

SAN GORGONIO PASS WATER AGENCY
1210 Beaumont Avenue, Beaumont, CA
Board of Directors Meeting
Agenda
November 5, 2018 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. Speakers are requested to keep their comments to no more than five minutes. Under the Brown Act, no action or discussion shall take place on any item not appearing on the agenda, except that the Board or staff may briefly respond to statements made or questions posed for the purpose of directing statements or questions to staff for follow up.

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 15, 2018* (p. 2)
- B. Approval of the Minutes of the Finance and Budget Workshop, October 22, 2018* (p. 5)
- C. Approval of the Finance and Budget Workshop Report, October 22, 2018* (p. 8)

5. Reports:

- A. General Manager's Report
 - 1. Operations Report
 - 2. General Agency Updates
- B. General Counsel Report
- C. Directors Reports
- D. Committee Reports

6. New Business:

- A. Discussion on "Management Discussion and Analysis" Portion of Audit* (p. 34)
- B. Consideration of 2017-2018 Annual Audit* (p. 34)
- C. Consideration of and Possible Action on Assignment of MWQI Program to SWC* (p. 98)
- D. Consideration of and Possible Action on Amendment No. 1 to Municipal Water Quality Investigations Agreement* (p. 104)

7. Topics for Future Agendas

8. Announcements:

- A. Water Conservation and Education Workshop, November 8, 2018 at 1:30 p.m.
- B. Office closed November 12, 2018 in observance of Veterans' Day
- C. Engineering Workshop, **Tuesday**, November 13, 2018 at 1:30 p.m.
- D. Regular Board Meeting, November 19, 2018 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 15, 2018

Directors Present: David Fenn, President
Ron Duncan, Vice President
Blair Ball, Director
Stephen Lehtonen, Director

Directors Absent: Lenny Stephenson, Treasurer
David Castaldo, Director
Michael Thompson, Director

Staff Present: Jeff Ferre, General Counsel
Thomas Todd, Finance Manager
Cheryle Stiff, 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 David Fenn at 1:30 p.m., October 15, 2018 in the Agency Boardroom located at 1210 Beaumont Avenue, Beaumont, California. *President Fenn led the Pledge of Allegiance to the flag. Director Lehtonen 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 that are not on today's agenda.* 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, October 1, 2018
 - B. Approval of the Minutes of the Engineering Workshop, October 8, 2018Director Ball inquired about the October 1, 2018 Board minutes pertaining to item 6A Yucaipa GSA voting rights and appointing an alternate. General Counsel Ferre stated that discussion on this topic should be noted on item 7. After discussion, Director Duncan made a motion, seconded by Director Stephenson, to adopt the consent calendar as presented. Motion passed 4-0, with Directors Stephenson, Castaldo and Thompson absent.
5. **Reports:**
 - A. **General Counsel Report:** General Counsel Ferre provided a written report, which was included in the agenda packet. No further comment was given.

B. Directors Reports:

1) **Director Duncan** reported on the following: a) He attended the Pass EDA meeting that was held last week; no notable items. b) He also attended the BCVWD Board meeting on October 10th. SGPWA's water rate was an item of discussion. 2) **Director Ball** reported that he also attended the BCVWD Board meeting on October 10th.

6. New Business:

A. Consideration and Possible Action on Assignment of Municipal Waster Quality Investigations Program to the State Water Contractors: A staff report and the Assignment of State Water Project Contractors Authority MWQI Program Specific Project Agreement to SWC were included in the agenda packet. General Counsel Ferre informed the Board that the SWC Authority (SGPWA is a member) was set up to help or contractor for work that DWR needs to get done for certain water quality monitoring. Currently the only reporting that is being done by the SWPCA is that of the MWQI program. The MWQI program enables SWC to keep up on water quality issues within the State Water Project and to monitor water quality on a real time basis. The SWPCA's board has discussed what its next steps should be. It was decided by the Board for the SWPCA organization to go on hiatus for now. Due to this decision there are two proposed Board actions to be voted on separately. The first is an agreement among the members of the SWPCA to assign the MWQI program to the State Water Contractors Inc. A new employee hired by the SWC will oversee the MWQI SPC. There is no fiscal impact to the proposed action. The second action is to approve Amendment No. 1, which will be discussed during item 6B. Director Ball requested more information on the following:

1. What is the dollar amount that the Agency is paying for the MWQI?
2. Why is the SWC hiring a new employee? Will the hiring of this individual increase costs to the Agency? If so, by how much?
3. Is this assignment going to save the Agency money?
4. Is money being saved by not disbanding the JPA right now? If so, by how much?

It was the consensus of the Board to continue discussion on this item during the next Finance and Budget workshop.

B. Consideration and Possible Action on Amendment No. 1 to Municipal Water Quality Investigations (MWQI) Agreement: This item was not discussed due to the outcome of item 6A.

7. Topics for Future Agendas: **Director Ball** requested that a future agenda item be placed on the next Yucaipa GSA, regarding changing its by-laws.

8. Announcements:

- A. Finance & Budget Workshop, October 22, 2018 at 1:30 p.m.
- B. San Gorgonio Pass Regional Water Alliance, October 24, 2018 at 5:00 p.m. – Banning City Hall
- C. Regular Board Meeting, November 5, 2018 at 1:30 p.m.

- 9. Closed Session (1 Item) Time: 1:55 pm**
A. PUBLIC EMPLOYEE PERFORMANCE EVALUATION
Pursuant to Government Code Section 54957
Title: General Manager

The meeting reconvened to open session at: Time: 2:25 pm

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

- 10. Adjournment Time: 2:25 pm**

Draft - Subject to Board Approval

Jeffrey W. Davis, Secretary of the Board

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SAN GORGONIO PASS WATER AGENCY
1210 Beaumont Avenue
Beaumont, California 92223
Minutes of the
Board Finance and Budget Workshop
October 22, 2018

Directors Present: David Fenn, President
Lenny Stephenson, Treasurer
Blair Ball, Director
David Castaldo, Director
Steve Lehtonen, Director
Mike Thompson, Director

Directors Absent: Ron Duncan, Vice President

Staff and Consultants Present:

Jeff Davis, General Manager
Tom Todd, Jr., Finance Manager
Eden Casareno, Eadie + Payne, Auditors
Brandon Ferrell, Eadie + Payne, Auditors

1. **Call to Order, Flag Salute and Roll Call:** The Finance and Budget workshop of the San Gorgonio Pass Water Agency Board of Directors was called to order by Chair Lenny Stephenson at 1:30 pm, October 22, 2018, in the Agency Board Room at 1210 Beaumont Avenue, Beaumont, California. Chair Stephenson led the Pledge of Allegiance to the flag. A quorum was present.
2. **Adoption and Adjustment of Agenda:** The agenda was adopted as published.
3. **Public Comment:** No members of the public requested to speak at this time.
4. **New Business:**
 - A. Review of Draft Audited Financial Statements for FY 2017-18: General Manager Jeff Davis introduced Eden Casareno, partner at Eadie + Payne LLP, and Brandon Ferrell, audit manager at Eadie + Payne LLP. This is the second year Eadie + Payne has completed the financial audit for the Agency. Ms. Casareno and Mr. Ferrell reviewed the draft version of the audited financial statements for the Agency for the fiscal year 2017-18. They answered questions from the Board. The audited statements will be presented again for acceptance at the Board meeting on November 5. Director Fenn asked that the Board review the Management Discussion and Analysis prior to the November 5th meeting, so that the auditors could answer any questions from the Board at that time.

- B. Ratification of Paid Invoices and Monthly Payroll for September, 2018 by Reviewing Check History Reports in Detail: After review and discussion, a motion was made by Director Fenn, seconded by Director Thompson, to recommend that the Board ratify paid monthly invoices of \$9,772,991.83 and payroll of \$35,756.43 for the month of September, 2018, for a combined total of \$9,808,748.26. The motion passed 6 in favor, no opposed, with Director Duncan absent.
- C. Review Pending Legal Invoices: After review and discussion, action on this item was postponed until Item I was discussed.
- D. Review of September, 2018 Bank Reconciliation: After review and discussion, a motion was made by Director Fenn, seconded by Director Lehtonen, to recommend that the Board acknowledge receipt of the Wells Fargo bank reconciliation for September, 2018 as presented. The motion passed 6 in favor, no opposed, with Director Duncan absent.
- E. Review of Budget Report for September, 2018: After review and discussion, a motion was made by Director Castaldo, seconded by Director Thompson, to recommend that the Board acknowledge receipt of the Budget Report for September, 2018. The motion passed 6 in favor, no opposed, with Director Duncan absent.
- F. Review of Reserve Allocation Report for June 30, 2018: General Manager Davis introduced this item by pointing out that the amounts listed on the report are unaudited, meaning the report was completed before the audited financial statements were completed, therefore, there may be minor differences once the audited financial statements had been approved and accepted by the Board. Finance Manager Tom Todd reviewed the report and answered questions. After further review and discussion, a motion was made by Director Fenn, seconded by Director Thompson, to recommend that the Board accept the Reserve Allocation Report for June 30, 2018 as presented. The motion passed 6 in favor, no opposed, with Director Duncan absent.
- G. Review of Cash Reconciliation Report for June 30, 2018: General Manager Davis pointed out that this report also uses unaudited amounts, so there may be minor differences when the audited financial statements are approved and accepted by the Board. Finance Manager Todd reviewed the report and answered questions from the Board. After further review and discussion, a motion was made by Director Lehtonen, seconded by Director Fenn, to recommend that the Board accept the Cash Reconciliation Report for June 30, 2018. The motion passed 6 in favor, no opposed, with Director Duncan absent.
- H. Review of Investment Report for June 30, 2018: General Manager Davis pointed out that this report also uses unaudited amounts, so there may be minor differences when the audited financial statements are approved and accepted

by the Board. Finance Manager Todd reviewed the report and reminded the Board that all the reported interest rates were effective at June 30, 2018. Director Fenn asked that additional analysis be available when the Investment Report is presented for the quarter ending September 30, 2018. After further review and discussion, a motion was made by Director Thompson, seconded by Director Fenn, to recommend that the Board accept the Investment Report for June 30, 2018. The motion passed 6 in favor, no opposed, with Director Duncan absent.

- I. Review of General Counsel Memo – Public Policy & Ethics Program: The Board discussed the memo included in the Agenda from Legal Counsel Jeff Ferre. After review and discussion, a motion was made by Director Lehtonen, seconded by Director Castaldo, to recommend that the Board authorize payment of the Public Policy & Ethics Program for FY 2018-19 invoice for \$4,600. The motion passed 4-2, Directors Castaldo, Fenn, Lehtonen and Stephenson in favor, Directors Ball and Thompson opposed, with Director Duncan absent. After additional review, a motion was made by Director Fenn, seconded by Director Thompson, to recommend that the Board approve payment of the pending legal invoice for September, 2018 for \$13,622.74. The motion passed 6 in favor, no opposed, with Director Duncan absent.
- J. Review of Costs Associated with MWQI Program: General Manager Davis answered the questions asked by the Board contained in a memo from General Counsel Ferre. The consensus of the Board was to add this item to the agenda for the November 5 Board meeting for action.

5. Announcements

- A. San Gorgonio Pass Regional Water Alliance, October 24, 2018, 5:00 pm
Banning City Hall
- B. Regular Board Meeting, November 5, 2018, 1:30 pm
- C. Added: the Agency will be closed Monday, November 12, 2018 in observance of Veterans' Day.
- D. Corrected: Engineering Workshop, Tuesday, November 13, 2018, 1:30 pm

- 6. Adjournment:** The Finance and Budget workshop of the San Gorgonio Pass Water Agency Board of Directors was adjourned at 3:13 pm.

Draft - Not Approved

Jeffrey W. Davis, Secretary of the Board

Finance and Budget Workshop Report

From Treasurer Lenny Stephenson, Chair of the Finance and Budget Committee

The Finance and Budget Workshop was held on October 22, 2018. The following recommendations were made:

1. The Board ratify payment of Invoices of \$9,772,991.83 and Payroll of \$35,756.43 as detailed in the Check History Report for Accounts Payable and the Check History Report for Payroll for September, 2018 for a combined total of \$9,808,748.26.

2. The Board authorize payment of the following vendor's amounts:

Best, Best & Krieger LLP	\$13,622.74
Best, Best & Krieger LLP	4,600.00

3. The Board acknowledge receipt of the following:
 - A. Wells Fargo bank reconciliation for September, 2018
 - B. Budget Report for September, 2018
 - C. Cash Reconciliation Report for June 30, 2018
 - D. Investment Report for June 30, 2018

4. The Board accept as presented the following:
 - A. Reserve Allocation Report for June 30, 2018

SAN GORGONIO PASS WATER AGENCY
1210 Beaumont Ave, Beaumont, CA 92223
Board Finance & Budget Workshop
Agenda
October 22, 2018, at 1:30 p.m.

1. Call to Order, Flag Salute

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 a specific agenda item, please complete a speaker's request form and hand it to the Board secretary. Speakers are requested to keep their comments to no more than five minutes. Under the Brown Act, no action or discussion shall take place on any item not appearing on the agenda, except that the Board or staff may briefly respond to statements made or questions posed for the purpose of directing statements or questions to staff for follow up.

4. New Business (Discussion and possible recommendations for action at a future regular Board meeting)

- A. Review of Draft Audited Financial Statements for FY 2017-18
- B. Ratification of Paid Invoices and Monthly Payroll for September, 2018 by Reviewing Check History Reports in Detail*
- C. Review of Pending Legal Invoices*
- D. Review of September, 2018 Bank Reconciliation*
- E. Review of Budget Report for September, 2018*
- F. Review of Reserve Allocation Report for June 30, 2018*
- G. Review of Cash Reconciliation Report for June 30, 2018*
- H. Review of Investment Report for June 30, 2018*
- I. Review of General Counsel Memo - Public Policy & Ethics Program*
- J. Review of Costs Associated with MWQI Program

5. Announcements

- A. San Gorgonio Pass Regional Water Alliance, October 24, 2018, 5:00 pm
Banning City Hall
- B. Regular Board Meeting, November 5, 2018, 1:30 pm
- C. Engineering Workshop, November 12, 2018, 1:30 pm

6. 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 Ave., Beaumont, CA 92223 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, during regular business hours. When practical, these public records will also be available on the Agency's Internet website, accessible at <http://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 to make a request for a disability-related modification or accommodation.

