Best & Krieger. Ms. Wordham updated the Board on current statewide SGMA issues, including the need to notify DWR prior to beginning a GSP, the recent Proposal Solicitation Package for SGMA grants, the fact that January 1 will open a new basin boundary revision window, and the recent signing of SB 252 regarding severely overdrafted basins.

4. Summary of Agency Activities Related to Compliance with Sustainable Groundwater Management Act. A summary of four Groundwater Sustainability Agencies (GSA's) that the Agency is a member of was included in the agenda package. General Manager Davis summarized recent and ongoing activities for each, including pending grant proposals for the Yucaipa and the San Gorgonio Pass sub-basins. He indicated that he will bring a resolution of authorization for a SGMA grant to the Board at the October 16 Board meeting.

5. Discussion of Potential Pipeline to Banning and Cabazon. A copy of a 2007 letter to the City of Banning regarding potential upsizing of a pipeline from Cherry Valley to Banning was included in the agenda package to demonstrate that this issue has been discussed and addressed for some time. General Manager Davis gave a brief summary of the history of this planned pipeline and noted that SGMA may force the Agency and others to push up a timetable to plan, design, and construct it in the next few years. Dan Jagers from BCVWD, John Covington from the Morongo Band of Mission Indians, Art Vela from the City of Banning, Calvin Louie from the Cabazon Water District, and Stan Houghton from High Valleys Water District all contributed to the discussion. General Manager Davis informed the Board that the ongoing IRWMP for the San Gorgonio Pass will likely recommend such a

pipeline, and that will likely trigger additional discussions when it is completed early next year. The Board asked to have a further discussion on this issue at that time.

6. Discussion of High Valleys Water District Application for Water Service.

A copy of the completed application was included in the agenda package for information. General Manager Davis informed the Board that this had been received in the past month, after two years of discussions with High Valleys. He summarized the likely next steps to be taken by staff to try to construct a deal whereby the City of Banning would replace its water rate for High Valleys with a wheeling rate and treatment charge, while Banning could save money by using the Agency's proposed recharge facility instead of the BCVWD facility that costs the City approximately \$60 per acre-foot to use.

7. Discussion of Yucaipa Valley Water District Application for Additional Delivery Points.

A copy of the District's letter and application package were included in the agenda package. General Manager Davis explained the application process and indicated that the application would trigger some actions on the part of the Agency regarding a policy on storage of water outside of Riverside County. He noted that he will work to bring these issues to the Board for discussion and action in the next few months, and that he expected that the Board would be able to approve the application once the new policies and possibly agreements are in place.

8. Discussion of Proposed Surplus Water Sale Agreement with San Bernardino Valley Municipal Water District.

A copy of the most recent draft agreement was included in the agenda package. General Manager Davis reminded the Board that they had approved the principles of this agreement a few months ago and this represented the resulting agreement. After explaining the details to the Board and answering questions, he stated that this will likely be on the agenda for next week's Board meeting for action.

9. Announcements

- A. Regular Board Meeting, October 16, 2017 at 1:30 pm.
- B. Finance and Budget Workshop, October 23, 2017 at 1:30 pm.
- C. San Gorgonio Pass Regional Water Alliance Meeting, October 25, 2017, 5:00 pm—Banning City Hall.

10. Closed Session (1 item) Time: 3:34 pm

- A. CONFERENCE WITH LEGAL COUNSEL—EXISTING LITIGATION
(Paragraph (1) of subdivision (d) of Government Code Section 54956.9
Name of case: San Gorgonio Pass Water Agency vs. Beaumont Basin
Watermaster Case No. RIC 1716346

The meeting reconvened to open session at 3:56 pm.

General Counsel Ferre announced that the Board considered the item noted on the agenda and no action was taken during the closed session that is reportable under the Brown Act.

11. Adjournment

Director Duncan adjourned the meeting at 3:56 pm.

Jeff Davis, Secretary to the Board



BEST BEST & KRIEGER
ATTORNEYS AT LAW

Memorandum

To: President and Members of the Board of Directors
San Geronio Pass Water Agency

From: Jeff Ferre, General Counsel

Date: October 16, 2017

Re: General Counsel Report - Board of Directors Meeting – October 16, 2017

AB 313 (GRAY) - HEARING RIGHTS BEFORE THE STATE WATER RESOURCES CONTROL BOARD (“STATE BOARD”)

AB 313 is currently on the Governor’s desk for consideration. Existing law authorizes the executive director of the State Board to issue a complaint to a person who is alleged to have violated a water right permit or regulation. Existing law authorizes the State Board to impose liability without a hearing, unless the person requests a hearing.

AB 313 would establish a Water Rights Division within the State Office of Administrative Hearings and would require a hearing before any enforcement action is imposed. The bill would deem a decision made by an Administrative Law Judge in the Water Rights Division to be a recommendation and not final unless or until accepted by the State Board. Once the State Board takes action, the subject of the enforcement action could appeal to the superior court, that is, file a lawsuit.

The sponsors of AB 313 are seeking to address what they see as a currently unfair process whereby the State Board brings an enforcement action and then prosecutes that action. Under current procedures, a team of State Board Staff (“Hearing Team”) assists the State Board with the case. A second team of State Board Staff (“Prosecution Team”) presents evidence and makes the argument before the State Board. During this process, the Hearing Team and the Prosecution Team are forbidden from communicating with one another. The sponsors of AB 313 believe that this “firewall” between the Hearing and Prosecution Teams does not meet the requirements for due process. They object to what they view as a procedure in which different elements of the State Board act in both prosecution and decision-making roles and that as a result, there will always be a perception of bias.

Water Conservation and Education Committee

Report on Committee Meeting of September 28

The Water Conservation and Education Committee met on Thursday, September 28 to discuss potential water conservation programs that could be implemented this year, along with a potential education program for adults.

The Committee discussed the possibility of purchasing a number of tabletop groundwater models that could be used in the local high schools to educate science students on groundwater movement. It was proposed that the Agency partner with the Inland Empire Resource Conservation District for this work. The Committee directed the General Manager to contact the District to determine if it would consider such a relationship, which would be an extension of the existing agreement.

The Committee also considered the possibility of a series of full-page or half-page ads in the Record Gazette and possibly the Yucaipa weekly paper as well. One idea is to do a quarterly ad that would, among other things, remind homeowners when to change the hours of or turn off their sprinkler controllers. Other ideas that could be included in the ad were discussed as well. The Committee directed the General Manager to determine the cost of such ads and to discuss with retail water agencies what ideas they may want to include in such ads.

The Committee set its next meeting for November 9.

Mike Thompson, Chair

MEMORANDUM

TO: Board of Directors

FROM: General Manager

RE: Consideration of Fiscal Year 2016-2017 Audit

DATE: October 16, 2017

Summary:

The purpose of this proposed Board action is to consider the 2016-2017 Agency audit by Eadie & Payne. The audit was performed in August and September. Eden Casareno from Eadie & Payne will be at the meeting to present the report and to answer questions from the Board. In part because this is the first year that Eadie & Payne has audited the Agency's books, she previously presented the draft audit to the Finance and Budget Committee at a Committee meeting on October 6.

Recommendation:

Staff recommends that the Board accept the 2016-2017 audit as presented.

**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 Geronio Pass Water Agency
Beaumont, California

We have audited the accompanying financial statements of San Geronio 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.



EADIE + PAYNE

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of Quality Service*

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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.

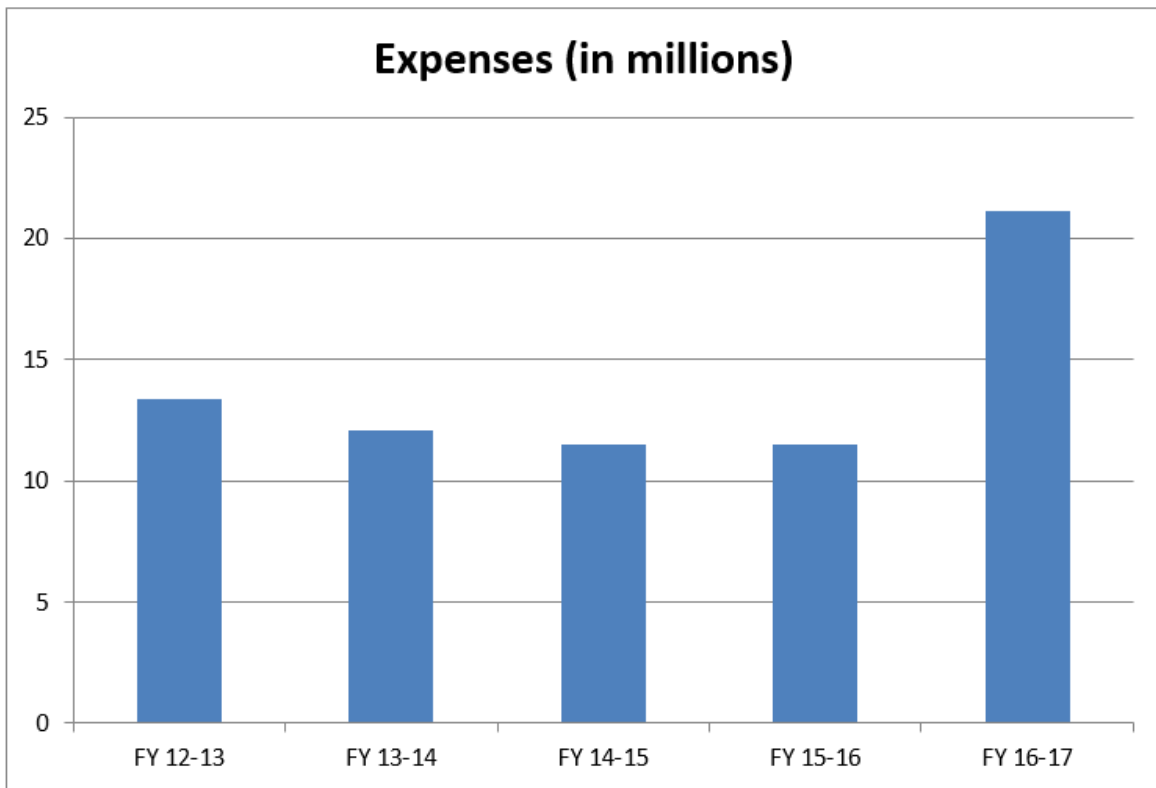
SAN GORGONIO PASS WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
June 30, 2017 and 2016

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.

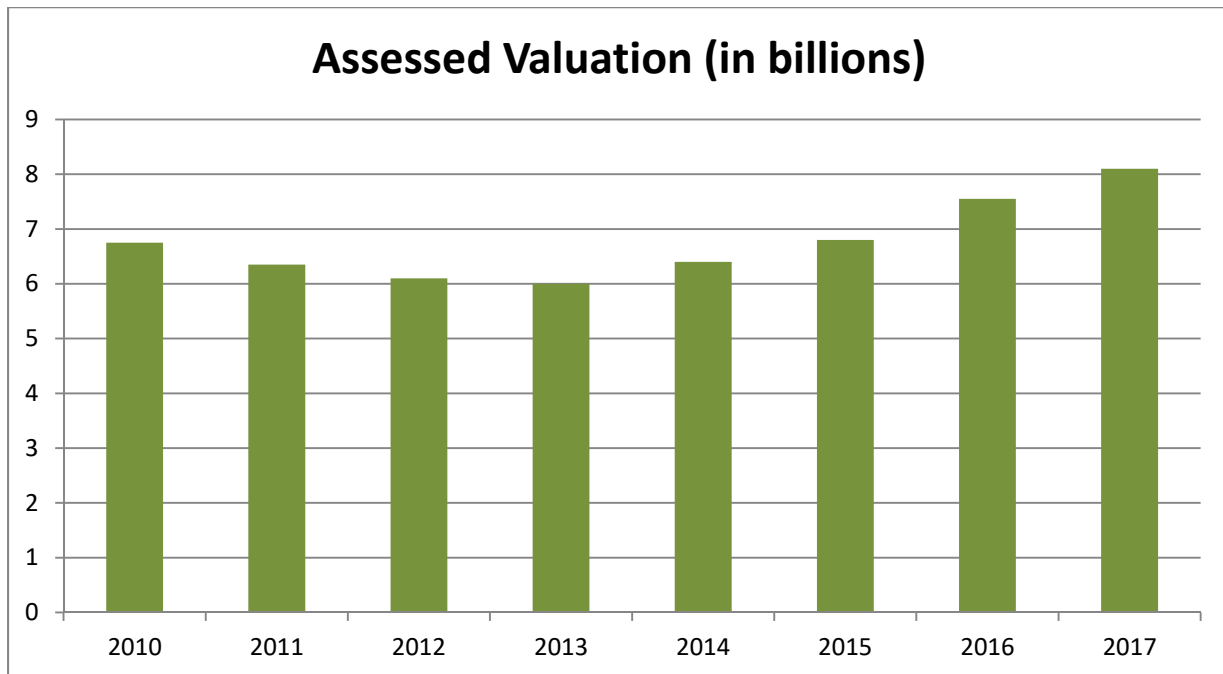
Now, in an attempt to more accurately categorize the transactions associated with current and future pension costs, Agency contributions to pension plans have been reclassified. In the Agency's financial statements, current-year pension contributions are recorded as deferred outflows. In addition, the 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**