San Geronio Pass Water Agency
Check History Report
September 1 through September 30, 2018

ACCOUNTS PAYABLE

<u>Date</u>	<u>Number</u>	<u>Name</u>	<u>Amount</u>
09/05/2018	118975	BEAUMONT-CHERRY VALLEY WATER DISTRICT	545.58
09/05/2018	118976	BDL ALARMS, INC.	156.00
09/05/2018	118977	BEST BEST & KRIEGER	14,107.06
09/05/2018	118978	JON'S FLAGS & POLES, INC.	578.62
09/05/2018	118979	OFFICE SOLUTIONS	475.40
09/05/2018	118980	THE PRESS-ENTERPRISE	296.67
09/05/2018	118981	CHERYLE M. STIFF	158.99
09/05/2018	118982	UNDERGROUND SERVICE ALERT	29.80
09/05/2018	118983	UNLIMITED SERVICES BUILDING MAINT.	295.00
09/05/2018	118984	WASTE MANAGEMENT INLAND EMPIRE	97.06
09/17/2018	118985	ACWA BENEFITS	878.38
09/17/2018	118986	ALBERT WEBB ASSOCIATES	35,811.27
09/17/2018	118987	ARMSTRONG & BROOKS ENGINEERS	1,936.60
09/17/2018	118988	DAVID TAUSSIG & ASSOCIATES, INC.	6,694.91
09/17/2018	118989	JEFFREY W. DAVIS	118.50
09/17/2018	118990	DELTA CONVEYANCE FINANCE AUTHORITY	26,666.67
09/17/2018	118991	EADIE AND PAYNE LLP	11,565.00
09/17/2018	118992	ERNST & YOUNG LLP	1,063.00
09/17/2018	118993	FEDERAL EXPRESS	82.65
09/17/2018	118994	FRONTIER COMMUNICATIONS	1,266.33
09/17/2018	118995	NICE-INCONTACT	102.69
09/17/2018	118996	WATER RESOURCES CONSULTING	3,417.44
09/17/2018	118997	WELLS FARGO ELITE CREDIT CARD	2,886.77
09/24/2018	118998	AT&T MOBILITY	189.69
09/24/2018	118999	ERNIE & SONS HEATING PLUMBING A/C	304.00
09/24/2018	119000	GOPHER PATROL	51.00
09/24/2018	119001	VOID - BY CHECK PRINTER	
09/24/2018	119002	MATTHEW PISTILLI LANDSCAPE SERVICES	350.00
09/24/2018	119003	SOUTHERN CALIFORNIA EDISON	169.41
09/24/2018	119004	THOMAS W. TODD, JR.	1,759.05
09/24/2018	119005	U. S. GEOLOGICAL SURVEY	48,899.40
09/24/2018	119006	VALLEY OFFICE EQUIPMENT, INC.	112.38
09/28/2018	119007	STANDARD INSURANCE COMPANY	452.61
09/14/2018	590193	EMPLOYMENT DEVELOPMENT DEPARTMENT	1,164.17
09/28/2018	524407	EMPLOYMENT DEVELOPMENT DEPARTMENT	1,090.66
09/14/2018	577753	ELECTRONIC FEDERAL TAX PAYMENT SYSTEM	5,617.74
09/28/2018	542364	ELECTRONIC FEDERAL TAX PAYMENT SYSTEM	6,027.39
09/14/2018	900201	CALPERS RETIREMENT	6,669.74
09/17/2018	900202	CALPERS HEALTH	7,732.67
09/28/2018	900203	CALPERS RETIREMENT	6,644.53
09/29/2018	900204	DEPARTMENT OF WATER RESOURCES	9,576,527.00
TOTAL ACCOUNTS PAYABLE CHECKS			9,772,991.83

San Gorgonio Pass Water Agency
Check History Report
September 1 through September 30, 2018

PAYROLL

<u>Date</u>	<u>Number</u>	<u>Name</u>	<u>Amount</u>
09/13/2018	801602	BLAIR M. BALL	1,199.54
09/13/2018	801603	JEFFREY W. DAVIS	5,446.51
09/13/2018	801604	KENNETH M. FALLS	3,388.49
09/13/2018	801605	CHERYLE M. STIFF	2,213.17
09/13/2018	801606	THOMAS W. TODD, JR.	3,460.99
09/27/2018	801607	JEFFREY W. DAVIS	5,485.94
09/27/2018	801608	RONALD A. DUNCAN	1,199.54
09/27/2018	801609	KENNETH M. FALLS	2,887.41
09/27/2018	801610	DAVID L. FENN	1,199.54
09/27/2018	801611	STEPHEN J. LEHTONEN	1,199.54
09/27/2018	801612	LEONARD C. STEPHENSON	1,199.54
09/27/2018	801613	CHERYLE M. STIFF	2,213.17
09/27/2018	801614	MICHAEL D. THOMPSON	1,199.54
09/27/2018	801615	THOMAS W. TODD, JR.	3,463.51
TOTAL PAYROLL			35,756.43
TOTAL DISBURSEMENTS FOR SEPTEMBER, 2018			9,808,748.26

SAN GORGONIO PASS WATER AGENCY
New Vendors List
October, 2018

Vendor - Name and Address	Expenditure Type
Engineering Resources of Southern California (ERSC) 1861 W. Redlands Blvd. Bldg 7B; Redlands, CA 92373	Consultant

SAN GORGONIO PASS WATER AGENCY

**LEGAL INVOICES
ACCOUNTS PAYABLE INVOICE LISTING**

<u>VENDOR</u>	<u>INVOICE NBR</u>	<u>COMMENT</u>	<u>AMOUNT</u>
BEST, BEST & KRIEGER	180930	LEGAL SERVICES SEP18	13,622.74
BEST, BEST & KRIEGER	827746	PP& E ANNUAL BILLING	4,600.00

TOTAL PENDING INVOICES FOR OCTOBER 2018

18,222.74

**SAN GORGONIO PASS WATER AGENCY
BANK RECONCILIATION
September 30, 2018**

BALANCE PER BANK AT 08/31/2018 - CHECKING ACCOUNT 220,084.30

LESS OUTSTANDING CHECKS

<u>CHECK NUMBER</u>	<u>AMOUNT</u>	<u>CHECK NUMBER</u>	<u>AMOUNT</u>
118998	189.69	119001	VOID
119000	51.00	119007	452.61
	<u>240.69</u>		<u>452.61</u>

TOTAL OUTSTANDING CHECKS -693.30

BALANCE PER GENERAL LEDGER 219,391.00

BALANCE PER GENERAL LEDGER AT 08/31/2018 150,281.91

CASH RECEIPTS FOR SEPTEMBER **1,077,118.78**

CASH DISBURSEMENTS FOR SEPTEMBER

ACCOUNTS PAYABLE - CHECK HISTORY REPORT	-9,772,991.83	
PAYROLL TRANSFER - BANK OF HEMET	<u>-35,000.00</u>	
		<u>-9,807,991.83</u>

BANK CHARGES -17.86

TRANSFER FROM LAIF 8,300,000.00

TRANSFERS FROM TVI 500,000.00

BALANCE PER GENERAL LEDGER AT 09/30/2018 219,391.00

REPORT PREPARED BY:


Cheryl M. Stiff

**SAN GORGONIO PASS WATER AGENCY
DEPOSIT RECAP
FOR THE MONTH OF SEPTEMBER 2018**

<u>DATE</u>	<u>RECEIVED FROM</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>	<u>TOTAL DEPOSIT AMOUNT</u>
DEPOSIT TO CHECKING ACCOUNT				
9/5/18	STATE OF CALIF	REFUND OVERPAYMNET LICENSE	57.50	
9/5/18	CITY OF BANNING	WATER SALES	17,752.00	17,809.50
9/18/18	BCVWD	WATER SALES	360,746.00	360,746.00
9/21/18	RIVERSIDE COUNTY	PROPERTY TAXES	654,178.21	654,178.21
9/24/18	YVWD	WATER SALES	23,048.31	23,048.31
9/26/18	TVI	CD - BOND INTEREST	21,336.76	21,336.76
TOTAL FOR SEPTEMBER 2018			1,077,118.78	1,077,118.78

SAN GORGONIO PASS WATER AGENCY
BUDGET REPORT FY 2018-19
BUDGET VS. REVISED BUDGET VS. ACTUAL
FOR THE THREE MONTHS ENDING ON SEPTEMBER 30, 2018

FOR THE FISCAL YEAR JULY 1, 2018 - JUNE 30, 2019

	ADOPTED BUDGET	REVISIONS TO BUDGET	TOTAL REVISED BUDGET	ACTUAL YTD	REMAINING PERCENT OF BUDGET
GENERAL FUND - INCOME				Comparison:	75%
INCOME					
WATER SALES	5,600,000		5,600,000	773,290.77	86.19%
TAX REVENUE	2,650,000		2,650,000	199,398.29	92.48%
INTEREST	200,000		200,000	96,529.40	51.74%
DESIGNATED REVENUES	1,750,000		1,750,000	0.00	100.00%
CAPACITY FEE	0		0	0.00	
OTHER (REIMBURSEMENTS, TRANSFERS)	29,000		29,000	27,240.86	6.07%
TOTAL GENERAL FUND INCOME	10,229,000	0	10,229,000	1,096,459.32	89.28%
GENERAL FUND - EXPENSES					
COMMODITY PURCHASE					
PURCHASED WATER	6,000,000		6,000,000	317,006.00	94.72%
TOTAL COMMODITY PURCHASE	6,000,000	0	6,000,000	317,006.00	94.72%
SALARIES AND EMPLOYEE BENEFITS					
SALARIES	470,000		470,000	117,441.04	75.01%
PAYROLL TAXES	41,000		41,000	9,759.46	76.20%
RETIREMENT	312,000		312,000	58,947.65	81.11%
OTHER POST-EMPLOYMENT BENEFITS (OPEB)	22,000		22,000	6,403.03	70.90%
HEALTH INSURANCE	67,000		67,000	21,177.72	68.39%
DENTAL INSURANCE	4,800		4,800	1,204.50	74.91%
LIFE INSURANCE	1,600		1,600	399.67	75.02%
DISABILITY INSURANCE	5,000		5,000	1,221.39	75.57%
WORKERS COMP INSURANCE	3,700		3,700	0.00	100.00%
SGPWA STAFF MISC. MEDICAL	10,000		10,000	2,707.93	72.92%
EMPLOYEE EDUCATION	1,000		1,000	0.00	100.00%
TOTAL SALARIES AND EMPLOYEE BENEFITS	938,100	0	938,100	219,262.39	76.63%

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SAN GORGONIO PASS WATER AGENCY
BUDGET REPORT FY 2018-19
BUDGET VS. REVISED BUDGET VS. ACTUAL
FOR THE THREE MONTHS ENDING ON SEPTEMBER 30, 2018

FOR THE FISCAL YEAR JULY 1, 2018 - JUNE 30, 2019					
	ADOPTED BUDGET	REVISIONS TO BUDGET	TOTAL REVISED BUDGET	ACTUAL YTD	REMAINING PERCENT OF BUDGET
GENERAL FUND - EXPENSES				Comparison:	75%
ADMINISTRATIVE & PROFESSIONAL					
DIRECTOR EXPENDITURES					
DIRECTORS FEES	111,000		111,000	22,860.64	79.40%
DIRECTORS TRAVEL & EDUCATION	15,000		15,000	2,408.44	83.94%
DIRECTORS MISC. MEDICAL	23,000		23,000	299.20	98.70%
OFFICE EXPENDITURES					
OFFICE EXPENSE	22,000		22,000	2,209.83	89.96%
POSTAGE	600		600	241.64	59.73%
TELEPHONE	12,000		12,000	2,604.69	78.29%
UTILITIES	4,000		4,000	866.23	78.34%
SERVICE EXPENDITURES					
COMPUTER, WEB SITE AND PHONE SUPPORT	9,000		9,000	225.00	97.50%
GENERAL MANAGER & STAFF TRAVEL	20,000		20,000	5,505.48	72.47%
INSURANCE & BONDS	24,000		24,000	0.00	100.00%
ACCOUNTING & AUDITING	21,000		21,000	13,490.00	35.76%
STATE WATER CONTRACT AUDIT	5,500		5,500	2,657.00	51.69%
DUES & ASSESSMENTS	31,500		31,500	27,884.17	11.48%
OUTSIDE PROFESSIONAL SERVICES	10,000		10,000	350.00	96.50%
BANK CHARGES	1,500		1,500	202.33	86.51%
MISCELLANEOUS EXPENSES	500		500	0.00	100.00%
MAINTENANCE & EQUIPMENT EXPENDITURES					
TOOLS PURCHASE & MAINTENANCE	500		500	0.00	100.00%
VEHICLE REPAIR & MAINTENANCE	7,000		7,000	1,419.34	79.72%
MAINTENANCE & REPAIRS - BUILDING	15,000		15,000	3,261.80	78.25%
MAINTENANCE & REPAIRS - FIELD	4,000		4,000	67.85	98.30%
CONTRACT OPERATIONS AND MAINTENANCE	150,000		150,000	0.00	100.00%
COUNTY EXPENDITURES					
LAFCO COST SHARE	7,000		7,000	5,286.99	24.47%
ELECTION EXPENSE	125,000		125,000	0.00	100.00%
TAX COLLECTION CHARGES	12,500		12,500	462.65	96.30%
TOTAL ADMINISTRATIVE & PROFESSIONAL	631,600	0	631,600	92,303.28	85.39%

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SAN GORGONIO PASS WATER AGENCY
BUDGET REPORT FY 2018-19
BUDGET VS. REVISED BUDGET VS. ACTUAL
FOR THE THREE MONTHS ENDING ON SEPTEMBER 30, 2018

		FOR THE FISCAL YEAR JULY 1, 2018 - JUNE 30, 2019				
		ADOPTED BUDGET	REVISIONS TO BUDGET	TOTAL REVISED BUDGET	ACTUAL YTD	REMAINING PERCENT OF BUDGET
					Comparison:	75%
GENERAL FUND - EXPENSES						
GENERAL ENGINEERING						
GRANT WRITER		20,000		20,000	0.00	100.00%
NEW WATER						
PROGRAMATIC EIR		0		0	0.00	
UPDATED STUDY ON AVAILABLE SOURCES		7,500		7,500	0.00	100.00%
SGMA SUPPORT		200,000		200,000	0.00	100.00%
STUDIES						
18 / 110	USGS	115,000		115,000	45,151.87	60.74%
	WATER RATE NEXUS STUDY	25,000		25,000	6,694.91	73.22%
	WATER RATE FINANCIAL MODELING	12,000		12,000	4,850.00	59.58%
	CAPACITY FEE NEXUS STUDY UPDATE	25,000		25,000	0.00	100.00%
	WHEELING RATE STUDY	10,000		10,000	0.00	100.00%
OTHER PROJECTS						
BASIN MONITORING TASK FORCE		18,000		18,000	13,712.00	23.82%
EAST BRANCH MEETINGS		18,000		18,000	3,417.44	81.01%
GENERAL AGENCY - CEQA AND GIS SERVICES		10,000		10,000	0.00	100.00%
TOTAL GENERAL ENGINEERING		460,500	0	460,500	73,826.22	83.97%
LEGAL SERVICES						
LEGAL SERVICES - GENERAL		190,000		190,000	32,351.96	82.97%
TOTAL LEGAL SERVICES		190,000	0	190,000	32,351.96	82.97%
CONSERVATION & EDUCATION						
SCHOOL EDUCATION PROGRAMS		14,000		14,000	0.00	100.00%
ADULT EDUCATION PROGRAMS		5,000		5,000	0.00	100.00%
OTHER CONSERVATION, EDUCATION AND P. R.		35,000		35,000	10,000.00	71.43%
TOTAL CONSERVATION & EDUCATION		54,000	0	54,000	10,000.00	81.48%

SAN GORGONIO PASS WATER AGENCY
BUDGET REPORT FY 2018-19
BUDGET VS. REVISED BUDGET VS. ACTUAL
FOR THE THREE MONTHS ENDING ON SEPTEMBER 30, 2018

FOR THE FISCAL YEAR JULY 1, 2018 - JUNE 30, 2019

	ADOPTED BUDGET	REVISIONS TO BUDGET	TOTAL REVISED BUDGET	ACTUAL YTD	REMAINING PERCENT OF BUDGET
GENERAL FUND - EXPENSES				Comparison:	75%
GENERAL FUND CAPITAL EXPENDITURES					
BUILDING & EQUIPMENT					
BUILDING	10,000		10,000	0.00	100.00%
FURNITURE & OFFICE EQUIPMENT	10,000		10,000	0.00	100.00%
OTHER EQUIPMENT	0		0	0.00	
TRANSPORTATION EQUIPMENT	0		0	0.00	
FIESTA RECHARGE FACILITY					
POST DESIGN	450,000		450,000	84,982.16	81.12%
CONSTRUCTION	3,950,000		3,950,000	0.00	100.00%
FENCING	100,000		100,000	0.00	100.00%
MITIGATION	15,000		15,000	0.00	100.00%
LANDSCAPING/POWER/WATER	60,000		60,000	0.00	100.00%
BUNKER HILL CONJUNCTIVE USE PROJECT	10,000		10,000	0.00	100.00%
NOBLE TURNOUT EXPANSION					
DESIGN	25,000		25,000	0.00	100.00%
CONSTRUCTION	295,000		295,000	0.00	100.00%
POST DESIGN	30,000		30,000	0.00	100.00%
SITES RESERVOIR	0		0	0.00	
MONITORING WELLS USGS	1,020,000		1,020,000	3,747.53	99.63%
TOTAL GENERAL FUND CAPITAL EXPENDITURES	5,975,000	0	5,975,000	88,729.69	98.51%
TRANSFERS TO OTHER FUNDS	0		0	0.00	
TOTAL GENERAL FUND EXPENSES	14,249,200	0	14,249,200	833,479.54	94.15%
WITHDRAWALS FROM RESERVES	4,575,000		4,575,000		
TOTAL TRANSFERS TO/FROM RESERVES	4,575,000		4,575,000	0.00	
GENERAL FUND NET INCOME YEAR TO DATE	554,800	0	554,800	262,979.78	

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SAN GORGONIO PASS WATER AGENCY
BUDGET REPORT FY 2018-19
BUDGET VS. REVISED BUDGET VS. ACTUAL
FOR THE THREE MONTHS ENDING ON SEPTEMBER 30, 2018

FOR THE FISCAL YEAR JULY 1, 2018 - JUNE 30, 2019

	ADOPTED BUDGET	REVISIONS TO BUDGET	TOTAL REVISED BUDGET	ACTUAL YTD	REMAINING PERCENT OF BUDGET
DEBT SERVICE FUND - INCOME				Comparison:	75%
INCOME					
TAX REVENUE	23,586,539		23,586,539	1,172,878.12	95.03%
INTEREST	415,000		415,000	171,607.83	58.65%
GRANTS	0		0	0.00	
DWR CREDITS - BOND COVER, OTHER	2,977,993		2,977,993	29,037.37	99.02%
TOTAL DEBT SERVICE FUND INCOME	26,979,532	0	26,979,532	1,373,523.32	94.91%
DEBT SERVICE FUND - EXPENSES					
EXPENSES					
SALARIES	58,000		58,000	14,847.04	74.40%
PAYROLL TAXES	4,500		4,500	1,135.81	74.76%
BENEFITS	33,000		33,000	11,374.24	65.53%
SWC CONTRACTOR DUES	75,000		75,000	64,199.00	14.40%
STATE WATER CONTRACT PAYMENTS	19,200,000		19,200,000	9,906,248.00	48.40%
WATER TRANSFERS	2,250,000		2,250,000	2,249,470.50	0.02%
STATE WATER PROJECT LEGAL SERVICES	0		0	0.00	
USGS	0		0	0.00	0.00%
CONTRACT OPERATIONS AND MAINTENANCE	150,000		150,000	0.00	100.00%
SWP ENGINEERING	75,000		75,000	0.00	100.00%
DEBT SERVICE UTILITIES	11,000		11,000	2,629.90	76.09%
TAX COLLECTION CHARGES	70,000		70,000	2,621.71	96.25%
TOTAL DEBT SERVICE FUND EXPENSES	21,926,500	0	21,926,500	12,252,526.20	44.12%
TRANSFERS FROM RESERVES	0		0	0.00	
DEBT SERVICE NET INCOME YEAR TO DATE	5,053,032	0	5,053,032	-10,879,002.88	

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**SAN GORGONIO PASS WATER AGENCY
RESERVE ALLOCATION REPORT
FY 2017-18
FOR THE TWELVE MONTHS ENDING JUNE 30, 2018**

	JUN 30, 17	SEP 30, 17	DEC 31, 17	MAR 31, 18	JUN 30, 18
RESTRICTED					
STATE WATER CONTRACT FUND	42,217,597	33,073,299	37,768,186	34,311,583	45,115,484
UNRESTRICTED					
OPERATIONS	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
NEW INFRASTRUCTURE	3,363,588	4,389,567	4,293,632	5,126,743	11,213,867
Additions or Adjustments	1,002,036	-95,935	833,111	6,087,124	1,241,334
Expenditures					-929,885
Ending Balance	4,365,624	4,293,632	5,126,743	11,213,867	11,525,316
ADDITIONAL WATER	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000
Adjustments from Other Sources	2,000,000	1,536,274	1,536,274	1,536,274	1,536,274
Ratepayer - Balance Forward	1,537,950	1,537,950	1,636,035	346,110	398,152
Ratepayer - Current Contribution		98,085	94,149	52,042	78,971
Rate Stabilization - Balance Forward	621,676	621,856	670,898	716,973	742,994
Excess Rate Stabilization - Current		49,042	46,075	26,021	39,486
Expenditures	-360,677	103,049	-1,384,074	0	-1,869,985
Ending Balance	6,298,949	6,446,256	5,099,356	5,177,420	3,425,891
RATE STABILIZATION					
Taxpayer Contribution	0	0	0		
Previous Ratepayer Balance	150,000	150,000	150,000	150,000	150,000
Ratepayer Contribution		49,042	46,075	26,021	39,486
Excess Contribut.-To Addnl. Water		-49,042	-46,075	-26,021	-39,486
Expenditures					
Ending Balance	150,000	150,000	150,000	150,000	150,000
REPLACEMENTS	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000
UNEXPECTED LEGAL SERVICES	150,000	150,000	150,000	150,000	150,000
TOTAL UNRESTRICTED RESERVES	13,714,573	13,789,888	13,276,099	19,441,287	18,001,207
TOTAL RESERVES	55,932,171	46,863,187	51,044,285	53,752,870	63,116,691
CASH LOCATION					
Petty Cash	100	100	100	100	100
Checking Accounts	156,128	3,102,158	206,424	307,024	287,171
Wells Fargo M.M. Savings	1,267,082	767,313	67,413	15,428	15,432
Local Agency M M Acct. BofH	509,816	510,007	510,197	510,388	511,216
LAIF	16,274,975	4,691,169	12,415,746	14,984,434	24,234,434
CalTRUST	19,789,070	19,857,440	19,930,405	20,013,497	20,107,339
Time Value Investments	17,935,000	17,935,000	17,914,000	17,922,000	17,961,000
TOTAL CASH	55,932,171	46,863,187	51,044,285	53,752,870	63,116,691

SAN GORGONIO PASS WATER AGENCY

CASH RECONCILIATION REPORT

FY 2017-18

UNAUDITED

FOR THE TWELVE MONTHS ENDING ON JUNE 30, 2018

DEBT SERVICE FUND - RESTRICTED

BEGINNING BALANCE - JULY 1, 2017		
RESERVE FOR STATE WATER PROJECT	<u>42,217,597</u>	
DEBT SERVICE ACTIVITY		
DEBT SERVICE DEPOSITS		
PROPERTY TAX - DEBT SERVICE DEPOSITS	23,011,258	
INTEREST INCOME	416,334	
DWR REFUNDS	2,936,128	
DEBT SERVICE DISBURSEMENTS	(17,609,847)	
TRANSFER TO GENERAL FUND - JOINT FACILITIES	<u>(5,855,985)</u>	
ENDING RESTRICTED FUNDS BALANCE - - - JUN 30 2018	<u>45,115,484</u>	<u>45,115,484</u>

GENERAL FUND - UNRESTRICTED

BEGINNING BALANCE - JULY 1, 2017		<u>13,714,574</u>
GENERAL FUND ACTIVITY		
GENERAL FUND DEPOSITS		
WATER SALES	4,213,213	
PROPERTY TAX - GENERAL PURPOSE DEPOSITS	2,540,440	
INTEREST INCOME	192,796	
OTHER INCOME	199,295	
CHANGE IN RECEIVABLES	664,332	
TRANSFER FRM DEBT SERVICE FUND - JOINT FACILITIES	5,855,985	
GENERAL FUND DISBURSEMENTS		
CHANGE IN LIABILITIES	(757,577)	
CHANGE IN CAPITAL ASSETS	(1,334,240)	
OPERATING EXPENDITURES	<u>(7,287,611)</u>	
ENDING UNRESTRICTED FUNDS BALANCE - - - JUN 30 2018	<u>18,001,208</u>	<u>18,001,208</u>

<u>TOTAL CASH - - - JUN 30 2018</u>		<u>63,116,691</u>
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LOCATION OF CASH - - - JUN 30 2018

PETTY CASH	100
CASH IN CHECKING ACCOUNTS	287,171
WELLS FARGO MONEY MARKET SAVINGS	15,432
BANK OF HEMET LOCAL AGENCY MONEY MARKET ACCOUNT	511,216
LOCAL AGENCY INVESTMENT FUND	24,234,434
CALTRUST	20,107,339
TIME VALUE INVESTMENTS	17,961,000

<u>TOTAL - - - JUN 30 2018</u>	<u>63,116,691</u>
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SAN GORGONIO PASS WATER AGENCY

CASH RECONCILIATION REPORT

FY 2017-18
BY QUARTER

UNAUDITED

	SEP 30, 17	DEC 31, 17	MAR 31, 18	JUN 30, 18
<u>DEBT SERVICE FUND - RESTRICTED</u>				
BEGINNING BALANCE - JULY 1, 2017				
RESERVE FOR STATE WATER PROJECT	<u>42,217,597</u>	<u>42,217,597</u>	<u>42,217,597</u>	<u>42,217,597</u>
DEBT SERVICE ACTIVITY				
DEBT SERVICE DEPOSITS				
PROPERTY TAX - D. S. DEPOSITS	1,217,492	5,816,868	13,317,189	23,011,258
INTEREST INCOME	104,854	197,390	333,271	416,334
DWR REFUNDS	37,724	1,427,272	1,427,272	2,936,128
DEBT SERVICE DISBURSEMENTS	(10,504,368)	(11,890,941)	(17,122,721)	(17,609,847)
TRANSFER TO GENERAL FUND			(5,855,985)	(5,855,985)
<u>ENDING RESTRICTED FUNDS BALANCE</u>	<u>33,073,299</u>	<u>37,768,186</u>	<u>34,316,623</u>	<u>45,115,484</u>
<u>GENERAL FUND - UNRESTRICTED</u>				
BEGINNING BALANCE - JULY 1, 2016	<u>13,714,574</u>	<u>13,714,574</u>	<u>13,714,574</u>	<u>13,714,574</u>
GENERAL FUND ACTIVITY				
GENERAL FUND DEPOSITS				
WATER SALES	1,129,414	2,527,944	3,485,211	4,213,213
PROPERTY TAX - GENERAL DEPOSITS	192,349	849,836	1,590,578	2,540,440
INTEREST INCOME	34,951	72,748	146,074	192,796
OTHER INCOME	129,372	193,279	193,372	199,295
CHANGE IN RECEIVABLES	476,351	476,351	664,332	664,332
TRANSFER FROM DEBT SERVICE FUND			5,855,985	5,855,985
GENERAL FUND DISBURSEMENTS				
CHANGE IN LIABILITIES	(755,156)	(754,871)	(816,842)	(757,577)
CHANGE IN CAPITAL ASSETS	(61,343)	(322,283)	(434,462)	(1,334,240)
OPERATING EXPENDITURES	(1,070,624)	(3,481,478)	(4,962,575)	(7,287,611)
<u>ENDING UNRESTRICTED FUNDS BALANCE</u>	<u>13,789,888</u>	<u>13,276,099</u>	<u>19,436,247</u>	<u>18,001,208</u>
<u>TOTAL CASH - END OF QUARTER</u>	<u>46,863,187</u>	<u>51,044,285</u>	<u>53,752,870</u>	<u>63,116,691</u>
<u>CASH AND INVESTMENTS</u>				
PETTY CASH	100	100	100	100
CASH IN CHECKING ACCOUNTS	3,102,158	206,424	307,024	287,171
WELLS FARGO MM SAVINGS	767,313	67,413	15,428	15,432
BANK OF HEMET L.A.M.M.A.	510,007	510,197	510,388	511,216
LOCAL AGENCY INVESTMENT FUND	4,691,169	12,415,746	14,984,434	24,234,434
CALTRUST	19,857,440	19,930,405	20,013,497	20,107,339
TIME VALUE INVESTMENTS	17,935,000	17,914,000	17,922,000	17,961,000
<u>TOTAL - END OF QUARTER</u>	<u>46,863,187</u>	<u>51,044,285</u>	<u>53,752,870</u>	<u>63,116,691</u>

**SAN GORGONIO PASS WATER AGENCY
INVESTMENT REPORT
FY 2017-18
FOR THE TWELVE MONTHS ENDING ON JUNE 30, 2018**

Accounting convention defines Current Assets as assets that can be liquidated within 1 year. By this definition, funds invested in Wells Fargo accounts, Bank of Hemet accounts, LAIF and CalTRUST accounts would all be considered Current Assets, or short-term investments.

The Agency categorizes its investments into three groups: Short-Term (can be liquidated or mature in 1 year); Medium-Term (mature in more than 1 year up to 5 years) and Long-Term (mature after 5 years).

For the purposes of this report, a "Hybrid" category is included for investments that can be liquidated in a year, but whose underlying securities may mature in more than one year. LAIF and CalTRUST both fall into this category.

This report includes a summary of cash and investments, and a detail of investments by category. The summary can be compared to the Cash Reconciliation Report. The detail of investments may differ slightly from the summary, due to rounding differences. This report also includes charts to show graphically the different investment categories, and what they are earning.

UNAUDITED

CASH AND INVESTMENT SUMMARY

LOCATION - INSTITUTION

PETTY CASH	100
CASH IN CHECKING ACCOUNTS	287,171
WELLS FARGO MONEY MARKET SAVINGS	15,432
BANK OF HEMET LOCAL AGENCY MONEY MARKET ACCOUNT	511,216
LOCAL AGENCY INVESTMENT FUND	24,234,434
CALTRUST SHORT-TERM	5,140,377
CALTRUST MEDIUM-TERM	14,966,962
TIME VALUE INVESTMENTS	17,961,000
US TREASURY	-

<u>TOTAL</u>	63,116,691
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ALL INVESTMENTS LISTED ON THE INVESTMENT REPORT AND HELD BY THE SAN GORGONIO PASS WATER AGENCY ARE IN COMPLIANCE WITH THE AGENCY'S STATEMENT OF INVESTMENT POLICY.

THE AGENCY CAN MEET ITS EXPENDITURE REQUIREMENTS FOR THE NEXT SIX MONTHS.

Thomas W. Todd, Jr.

October 17, 2018

**SAN GORGONIO PASS WATER AGENCY
INVESTMENT REPORT
FY 2017-18
FOR THE TWELVE MONTHS ENDING ON JUNE 30, 2018**

INVESTMENT DETAIL

SHORT-TERM

INSTITUTION	Account	YIELD RATE	STATEMENT DATE	CURRENT VALUE
Wells Fargo	Money Market Savings	0.10%	6/30/18	15,431.71
Bank of Hemet	Local Agency Money Market	0.65%	6/30/18	511,215.76

HYBRID

INSTITUTION	Account	YIELD RATE	STATEMENT DATE	CURRENT VALUE
State of California	Local Agency Investment Fund	1.85%	* 6/30/18	24,234,433.75
CalTRUST	Short-Term	2.02%	* 6/30/18	5,140,377.05
CalTRUST	Medium-Term	1.96%	* 6/30/18	14,966,961.63

*Average for June, 2018

MEDIUM-TERM

BROKER: TIME VALUE INVESTMENTS BONDS

ISSUER	TYPE	PURCHASE AMOUNT	YIELD RATE	MATURITY DATE	FACE VALUE	CURRENT VALUE
FFCB	Callable*	999,200	1.12%	02/22/2019	1,000,000	992,640
FFCB	Callable*	1,001,474	1.02%	07/12/2019	1,000,000	985,240
FFCB	Callable*	1,000,770	1.38%	03/02/2020	1,000,000	978,960
FNMA	Callable*	1,050,000	1.40%	11/25/2020	1,050,000	1,020,915
FHLB	Callable*	1,998,676	2.50%	08/20/2021	2,000,000	1,980,060
TOTAL		6,050,120	1.65%	TOTAL	6,050,000	5,957,815.00

* Can be redeemed before maturity date.