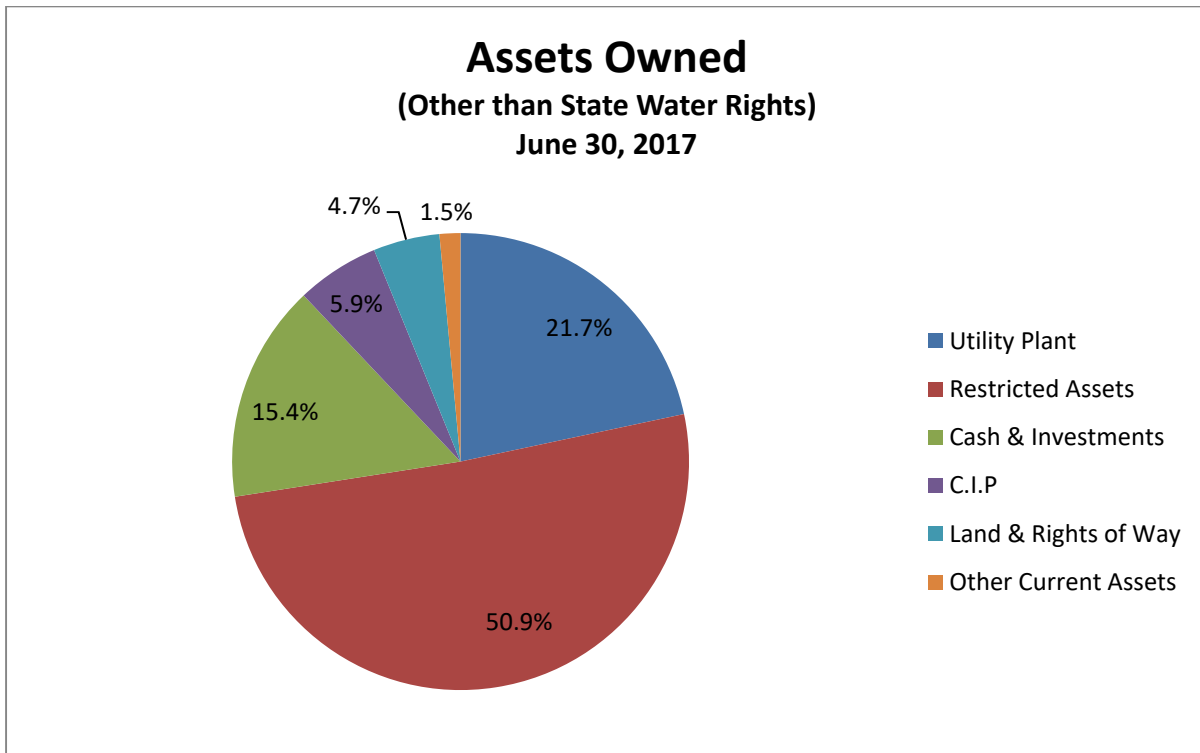
Capital Asset Activity for the Year

	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 Phase 1 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		2,671,919	2,804,400
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		5,174,280	4,410,422
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		151,165	
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:

Assets	Years
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 Separation		
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:

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

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

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

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><u>\$ 84,795</u></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.



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**Certified Public Accountants
& Business Advisors**

October 12, 2017

To the Board of Directors
San Gorgonio Pass Water Agency
Beaumont, California

We have audited the financial statements of the San Gorgonio Pass Water Agency as of and for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 24, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by San Gorgonio Pass Water Agency are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2017. We noted no transactions entered into by San Gorgonio Pass Water Agency during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the amortization of state water rights is based on actual and estimated water deliveries, transportation charge, Delta water charge, and capital cost component. We evaluated the key factors and assumptions used to develop the amortization of state water rights in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 12, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to San Gorgonio Pass Water Agency's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as San Gorgonio Pass Water Agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Restriction on Use

This information is intended solely for the information and use of the Board of Directors and management of San Gorgonio Pass Water Agency and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Eadie and Payne LLP

MEMORANDUM

TO: Board of Directors

FROM: General Manager

RE: SGMA Grant Application for San Gorgonio Pass
Sub-Basin

DATE: October 16, 2017

Summary:

At the Engineering workshop last week, staff informed the Board that the San Gorgonio Pass Sub-basin GSA had decided to apply for two grants from the Department of Water Resources to support the effort to produce a GSP for the basin. The purpose of this proposed Board action is for the Board to consider an Authorizing Resolution, which is required by DWR for the grant applicant.

Background:

The Groundwater Sustainability Act, passed by the Legislature in 2014, requires that virtually all groundwater basins in the state have an approved Groundwater Sustainability Plan (GSP) by January 2022. There are a number of steps to get there, starting with formation of a Groundwater Sustainability Agency (GSA), which the Agency did with other water agencies earlier this year.

The San Gorgonio Pass Sub-basin covers most of the east side of the Agency's service area and includes a number of disadvantaged communities (DAC's) and severely disadvantaged communities (SDAC's). Obviously communities like this have fewer resources to try to develop a GSP, which according to estimates can cost more than \$1 million.

Proposition 1, passed by the voters in 2014, anticipated this, and is making over \$80 million available to GSA's around the state to develop GSP's.

Detailed Report:

The Department of Water Resources (DWR) recently published a Proposal Solicitation Package (PSP), in effect a request for grant proposals, for GSA's specifically to fund GSP's. Proposals are due November 10. Funding is available for two categories of projects—Category 1, reserved for SDAC's, and Category 2, for any GSA that wishes to produce a GSP.

The GSA has decided to write two proposals (writing two is very efficient; it takes far less than twice the work of one since many of the sections are duplicated), one for Category 1 and one for Category 2. The Category 1 proposal (for SDAC's) is to obtain funds to drill additional monitoring wells so that we may better understand the boundary conditions of the sub-basin. The Category 2 proposal is to obtain funds to help defray the costs of the GSP itself, including the modeling, which is likely to be the most expensive component.

The Agency has contracted with Woodard & Curran, the same firm that is writing the Integrated Regional Water Management Plan for what is essentially the same area. Because Woodard & Curran is already working with the local agencies and has an excellent understanding of the sub-basin and the demographics of the area, they are a logical choice to write the proposals. They have expertise in SGMA grants, and are writing similar grants for several additional clients. The PSP requires the governing Board of the applicant (in this case, the Agency) to pass an authorizing resolution, included in the agenda package. Letters of support from other members of the GSA are also helpful, and the other members are in the process of writing those letters.

Under the IRWMP grant, Woodard & Curran is also improving a Cabazon Basin groundwater model, which will play a role in developing the GSP as well. Should the GSA receive both grants, they, along with the funds spent on the groundwater model through the IRWMP, will provide a large portion of the total funding required for the GSP. The Category 1 proposal will require no matching funds, and the Category 2 proposal will require only a 25% match, as opposed to the 50% match required if there were no SDAC's in the region.

Fiscal Impact:

The Agency anticipated that grant writing might be required this fiscal year for at least one grant program, so \$10,000 was included in the general fund budget for a grant writer. The proposal from Woodard & Curran is for \$37,023, which is within the General Manager's authority, so no Board authorization is required for the contract. It is understood by the participants in the GSA that the Agency will recover its costs for the proposal at some later date through a GSA-governed mechanism. Thus there will be only a very small impact on the Agency's overall budget when cost recovery is applied to the cost of the proposals.

Should one or both proposals obtain funding, it would greatly reduce the funding that would be required from all the members of the GSA over the next several years as the GSP is prepared.

Recommendation:

Staff recommends that the Board adopt Resolution 2017-15 authorizing the Agency to apply for two SGMA grants under the "Groundwater Sustainability Plans and Projects Proposal Solicitation Package" published by the Department of Water Resources, and authorize the President and the General Manager to sign it.

RESOLUTION NO. 2017-15

A RESOLUTION AUTHORIZING THE GENERAL MANAGER OF THE SAN GORGONIO PASS WATER AGENCY TO SUBMIT A 2017 SGWP GRANT APPLICATION TO THE CALIFORNIA DEPARTMENT OF WATER RESOURCES (DWR) ON BEHALF OF THE SAN GORGONIO PASS WATER AGENCY OF THE SAN GORGONIO PASS SUB-BASIN GROUNDWATER SUSTAINABILITY AGENCY (GSA) FOR THE PREPARATION OF A GROUNDWATER SUSTAINABILITY PLAN AND TO EXECUTE A GRANT AGREEMENT WITH DWR

WHEREAS, the Sustainable Groundwater Management Act (SGMA) was signed into law on September 16, 2014 and adopted as California Water Code, section 10720, et seq.; and

WHEREAS, the GSA name San Gorgonio Pass (SGP)-Groundwater Sustainability Agency (GSA) was formed through a Memorandum of Understanding pursuant to Government Code Section 6500, et seq. by agencies that qualify to be groundwater sustainability agencies; and

WHEREAS, the San Gorgonio Pass Water Agency is a member of the SGP- GSA; and

WHEREAS, the California Department of Water Resources (DWR) is administering the Sustainable Groundwater Planning (SGWP) Grant Program using funds authorized by the Water Quality, Supply, and Infrastructure Improvement Act of 2014 (Proposition 1)

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the San Gorgonio Pass Water Agency, that application be made to the California Department of Water Resources to obtain grants under the 2017 Sustainable Groundwater Planning Grant Program pursuant to the Water Quality, Supply, and Infrastructure Improvement Act of 2014 (Proposition 1) (Water Code Section 79700 et seq.), and to enter into agreements to receive a maximum of two grants (one for Category 1 and one for Category 2) for the San Gorgonio Pass Sub-basin Groundwater Sustainability Plan. The General Manager of the San Gorgonio Pass Water Agency is hereby authorized and directed to prepare the necessary data, conduct investigations, file such applications, and execute grant agreements with the California Department of Water Resources.

Resolution No. 2017-15 was adopted this 16th day of October 2017, by the following vote:

Ayes:

Noes:

Abstain:

Absent:

President, Board of Directors
San Gorgonio Pass Water Agency

ATTEST:

Secretary, Board of Directors
San Gorgonio Pass Water Agency

MEMORANDUM

TO: Board of Directors

FROM: General Manager

RE: Adoption of Proposed USGS Work Plan October 2017 Through November 2018

DATE: October 16, 2017

Summary:

Each year, the Agency works with the United States Geological Survey (USGS) on various tasks and projects. The purpose of this proposed Board action is to approve the USGS work plan and joint funding agreement for the period October 2017 through November 2018. The Board last approved such a work plan for the period February 2016 through November 2017.

Background:

The United States Geological Survey has been working with the Agency to study and monitor local groundwater basins for nearly two decades. This partnership has resulted in numerous published studies and models, as well as a monitoring program for the local groundwater basins. The USGS provides some matching funds to the Agency for this cooperative effort; thus, the partnership is cost-effective for the Agency. This year, the matching funds are less than in previous years, as the USGS' ability to provide such funds has been reduced over time. Staff has gradually been reducing the amount of the annual agreement with the USGS over the past several years for a number of reasons, including having higher priorities for these funds.

In general, staff brings the proposed work plan to the Board for discussion either at a Finance and Budget workshop, or an Engineering workshop, or both, prior to final consideration by the Board. The timing of the proposed plan this year did not afford staff the opportunity to do that. However, the scope of work has been reduced, at the request of staff, to a bare minimum of supporting Agency staff in monitoring wells in the region and of performing water

quality analysis of groundwater. The Agency committed both of these tasks to the Regional Board as part of the most recent Beaumont Management Zone maximum benefit amendment.