BROKER: TIME VALUE INVESTMENTS CDs

ISSUER	PURCHASE AMOUNT	YIELD RATE	MATURITY DATE	FACE VALUE	CURRENT VALUE
Various banks	9,911,000	1.75%	2-22 months	9,911,000	9,855,897.28

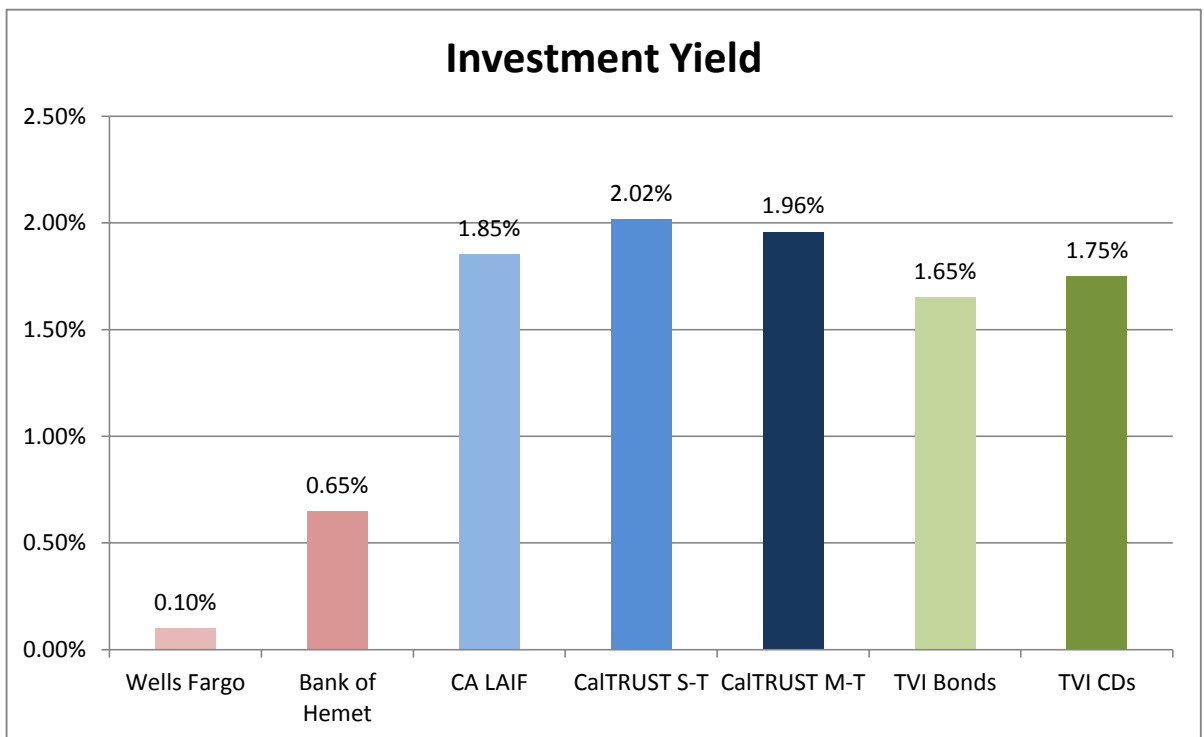
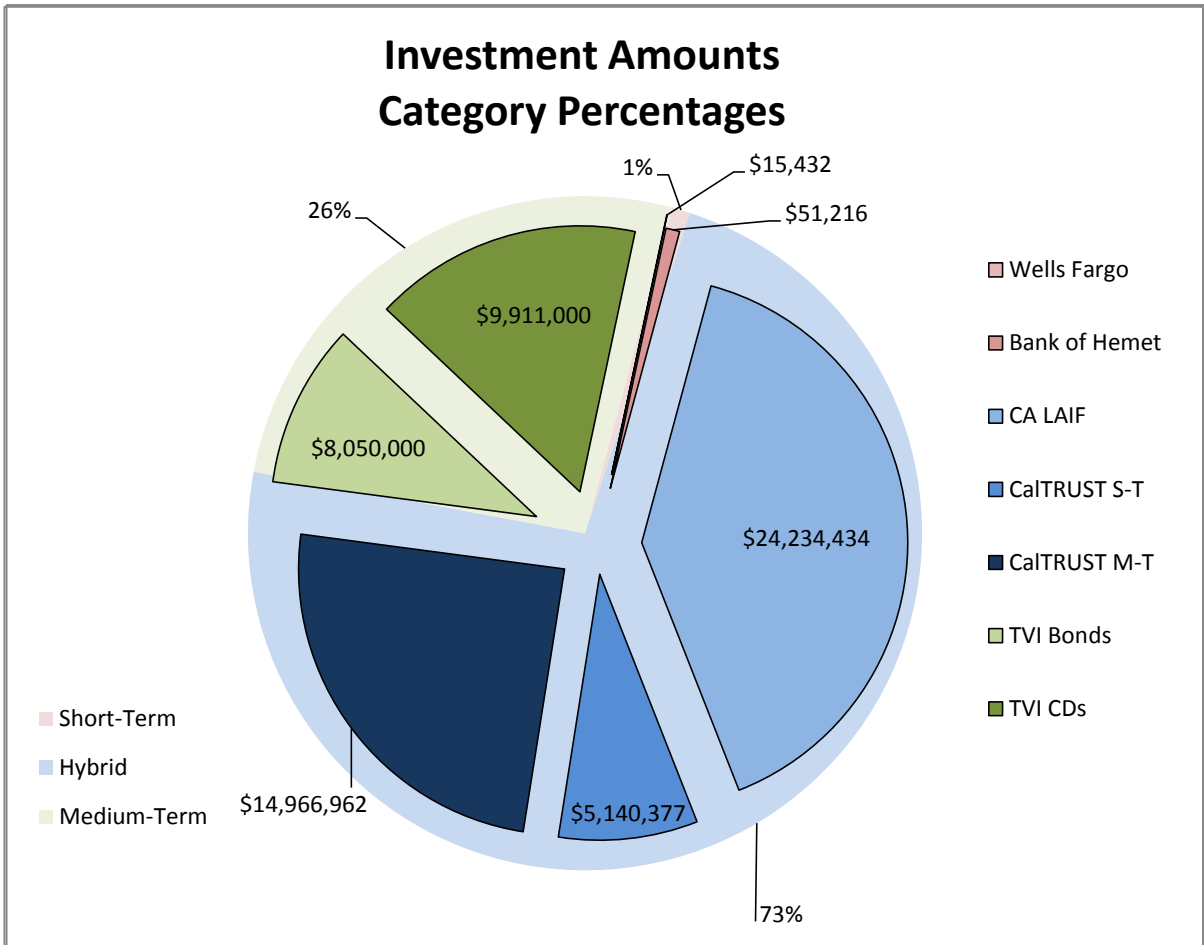
BROKER: TIME VALUE INVESTMENTS MONEY MARKET

Bond matured 6/18/18, replacement not selected at 6/30/18.	2,000,000.00
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LONG-TERM

The Agency has no Long-Term investments at the date of this report.

**SAN GORGONIO PASS WATER AGENCY
INVESTMENT REPORT
FY 2017-18
FOR THE TWELVE MONTHS ENDING ON JUNE 30, 2018**



MEMORANDUM

TO: Board of Directors – Finance & Budget Workshop

FROM: General Counsel

RE: Consideration and Possible Action To Approve Participation In The Public Policy & Ethics Program For Fiscal Year 2018-2019

DATE: October 22, 2018

Summary:

The Agency has participated in BBK's Public Policy & Ethics Program in past years. The Board has requested additional information regarding the Program in order to determine whether the Board wishes to renew its participation. Since the Finance & Budget Committee considers matters regarding payment for legal services, the Board requested that this matter be considered for approval at a Finance & Budget Workshop.

Pricing:

The Program provides information on laws that directly impact public agencies such as the Political Reform Act, Fair Political Practices Commission Regulations, Brown Act, and Public Records Act. The Program also provides updates on new legislation and judicial decisions affecting local governments. By providing updates to a large pool of participants, BBK is able to divide the overall cost of the products among all participants and charge only a fraction of the total costs to the individual client agencies. There are approximately 85 BBK public agency clients that participate in this Program. Billing for clients is determined based on population tiers as follows:

Cities:	Tier 1 – 300,000+
	Tier 2 – 10,000–29,999
	Tier 3 – to 9,000

Special Districts:	Tier 1 – 26,000
	Tier 2 – 4,000–25,999
	Tier 3 – to 3,999
Schools (students):	Tier 1 - 30,000
	Tier 2 – 5,001–29,999
	Tier 3 – to 5,000

Based on the size of the population served, the Agency would be charged a onetime fee at the Tier 1 level, for fiscal year 2018-2019, in the amount of \$4,600. The amounts charged per Tier are as follows:

- Tier 1 - \$4,600
- Tier 2 - \$3,300
- Tier 3 - \$2100

Work Product

The annual fee covers the following services under the Program. In addition, a listing of the work product provided over the past few years is enclosed for your reference.

1. Advice concerning matters that affect local government such as new legislation, regulations, court decisions and Attorney General opinions.
2. Annual updates on the Brown Act, the Public Records Act, the Political Reform Act, and other conflict of interest laws.
3. Participants are offered the following legal services at a discounted rate in addition to the annual fee:
 - (a) Customized, on-site training regarding Statements of Economic Interests (Form 700s).
 - (b) BBK-hosted presentations related to the Political Reform Act and the client's role as: (1) the Filing Officer receiving and filing Statements of Economic Interests (Form 700s); and (2) development and implementation of the Agency's Conflict of Interest Code.

(c) Customized, on-site ethics training required under AB 1234.

(d) Customized on-site training in the Brown Act.

(e) Customized, on-site training in the Public Records Act.

(f) BBK training webinars.

Recommendation

It is recommended that the Board of Directors – Finance & Budget Committee take one of the following actions:

1. Approve participation in the Program for fiscal year 2018-2019 and approve payment to BBK in the amount of \$4,600; or
2. Defer consideration of whether to participate in the Program to a subsequent fiscal year.

PUBLIC POLICY AND ETHICS PROGRAM
DISTRIBUTIONS 2014 – 2018

2014

- UPDATE ON COMPLIANCE WITH THE PATIENT PROTECTION AND AFFORDABLE CARE ACT (“ACA”) AND ITS IMPACTS ON HEALTH PLANS OF PUBLIC AND PRIVATE EMPLOYERS
- AMENDMENTS TO FPPC CONFLICT OF INTEREST MATERIALITY STANDARDS FOR FINANCIAL INTERESTS IN BUSINESS ENTITIES – WHEN DOES A BOARD MEMBER HAVE A CONFLICT OF INTEREST?
- AMENDMENTS TO THE BROWN ACT UPDATE FOR 2014 – HANDBOOK/GUIDE PREPARED BY BBK
- FPPC ADOPTS NEW REGULATIONS 18706 AND 18706.1 (REASONABLY FORESEEABLE) – WHEN DOES A BOARD MEMBER HAVE A CONFLICT OF INTEREST?
- ENHANCED AUTHORITY OF STATE TO ENFORCE CAMPAIGN CONTRIBUTION AND EXPENDITURE LAWS (AB 800)
- MANDATORY DUTY OF AGENCIES TO REVIEW THEIR CONFLICT OF INTEREST CODES FOR 2014
- RULES AND REGULATIONS FOR PUBLIC OFFICIALS REGARDING MEALS – WHEN CAN MEALS BE ACCEPTED AND HOW MUST THEY BE REPORTED?
- FPPC: NEW GIFT TO AGENCY RULES (REGULATION 18944) – GIFTS TO AN AGENCY THAT ARE THEN UTILIZED BY BOARD MEMBERS – FOR EXAMPLE, TICKETS TO EVENTS
- FPPC: NEW TRAVEL RULES (REGULATIONS 18950 – 18950.3)

2015

- GOVERNMENT CODE § 1090 IMPLICATIONS FOR CONTRACTS WHERE A BOARD MEMBER HAS A FINANCIAL INTEREST IN A CONTRACT MADE BY THE AGENCY
- YEAR END RECAP OF LEGISLATIVE CHANGES AFFECTING PUBLIC INTEGRITY, GOVERNMENT TRANSPARENCY AND RELATED STATUTES
- LIMITATIONS ON ACCEPTING HOLIDAY GIFTS

- PROPER RELATIONSHIP BETWEEN AND AMONG BOARD MEMBERS AND STAFF – PREVENTING BOARD MEMBERS FROM ENGAGING IN DAY-TO-DAY MANAGEMENT
- SUMMARY OF THE BROWN ACT AND CONFLICT OF INTEREST LAWS – UPDATED REGULARLY BY BBK FOR NEW BOARD MEMBER ORIENTATIONS
- MEMBERS OF PUBLIC AGENCY GOVERNING BOARDS PARTICIPATING IN NONPROFIT AND OTHER COMMUNITY ORGANIZATIONS – WHEN WILL THERE BE A CONFLICT OF INTEREST?
- CHANGES IN THE FAIR POLITICAL PRACTICES COMMISSION REGULATIONS RE: MAKING A GOVERNMENTAL DECISION, PUBLIC IDENTIFICATION OF A CONFLICT OF INTEREST AND PUBLIC OFFICIALS WHO MANAGE PUBLIC INVESTMENTS – WHEN IS THERE A CONFLICT OF INTEREST AND HOW MUST A BOARD MEMBER DISCLOSE/RECUSE?
- AMENDMENTS TO THE FPPC’S “PUBLIC GENERALLY” REGULATIONS – FOR EXAMPLE, WHEN CAN BOARD MEMBERS VOTE ON RATES THAT WILL IMPACT THE “PUBLIC GENERALLY” AND THEREFORE, NOT BE DEEMED A CONFLICT OF INTEREST?
- SUMMARY OF CHANGES TO FPPC REGULATIONS RE: CONFLICT OF INTEREST ANALYSIS AND MATERIALITY STANDARDS
- ELECTIONS & CAMPAIGN ACTIVITY – NEW LAWS & REGULATIONS
- AMENDMENTS TO FPPC CONFLICT OF INTEREST MATERIALITY STANDARDS FOR SOURCE OF INCOME, SOURCE OF GIFT, AND PERSONAL FINANCES – WHEN IS THERE A CONFLICT OF INTEREST?
- YEAR END RECAP - LEGISLATIVE CHANGES - PUBLIC INTEGRITY AND RELATED STATUTES; AND AMENDMENTS TO FPPC REGULATIONS
- REVISED FPPC GIFT LIMITS AND DISQUALIFICATION PROCESSES – WHEN IS THERE A CONFLICT OF INTEREST AND HOW MUST A BOARD MEMBER RECUSE HIMSELF/HERSELF?
- UPDATE 2015 RALPH M. BROWN ACT (OPEN MEETING LAWS) – HANDBOOK/GUIDE PREPARED BY BBK

2016

- SUMMARY OF LEGISLATION PASSED IN 2016 AFFECTING PUBLIC INTEGRITY AND VOTING/ELECTIONS LAWS
- HOW STAFF SHOULD RECUSE THEMSELVES WHEN THEY HAVE A CONFLICT UNDER THE POLITICAL REFORM ACT OR GOVERNMENT CODE § 1090 – CONTRACTUAL CONFLICTS OF INTEREST – NEW REQUIREMENTS
- HOW BOARD MEMBERS SHOULD DISCLOSE AND RECUSE UNDER THE POLITICAL REFORM ACT AND GOVERNMENT CODE 1090 – CONTRACTUAL CONFLICTS OF INTEREST – NEW REQUIREMENTS
- ANALYSIS AND GUIDANCE ON THE CALIFORNIA VOTING RIGHTS ACT – UPDATE ON NEW LAWS IN PREPARATION FOR ELECTION CYCLE
- 2016 MANDATORY DUTY OF AGENCIES TO REVIEW THEIR CONFLICT-OF-INTEREST CODES
- GIFTS: TICKETS OR PASSES – NEW REQUIREMENTS
- NEW REQUIREMENT ON AGENCIES UNDER THE PUBLIC RECORDS ACT - AGENCIES MUST CREATE A CATALOG OF ENTERPRISE SYSTEMS (SB 272)

2017

- REVOLVING DOOR PROHIBITIONS – WHAT ARE THE LIMITATIONS ON A BOARD MEMBER OR STAFF LEAVING THE AGENCY AND THEN REPRESENTING PRIVATE INDIVIDUALS/ENTITIES BEFORE THAT AGENCY BOARD?
- LAWS, RULES AND POLICIES GOVERNING INCOMPATIBLE OFFICES - FOR EXAMPLE, WHEN IS AN ELECTED OFFICIAL PROHIBITED FROM HOLDING SEATS ON TWO DIFFERENT PUBLIC AGENCIES?
- RECENT CALIFORNIA SUPREME COURT DECISION THAT CHANGES THE STANDARD FOR WHEN A CONSULTANT OR INDEPENDENT CONTRACTOR CAN BE CONSIDERED AN “EMPLOYEE” SUBJECT TO GOVERNMENT CODE § 1090 – FOR EXAMPLE, A COMPANY PREPARES THE PLANS FOR A PROJECT AND THEN WANTS TO BID ON THE CONSTRUCTION THAT IS BASED ON THAT COMPANY’S PLANS – IS THAT A PROHIBITED CONTRACTUAL CONFLICT OF INTEREST?

- ACWA DUES: NEW REQUIREMENTS ON ACWA MEMBERS TO REPORT THEIR DUES AS A “LOBBYING EXPENSE”
- CALIFORNIA SUPREME COURT DECISION IN *CITY OF SAN JOSE V. SUPERIOR COURT*: ELECTRONIC COMMUNICATIONS HELD ON PRIVATE, NONGOVERNMENTAL ACCOUNTS OF PUBLIC AGENCY OFFICIALS COULD BE SUBJECT TO DISCLOSURE UNDER THE PUBLIC RECORDS ACT

2018 (to date)

- 2017 LEGISLATIVE ROUNDUP: POLITICAL REFORM ACT AND CALIFORNIA PUBLIC RECORDS ACT
- 2018 MANDATORY DUTY ON AGENCIES TO REVIEW THEIR CONFLICT-OF-INTEREST CODES
- MASS MAILING PROHIBITION AND EXCEPTIONS (SB 45) – NEW REQUIREMENTS
- PROCESSES AND REMEDIES FOR PUBLIC INTEGRITY LAW VIOLATIONS: PART I. THE POLITICAL REFORM ACT; PART II. GOVERNMENT CODE SECTION 1090; PART III. THE BROWN ACT, OPEN MEETINGS LAW, AND PUBLIC RECORDS ACT
- GUIDELINES TO PREVENT SERIAL MEETINGS WHICH VIOLATE THE BROWN ACT

MEMORANDUM

TO: Board of Directors

FROM: General Manager

RE: Consideration of Fiscal Year 2017-2018 Audit

DATE: November 5, 2018

Summary:

The purpose of this proposed Board action is to consider the 2017-2018 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. She and Brandon Farrell previously presented the draft audit to the Finance and Budget workshop October 22.

At the October 22 workshop, President Fenn requested that the Management Discussion and Analysis portion of the audit be separately discussed by the Board prior to consideration of the audit itself. For this reason, discussion of the Management Discussion and Analysis portion of the audit is listed as a separate agenda item, prior to consideration of the audit itself.

Recommendation:

Staff recommends that the Board accept the 2017-2018 audit as presented.

SAN GORGONIO PASS WATER AGENCY

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION WITH
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEARS ENDED
June 30, 2018 AND 2017**

SAN GORGONIO PASS WATER AGENCY
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June 30, 2018

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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 years ended June 30, 2018 and 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and 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 opinions.



EADLE + PAYNE

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**Certified Public Accountants
& Business Advisors**

Opinions

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, 2018 and 2017, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and information related to the pension and other postemployment benefits plan on pages 3-9 and 46-49, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2018, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.



October 17, 2018
Riverside, California

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

SAN GORGONIO PASS WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
June 30, 2018 and 2017

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. In 2018, the Department of Water Resources completed the construction of Phase 2, which increased 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 position, 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.

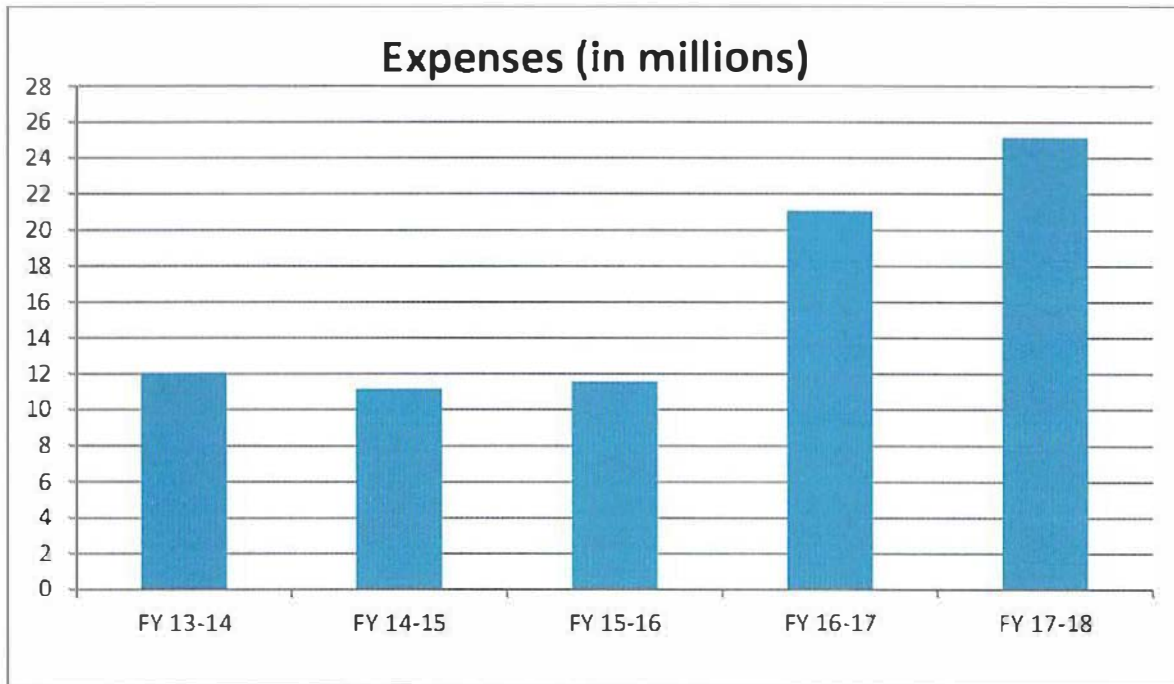
SAN GORGONIO PASS WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
June 30, 2018 and 2017

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

By reviewing the table below, it is possible to see that overall income (Operating and Non-operating) totals \$30.80 million for FY 2017-18, an increase of \$2.66 million from FY 2016-17. Overall expenses (Operating and Non-Operating) totaled \$25.57 million for FY 2017-18, an increase of \$4.12 million from FY 2016-17. The Agency purchased additional water in FY 2017-18, and net changes in pension and OPEB expenses were the major factors in the increase, but lower amortization expense of State Water Rights helped to offset them. The resulting Net Income was \$5.23 million.

SAN GORGONIO PASS WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
June 30, 2018 and 2017

Total Assets for FY 2017-18 were \$181.70 million, an increase of \$6.68 million from the previous fiscal year. This 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 \$4.60 million, Restricted Assets increased \$1.87 million and Capital Assets decreased \$0.10 million.

Current Liabilities were \$2.28 million, an increase of \$1.30 million from FY 2016-17. Long Term Liabilities were \$0.95 million, an increase of \$0.30 million. Therefore, Net Position (the combination of Total Assets, Liabilities, Deferred Inflows and Deferred Outflows) for FY 2017-18 were \$178.78 million, a net increase of \$5.11 million.

Financial Statement Summary
(in millions)

	6/30/18	6/30/17	6/30/16
Current Assets	\$ 19.50	\$ 14.90	\$ 13.35
Restricted Assets	46.76	44.89	39.70
Capital Assets	115.44	115.24	114.97
Deferred Outflows	0.36	0.33	0.20
Current Liabilities	2.28	0.98	0.64
Noncurrent Liabilities	0.95	0.65	0.49
Deferred Inflows	0.06	0.06	0.11
Net Position	178.78	173.67	166.97
Operating Revenues	4.62	4.75	1.86
Operating Expenses	(25.20)	(21.09)	(11.52)
Non-Operating Revenues			
Interest	0.76	0.48	0.31
Property Taxes	25.20	22.78	20.64
Miscellaneous	0.21	(0.17)	0.17
Non-Operating Expenses	(0.08)	(0.08)	(0.07)
Change in Net Position	5.23	6.70	11.49

The past few years have seen new reporting standards regarding pension liabilities and other post-employment benefits. The new standards change the way pension expenses and liabilities are recorded, and has had a minor impact on the statements of the Agency. This year was the first year of the new standards for other post-employment benefits (OPEB).

SAN GORGONIO PASS WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
June 30, 2018 and 2017

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 more closely match the year they impact pension balances. In addition, the statements include deferred outflows and deferred inflows (in essence, pre-payments), as well as a long-term pension liability.

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. The proportionate share is listed as a Noncurrent Liability in the Liability section of the Net Assets statement. Future contributions to the unfunded liability could change the classification of the fund balance.

For OPEB, the Agency joined an investment pool sponsored by CalPERS to build a trust fund to pay for future OPEB expenses. The Agency's first contribution to the pool, California Employers' Retiree Benefit Trust (CERBT), was made in 2009. Annual contributions were made in accordance with GASB Statement No. 45, and contributions to the trust and direct payments for health care costs were recorded as current expenses.

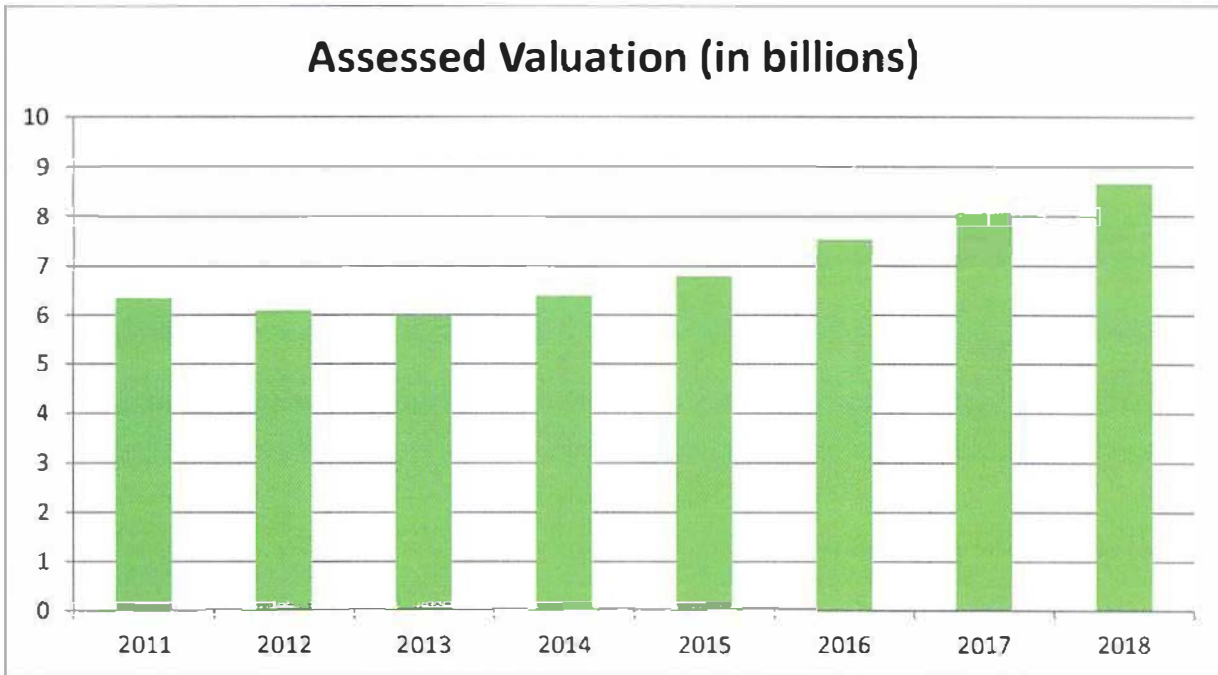
Starting with FY 2017-18, GASB Statement No. 75 takes effect, which is an attempt to more accurately categorize the transactions associated with current and future OPEB costs. Agency contributions to CERBT and direct expenses have been reclassified, and the statements include deferred outflows and deferred inflows, as well as a long-term OPEB liability. The estimate of OPEB liability is a current estimate of the difference between the estimated OPEB cost and the funded status of CERBT. This amount is listed as a Noncurrent Liability in the Liability section of the Net Assets statement. Future contributions to CERBT could change the classification of the balance of the Agency's net OPEB obligation.

The Agency's involvement with CERBT requires that an actuarial study to determine the Agency's potential future OPEB costs be made every 2 years. The study also estimates the current level of funding, to help gauge the Agency's progress in fully funding its OPEB obligations.

SAN GORGONIO PASS WATER AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
June 30, 2018 and 2017

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, 2018, Capital Assets totaled \$115.44 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, 2018 and 2017

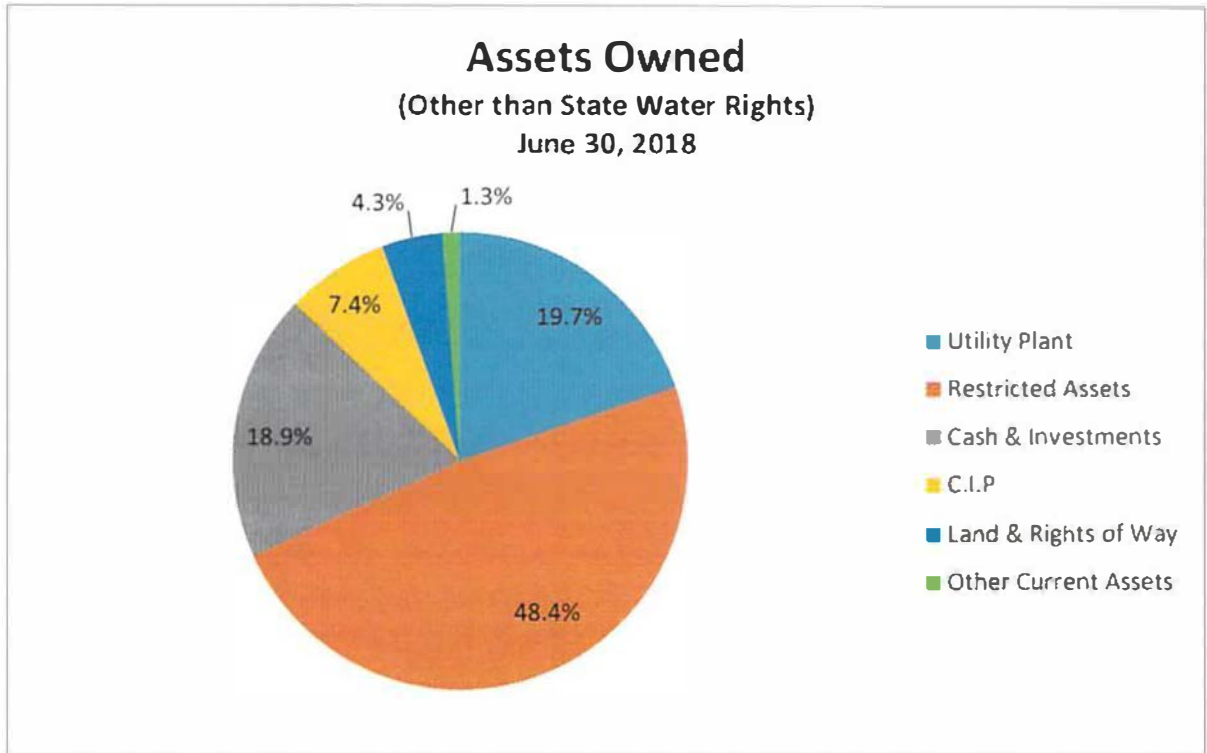
Capital Asset Activity for the Year

	Balance July 1, 2016	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Capital Assets, not being depreciated					
Land and Rights of Way	4,138,966	4,138,966	-	-	4,138,966
Construction in Progress	4,410,422	5,174,280	1,963,592	-	7,137,872
Total Capital Assets, not being depreciated	8,549,388	9,313,246	1,963,592	-	11,276,838
Capital Assets, being depreciated/amortized					
Investment in State Water Rights	129,511,413	140,127,118	4,401,611	-	144,528,729
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	1,645,293	1,645,293	-	-	1,645,293
Furniture and Fixtures	172,961	172,961	7,172	43,234	136,899
Technical Equipment	214,823	94,439	-	-	94,439
Transportation Equipment	74,462	74,462	33,666	29,515	78,613
Total Capital Assets being depreciated or amortized	148,728,904	159,224,225	4,442,449	72,749	163,593,925
Total Capital Assets	157,278,292	168,537,470	6,406,041	72,749	174,870,763

The Agency made payments to the Department of Water Resources during the year totaling \$20.86 million. That amount included expenditures for water purchases, as well as payments for indebtedness and operations and maintenance of 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 retailers in FY 2017-18 totaled 14,451 AF, and included deliveries to Yucaipa Valley Water District through facilities jointly owned and operated with the San Bernardino Valley Municipal Water District. Even though the Agency's allocation was significantly less than last year, water purchased from other sources allowed the Agency to meet retailers' requests for this fiscal year.