Detailed Report:

The proposed work in the work plan under consideration is strictly monitoring of groundwater wells for level and water quality. This represents a continuation of work already underway by the USGS in partnership with the Agency. This proposed work plan does not include any modeling, drilling of monitoring wells, or flow metering in Burnt Canyon, although these have been included in USGS work plans in the past.

While the details of the work plan have not been previously discussed this year, they have been discussed thoroughly in previous years. Further, the work plan fulfills a commitment the Agency made to support retail water agencies and others in implementing the maximum benefit plan in the Beaumont Management Zone.

Fiscal Impact:

The total cost to the Agency of this work will be \$116,200, with the USGS providing matching funding of \$9,500. This represents a 42% reduction from the 2016-2017 work plan, primarily due to the deletion of flow metering in Burnt Canyon from the work plan. This work has been taken over by the City of Banning. The work performed under this agreement will be funded during Fiscal Years 2017-2018 and 2018-2019. There should be no appreciable impact on this year's General Fund budget, which includes \$100,000 for all USGS work. Approximately half of this \$116,200 will be spent in this fiscal year, and half in next fiscal year.

Recommendation:

Staff recommends that the Board authorize the General Manager to sign the proposed cooperative agreement with the USGS for a maximum expenditure of \$116,200.



United States Department of the Interior

U.S. GEOLOGICAL SURVEY

California Water Science Center
6000 J Street, Placer Hall
California State University
Sacramento, California 95819-6129
Phone: (916) 278-3000 Fax: (916) 278-3070
<http://water.wr.usgs.gov>

September 26, 2017

Mr. Jeff Davis
General Manager and Chief Engineer
San Geronio Pass Water Agency
1210 Beaumont Avenue
Beaumont, California 92223

Dear Mr. Davis:

This letter confirms discussions between our respective staffs, concerning the cooperative program between the San Geronio Pass Water Agency (SGPWA) and the U.S. Geological Survey (USGS) during the period October 1, 2017 to November 30, 2018. The work proposed under the enclosed Joint Funding Agreement (JFA) is a continuation of the cooperative basin-wide monitoring network. The program consists basin-wide water-quality and water-level monitoring, a detailed description of progress of the monitoring in FFY17 and plans and costs for this work in FFY18 is included as an attachment to this letter.

The total cost of the proposed cooperative water-resources program in FFY18 is \$125,700.00. Of this total, SGPWA will contribute \$116,200.00 and, subject to the availability of Cooperative Matching Funds (CMF), the USGS will contribute \$9,500.00. The proposed period for this program is October 1, 2017 through November 30, 2018

Table 1. FFY18 Budget

Program element	USGS	SGPWA	Total
Task 1: Basin-Wide Monitoring			
A. Water-Level Monitoring	\$5,100	\$61,800	\$66,900
B. Water-Quality Monitoring	\$4,400	\$54,400	\$58,800
Total	\$9,500	\$116,200	\$125,700

Enclosed are two copies of Joint Funding Agreement (JFA) 18WSCA600096710 for your approval. Work performed with funds from this agreement will be conducted on a fixed-price basis. If the JFA is acceptable, please return one copy with original signatures to our office for further processing. The second copy of the JFA is for your files.

If you have any questions concerning the program described above, please contact Allen Christensen at (619) 225-6175 or Bradley Guay at (619) 225-6121, in or San Diego Office. If you have any administrative questions, please contact Nancy Mora at (619) 225-6428.

Sincerely,

A handwritten signature in black ink, appearing to read "Eric Reichard", with a horizontal line extending to the right.

Eric Reichard

Director, USGS California Water Science Center

Form 9-1366
(April 2015)

**U.S. DEPARTMENT OF THE INTERIOR
GEOLOGICAL SURVEY**

JOINT FUNDING AGREEMENT

FOR

Water Resources Investigations

Customer #: 600000967
Agreement #: 18WSCA600096710
Project #:
TIN #: 95-2216065
Fixed Cost
Agreement YES

THIS AGREEMENT is entered into as of the, 26th day of September, 2017 by the U.S. GEOLOGICAL SURVEY, UNITED STATES DEPARTMENT OF THE INTERIOR, party of the first part, and the San Geronio Pass Water Agency, party of the second part.

1. The parties hereto agree that subject to availability of appropriations and in accordance with their respective authorities there shall be maintained in cooperation San Geronio Water Pass Agency herein called the program. The USGS legal authority is 43 USC 36C; 43 USC 50; and 43 USC 50b.

2. The following amounts shall be contributed to cover all of the cost of the necessary field and analytical work directly related to this program. 2(b) includes In-Kind Services in the amount of \$0.00

(a) by the party of the first part during the period

Amount	Date	to	Date
\$9,500.00	10/01/2017		11/30/2018

(b) by the party of the second part during the period

Amount	Date	to	Date
\$116,200.00	10/01/2017		11/30/2018

USGS DUNS is 1761-38857. The amount in both 2(a) and 2(b) above are for this agreement only. Total USGS funding for this agreement is \$9,500.00. Total SGPWA funding for this agreement is \$116,200.00

(c) Contributions are provided by the party of the first part through other USGS regional or national programs, in the amount of: \$0.00

Description of the USGS regional/national program:

No additional contributions

(d) Additional or reduced amounts by each party during the above period or succeeding periods as may be determined by mutual agreement and set forth in an exchange of letters between the parties.

(e) The performance period may be changed by mutual agreement and set forth in an exchange of letters between the parties.

3. The costs of this program may be paid by either party in conformity with the laws and regulations respectively governing each party.

4. The field and analytical work pertaining to this program shall be under the direction of or subject to periodic review by an authorized representative of the party of the first part.

5. The areas to be included in the program shall be determined by mutual agreement between the parties hereto or their authorized representatives. The methods employed in the field and office shall be those adopted by the party of the first part to insure the required standards of accuracy subject to modification by mutual agreement.


6. During the course of this program, all field and analytical work of either party pertaining to this program shall be open to the inspection of the other party, and if the work is not being carried on in a mutually satisfactory manner, either party may terminate this agreement upon 60 days written notice to the other party.

9-1366 (Continuation) Customer #: 600000967 Agreement#: 18WSCA600096710

7. The original records resulting from this program will be deposited in the office of origin of those records. Upon request, copies of the original records will be provided to the office of the other party.
8. The maps, records, or reports resulting from this program shall be made available to the public as promptly as possible. The maps, records, or reports normally will be published by the party of the first part. However, the party of the second part reserves the right to publish the results of this program and, if already published by the party of the first part shall, upon request, be furnished by the party of the first part, at costs, impressions suitable for purposes of reproduction similar to that for which the original copy was prepared. The maps, records, or reports published by either party shall contain a statement of the cooperative relations between the parties.
9. USGS will issue billings utilizing Department of the Interior Bill for Collection (form DI-1040). Billing documents are to be rendered QUARTERLY. Payments of bills are due within 60 days after the billing date. If not paid by the due date, interest will be charged at the current Treasury rate for each 30 day period, or portion thereof, that the payment is delayed beyond the due date. (31 USC 3717; Comptroller General File B-212222, August 23, 1983).

<p>U.S. Geological Survey United States Department of the Interior <u>USGS Point of Contact</u></p>	<p>San Geronio Pass Water Agency <u>Customer Point of Contact</u></p>
<p>Name: Nancy Mora Address: 4165 Spruance Rd, Suite 200 San Diego, CA 92101 Telephone: (619)225-6428 Email: nmora@usgs.gov</p>	<p>Name: Jeff Davis Address: 1210 Beaumont Avenue Beaumont, CA 92223 Telephone: (951)845-2577 Email: jdavis@sgpwa.com</p>

Signatures and Date

Signature: 	Date: 10-3-17
Name: Eric G Reichard	Name: Jeff Davis
Title: Director, USGS California Water Science Center	Title: General Manager

San Gorgonio Pass Water Agency Cooperative Program: Progress, Plans, and Costs

Task 1A – Groundwater-Level Monitoring

Progress

A basin-wide groundwater-level monitoring network was established in the San Gorgonio Pass area in Federal Fiscal Year 1997 (FFY97) to evaluate existing hydrologic conditions and to monitor the effects of pumping and artificial recharge on the groundwater system. A key component of the network is collecting data from the multiple-well monitoring sites, which provide information on water-level changes and vertical gradient in the different aquifers.

In FFY17, U.S. Geological Survey (USGS) personnel accompanied San Gorgonio Pass Water Agency (SGPWA) personnel in the spring and fall to measure water levels in 107 wells. Data collected as part of the water-level network are available through the USGS National Water Information System (NWIS) online database (table 2).

Water-Level Change

Water-level changes measured in the monitoring wells between fall 2015 and fall 2016 and spring 2016 and spring 2017 are shown on figures 1 and 2, respectively. Of the 86 wells with water-level change between fall 2015 and 2016, 7 wells recorded a water-level rise greater than 5 ft, 60 wells recorded little or no change (rise or decline less than 5 ft), and 19 wells recorded a water-level decline greater than 5 ft (fig. 1). Of the 87 wells with water-level change between spring 2017 and 2016, 10 wells recorded a water-level rise greater than 5 ft, 59 wells recorded little or no change (rise or decline less than 5 ft), and 18 wells recorded a water-level decline greater than 5 ft (fig. 2).

Multiple-Well Monitoring Sites

A total of 15 transducers recorded continuous water-level data at multiple-well monitoring sites 1, 6, 8, 9, and 10 during FFY17 (fig. 1). These data were used to help determine vertical gradients in the aquifer system and document long-term water-level changes in the SGPWA service area.

Site 1—Water-level data collected at well 27L1 (Site 1) indicate about 77 ft of water-level decline between December 1989 and September 2008 (about 8.5 ft/yr) (fig. 3). However, from September 2008 through early 2014, the water level at 27L1 has increased about 48 ft (about 8 ft/yr). In early 2014 the water-level measured at well 27L reached 15 year high of 2262 ft above sea-level. Since early-2013, the hydrograph shows a general decline of approximately 25 ft.

Site 6—Site 6 (002S001W35J001-4) is in the northeastern part of the Beaumont storage unit, and includes four 2-inch piezometers installed in the same borehole: 35J1 perforated between 860-900 ft bls; 35J2 perforated between 750-770 ft bls; 35J3 perforated between 610-630 ft bls; and 35J4 perforated between 240-260 ft bls (dry). Prior to late 2008 the water levels measured in the different piezometers at Site 6 (fig. 4) were similar; however,

San Geronio Pass Water Agency Cooperative Program: Progress, Plans, and Costs

after late 2008 the depth to water in the piezometers increases with the depth of the perforated interval. This change is likely a response to pumping from the nearby BCVWD production well 25. BCVWD well 25 (shown on figure 1 in green) is about 0.7 mile southwest of Site 6 and started regular groundwater production for municipal supply in October 2008. Water levels at the site have declined between 32 and 38 ft during the period February 2002 and July 2017. The rate of decline was greater than 5 ft per year (ft/yr) prior to 2010. Since late 2010, all 3 wells have shown recovery of about 12ft between the seasonal highs measured during spring of 2010-2017. All wells at the site have continued to show overall year-to-year recovery since 2010, with the greatest recovery occurring between late 2012 and early 2016. The water levels at the site have remained generally constant between seasonal highs in 2016 and 2017. The recent recovery at this site may have resulted from changes in pumping patterns in the area, natural recharge from recent wet years, artificial recharge at the SGPWA and BCVWD recharge facilities, or a combination of these factors. Seasonal variation in the hydrograph is shown for the period 2016-2017, as with increased downward gradient at the site. This is likely a response to recent increased pumping a well 25.

Site 8—Site 8 (003S002E07P001-4) is in the central part of the Cabazon storage unit, and includes four 2-inch piezometers installed in the same borehole: 7P1 perforated between 980-1,000 ft bls; 7P2 perforated between 790-810 ft bls; 7P3 perforated between 640-660 ft bls; and 7P4 perforated between 550-570 ft bls. The hydrographs for site 8 show variations in water levels with depth at the site (fig. 4). In general, the water-level altitude increases with depth at the site with an upward groundwater gradient between the lower and upper aquifer system. The deepest well (7P1) has the highest water level altitude, more than 25 ft higher than water-level altitude in the shallower wells. This large difference in water-level altitudes indicates that well 7P1 is perforated in a different aquifer than the other wells. Wells 7P2 and 7P3 also show greater daily variation than wells 7P1 and 7P4. This variation likely is a response to pumping by the nearby supply well used by the Cabazon County Water District, shown as a black dot (fig. 1) 0.3 miles east of Site 8. The water-level decline measured at the site between May 2007 and July 2016 was 32, 39, 39, and 38 ft at wells 7P1, 7P2, 7P3, 7P4, respectively. The rate of decline at these wells has risen from 3.7 ft/yr, reported in 2016 to 4.0 ft/yr for well 7P1 and from 3.3 ft/yr reported in 2016 at wells 7P1-3 to 3.8 ft/yr during the period mid-2007 to mid-2017. Since mid-2013, all wells show a general increase in the rate of decline during the period mid-2013 to mid-2017 as compared with the period mid-2012 to early-2014. The steady decline in water level at the site is likely a response to lower than average natural recharge in the area as result of the ongoing drought.

Site 9—Site 9 (003S002E15P001-3) is in the eastern part of the Cabazon storage unit, and includes three 2-inch piezometers: 15P1 perforated between 373-383 ft bls; 15P2 perforated between 330-350 ft bls; and 15P3 perforated between 240-260 ft bls. Prior to early 2011, water-level altitude in well 15P1 is slightly higher than the water-level altitude in well 15P2, indicating an upward groundwater gradient conditions at the site. (fig. 5). The water-level decline measured at the site between May 2007 and April 2011 was 9.3 ft (about 2.4 ft/yr) at well 15P1 and 8.5 ft (about 2.2 ft/yr) at 15P2. In April-May, 2011 both

San Gorgonio Pass Water Agency Cooperative Program: Progress, Plans, and Costs

wells show rapid increases in water-level altitude at the site. The transducer in well 15P1 recorded a 4.6 ft rise in water table between late-April and late-August, 2011. The transducer in well 15P2 recorded a 10.3 ft rise in water table between mid-May and mid-August, 2011. It is important to note that this water-level rise event occurred in the deeper well (15P1) first, then approximately 1 month later, started in the shallower well (15P2). This event also reverses the vertical gradients at the site. This recharge event was likely the result of natural recharge in the area. Since this event in 2011, both wells show nearly parallel water-level decline until early 2015 when well 15P2 went dry. Prior to May, 2011 manual water-level measurements collected from the shallow well (15P3) were dry. Manual measures in well 15P3 also captured this water-level rise event with a measured water level at 220.8 ft below land surface or about 115 ft above the water levels measured in wells 15P1 and 15P2. The USGS installed a transducer in well 15P3 in June 2014, and the well has been dry since November 2011. The overall decline at well 15P1 is approximately 30 ft and the overall rate of decline is 3.1 ft per year since 2007. The overall decline at well 15P2 is 11.2 ft and the overall rate of decline is 1.5 ft per year during the period late-2007 and early-2015 when the well went dry.

Site 10—Site 10 (003S001E11F001-4) is in the western part of the Cabazon storage unit, and includes four 2-inch piezometers installed in the same borehole: 11F1 perforated between 1060 and 1040 ft bls; 11F2 perforated between 860 and 840 ft bls; 11F3 perforated between 660 and 680 ft bls; and 11F4 perforated between 600 and 580 ft bls. The water-level decline measured at the site between August 2009 and November 2011 was 8.8, 8.7, 8.9, and 9.25 ft at wells 11F1, 11F2, 11F3, and 11F4, respectively (fig. 5). During the period November 2011 to June 2013 water-level altitudes at the site increased. The water-level rise measured at the site between November 2011 and June 2013 was 5.5, 5.3, 5.1, and 5.2 ft at wells 11F1, 11F2, 11F3, and 11F4, respectively. Wells 11F3 and 11F4 have nearly identical depth to water and water-level change indicating these wells are in the same aquifer. Since mid-2013, when water levels at the site reached recent highs, water levels have declined 32 ft at the site. Since mid-2013 the rate of decline at the site has increased as compared with the rate of decline measured during the period mid-2009 to 2012. Since late 2013 all wells at the site have shown decline of about 32 ft and rate of decline of 8.6 ft/yr.

Plans

During FFY16, SGPWA personnel will collect water-level data from groundwater-level monitoring-network wells (fig. 2) on a semi-annual basis. The USGS will continue to canvass new wells, and verify well information for wells in the network. Water-level data will be collected at one-hour intervals at all sites equipped with pressure transducers (table 2); these sites will be downloaded on a quarterly basis by the USGS. The USGS will continue to enter water-level and well-site data collected by SGPWA and USGS personnel into the USGS database with appropriate quality-control checks, including accompanying SGPWA personnel during both spring and fall measurement periods. Water-level data are available through the USGS NWIS online database. As part of the calibration process completed in FFY14, it was noted that many of the transducers are near or have exceeded expected serviceable lifetime of the transducers. The factory expected serviceable lifetime

San Gorgonio Pass Water Agency Cooperative Program: Progress, Plans, and Costs

of the transducers used at the continuous monitoring sites is between 7-10 years. The USGS will continue to monitor each transducer and recommend replacement as needed. Currently the SGPWA has 15 transducers deployed and the replacement cost is approximately \$1,200. SGPWA should expect one or two transducer failures per year for the next 5-10 years until all transducers are replaced. Data collection at the transducer located at the San Gorgonio Recharge facility is included as part of this task.

Total cost for the above work is \$66,900.00. Of this total, San Gorgonio will contribute \$61,800 and subject to the availability of Cooperative Matching Funds (CMF), the USGS will contribute \$5,100, as reflected in the summary funding table.

Total FFY 2018 cost for water-level monitoring **\$ 66,900**

Progress

In FFY17, 13 water-quality network wells were sampled. The samples were analyzed for major ions, nutrients, selected trace elements, stable isotopes of oxygen and hydrogen. Complete results for all samples collected as part of the water-quality monitoring network are available through the USGS NWIS online database. NWIS links to individual wells are provided in table 3. Note, wells denoted with "X*" on table 3, column 2018 are scheduled to be sampled in 2017 as part of FFY16 funding carried over from the previous cooperative agreement. This well was not sampled during the summer of 2017 due to specialized pumping equipment not being available.

Plans

The current water-quality monitoring network includes 38 wells (fig. 5 and table 3). About one third of the wells are sampled on a triennial basis. Water-quality samples will be collected and analyzed from 13 wells in FFY18. The samples will be analyzed for major ions, nutrients, selected trace elements, stable isotopes of oxygen and hydrogen. All data collected will be entered into the USGS database with appropriate quality control, and are available upon request.

Total cost for the above work is \$58,800. Of this total, San Gorgonio will contribute \$54,400 and subject to the availability of Cooperative Matching Funds (CMF), the USGS will contribute \$4,400, as reflected in the summary funding table 1.

San Gorgonio Pass Water Agency Cooperative Program: Progress, Plans, and Costs

Total FFY 2018 cost for water-quality monitoring **\$ 58,800**

Total FFY 2018 cost for task 1 - **\$ 125,700**

Task 2: Burnt Canyon Flow Analysis

Progress

During the first half of FFY17 the USGS monitored the flows at upper and lower Burnt Canyon as part of the cooperative agreement between the USGS and SGPWA. In early summer of 2017, the City of Banning and the USGS entered into a cooperative agreement to monitor flow at variety of sites between East Fork of the Whitewater River and lower Burnt Canyon. Data collected as part of this work is available online from the USGS online database. Table 4 contains a list of sites and links to data.

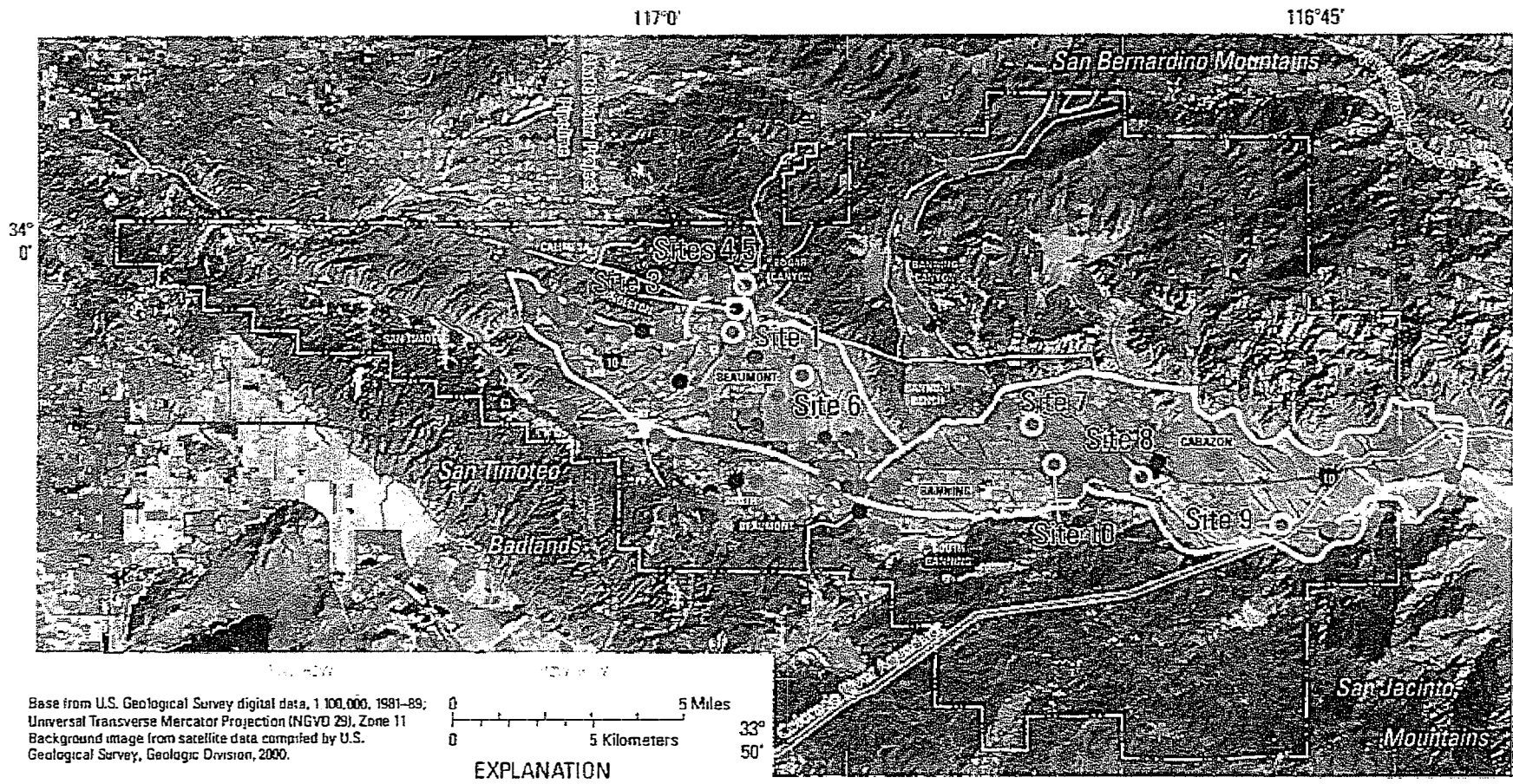
Plans

There are no current plans to monitor upper or lower Burnt Canyon as part of this cooperative agreement.

Total FFY 2018 cost for task 2 - **\$ 0**

Future Work

To assist in future planning for the USGS and SGPWA cooperative program. The USGS has proposed two new monitoring sites near the eastern boundary of the SGPWA service area near the San Gorgonio River. In order to address questions concerning the interactions between the Cabazon and the Coachella Basins. The USGS is proposing two monitoring sites, one monitoring site near the eastern boundary of the Cabazon basin, and one site near the western boundary of the Coachella Basin. Each monitoring site will consist of 3-5, 2" PVC wells and will be used to determine vertical and lateral gradients and differences in water quality with depth. These wells are needed to help determine groundwater gradients and better estimate groundwater interactions (flux) between basins. In addition, there are other locations within the basin where the understanding of the groundwater system could greatly improve with the installation of additional monitoring sites, including the proposed recharge facility near Beaumont Avenue. The approximate, estimated cost per monitoring site is \$225,000 to \$275,000. If the SGPWA decides to further the research related to the eastern boundary or other areas, the USGS will provide a detailed cost estimate(s). Further discussion between respective staffs is need to determine the best approach to meet the research goals of the USGS and the groundwater management needs of the SGPWA.