Construction in Progress increased by \$1.96 million between July 1, 2017 and June 30, 2018. The projects currently in Construction in Progress include improvements to the East Branch Extension Phase 1 project, plans for a pipeline for water delivery to the City of Banning, the East Branch Extension Phase 2 project, enlargement of the Noble turnout which delivers water to the Beaumont Cherry Valley Water District, construction of a recharge facility on Brookside and Beaumont Avenue 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 \$46.76 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 \$19.50 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, 2018 and 2017

	2018	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets		
Cash and cash equivalents	\$ 818,693	\$ 1,933,126
Cash in Local Agency Investment Fund	17,450,259	11,655,212
Accounts receivable	440,278	601,188
Property taxes receivable	629,053	640,926
Interest receivable	154,934	63,143
Other	7,782	6,730
Total current assets	<u>19,500,999</u>	<u>14,900,325</u>
Restricted assets		
Cash in Local Agency Investment Fund	6,738,780	4,602,522
Investments	37,688,838	37,615,075
Property taxes receivable	2,336,855	2,671,919
Total restricted assets	<u>46,764,473</u>	<u>44,889,516</u>
Noncurrent assets		
Capital assets		
Investment in State Water Project	144,528,729	140,127,118
Utility plant in service	19,065,197	19,097,108
Less accumulated depreciation and amortization	(59,433,754)	(53,298,305)
Land and rights of way	4,138,967	4,138,966
Construction in progress	7,137,871	5,174,280
Total noncurrent assets	<u>115,437,010</u>	<u>115,239,167</u>
Total assets	<u>181,702,482</u>	<u>175,029,008</u>
Deferred outflows of resources		
Pension related	350,920	326,732
OPEB related	7,315	-
Total deferred outflows of resources	<u>358,235</u>	<u>326,732</u>
Total assets and deferred outflows of resources	<u>\$ 182,060,717</u>	<u>\$ 175,355,740</u>

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

SAN GORGONIO PASS WATER AGENCY
STATEMENTS OF NET POSITION
June 30, 2018 and 2017

	2018	2017
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current liabilities		
Accounts payable	\$ 2,115,008	\$ 828,561
Accrued vacation and sick leave	137,039	124,875
Construction deposit	<u>25,000</u>	<u>25,000</u>
Total current liabilities	<u>2,277,047</u>	<u>978,436</u>
Noncurrent liabilities		
Net pension liability	771,794	652,703
Net OPEB liability	<u>176,213</u>	<u>-</u>
Total noncurrent liabilities	<u>948,007</u>	<u>652,703</u>
Total liabilities	<u>3,225,054</u>	<u>1,631,139</u>
Deferred inflows of resources		
Pension related	40,166	57,339
OPEB related	<u>20,395</u>	<u>-</u>
Total deferred inflows of resources	<u>60,561</u>	<u>57,339</u>
Net position		
Net investment in capital assets, including State Water Project costs	115,437,010	115,239,167
Restricted for State Water Project	46,764,473	44,889,516
Unrestricted	<u>16,573,619</u>	<u>13,538,579</u>
Total net position	<u>178,775,102</u>	<u>173,667,262</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 182,060,717</u>	<u>\$ 175,355,740</u>

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, 2018 and 2017

	2018	2017
Operating revenues		
Water sales	\$ 4,621,936	\$ 4,751,979
Operating expenses		
Source of supply		
Maintenance	10,600,004	4,883,703
Purchased water	6,678,299	3,517,989
Total source of supply	17,278,303	8,401,692
Transmission and distribution		
Utilities	11,938	10,055
Maintenance	31,067	25,900
Total transmission and distribution	43,005	35,955
General and administrative expenses		
Salaries	468,098	445,797
Director expense	125,334	122,709
Payroll taxes	39,367	37,094
Employee health benefits	69,867	65,579
Employee retirement benefits	253,780	89,583
Office supplies and expense	21,617	25,145
Travel expenses	26,208	23,460
Automotive expense	6,899	7,067
Utilities and telephone	15,805	15,116
Repairs and maintenance	19,818	20,968
Insurance	32,453	31,196
Administrative expense	5,817	4,444
Membership dues and assessments	31,259	29,845
Public relations	22,585	34,464
Sponsorships	-	1,000
Election expense	-	61,604
Legal services	218,635	237,933
Engineering and consulting services	278,851	254,444
Accounting and auditing	20,600	21,301
Outside professional services	8,604	9,600
Depreciation	652,369	645,978
Amortization	5,555,829	10,467,763
Total general and administrative	7,873,795	12,652,090
Total operating expenses	25,195,103	21,089,737
Operating loss	\$ (20,573,167)	\$ (16,337,758)

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, 2018 and 2017

	2018	2017
Operating loss	<u>\$ (20,573,167)</u>	<u>\$ (16,337,758)</u>
Nonoperating revenues (expenses)		
Property taxes - general purpose	2,528,567	2,267,676
Property taxes - debt service	22,676,193	20,511,507
Investment income	764,064	484,731
Unrealized loss on investments	(298,659)	(282,523)
Other revenue	27,360	112,265
County collection charge	<u>(76,993)</u>	<u>(75,374)</u>
Total nonoperating revenues (expenses)	<u>25,620,532</u>	<u>23,018,282</u>
Income before capital contributions	5,047,365	6,680,524
Capital contributions - government	<u>179,800</u>	<u>16,000</u>
Change in net position	<u>5,227,165</u>	<u>6,696,524</u>
Net position		
Beginning of year, as previously reported	173,667,262	166,970,738
Less: Prior-period adjustment in net pension (Note 12)	<u>(119,325)</u>	<u>-</u>
Beginning of year	<u>173,547,937</u>	<u>166,970,738</u>
Net position, end of year	<u>\$ 178,775,102</u>	<u>\$ 173,667,262</u>

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, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Cash received from customers	\$ 4,781,794	\$ 4,679,112
Cash paid to suppliers and employees	<u>(17,540,596)</u>	<u>(9,660,585)</u>
Net cash used in operating activities	<u>(12,758,802)</u>	<u>(4,981,473)</u>
Cash flows from noncapital financing activities		
Property taxes	<u>25,551,697</u>	<u>22,910,647</u>
Net cash provided by noncapital financing activities	<u>25,551,697</u>	<u>22,910,647</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	(6,406,041)	(11,379,563)
Other revenue	27,360	112,265
Contributed capital	179,800	16,000
County collection charge	<u>(76,993)</u>	<u>(75,374)</u>
Net cash used in capital and related financing activities	<u>(6,275,874)</u>	<u>(11,326,672)</u>
Cash flows from investing activities		
Purchased investments	(372,422)	(2,660,484)
Interest received	<u>672,273</u>	<u>468,983</u>
Net cash used in investing activities	<u>299,851</u>	<u>(2,191,501)</u>
Net change in cash and cash equivalents	6,816,872	4,411,001
Cash and cash equivalents		
Balance, beginning of year	<u>18,190,860</u>	<u>13,779,859</u>
Balance, end of year	<u>\$ 25,007,732</u>	<u>\$ 18,190,860</u>

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, 2018 and 2017

	2018	2017
Reconciliation of cash and cash equivalents to statements of net position		
Unrestricted cash and cash equivalents	\$ 818,693	\$ 1,933,126
Unrestricted cash in Local Agency Investment Fund	17,450,259	11,655,212
Restricted cash in Local Agency Investment Fund	<u>6,738,780</u>	<u>4,602,522</u>
Total cash and cash equivalents	<u>\$ 25,007,732</u>	<u>\$ 18,190,860</u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (20,573,167)	\$ (16,337,758)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation and amortization	6,208,198	11,113,741
Noncash pension expense	147,698	(20,075)
(Increase) decrease in:		
Accounts receivable	160,910	(72,767)
Other current assets	(1,052)	(100)
Increase (decrease) in:		
Accounts payable	1,286,447	321,074
Accrued vacation and sick	<u>12,164</u>	<u>14,412</u>
Net cash used in operating activities	<u>\$ (12,758,802)</u>	<u>\$ (4,981,473)</u>

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

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

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.

Accounts Receivable

Accounts receivable consists of amounts owed by local districts in the regular course of business operations. Accounts receivable is stated net of an allowance for doubtful accounts. The Agency considers accounts receivable to be fully collectible and no allowance for doubtful accounts is provided in these financial statements.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2018. The property tax calendar is as follows:

Lien date:		January 1
Levy date:		July 1
Due date:	First installment	November 1
	Second installment	February 1
Collection date:	First installment	December 10
	Second installment	April 10

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, 2018, certain taxes levied by the County and allocated to the Agency remain uncollected. The Agency considers these property taxes to be fully collectible and no allowance is provided in these financial statements.

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
Buildings	25
Spreading ground facilities	20
Furniture and fixtures	5 - 10
Technical equipment	5
Transportation	5

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Construction in progress includes all capitalized costs for expenditures directly incurred to bring a fixed asset to a useable condition. These capitalize costs will be recorded to capital assets when the asset is operational. At that time, the costs will be depreciated or amortized over the respective fixed asset's useful life.

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.

Postemployment Benefits Other Than Pensions (OPEB)

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. The Agency adopted GASB 75 beginning in the fiscal year ending June 30, 2018. Under GASB 75, for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the CalPERS plan governed by the Public Employees' Medical & Hospital Care Act (PEMHCA) and additions to/deductions from PEMHCA 's fiduciary net position have been determined on the same basis as they are reported by PEMHCA. For this purpose, PEMHCA recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

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.

The Agency has been billed formally through calendar year 2018 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, 2018	\$ 216,500
Due January 1, 2019	289,515
Due July 1, 2019	289,515
Capital Cost Components	
Delta Water Charges	
Due July 1, 2018	169,926
Due January 1, 2019	183,876
Due July 1, 2019	183,876
Transportation Charges	
Due July 1, 2018	(577,784)
Due January 1, 2019	(128,912)
Due July 1, 2019	(128,912)
Minimum O.M.P. & R.	
Delta Water Charge	
Due monthly, starting July 1, 2018	67,428
Total for six months	404,568
Due monthly, starting January 1, 2019	65,974
Total for six months	395,844
Due monthly, starting July 1, 2019	65,973
Total for six months	395,838
Transportation Charge	
Due monthly, starting July 1, 2018	153,845
Total for six months	923,070
Due monthly, starting January 1, 2019	485,590
Total for six months	2,913,540
Due monthly, starting July 1, 2019	485,590
Total for six months	2,913,540

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 3 - STATE WATER PROJECT (Continued)

Charges for the Devil Canyon-Castaic Contract

Debt Service on Bonds	
Due July 1, 2018	\$ 48,884
Due January 1, 2019	48,904
Due July 1, 2019	48,904
O.M.P. & R. Component	
Due monthly, starting July 1, 2018	14,053
Total for six months	84,318
Due monthly, starting January 1, 2019	17,453
Total for six months	104,718
Due monthly, starting July 1, 2019	17,452
Total for six months	104,712

Charges for Off-Aqueduct Power Facilities

Maintenance	
Due monthly, starting July 1, 2018	181
Total for six months	1,086
Due monthly, starting January 1, 2019	170
Total for six months	1,020
Due monthly, starting July 1, 2019	169
Total for six months	1,014
RG4 Separation	
Due monthly, starting July 1, 2018	666
Total for six months	3,996
Due monthly, starting January 1, 2019	1,230
Total for six months	7,380
Due monthly, starting July 1, 2019	1,230
Total for six months	7,380

Charges for East Branch Extension Facilities

Allocated Charges	
Due July 1, 2018	9,318,438
Due January 1, 2019	4,681,052
Due July 1, 2019	9,881,702

Charges for Tehachapi Second Afterbay Facilities

Capital Cost of Transportation Charge	
Due July 1, 2018	22,067
Due January 1, 2019	22,085
Due July 1, 2019	22,084

Totals for All Charges of the State Water Project

Total Due July 1, 2018	10,615,069
Total Due January 1, 2019	8,519,022
Total Due for FY 2018-19	<u>19,134,091</u>
Total Due July 1, 2019	<u>13,719,653</u>
Total Due for Calendar Year 2019	<u>\$ 22,238,675</u>

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

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 as of June 30, 2018 and 2017 are included in the statements of net position as follows:

	2018	2017
Cash and cash equivalents - unrestricted	\$ 18,268,952	\$ 13,588,338
Cash and cash equivalents - restricted	<u>6,738,780</u>	<u>4,602,522</u>
Total cash and cash equivalents	25,007,732	18,190,860
Investments	<u>37,688,838</u>	<u>37,615,075</u>
	<u>\$ 62,696,570</u>	<u>\$ 55,805,935</u>

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

	2018	2017
Deposits	\$ 818,693	\$ 1,933,126
Investments	<u>61,877,877</u>	<u>53,872,809</u>
	<u>\$ 62,696,570</u>	<u>\$ 55,805,935</u>

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

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:

Authorized Investment Type	Maximum Maturity
U.S. Treasury	2 years
Federal agency	
Municipal bonds	
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 five percent or more of the total investments of the Agency at June 30, 2018 and 2017.

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, 2018 and 2017

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, 2018 and 2017 are as follows:

Authorized Investment Type	2018	Effective Duration
U.S. agency securities	\$ 1,020,915	2020
U.S. government bonds	1,977,880	2019
U.S. government bonds	978,960	2020
U.S. government bonds	1,980,060	2021
Negotiable certificates of deposit	2,469,949	2018
Negotiable certificates of deposit	4,918,199	2019
Negotiable certificates of deposit	2,467,749	2020

Authorized Investment Type	2017	Effective Duration
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

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

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, 2018:						
Cash	\$ 100	\$ -	\$ -	\$ -	\$ 100	N/A
Deposits with financial institutions	818,593	-	-	818,593	-	N/A
Money markets	2,000,000	-	2,000,000	-	-	3.23%
U.S. government bonds	4,936,900	-	4,936,900	-	-	7.98%
U.S. agency securities	1,020,915	-	1,020,915	-	-	1.65%
Negotiable certificates of deposit	9,855,897	-	-	9,855,897	-	15.93%
CalTRUST short-term fund	5,135,294	5,135,294	-	-	-	8.30%
CalTRUST medium-term fund	14,739,832	14,739,832	-	-	-	23.82%
LAIF	24,189,039	24,189,039	-	-	-	39.09%
	<u>\$62,696,570</u>	<u>\$ 44,064,165</u>	<u>\$ 7,957,815</u>	<u>\$ 10,674,490</u>	<u>\$ 100</u>	<u>100.00%</u>

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

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

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>

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, 2018 and 2017, the carrying amount of the Agency's deposits was \$818,693 and \$1,933,126, respectively, and the bank balances were \$825,258 and \$1,953,028, 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.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

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

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.

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.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

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

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. |
| 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. |

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

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

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, 2018 and 2017.

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

CalTRUST 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).

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.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

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

The following table sets forth by level, within the fair value hierarchy, the Agency's investment assets at fair value as of June 30, 2018:

	Level 1	Level 2	Level 3	Total
Money markets	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000
U.S. government bonds	4,936,900	-	-	\$ 4,936,900
U.S. agency securities	1,020,915	-	-	1,020,915
Negotiable certificates of deposit	9,855,897	-	-	9,855,897
CalTRUST short-term fund	-	5,135,294	-	5,135,294
CalTRUST medium-term fund	-	14,739,832	-	14,739,832
State pooled funds (Local Agency Investment Fund)	-	24,189,039	-	24,189,039
	<u>\$ 17,813,712</u>	<u>\$ 44,064,165</u>	<u>\$ -</u>	<u>\$ 61,877,877</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, 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>

At June 30, 2018 and 2017, 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, 2018 and 2017

NOTE 5 - CAPITAL ASSETS

For the year ended June 30, 2018, the changes in capital assets for the Agency were as follows:

	Balance July 1, 2017	Additions	Disposals	Balance June 30, 2018
Non-depreciable capital assets				
Land and rights of way	\$ 4,138,966	\$ -	\$ -	\$ 4,138,966
Construction in progress	5,174,280	1,963,591	-	7,137,871
	<u>9,313,246</u>	<u>1,963,591</u>	<u>-</u>	<u>11,276,837</u>
Depreciable capital assets				
Investment in state water project	140,127,118	4,401,611	-	144,528,729
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	7,173	43,234	136,900
Transportation equipment	74,462	33,666	29,515	78,613
	<u>159,224,226</u>	<u>4,442,450</u>	<u>72,749</u>	<u>163,593,927</u>
	<u>\$ 168,537,472</u>	<u>\$ 6,406,041</u>	<u>\$ 72,749</u>	<u>\$ 174,870,764</u>

For the year ended June 30, 2018, the changes in accumulated depreciation and amortization for the Agency were as follows:

	Balance July 1, 2017	Additions	Disposals	Balance June 30, 2018
Non-depreciable capital assets				
Land and rights of way	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Depreciable capital assets				
Investment in state water project	45,294,721	5,555,829	-	50,850,550
Source of supply	5,910,452	496,096	-	6,406,548
Recharge facilities	912,340	67,580	-	979,920
Technical equipment	94,439	-	-	94,439
Office building	788,319	60,340	-	848,659
Solar equipment	78,272	12,033	-	90,305
Furniture and fixtures	172,269	597	43,234	129,632
Transportation equipment	47,493	15,723	29,515	33,701
	<u>53,298,305</u>	<u>6,208,198</u>	<u>72,749</u>	<u>59,433,754</u>
	<u>\$ 53,298,305</u>	<u>\$ 6,208,198</u>	<u>\$ 72,749</u>	<u>\$ 59,433,754</u>

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 5 - CAPITAL ASSETS (Continued)

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

	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
Non-depreciable capital assets				
Land and rights of way	\$ 4,138,966	\$ -	\$ -	\$ 4,138,966
Construction in progress	4,410,423	763,857	-	5,174,280
	<u>8,549,389</u>	<u>763,857</u>	<u>-</u>	<u>9,313,246</u>
Depreciable capital assets				
Investment in state water project	129,511,413	10,615,705	-	140,127,118
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>148,608,521</u>	<u>10,615,705</u>	<u>-</u>	<u>159,224,226</u>
	<u>\$ 157,157,910</u>	<u>\$ 11,379,562</u>	<u>\$ -</u>	<u>\$ 168,537,472</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
Non-depreciable capital assets				
Land and rights of way	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Depreciable capital assets				
Investment in state water project	34,826,958	10,467,763	-	45,294,721
Source of supply	5,413,653	496,799	-	5,910,452
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>
	<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, 2018 and 2017

NOTE 5 - CAPITAL ASSETS (Continued)

Construction in Progress is divided into 2 major categories. The first category consists of items that are generally considered tangible and have an identifiable estimated cost. Examples could be pipelines, valves, or fencing. The second category consists of items that may be intangible, or items for which a total cost estimate is not identifiable. Examples could be participation rights in studies for a future project, rights-of-way, or plans.