EXPLANATION

- San Geronio Pass Water Agency boundary
- San Geronio Pass ground-water basin
- Name of storage unit in ground-water flow model
- Storage unit boundary—
- Outside ground-water flow model
- Name of storage unit outside ground-water flow model
- Canyon storage unit boundary
- Name of canyon storage unit
- Water level change between fall 2015 and fall 2016
 - Network well with water level rise greater than 5 feet
 - Network well with water level change less than 5 feet
 - Network well with water level drop greater than 5 feet
 - FFY16 Network well, data not available for comparison

Figure 1. Map showing the water-level network and water-level change between fall 2015 and fall 2016 at selected wells.

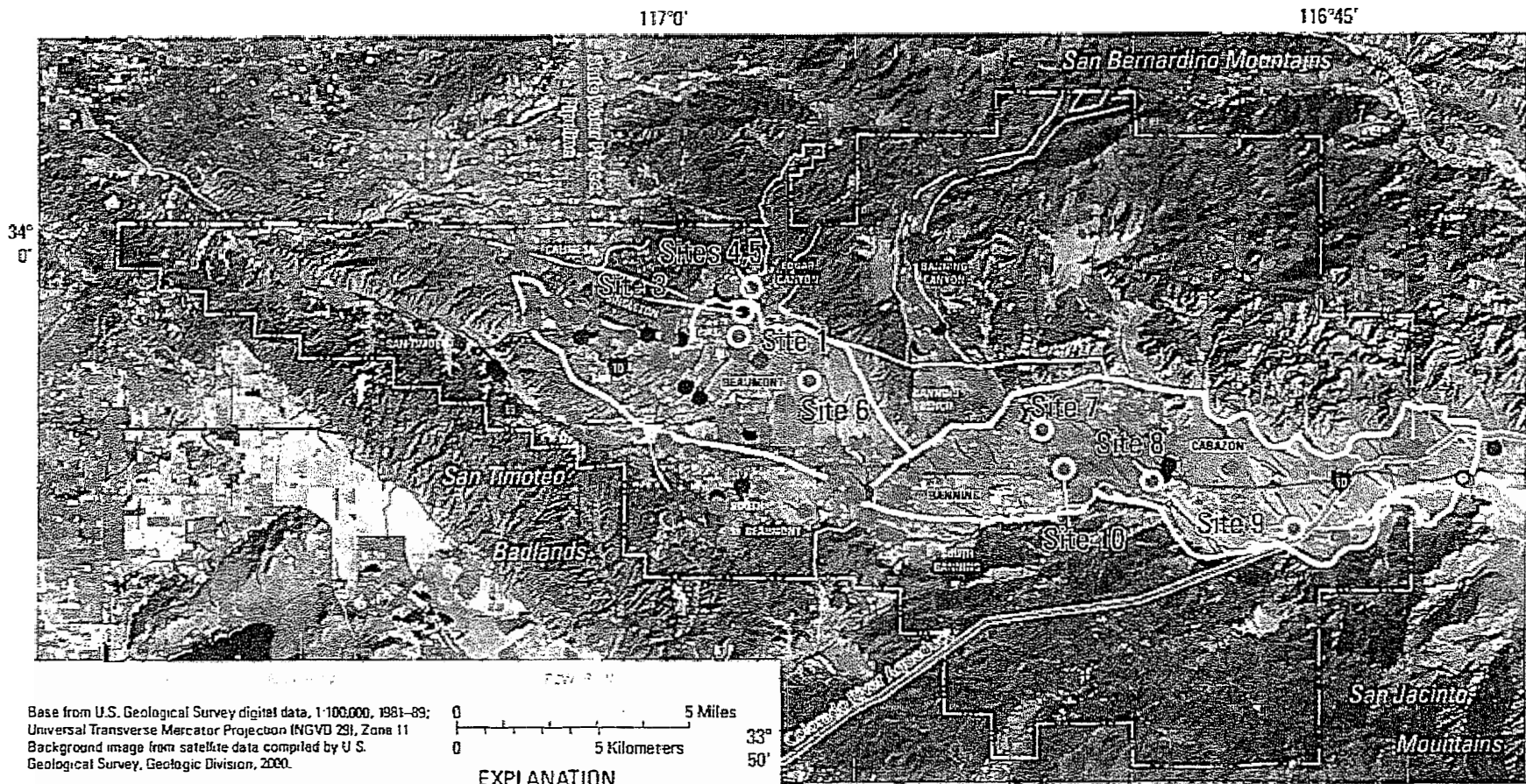
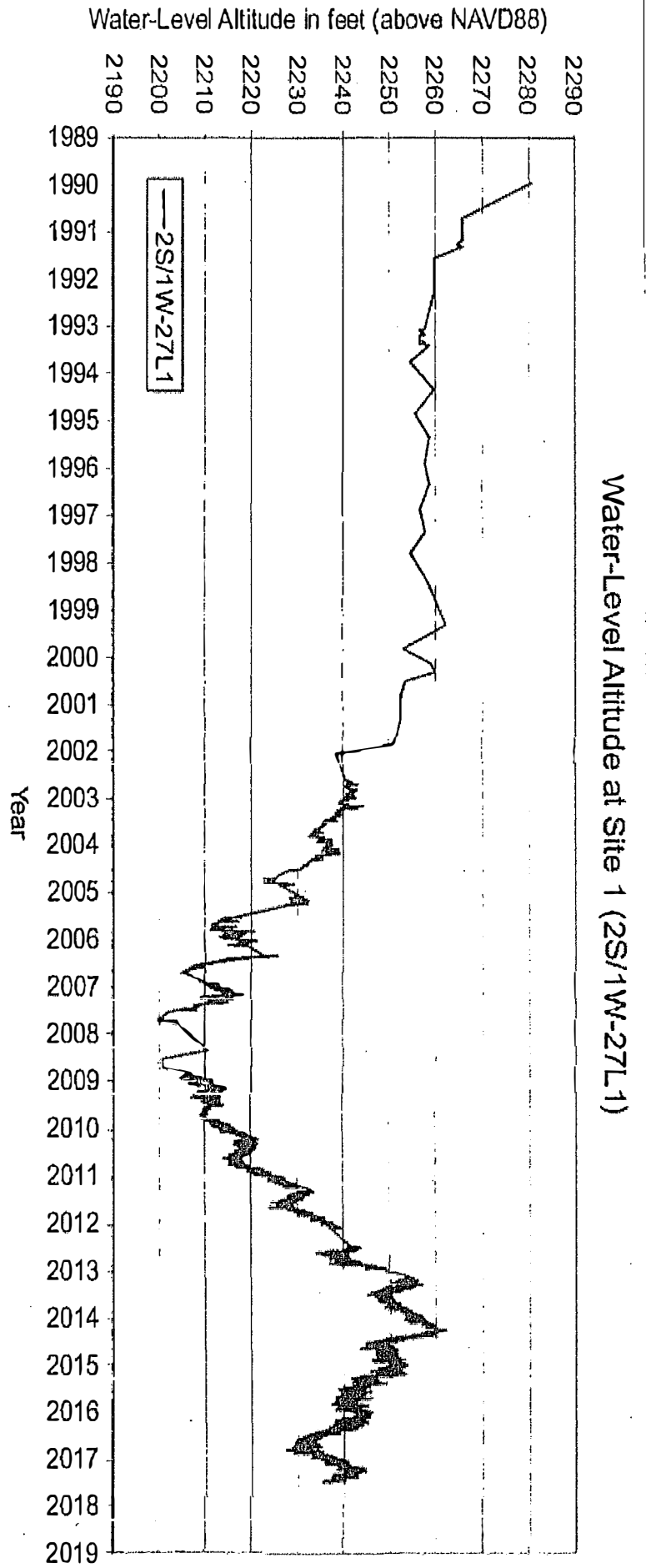
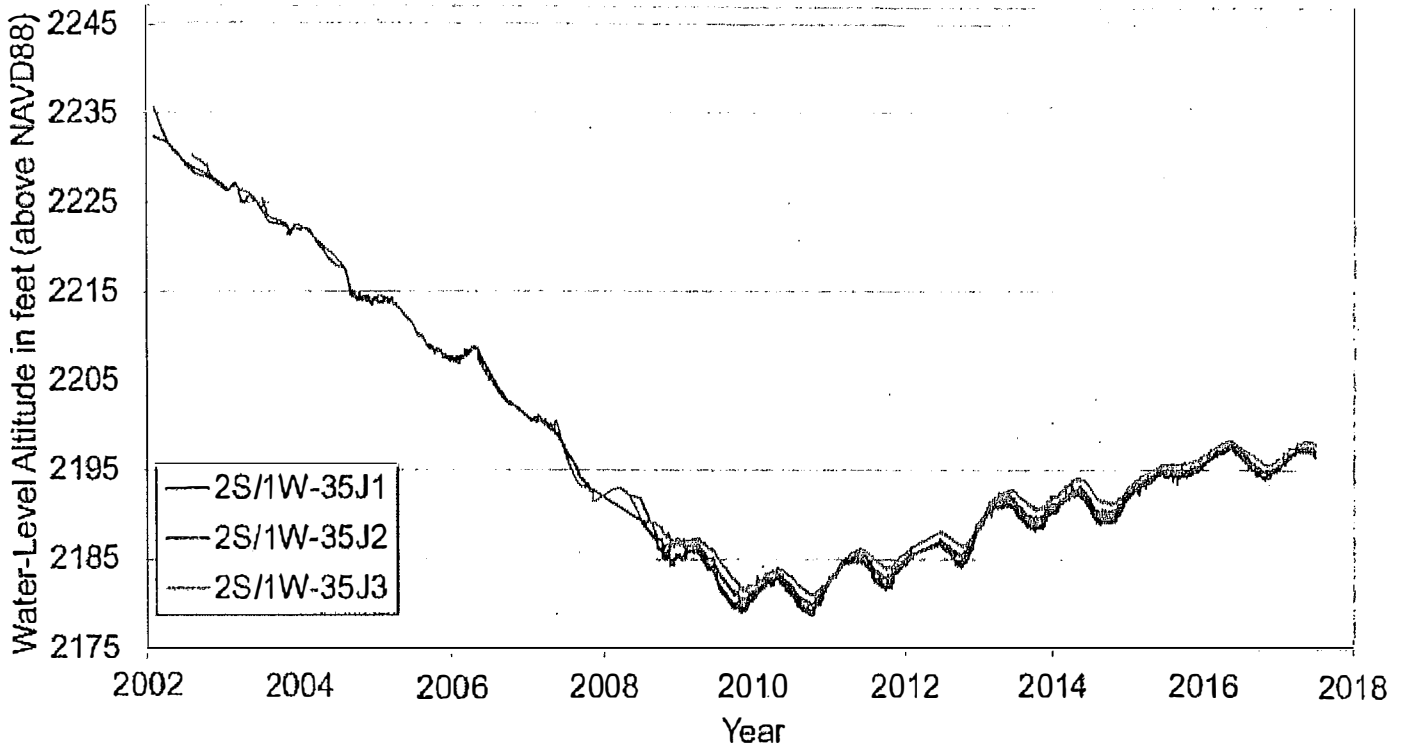


Figure 2. Map showing the water-level network and water-level change between spring 2017 and spring 2016 at selected wells.

Figure 3. Graph showing water-level hydrograph for site 1.



Water-Level Altitude at Site 6 (2S/1W-35J1-3)

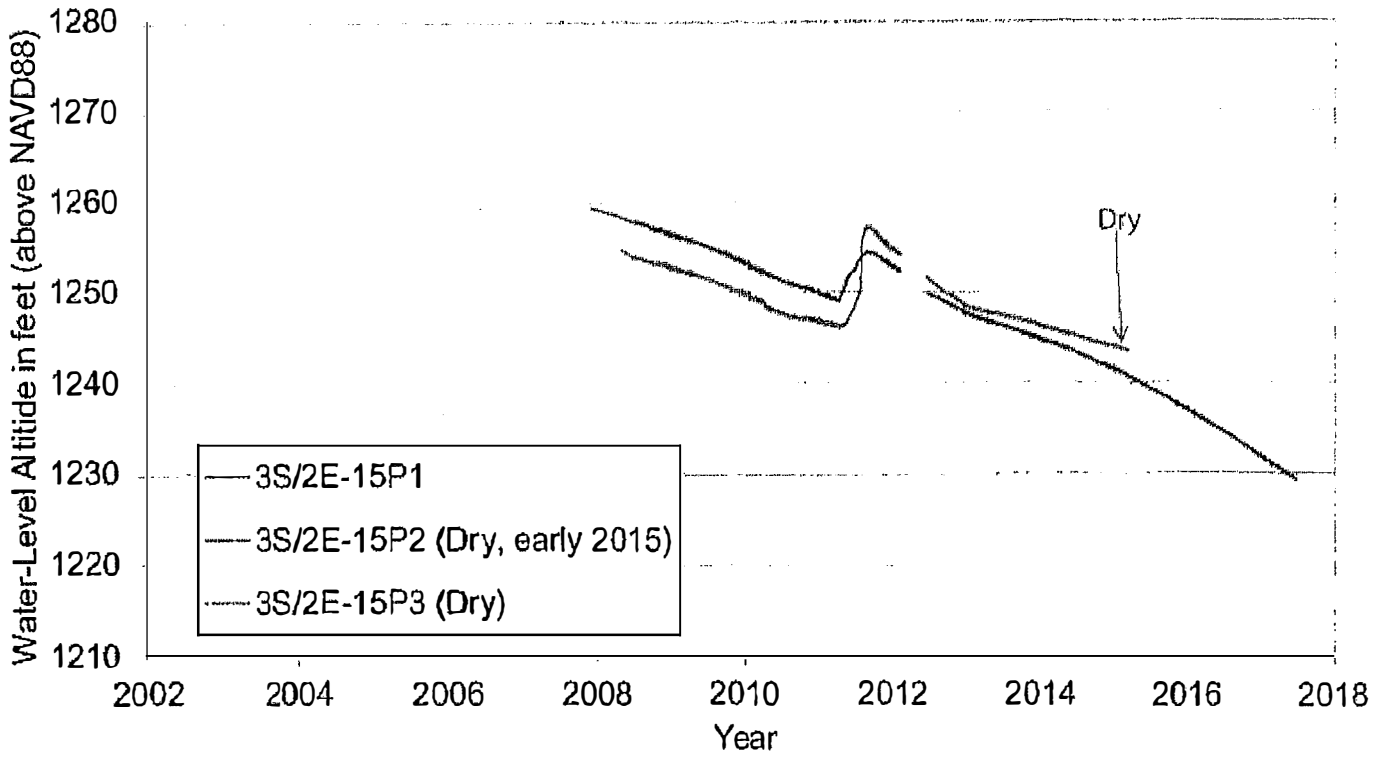


Water-Level Altitude at Site 8 (3S/2E-7P1-4)



Figure 4. Graph showing water-level hydrographs for wells at sites 6 and 8.

Water-Level Altitude at Site 9 (3S/2E-15P1-2)



Water-Level Altitude at Site 10 (3S/1E-11F1-4)

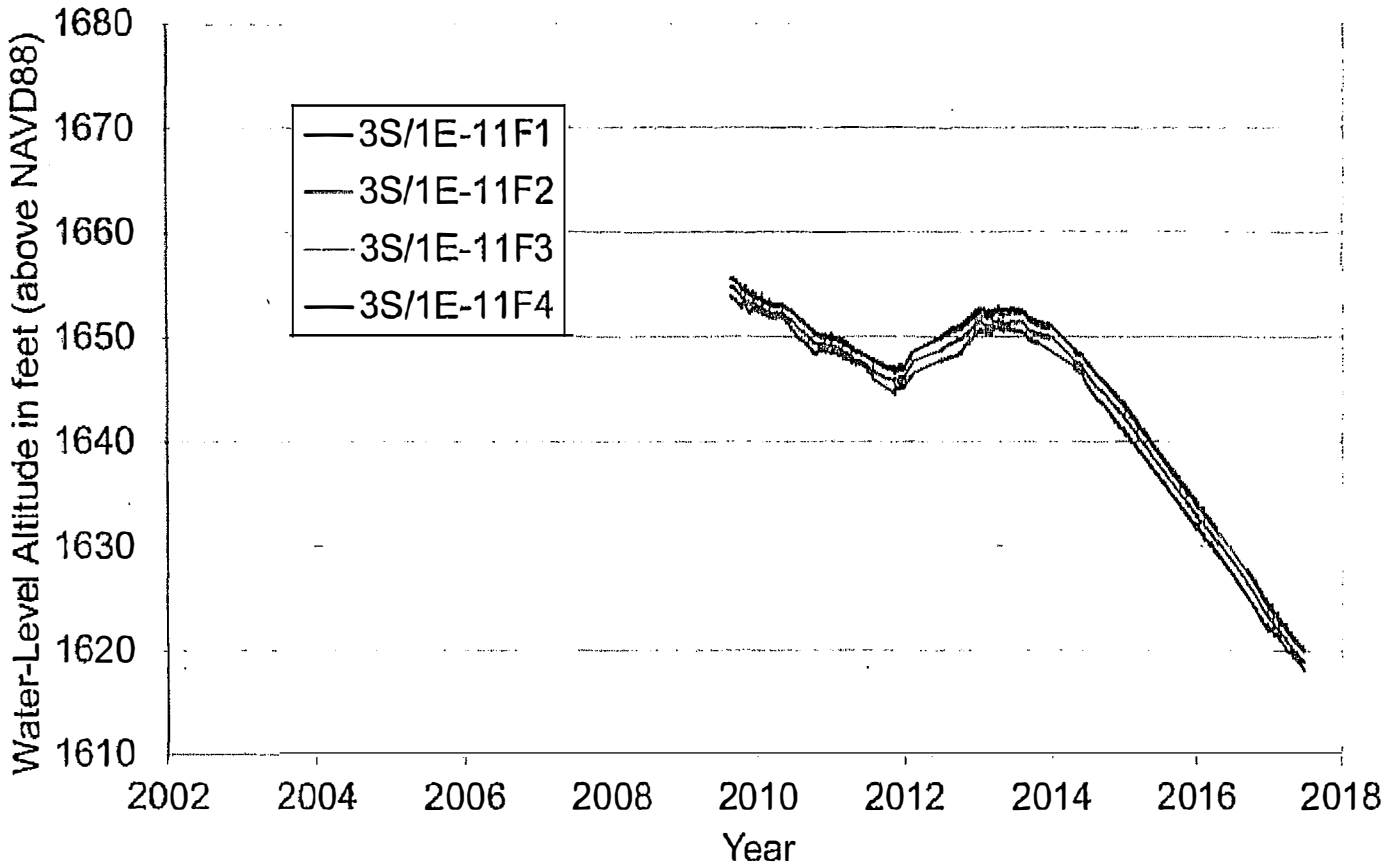


Figure 5. Graph showing water-level hydrographs for wells at sites 9 and 10

Table 2 Water-level Network

Table 2. Water-level Network

State well Number (*) wells in review	Site Number	Storage Unit	Measurement schedule (*) Denotes sites equipped with pressure transducers	Latitude (nad83)	Longitude (NAD83)	Station Identifier	Link
002S001E04L001		San Gorgonio River Channel	Semi-annual	34.0240028	-116.8901306	340126116532501	http://waterdata.usgs.gov/nwis/inventory/?site_no=340126116532501
002S001E04L002		San Gorgonio River Channel	Semi-annual	34.0231917	-116.8884972	340124116531901	http://waterdata.usgs.gov/nwis/inventory/?site_no=340124116531901
002S001E04L004		San Gorgonio River Channel	Semi-annual	34.0229528	-116.8867083	340123116531201	http://waterdata.usgs.gov/nwis/inventory/?site_no=340123116531201
002S001E04H001		San Gorgonio River Channel	Semi-annual	34.0234722	-116.8897500	340124116532301	http://waterdata.usgs.gov/nwis/inventory/?site_no=340124116532301
002S001E04P003		San Gorgonio River Channel	Semi-annual	34.0232778	-116.8894722	340123116532201	http://waterdata.usgs.gov/nwis/inventory/?site_no=340123116532201
002S001E08M001		Cabazon	Semi-annual	34.0099167	-116.9076111	340035116542701	http://waterdata.usgs.gov/nwis/inventory/?site_no=340035116542701
002S001E17F002		San Gorgonio River Channel	Semi-annual	33.9996250	-116.9067000	335928116542001	http://waterdata.usgs.gov/nwis/inventory/?site_no=335928116542001
002S001E17M001		San Gorgonio River Channel	Semi-annual	33.9951111	-116.9076750	335942116542701	http://waterdata.usgs.gov/nwis/inventory/?site_no=335942116542701
002S001E20P001		San Gorgonio River Channel	Semi-annual	33.9808333	-116.9077500	335851116542701	http://waterdata.usgs.gov/nwis/inventory/?site_no=335851116542701
002S001E29B001		San Gorgonio River Channel	Semi-annual	33.9733056	-116.9002806	335845116535801	http://waterdata.usgs.gov/nwis/inventory/?site_no=335845116535801
002S001E29G001		Banning Bench	Semi-annual	33.9731944	-116.9063889	335823116542301	http://waterdata.usgs.gov/nwis/inventory/?site_no=335823116542301
002S001E29H001		San Gorgonio River Channel	Semi-annual	33.9712750	-116.8984556	335817116535401	http://waterdata.usgs.gov/nwis/inventory/?site_no=335817116535401
002S001E29K002		Banning Bench	Semi-annual	33.9658333	-116.9027778	335757116541001	http://waterdata.usgs.gov/nwis/inventory/?site_no=335757116541001
002S001E29M001		San Gorgonio River Channel	Semi-annual	33.9647889	-116.9049472	335753116541801	http://waterdata.usgs.gov/nwis/inventory/?site_no=335753116541801
002S001E33J001		San Gorgonio River Channel	Semi-annual	33.9539667	-116.8797528	335707116524101	http://waterdata.usgs.gov/nwis/inventory/?site_no=335707116524101
002S001E33J002		San Gorgonio River Channel	Semi-annual	33.9539667	-116.8797528	335715116524701	http://waterdata.usgs.gov/nwis/inventory/?site_no=335715116524701
002S001E33J004		San Gorgonio River Channel	Semi-annual	33.9532056	-116.8789861	335712116524501	http://waterdata.usgs.gov/nwis/inventory/?site_no=335712116524501
002S001E33K001		San Gorgonio River Channel	Semi-annual	33.9535278	-116.8849444	335712116530501	http://waterdata.usgs.gov/nwis/inventory/?site_no=335712116530501
002S001W19D001		Beaumont	Semi-annual	33.9878333	-117.0324722	335916117015601	http://waterdata.usgs.gov/nwis/inventory/?site_no=335916117015601
002S001W19N001		Beaumont	Semi-annual	33.9777722	-117.0336194	335840117015801	http://waterdata.usgs.gov/nwis/inventory/?site_no=335840117015801
002S001W21L004		Singleton	Semi-annual	33.9807500	-116.9899056	335849116592101	http://waterdata.usgs.gov/nwis/inventory/?site_no=335849116592101
002S001W22E001		Edgar Canyon	Semi-annual	33.9840308	-116.9781583	335902116583701	http://waterdata.usgs.gov/nwis/inventory/?site_no=335902116583701
002S001W22G003	Site 4	Edgar Canyon	Semi-annual	33.9841333	-116.9592222	335902116580901	http://waterdata.usgs.gov/nwis/inventory/?site_no=335902116580901
002S001W22G004	Site 4	Edgar Canyon	Semi-annual	33.9841333	-116.9592222	335903116580902	http://waterdata.usgs.gov/nwis/inventory/?site_no=335903116580902
002S001W22M001		Edgar Canyon	Semi-annual	33.9831234	-116.9807959	335859116584901	http://waterdata.usgs.gov/nwis/inventory/?site_no=335859116584901
002S001W22M002		Singleton	Semi-annual	33.9818234	-116.9787986	335855116584001	http://waterdata.usgs.gov/nwis/inventory/?site_no=335855116584001
002S001W27L001	Site 1	Beaumont	Semi-annual	33.9685417	-116.9735583	335807116582201	http://waterdata.usgs.gov/nwis/inventory/?site_no=335807116582201
002S001W27P002		Beaumont	Semi-annual	33.9628330	-116.9731940	335746116582301	http://waterdata.usgs.gov/nwis/inventory/?site_no=335746116582301
002S001W27P003		Beaumont	Semi-annual	33.9640280	-116.9743890	335750116582701	http://waterdata.usgs.gov/nwis/inventory/?site_no=335750116582701
002S001W28M001		Beaumont	Semi-annual	33.9673167	-116.9958361	335802116594201	http://waterdata.usgs.gov/nwis/inventory/?site_no=335802116594201
002S001W29G005		Beaumont	Semi-annual	33.9689044	-117.0080833	335808117002601	http://waterdata.usgs.gov/nwis/inventory/?site_no=335808117002601
002S001W29H001		Singleton	Semi-annual	33.9721917	-117.0005611	335820116595901	http://waterdata.usgs.gov/nwis/inventory/?site_no=335820116595901
002S001W29J002		Beaumont	Semi-annual	33.9678889	-116.9998389	335804116595801	http://waterdata.usgs.gov/nwis/inventory/?site_no=335804116595801
002S001W29M002		Beaumont	Semi-annual	33.9680712	-117.0153058	3358071170005601	http://waterdata.usgs.gov/nwis/inventory/?site_no=3358071170005601
002S001W30C001		Beaumont	Semi-annual	33.9727000	-117.0292333	335822117014201	http://waterdata.usgs.gov/nwis/inventory/?site_no=335822117014201
002S001W30E003		Beaumont	Semi-annual	33.9702139	-117.0294611	335813117014301	http://waterdata.usgs.gov/nwis/inventory/?site_no=335813117014301
002S001W30M002		Beaumont	Semi-annual	33.9677500	-117.0332500	335803117015901	http://waterdata.usgs.gov/nwis/inventory/?site_no=335803117015901
002S001W32B003		Beaumont	Semi-annual	33.9605000	-117.0036667	335737117001301	http://waterdata.usgs.gov/nwis/inventory/?site_no=335737117001301
002S001W33D001		Beaumont	Semi-annual	33.9613889	-116.9977778	335741116595201	http://waterdata.usgs.gov/nwis/inventory/?site_no=335741116595201
002S001W33L001		Beaumont	Semi-annual	33.9519603	-116.9936379	335707116593401	http://waterdata.usgs.gov/nwis/inventory/?site_no=335707116593401
002S001W33R002		Beaumont	Semi-annual	33.9476139	-116.9850528	335651116590601	http://waterdata.usgs.gov/nwis/inventory/?site_no=335651116590601
002S001W34A002		Beaumont	Semi-annual	33.9603361	-116.9652472	335740116575001	http://waterdata.usgs.gov/nwis/inventory/?site_no=335740116575001
002S001W35J001	Site 6	Beaumont	Semi-annual*	33.9540139	-116.9472111	335714116565001	http://waterdata.usgs.gov/nwis/inventory/?site_no=335714116565001
002S001W35J002	Site 6	Beaumont	Semi-annual*	33.9540139	-116.9472111	335714116565002	http://waterdata.usgs.gov/nwis/inventory/?site_no=335714116565002
002S001W35J003	Site 6	Beaumont	Semi-annual*	33.9540139	-116.9472111	335714116565003	http://waterdata.usgs.gov/nwis/inventory/?site_no=335714116565003