In Category 1, the Agency currently has expended about \$5,703,501 and expects to expend and additional \$3,402,000 to complete the projects; the projects are about 63% completed.

In Category 2, the Agency has expended about \$1,808,450.

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.

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, 2017 and 2016 are as follows:

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

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

	<u>2017</u>	<u>2016</u>
Total assets	\$ 199,365,344	\$ 189,566,761
Deferred outflows of resources	<u>1,404,974</u>	<u>1,065,779</u>
Total assets and deferred outflows of resources	<u>\$ 200,770,318</u>	<u>\$ 190,632,540</u>
Total liabilities	\$ 123,871,469	\$ 121,474,323
Deferred inflows of resources	1,576,175	454,600
Net position	<u>75,322,674</u>	<u>68,703,617</u>
Total liabilities, deferred inflows, and net position	<u>\$ 200,770,318</u>	<u>\$ 190,632,540</u>
Total revenues	\$ 169,992,183	\$ 146,991,398
Total expenses	(164,170,540)	(161,601,971)
Total other income	<u>797,414</u>	<u>2,380,372</u>
Change in net position	<u>\$ 6,619,057</u>	<u>\$ (12,230,201)</u>

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

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 Gorgonio 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 \$105,338 and \$95,564 for the fiscal years ended June 30, 2018 and 2017, 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, 2018 and 2017, the Agency's pickup of the employee's 5% share was \$24,343 and \$23,891, respectively. There are no PEPRA members employed by the Agency.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 7 - PENSION PLAN (Continued)

The plan's provisions and benefits in effect at salary. For calendar year 2015, and continuing, they pay 3 percent of their annual covered salary. At June 30, 2018 and 2017 are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	3.0% at 60	2.0% 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% to 2.418%	2.0% to 2.5%
Cost-of-living adjustment	4.0% maximum	4.0% maximum
Required employee contribution rates		
2018	3.00%	8.00%
2017	3.00%	7.00%
Required employer paid member contributions		
2018	5.00%	0%
2017	5.00%	0%
Required employer contribution rates		
2018	16.413%	
2017	15.723%	

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. For calendar year 2015, and continuing, they pay 3 percent of their annual covered salary. At June 30, 2018 and 2017, the Agency reported the following net pension liability measured as of June 30, 2017 and 2016, respectively:

	2018		2017	
	Amount	Proportion	Amount	Proportion
Total pension liability	\$ 3,381,093	0.02111%	\$ 3,022,005	0.02099%
Fiduciary net position	2,609,299	0.02161%	2,369,302	0.02169%
Net pension liability	<u>\$ 771,794</u>	<u>0.00778%</u>	<u>\$ 652,703</u>	<u>0.00754%</u>

The Agency's proportion of the collective net pension liability increased by 0.00024% since the last measurement date.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 7 - PENSION PLAN (Continued)

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

For the measurement period ending June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability determined in the June 30, 2016 actuarial accounting valuation.

The June 30, 2017 and 2016 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	2017	7.15%
	2016	7.65%
Inflation	2017	2.750%
	2016	2.750%
Salary increases		Varies by entry age and service
Investment rate of return	2017	7.250% net of pension plan investment expenses, including inflation
	2016	7.375% 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,

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, 2017 and 2016 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.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 7 - PENSION PLAN (Continued)

Discount Rate

The discount rate used to measure the total pension liability at June 30, 2017 and 2016 was 7.15 percent and 7.65 percent, respectively. 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, 2017 and 2016 measurement dates were appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rates of 7.15 percent and 7.65 percent at June 30, 2017 and 2016 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.

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.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 7 - PENSION PLAN (Continued)

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	
	2017	2016	Years 1-10 ¹	11+ ²
			2017 and 2016	2017 and 2016
Global equity	47.00%	51.00%	4.90%	5.38%
Fixed income	19.00%	20.00%	0.80%	2.27%
Inflation sensitive assets	6.00%	6.00%	0.60%	1.39%
Private equity	12.00%	10.00%	6.60%	6.63%
Real estate	11.00%	10.00%	2.80%	5.21%
Other	3.00%	2.00%	3.90%	5.36%
Liquidity	2.00%	1.00%	-0.40%	-0.90%
Total	<u>100.00%</u>	<u>100.00%</u>		

¹ An expected inflation of 2.50 percent used for this period

² An expected inflation of 3.00 percent used for this period

(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 current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.00 percentage - 1.00 point lower or 1.00 percentage-point higher than current discount rate:

Measurement Date	Discount Rate	Current	Discount Rate
	-1.0%	Discount	+1.0%
	(6.15%)	(7.15%)	(8.15%)
2017	\$ 1,236,853	\$ 771,794	\$ 386,624
2016	<u>(6.65%)</u> 1,059,558	<u>(7.65%)</u> 652,703	<u>(8.65%)</u> 316,456

Pension Plan Fiduciary Net Position

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

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 7 - PENSION PLAN (Continued)

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

For the year ended June 30, 2018 and 2017, the Agency recognized pension expense of \$183,068 and \$75,488, respectively. At June 30, 2018 and 2017, the Agency deferred inflows and outflows of resources related to pensions are as follows:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2018	2017	2018	2017
Pension contributions subsequent to measurement date	\$ 105,338	\$ 95,564	\$ -	\$ -
Net difference between projected and actual earnings on pension plan investments	31,908	151,165	-	-
Difference between actual and projected contributions	9,547	15,163	9,368	15,837
Changes in assumptions	141,086	-	10,758	29,044
Difference between expected and actual experience	1,137	3,070	16,291	703
Change in proportion	61,904	61,770	3,749	11,755
Total	\$ 350,920	\$ 326,732	\$ 40,166	\$ 57,339

The amounts above are net of outflows and inflows recognized in the pension expense. The \$105,338 and \$95,564 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018 and 2017, respectively.

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	2017
2018	\$ -	\$ 30,391
2019	69,512	33,974
2020	96,223	70,310
2021	58,624	39,153
2022	(18,943)	-
2023	-	-
Thereafter	-	-

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2018 and 2017

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.

At June 30, 2018, the following employees were covered by the benefit terms:

	<u>Number of Covered Employees</u>
Inactive plan members or beneficiaries currently receiving benefit payments	2
Inactive plan members entitled to but not yet receiving benefit payments	-
Active plan members	<u>4</u>
Total	<u><u>6</u></u>

Contribution requirements of the Agency are established by Ordinance and may be amended through board action to update the original Ordinance. For the year ended June 30, 2018, the Agency's average contribution rate was 1.40 percent of covered-employee payroll. Employees are not required to contribute to the plan.

Net OPEB Liability

The Agency's net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial assumptions: The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75% per year
Discount rate	6.75%
Long-term expected rate of return on investments	6.75% net of investment expenses
Healthcare cost trend rates	
Pre-Medicare	7.50% for 2019, decreasing to 4.00% for 2076 and later
Medicare	6.50% for 2019, decreasing to 4.00% for 2076 and later

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

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

Mortality rates were based on the CalPERS experience study, with adjustments for mortality improvements projected fully generational with Scale MP-17.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of a CalPERS actuarial experience study for the period 1997-2015.

The long-term expected rate of return on OPEB 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 OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation*</u>	<u>Long-Term Expected Real Rate of Return^{1 2}</u>
Equities	57.00%	4.82%
Fixed income	27.00%	1.47%
TIPS	5.00%	1.29%
Commodities	3.00%	0.84%
REITs	8.00%	3.76%
Total	100.00%	

¹ Assumed long-term rate of inflation is 2.75%

² Expected long-term net rate of return is 6.75%

* CERBT Strategy1. Policy target effective October 13, 2014.

Discount rate: The discount rate used to measure the total OPEB liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that Plan Assets will always exceed benefit payments. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

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

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	NET OPEB Liability (a) - (b)
Balances at June 30, 2017	\$ 770,768	\$ 644,931	\$ 125,837
Changes for the year:			
Service cost	69,088	-	69,088
Interest	55,712	-	55,712
Differences between expected and actual experience	-	-	-
Contributions - employer	-	6,512	(6,512)
Net investment income	-	68,257	(68,257)
Benefit payments	(28,972)	(28,972)	-
Administrative expense	-	(345)	345
Net changes	95,828	45,452	50,376
Balances at June 30, 2018	\$ 866,596	\$ 690,383	\$ 176,213

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates:
The following presents the net OPEB liability of the Agency, as well as what the Agency's net OPEB liability would be if it were calculated using a discount rate that is 1.00 percentage-point lower or 1.00 percentage-point higher than the current discount rate:

	Discount Rate		
	1% Decrease (5.75%)	Current Rate (6.75%)	1% Increase (7.75%)
Net OPEB liability	\$ 279,835	\$ 176,213	\$ 89,358

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates:
The following presents the net OPEB liability of the Agency, as well as what the Agency's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1.00 percentage point lower or 1.00 percentage-point higher than the current healthcare cost trend rates:

	Trend Rate		
	1% Decrease (6.5% to 3.0%)	Current Rate (7.5% to 4.0%)	1% Increase (8.5% to 5.0%)
Net OPEB liability	\$ 75,502	\$ 176,213	\$ 296,481

SAN GORGONIO PASS WATER AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018 and 2017

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

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

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2018, the Agency recognized OPEB expense of \$77,283. At June 30, 2018, the Agency reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ 20,395
Employer contributions made subsequent to the measurement date	7,315	-
Total	\$ 7,315	\$ 20,395

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	Deferred Outflows/(Inflows) of Resources
2019	\$ (5,099)
2020	(5,099)
2021	(5,099)
2022	(5,098)
2023	-
Thereafter	-

NOTE 9 - 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, 2018 and 2017

NOTE 10 - CONTRACTUAL COMMITMENTS

The Agency has entered into various contractual agreements for engineering, construction, and consulting services. As of June 30, 2018, the remaining contractual commitment for geologic studies and monitoring is \$1,045,252, for construction service is \$2,809,287, and for various other agreements is \$117,361. As of June 30, 2017, the remaining contractual commitment for geologic studies and monitoring is \$106,476 and for various other agreements is \$173,878. These commitments have not been recorded in the accompanying financial statements.

NOTE 11 - SUBSEQUENT EVENTS

In the preparation of these financial statements, the Agency considered subsequent events through October 17, 2018, which is the date these financial statements were issued. No events occurred through this date requiring disclosure.

NOTE 12 - PRIOR-PERIOD ADJUSTMENT OF NET POSITION

The net position at the beginning of 2018 has been restated to decrease the net position to reflect the prior period costs related to the implementation of the net OPEB liability.

	<u>AMOUNT</u>
Net Position, July 1, 2017, Originally Stated	\$ 173,667,262
Net OPEB Liability	<u>(119,325)</u>
Net Position, July 1, 2017, Restated	<u><u>\$ 173,547,937</u></u>

SUPPLEMENTARY INFORMATION - UNAUDITED

SAN GORGONIO PASS WATER AGENCY
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
June 30, 2018

Schedule of Agency Contributions - CALPERS Pension Cost Sharing Plan
For the last ten fiscal years¹

	2018	2017	2016	2015
Actuarially determined contribution	\$ 105,338	\$ 95,564	\$ 109,010	\$ 112,491
Contributions in relation to the actuarially determined contribution	<u>(105,338)</u>	<u>(95,564)</u>	<u>(109,010)</u>	<u>(112,491)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 505,149	\$ 478,062	\$ 461,852	\$ 425,739
Contributions as a percentage of covered payroll	20.85%	19.99%	23.60%	26.42%

¹ *Historical information is required only for measurement periods for which GASB 68 is applicable. Additional years will be added as they become available in the future.*

SAN GORGONIO PASS WATER AGENCY
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
June 30, 2018

Schedule of Proportionate Share of the Net Pension Liability and Related Ratios
For the last ten fiscal years¹

	2018	2017	2016	2015
Measurement Date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Proportion of the collective net pension liability	0.00778%	0.00754%	0.00715%	0.01065%
Proportionate share of the collective net pension liability	\$ 771,494	\$ 652,703	\$ 490,726	\$ 662,864
Covered-employee payroll	\$ 478,062	\$ 461,852	\$ 461,852	\$ 425,739
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	161.44%	141.32%	106.25%	155.70%
Proportionate share of the fiduciary net position as a percentage of the plan's total pension liability	73.31%	74.06%	78.04%	75.86%

¹ *Historical information is required only for measurement periods for which GASB 68 is applicable. Additional years will be added as they become available in the future.*

SAN GORGONIO PASS WATER AGENCY
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED

June 30, 2018

Schedule of Changes in the Agency's Net OPEB Liability and Related Ratios
For the last ten fiscal years¹

Measurement Period	2016/2017
Changes in total OPEB liability	
Service cost	\$ 69,088
Interest	55,712
Difference between expected and actual experience	-
Changes of assumptions	-
Changes of benefit terms	-
Benefit payments including refunds*	(28,972)
Net changes	95,828
Total OPEB liability (beginning)	770,768
Total OPEB liability (ending)	\$ 866,596
Changes in plan fiduciary net position	
Contributions - employer*	\$ 6,512
Contributions - employee	-
Net investment income	68,257
Benefit payments including refunds*	(28,972)
Administrative expense	(345)
Net changes	45,452
Plan fiduciary net position (beginning)	644,931
Plan fiduciary net position (ending)	\$ 690,383
Net OPEB liability (ending)	\$ 176,213
Plan fiduciary net position as a percentage of the total OPEB liability	79.7%
Covered payroll	\$ 485,156
Net pension liability as a percentage of covered payroll	36.3%

* Includes \$6,512 implied subsidy benefit payments

** For the 12 month period ending on June 30, 2017 (measurement date)

¹ Historical information is required only for measurement periods for which GASB 75 is applicable. Additional years will be added as they become available in the future.

SAN GORGONIO PASS WATER AGENCY
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
June 30, 2018

Schedule of Agency Contributions - OPEB Liability

For the last ten fiscal years¹

Actuarilly determined contribution (ADC)	\$ 88,920
Contributions in relation to the actuarilly determined contribution	7,315
Contribution deficiency/(excess)	\$ 81,605
Covered payroll*	\$ 512,238
Contributions as a percentage of covered payroll	1.00%

* For the 12 month period ending on June 30, 2018 (fiscal year end)

¹ *Historical information is required only for measurement periods for which GASB 75 is applicable. Additional years will be added as they become available in the future.*

Notes to Schedule

Valuation date

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumption used to determine contribution rates

Actuarial cost method	Entry age, level percentage of payroll
Amortization method and period	Level dollar amount over closed 21 year period
Asset valuation method	Market value, no smoothing
Inflation	2.75%
Investment rate of return	6.75%
Healthcare cost trend rates	
Pre-Medicare	7.50% for 2019, decreasing to 4.00% for 2076 and later
Medicare	6.50% for 2019, decreasing to 4.00% for 2076 and later
Mortality, Disability, Termination, Retirement	
Retirement	CalPERS 1997-2015 Experience Study
Mortality Improvement	Mortality projected fully generational with Scale MP-17

SAN GORGONIO PASS WATER AGENCY
ORGANIZATIONAL INFORMATION - UNAUDITED
June 30, 2018

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, 2018

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.