Table 2 Water-level Network

State well Number (*) wells in review	Site Number	Storage Unit	Measurement schedule (*) Denotes sites equipped with pressure transducers	Latitude (nad83)	Longitude (NAD83)	Station Identifier	Link
002S001W35J004	Site 6	Beaumont	Semi-annual	33 9540139	-116.9472111	335714116565004	http://waterdata.usgs.gov/nwis/inventory/?site_no=335714116565004
002S001W35P001		Beaumont	Semi-annual	33 9473811	-118.9559722	335650116572101	http://waterdata.usgs.gov/nwis/inventory/?site_no=335650116572101
002S002W14J002		Singleton	Semi-annual	33 9952667	-117.0563778	335943117032001	http://waterdata.usgs.gov/nwis/inventory/?site_no=335943117032001
002S002W14R001		Calmasa	Semi-annual	33 9915222	-117.0558556	335930117032101	http://waterdata.usgs.gov/nwis/inventory/?site_no=335930117032101
002S002W16A001		Calmasa	Semi-annual	34 0017833	-117.0890309	340006117051801	http://waterdata.usgs.gov/nwis/inventory/?site_no=340006117051801
002S002W24K002		Beaumont	Semi-annual	33 9793361	-117.0430972	335846117023201	http://waterdata.usgs.gov/nwis/inventory/?site_no=335846117023201
002S002W24M002		Beaumont	Semi-annual	33 9799194	-117.0514083	335847117030201	http://waterdata.usgs.gov/nwis/inventory/?site_no=335847117030201
002S002W24N002		Beaumont	Semi-annual	33 9776611	-117.0501250	335840117025701	http://waterdata.usgs.gov/nwis/inventory/?site_no=335840117025701
002S002W25B001		Beaumont	Semi-annual	33 9751583	-117.0404222	335830117022201	http://waterdata.usgs.gov/nwis/inventory/?site_no=335830117022201
002S002W25B005		Beaumont	Semi-annual	33.9753611	-117.0345000	335831117020401	http://waterdata.usgs.gov/nwis/inventory/?site_no=335831117020401
002S002W25D001		Beaumont	Semi-annual	33 9748333	-117.0511083	335829117030101	http://waterdata.usgs.gov/nwis/inventory/?site_no=335829117030101
002S002W25D002		Beaumont	Semi-annual	33.9733583	-117.0512250	335824117030101	http://waterdata.usgs.gov/nwis/inventory/?site_no=335824117030101
002S002W35D005		San Timoteo	Semi-annual	33 9586271	-117.0664195	335731117035601	http://waterdata.usgs.gov/nwis/inventory/?site_no=335731117035601
002S002W35D006		San Timoteo	Semi-annual	33.9581750	-117.0657639	335729117035401	http://waterdata.usgs.gov/nwis/inventory/?site_no=335729117035401
002S002W36C001		San Timoteo	Semi-annual	33.9598214	-117.0446962	335735117023401	http://waterdata.usgs.gov/nwis/inventory/?site_no=335735117023401
003S001E03C002		Cabazon	Semi-annual	33 9433694	-116.8699750	335636116520901	http://waterdata.usgs.gov/nwis/inventory/?site_no=335636116520901
003S001E03J001		Cabazon	Semi-annual	33.9383333	-116.8594722	335618116513401	http://waterdata.usgs.gov/nwis/inventory/?site_no=335618116513401
003S001E03J002		Cabazon	Semi-annual	33.9363333	-116.8594722	335618116513402	http://waterdata.usgs.gov/nwis/inventory/?site_no=335618116513402
003S001E04A001		San Gorgonio River Channel	Semi-annual	33 9469472	-116.8769917	335649116523401	http://waterdata.usgs.gov/nwis/inventory/?site_no=335649116523401
003S001E06N001		Beaumont	Semi-annual	33 9330306	-116.9288139	335558116554001	http://waterdata.usgs.gov/nwis/inventory/?site_no=335558116554001
003S001E08M001		Banning	Semi-annual	33.9230917	-116.9071472	335523116542301	http://waterdata.usgs.gov/nwis/inventory/?site_no=335523116542301
003S001E11F001	Site 10	Cabazon	Semi-annual*	33.9252970	-116.8513470	335531116510401	http://waterdata.usgs.gov/nwis/inventory/?site_no=335531116510401
003S001E11F002	Site 10	Cabazon	Semi-annual*	33.9252970	-116.8513470	335531116510402	http://waterdata.usgs.gov/nwis/inventory/?site_no=335531116510402
003S001E11F003	Site 10	Cabazon	Semi-annual*	33.9252970	-116.8513470	335531116510403	http://waterdata.usgs.gov/nwis/inventory/?site_no=335531116510403
003S001E11F004	Site 10	Cabazon	Semi-annual*	33.9252970	-116.8513470	335531116510404	http://waterdata.usgs.gov/nwis/inventory/?site_no=335531116510404
003S001E14A001		South Banning	Semi-annual	33 9172380	-116.8441867	335502116503601	http://waterdata.usgs.gov/nwis/inventory/?site_no=335502116503601
003S001E18A001		Banning	Semi-annual	33.9176306	-116.9124500	335504116544201	http://waterdata.usgs.gov/nwis/inventory/?site_no=335504116544201
003S001E18C001		Banning	Semi-annual	33 9177083	-116.9247944	335504116552601	http://waterdata.usgs.gov/nwis/inventory/?site_no=335504116552601
003S001E18D001		Beaumont	Semi-annual	33.9176889	-116.9289250	335504116554101	http://waterdata.usgs.gov/nwis/inventory/?site_no=335504116554101
003S001E18L001		South Banning	Semi-annual	33.9095528	-116.9246167	335434116552601	http://waterdata.usgs.gov/nwis/inventory/?site_no=335434116552601
003S001E19A001		South Banning	Semi-annual	33.9023611	-115.9127776	335408116544601	http://waterdata.usgs.gov/nwis/inventory/?site_no=335408116544601
003S001E19B001		South Banning	Semi-annual	33.9033639	-116.9182500	335412116550401	http://waterdata.usgs.gov/nwis/inventory/?site_no=335412116550401
003S001W01Q001		Beaumont	Semi-annual	33 9335333	-115.9380278	335601116561701	http://waterdata.usgs.gov/nwis/inventory/?site_no=335601116561701
003S001W02M001		Beaumont	Semi-annual	33.9380000	-116.9637222	335616116574901	http://waterdata.usgs.gov/nwis/inventory/?site_no=335616116574901
003S001W03K001		Beaumont	Semi-annual	33.9397333	-116.9690917	335623116581701	http://waterdata.usgs.gov/nwis/inventory/?site_no=335623116581701
003S001W03K002		Beaumont	Semi-annual	33.9386806	-116.9690972	335621116581701	http://waterdata.usgs.gov/nwis/inventory/?site_no=335621116581701
003S001W05R003		San Timoteo	Semi-annual	33.9341829	-117.0019714	335603117000401	http://waterdata.usgs.gov/nwis/inventory/?site_no=335603117000401
003S001W09C004		San Timoteo	Semi-annual	33.9311667	-116.9913056	335552116592801	http://waterdata.usgs.gov/nwis/inventory/?site_no=335552116592801
003S001W10Q003		South Beaumont	Semi-annual	33.9194528	-116.9719167	335510116581901	http://waterdata.usgs.gov/nwis/inventory/?site_no=335510116581901
003S001W10R003		South Beaumont	Semi-annual	33 9192167	-116.9641806	335509116575101	http://waterdata.usgs.gov/nwis/inventory/?site_no=335509116575101
003S001W12E001		Beaumont	Semi-annual	33 9286111	-116.9466667	335543116564801	http://waterdata.usgs.gov/nwis/inventory/?site_no=335543116564801
003S001W12L001		Beaumont	Semi-annual	33 9218944	-116.9367528	335519116561701	http://waterdata.usgs.gov/nwis/inventory/?site_no=335519116561701
003S001W14J002		South Beaumont	Semi-annual	33 9111276	-116.9483578	335440116565101	http://waterdata.usgs.gov/nwis/inventory/?site_no=335440116565101
003S001W15D005		South Beaumont	Semi-annual	33 9155721	-116.9814147	335456116585001	http://waterdata.usgs.gov/nwis/inventory/?site_no=335456116585001
003S001W15E001		South Beaumont	Semi-annual	33 9131444	-116.9812250	335447116585201	http://waterdata.usgs.gov/nwis/inventory/?site_no=335447116585201
003S002E07G002		Cabazon	Semi-annual	33 9264042	-116.8114075	335535116483801	http://waterdata.usgs.gov/nwis/inventory/?site_no=335535116483801

Table 2 Water-level Network

State well Number (*) wells in review	Site Number	Storage Unit	Measurement schedule (*) Denotes sites equipped with pressure transducers	Latitude (nad83)	Longitude (NAD83)	Station Identifier	Link
003S002E07K001		Cabazon	Semi-annual	33.9231111	-116.8135000	335523116484601	http://waterdata.usgs.gov/nwis/inventory/?site_no=335523116484601
003S002E07P001	Site 8	Cabazon	Semi-annual*	33.9214833	-116.8184167	335513116490601	http://waterdata.usgs.gov/nwis/inventory/?site_no=335513116490601
003S002E07P002	Site 8	Cabazon	Semi-annual*	33.9214833	-116.8184167	335513116490602	http://waterdata.usgs.gov/nwis/inventory/?site_no=335513116490602
003S002E07P003	Site 8	Cabazon	Semi-annual*	33.9214633	-116.8184167	335513116490603	http://waterdata.usgs.gov/nwis/inventory/?site_no=335513116490603
003S002E07P004	Site 8	Cabazon	Semi-annual*	33.9214633	-116.8184167	335513116490604	http://waterdata.usgs.gov/nwis/inventory/?site_no=335513116490604
003S002E09E001		Cabazon	Semi-annual	33.9256944	-116.7887500	335532116471701	http://waterdata.usgs.gov/nwis/inventory/?site_no=335532116471701
003S002E15P001	Site 9	Cabazon	Semi-annual	33.9064167	-116.7648889	335423116455301	http://waterdata.usgs.gov/nwis/inventory/?site_no=335423116455301
003S002E15P002	Site 9	Cabazon	Semi-annual*	33.9064167	-116.7648889	335423116455302	http://waterdata.usgs.gov/nwis/inventory/?site_no=335423116455302
003S002E15P003	Site 9	Cabazon	Semi-annual*	33.9064167	-116.7648889	335423116455303	http://waterdata.usgs.gov/nwis/inventory/?site_no=335423116455303
003S002E23C001		Cabazon	Semi-annual	33.9030712	-116.7469608	335411116444601	http://waterdata.usgs.gov/nwis/inventory/?site_no=335411116444601
003S002W01C001		San Timoteo	Semi-annual	33.9456333	-117.0459722	335645117024201	http://waterdata.usgs.gov/nwis/inventory/?site_no=335645117024201
003S002W01H001		San Timoteo	Semi-annual	33.9419583	-117.0359472	335631117020601	http://waterdata.usgs.gov/nwis/inventory/?site_no=335631117020601
003S003E07D001		Cabazon	Semi-annual	33.9322222	-116.7194444	335556116431001	http://waterdata.usgs.gov/nwis/inventory/?site_no=335556116431001
003S003E07M001		Cabazon	Semi-annual	33.9230705	-116.7197378	335522116430701	http://waterdata.usgs.gov/nwis/inventory/?site_no=335522116430701
003S003E08A001		Cabazon	Semi-annual	33.9324444	-116.6887222	335557116411901	http://waterdata.usgs.gov/nwis/inventory/?site_no=335557116411901
003S003E08M001		Cabazon	Semi-annual	33.9222222	-116.6993889	335522116415201	http://waterdata.usgs.gov/nwis/inventory/?site_no=335522116415201

MEMORANDUM

TO: Board of Directors

FROM: General Manager

RE: Proposed Surplus Water Sale Agreement with San Bernardino Valley MWD ("Valley District")

DATE: October 16, 2017

Summary:

The Board discussed this proposed agreement at the Engineering workshop last Monday. Since that meeting, Valley District's attorney has suggested some minor, non-substantive changes, as reflected in the version included in the agenda package. The purpose of this proposed action is to determine if the Board wishes to approve this agreement to obtain additional wet-year water supplies from Valley District.

Background:

For a number of years, staff has engaged in discussions with Valley District to obtain wet-year yield when it is available. Valley District could not oblige the Agency at first due to commitments it had made through a previous agreement with the Metropolitan Water District of Southern California. When that agreement expired, it opened the door to the proposed agreement.

Detailed Report:

It has taken some time for Valley District to complete this agreement, for a number of reasons. First, it had to re-negotiate its agreement with Metropolitan in order to put the Agency in line ahead of Metropolitan for surplus water. Second, it had to adopt an ordinance defining conditions under it would declare a surplus. These steps have now been completed. The Board also discussed the principles of this agreement a number of months ago at an Engineering workshop.

The key points of this agreement include a right of first refusal for the Agency of up to 5000 acre-feet of surplus water in wet years at a price based on Table A allocations and the power cost to move the water. In the event the Agency does exercise this right, the water will first be made available to the two retail water agencies that are in both Valley District and the Agency's service areas (Yucaipa Valley Water District and South Mesa Water Company). If these two retailers do not purchase all that is available, then the Agency can offer the water to other retailers within the Agency's service area.

The agreement is for fifteen years., While the agreement expires after 15 years, the intent is to renegotiate the terms to continue into the future beyond that point in time.

This agreement is further evidence of the Agency's commitment to procure additional water supplies for the region. Along with the Yuba Accord, which the Agency signed in 2008, and the Nickel water agreement with AVEK earlier this year, the Agency has now procured three sources of water over and above its Table A amount.

Fiscal Impact:

It is unlikely that this water will be available for at least two years. The Agency will likely revisit its funding sources in the near future including the water rate charged to retailers.

Recommendation:

Staff recommends that the Board approve the Surplus Water Sale Agreement with the San Bernardino Valley Municipal Water District, and authorize the General Manager or President to sign it on behalf of the Agency.

SURPLUS WATER SUPPLY-SALE AGREEMENT

This Surplus Water Sale supply Agreement ("Agreement") is made and entered into as of ____ day of _____, 2017, by and between the SAN GORGONIO PASS WATER AGENCY ("Agency") and SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT ("District"). Agency and District are sometimes individually referred to herein as a "Party" and collectively as the "Parties".

RECITALS

A. Agency and District are state water contractors and regional water agencies that provide water on a wholesale basis to retail water providers and other public agencies within their respective service areas. There are two retail water providers that are within the service areas of both Agency and District. Those retailers are the Yucaipa Valley Water District and the South Mesa Water Company (collectively referred to as "Retailers"); and

B. Agency desires additional water supplies of all kinds to improve its water supply reliability, including wet year yield; and

C. Agency and District have a long history of cooperative efforts to serve water to their respective service areas, including water exchanges and sharing capacity in the East Branch Extension; and

D. District anticipates that from time to time, it may have surplus State Water Project water ("Surplus Water") that is surplus to the needs of its retail customers; and

E. District has adopted its Ordinance 79 which establishes procedures for the surplus and sale of surplus State Water Project Water; and

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F. District desires to provide Agency the first right of refusal to purchase up to 5,000 acre-feet of District's Surplus Water; and

~~G. and Agency~~ desires to purchase Surplus Water from District under the terms and conditions set forth in this Agreement and in a manner that is consistent with Ordinance 79.

NOW THEREFORE, in consideration of the foregoing recitals and the promises and covenants contained herein, the Parties agree as follows:

1. **Term of Agreement.**

The term of this Agreement shall commence on December 1, 2017 and end on December 1, 2032, ~~the later of the following dates: (i) the date which is fifteen (15) years from the commencement date; or (ii) the date of expiration of that certain agreement between District and the Metropolitan Water District of Southern California, dated _____ ("Term").~~

2. **Purchase and Sale of Surplus Water.**

(a) District may determine, in its sole discretion, the amount of Surplus Water that will be available for purchase during each year of the term of this Agreement. Notwithstanding the foregoing, if District determines ~~to make that~~ Surplus Water is available to any purchaser in any year, District shall provide Agency shall have the right of first refusal to purchase up to the first 5,000 acre feet of said Surplus Water.

(b) On or before June 15 of each year during the Term, District shall provide notice to Agency of the amount of Surplus Water that is available for purchase for that ~~applicable calendar~~ year. Agency shall then have 30 days from the date of said notice to notify District of the amount of said Surplus Water that it wishes to purchase for that applicable year.

3. **Purchase Price for Surplus Water.**

The purchase price for Surplus Water delivered by District to Agency shall be the sum

total of the costs as calculated in subsections (a) and (b) below.

- (a) The cost of the water shall be based on the State Water Project Table A allocation as determined for the applicable year as follows:

Final SWP Allocation	Cost Per Acre-Foot
0 - 20%	\$400
21 - 40%	\$300
41 - 60%	\$200
61 - 8100%	\$100
81 - 100%	\$95

Comment [BT1]: This is our latest pricing table for the proposed MWDC agreement

(b) The power cost to move the Surplus Water through the State Water Project facilities, District facilities, and then to the Point of Delivery as defined herein, shall be paid as follows: (i) Agency shall pay to District power costs at the power cost rate established for the State Water Project for the applicable year. The actual power costs shall be reconciled on or before the end of the calendar year following the year of the delivery. In the event it is determined that Agency has underpaid power costs, Agency shall make payment for the amount owed to District within 30 days of said determination. In the event it is determined that Agency has overpaid power costs, Agency may elect to either receive payment from District within 30 days from the date of said determination or to apply said amount as a credit toward power costs for a subsequent year.

(c) On or before expiration of each 5-year period during the Term, the Parties shall meet and confer in good faith in regard to whether the amount and/or calculation of the purchase price should be changed. In the event the Parties cannot agree as to a new or different amount or calculation, then either Party shall have the right to terminate this Agreement. Unless a Party elects to so terminate this Agreement, the purchase price then in effect shall remain in effect unless or until the Parties reach an agreement to make any such change.

4. **Delivery of Water.**

(a) **Point of Delivery.** The physical point of delivery (“Point of Delivery”) of Surplus Water pursuant to this Agreement shall be at the afterbay of the SWP Devil Canyon Hydroelectric Generating Facility in San Bernardino, California.

(b) **Delivery Schedule.** District will cooperate with Agency to coordinate for the delivery at the Point of Delivery upon a mutually agreeable delivery schedule.

5. **Resale of Surplus Water.** During the applicable year, Agency shall first offer to sell Surplus Water to the Retailers in equal shares. Each Retailer shall notify Agency within 30 days of said offer as to whether, and to what extent, each Retailer desires to purchase Surplus Water. If one Retailer elects not to purchase any share, or elects to purchase less than its equal share, then the balance shall be made available to the other Retailer. In the event the Retailers elect not to purchase any Surplus Water or do not elect to purchase all of said Surplus Water that is available, ~~Agency shall be free to market and sell~~ Agency shall only purchase the amount of the Surplus Water to any other entity without restriction to price and terms that it is able to put to beneficial use within its service area during the calendar year.

6. **Regulatory Requirements.** The implementation of this Agreement shall be subject to satisfaction by District and Agency of applicable legal and regulatory requirements.

7. **Default and Termination.** In the event either Party fails to make any payment under this Agreement when due, or fails to perform any obligation otherwise required by this Agreement, the non-defaulting Party shall demand in writing that the defaulting Party cure such non-performance. The defaulting Party shall have ninety (90) days after receipt of such demand to cure. In the event the defaulting Party fails to cure a default within the ninety (90) day period, the non-defaulting Party may pursue any applicable action in law or equity including, but not limited to, termination, specific performance and/or damages for breach of this Agreement.

8. **Entire Agreement.** This Agreement contains the entire understanding between the Parties with respect to its subject matter, and supersedes all prior agreements, oral or written, and all prior or contemporaneous discussions or negotiations between the Parties. This Agreement cannot be amended except in writing signed by both Parties.

9. **No Waiver.** Any failure or delay on the part of either Party to exercise any right under this Agreement shall not constitute a waiver of the right, and shall not preclude such Party from exercising or enforcing the right, or any other provision of this Agreement, on any subsequent occasion.

10. **Notices.** All notices or other communications required or desired to be given pursuant to this Agreement shall be in writing and shall be hand-delivered or sent by a reputable overnight courier service providing delivery confirmation. Each such notice or communication shall be deemed to be duly given when hand-delivered or one (1) day after being deposited for next day delivery with an overnight courier. Each such notice or communication shall be addressed to the Parties at their respective addresses set forth next to their signatures below, or such other address as a Party notifies the other in writing.

11. **Separability.** If any provision of this Agreement is finally determined by a court to be invalid or unenforceable as written, the provision shall, if possible, be enforced to the extent reasonable under the circumstances and otherwise shall be deemed deleted from this Agreement. The other provisions of this Agreement shall remain in full force and effect so long as the material purposes of the Agreement and understandings of the Parties are not impaired.

IN WITNESS WHEREOF, the Parties have executed this agreement as of the date first written above.

DISTRICT:

SAN BERNARDINO VALLEY
MUNICIPAL WATER DISTRICT

AGENCY:

SAN GORGONIO PASS WATER
AGENCY

By: _____

Name: _____

Title: _____

Address: _____

By: _____

Name: _____

Title: _____

Address: _____