October 17, 2018

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

We have audited the financial statements of the San Geronio Pass Water Agency (the Agency) as of and for the year ended June 30, 2018 and 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 2, 2018. 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 the Agency are described in Note 2 to the financial statements. As described in Note 2 to the financial statements, the Agency changed accounting policies related to postemployment benefits other than pensions by adopting *Statement of Governmental Accounting Standards (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and *GASB Statement No. 85 Omnibus 2017* in 2018. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the statement of revenues, expenses, and changes in net position. We noted no transactions entered into by the 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 estimates affecting the financial statements were:

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.



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The net pension and OPEB liabilities and the related deferred inflows and outflows of resources are based on amounts determined by an actuarial valuation. Actuarial computations are based on a number of assumptions, such as the rate of return on investments, rate of inflation, and life expectancy.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of post-employment benefits other than pensions (OPEB) in Note 8 to the financial statements. *GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75)* was adopted by the Agency beginning in the fiscal year ending June 30, 2018. GASB 75 establishes new accounting and financial reporting requirements for OPEB's, which changed the disclosure requirements considerably for the fiscal year ended June 30, 2018.

The disclosure of state water project in Note 3 to the financial statements. The disclosure present a material commitment of future charges for capital and minimum operations, maintenance, and replacement costs related to the state water project.

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 17, 2018.

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 the 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 the 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.

Other Matters

We applied certain limited procedures to information related to the pension and other postemployment benefits plan, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the organizational information and the schedule of board of directors and insurance coverage, which accompany the financial statements but are not RSI. Such information has 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 it.

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,



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of San Gorgonio Pass Water Agency (the Agency), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated October 17, 2018.



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Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Very truly yours,



Riverside, California
October 17, 2018

October 17, 2018

To Management
San Geronio Pass Water Agency
Beaumont, California

In planning and performing our audit of the financial statements, we considered San Geronio Pass Water Agency's (Agency) internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. A separate letter dated October 17, 2018 contains our communication of significant deficiencies or material weaknesses in the Agency's internal control. This letter does not affect our report dated October 17, 2018 on the financial statements of the Agency.

Accounting Policy Manual

We noted that there is no written accounting policy manual that details the Agency's accounting policies and procedures. We recommend that management create an accounting policy manual that would give detailed, step-by-step instructions on how to perform the various accounting policies and procedures of the Agency. We also recommend that the manual be approved by the board of directors.



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We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Agency personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

Very truly yours,

Eddie and Payne, LLP

MEMORANDUM

TO: Board of Directors

FROM: General Manager

RE: Assignment of the Municipal Water Quality Investigations Program to the State Water Contractors

DATE: November 5, 2018

Summary:

The Agency is a member of the State Water Project Contractors Authority (SWPCA), a joint powers agency consisting of a subset of the 29 State Water Contractors. One of the programs that the Authority manages is the Municipal Water Quality Investigation Program (MWQI). The Authority is going on hiatus, necessitating a new home for the program. The SWC has agreed to take over the program, in conjunction with the Department of Water Resources. The purpose of this proposed Board action is to change the MWQI agreements so that the program may be transferred to the State Water Contractors Inc. (SWC) so that it may continue.

Background:

A number of years ago, a large subset of the State Water Contractors (most of the urban Contractors) formed a joint powers authority, the State Water Project Contractors Authority, to perform some actions that the State Water Contractors could not.

At the time, the MWQI program, in another form, was operated by the State Water Contractors, but it was transferred to the JPA for various reasons. Since that time, it has been governed by a specific project committee of SWPCA known as the MWQI Specific Project Committee. The Agency is a longtime member of both SWPCA and the MWQI Specific Project Committee. Membership in MWQI has been helpful to the Agency and its customers in dealing with water quality issues on the State Water Project, in particular algae.

Other specific project committees have been operating under the SWPCA umbrella as well, including the Delta Specific Project Committee. This SPC has gone on hiatus and SWPCA's board has decided to do the same thing for various reasons. However, the MWQI program is a popular one that the Contractors want to continue. Hence the proposed action to assign the MWQI program from SWPCA to SWC. Moving the program to SWC does not in itself have any cost implications. With the SWPCA going on hiatus, however, the Agency will save approximately \$6000 per year.

Detailed Report:

SWPCA was formed because it was felt that there were many opportunities for the Contractors to get involved in other issues related to the State Water Project. For years SWPCA met with DWR staff and others in an attempt to have the State Water Project operated by SWPCA (it would still have been owned by DWR). This effort eventually faded partly due to union issues and partly due to political issues.

The Delta SPC was formed at least in part because it was felt that it could be a funding vehicle for the Cal Water Fix. When a decision was made earlier this year to form a new finance JPA for this purpose (the Agency is a member of this JPA as well), the reasons for SWPCA's existence became less important, at least at this time. The Delta SPC helped fund a number of scientific studies performed by yet another JPA, the State and Federal Water Contractors Authority (SFWCA) that is in the process of disbanding because of the nature of how the finance and governance of the Cal WaterFix has worked out. Thus, the MWQI program is the only one currently active that is under SWPCA. The program currently costs the Agency approximately \$1500 per year.

Over the past few months, SWPCA's board has discussed what its next steps should be. It was decided by the Board for the organization to go on hiatus for now—not to disband, but to stop meeting with any regularity (except for an annual meeting) until it is decided whether it should continue in existence or not. The dues that the Agency currently pays (approximately \$6000 per year) will not be needed during this hiatus.

There are two proposed Board actions, and the Board must vote on each of them separately. The first is an agreement among the members of SWPCA to assign the MWQI program to the State Water Contractors Inc, of which the Agency is also a member but which is not a joint powers authority. The Agency pays approximately 0.5% of the SWC's annual budget.

The second is an amendment to the MWQI agreement between DWR and the members of the MWQI SPC to essentially do the same thing—assign the MWQI program to SWC. The first agreement is among Contractors only. The second involves DWR, which is a partner in the MWQI. Much of the work funded by MWQI is performed by DWR employees.

The MWQI is a popular program among urban Contractors, as it enables them to keep up on water quality issues within the State Water Project and to monitor water quality on a real time basis. Among other things, the MWQI program has done a lot of research on algae and has helped make recommendations as to how to keep algae levels lower in the SWP and also to inform Contractors as to whether algae is toxic or not. Since algae has been an issue on the East Branch in recent years, it makes sense for the Agency to continue its membership in the MWQI program. The Agency pays its MWQI dues through the annual Statement of Charges from DWR.

Costs for the program are not expected to change. In fact, any changes should be invisible to the members of the MWQI SPC. The work will continue to be done by the same people at the same cost. It will now be overseen by a new employee at SWC, the Science Manager. The Science Manager, whose position has been in the works for several months, would have been hired by SWC regardless of the dispensation of the MWQI program to oversee science programs undertaken by SWC.

Fiscal Impact:

There is no fiscal impact to the proposed actions. The Agency will experience a cost savings due to SWPCA going on hiatus, which is indirectly related to this action.

Recommendation:

Staff recommends that the Board vote to:

- (1) Assign the SWPCA MWQI program to the State Water Contractors and
- (2) Approve Amendment No. 1 of the MWQI Agreement between DWR and SWPCA to assign the MWQI program to the State Water Contractors.

Each must be a separate action.

The MWQI program has been helpful to the Agency's customers by providing real time water quality data and by performing research related to algae in the State Water Project.

**ASSIGNMENT OF STATE WATER PROJECT
CONTRACTORS AUTHORITY MWQI PROGRAM
SPECIFIC PROJECT AGREEMENT TO STATE WATER
CONTRACTORS**

WHEREAS, the undersigned members of the State Water Project Contractors Authority (“SWPCA”) have executed a MWQI Program Specific Project Agreement to establish a MWQI Specific Project Committee (“SPC”) to perform supplemental water quality related services for the California Department of Water Resources (“DWR”) Municipal Water Quality Investigations (“MWQI”) Program for the period January 1, 2017 through December 31, 2019; and

WHEREAS, pursuant to the Specific Project Agreement, the members of the MWQI SPC have undertaken financial obligations and have deposited funds with SWPCA to pay for certain water quality related services through the MWQI SPC Account; and

WHEREAS, the members of the MWQI SPC are also members of the State Water Contractors (“SWC”) and wish to perform all of the obligations they have undertaken in the MWQI Program Specific Project Agreement as members of a MWQI Committee of the SWC, rather than as members of the MWQI SPC, by forming a new SWC MWQI Committee, dissolving the MWQI SPC, and assigning all of the rights and obligations set forth in the MWQI Specific Project Agreement from SWPCA to the SWC; and

WHEREAS, the SWC has agreed (a) to form a MWQI Committee whose members shall be the same as the members of the MWQI SPC, (b) on behalf of the members of the MWQI Committee to accept an assignment of the MWQI Program Specific Project Agreement from SWPCA, and (c) to administer funds on deposit for the services provided by the MWQI Committee in place of SWPCA’s MWQI Program Specific Project Agreement, conditional upon agreement by DWR and further conditional upon SWPCA’s transfer of all funds in the MWQI SPC Account to the SWC;

NOW, THEREFORE, SWPCA, the SWC., and the undersigned members of the MWQI SPC agree as follows:

1. The members of the MWQI SPC shall form a committee of the SWC to be known as the MWQI Committee.

2. The members of the MWQI Committee shall perform the obligations and enjoy the rights they have undertaken in the MWQI Program Specific Project Agreement as members of the MWQI SPC. The MWQI Program Specific Project Agreement is hereby assigned by SWPCA to the SWC, and the SWC agrees to administer that agreement in place of SWPCA, according to its terms.

3. The assignment set forth herein shall be effective upon the last to occur of the following: (a) execution of this assignment by all MWQI SPC members, SWPCA, and the SWC; (b) execution of an amendment to that certain agreement between DWR, SWPCA and participating State Water Project Contractors, identified as SWPAO No. 16303, to provide for assistance with DWR's MWQI Program by those State Water Project Contractors as members of the MWQI Committee rather than as members of the MWQI SPC; and (c) amendment of a Standard Services Agreement between SWPCA and Contra Costa Water District for participation in the MWQI Program for a term that ends on June 30, 2019, which shall provide for assignment of that agreement by SWPCA to the SWC.

4. Upon the effective date of the assignment of the MWQI Program Specific Project Agreement by SWPCA to the SWC as set forth herein, SWPCA shall transfer all funds in its MWQI SPC Account to the SWC, at which time the MWQI SPC shall be dissolved.

**AMENDMENT NO. 1 OF THE MUNICIPAL WATER
QUALITY INVESTIGATIONS AGREEMENT BETWEEN
THE DEPARTMENT OF WATER RESOURCES, THE
STATE WATER PROJECT CONTRACTORS AUTHORITY
AND PARTICIPATING STATE WATER PROJECT
CONTRACTORS (SWPAO NO. 16303)**

WHEREAS, the State of California, Department of Water Resources (“DWR”) has entered into an agreement (“Agreement”) dated September 1, 2017, with the State Water Project Contractors Authority (“Authority”) and participating Urban State Water Project Contractors (“Urban SWP Contractors”) including Alameda County Flood Control and Water Conservation District, Zone 7, Alameda County Water District, Antelope Valley-East Kern Water Agency, Castaic Lake Water Agency (now named Santa Clarita Valley Water Agency), Central Coast Water Authority, Crestline-Lake Arrowhead Water Agency, Kern County Water Agency, Metropolitan Water District of Southern California, Mojave Water Agency, Napa County Flood Control and Water Conservation District, Palmdale Water District, San Bernardino Valley Municipal Water District, San Geronio Pass Water Agency, San Luis Obispo County Flood Control and Water Conservation District, Santa Clara Valley Water District, and Solano County Water Agency, for the provision of certain water quality related services to DWR’s Municipal Water Quality Investigations (“MWQI”) program; and

WHEREAS, all of the Urban SWP Contractors signatory to the Agreement, except for San Luis Obispo County Flood Control and Water Conservation District, are also members of a MWQI Specific Project Committee formed by the Authority for the purpose of funding the services that the Authority provides to DWR’s MWQI program, and therefore the Authority itself is also a signatory to the Agreement; and

WHEREAS, the Authority and the Urban SWP Contractors wish to assign the MWQI Specific Project Committee's activities to the State Water Contractors, a non-profit mutual benefit corporation, which will form its own MWQI Committee consisting of the same Urban SWP Contractors that are already members of the Authority's MWQI Specific Project Committee, to continue to provide the same water quality related services to DWR that the Authority's MWQI Specific Project Committee currently provides; and

WHEREAS, the Authority also intends to assign to the State Water Contractors the three existing Consulting Services Agreements between the Authority and Tetra Tech, Inc., and Palencia Consulting Engineers, to provide services to DWR's MWQI program; and

WHEREAS, the Authority and the members of the Authority's MWQI Specific Project Committee also intend to transfer to the State Water Contractors all of the funds currently on deposit with the Authority to fund the activities of the Authority's MWQI Specific Project Committee, to pay for the water quality related services that the MWQI Committee of the State Water Contractors will provide to DWR's MWQI program, in place of the Authority, following the Authority's assignment of those activities from the Authority's MWQI Specific Project Committee to the State Water Contractors for performance by its MWQI Committee; and

WHEREAS, the purpose of this Amendment No. 1 is to provide for the assignment and transfer of funds as described herein, and to make conforming amendments to the Agreement to reflect the assignment.

NOW, THEREFORE, DWR, the Authority, and the Urban SWP Contractors hereby agree as follows:

1. The Authority's rights, obligations and interests in the Agreement are hereby assigned to the State Water Contractors.

2. The rights and obligations of the Urban SWP Contractors under the Agreement shall remain the same. However, hereafter the obligations performed by the Authority's MWQI Specific Project Committee will be performed by the MWQI Committee of the State Water Contractors.

3. The funds on deposit with the Authority to pay for financial obligations associated with the activities of the Authority's MWQI Specific Project Committee will be transferred to the State Water Contractors to pay for those obligations.

4. The Agreement is hereby amended such that: (a) all references to the Authority are hereby changed to refer to the State Water Contractors; (b) the term "MWQI SPC Account" is hereby changed to mean an account established by the State Water Contractors rather than an account established by the Authority; (c) the term "MWQI SPC Charge" is hereby changed to mean a charge collected by the State Water Contractors rather than a charge collected by the Authority; (d) the term "MWQI Specific Project Agreement" is hereby changed to mean an agreement entered into by Urban SWP Contractors as members of the MWQI Committee of the State Water Contractors rather than as members of the Authority's MWQI Specific Project Committee; and (e) the term "MWQI Project Committee (SPC)" is hereby changed to mean the Urban SWP Contractors as members of the MWQI Committee of the State Water Contractors.

5. Except as amended herein, all provisions of the Agreement shall continue in full force and effect, according to its terms.

6. The provisions of this amendment shall be conditional upon (a) assignment by the Authority to the State Water Contractors of the two Consulting Services Agreements with Tetra Tech, Inc., and the Consulting Services Agreement with Palencia Consulting Engineers for work currently contracted for DWR's MWQI program, (b) acceptance

of said assignments by the State Water Contractors, and (c) consent to said assignments by the affected consultants.

7. This amendment shall not be effective unless signed by DWR, the Urban SWP Contractors, and the Authority.

STATE OF CALIFORNIA, DEPARTMENT OF WATER RESOURCES

By: _____
Chief, Division of Environmental Services

Date: _____

**ALAMEDA COUNTY FLOOD CONTROL AND
WATER CONSERVATION DISTRICT, ZONE 7**

By: _____
General Manager

Date: _____

ALAMEDA COUNTY WATER DISTRICT

By: _____
General Manager

Date: _____

ANTELOPE VALLEY-EAST KERN WATER AGENCY

By: _____
General Manager

Date: _____

SANTA CLARITA VALLEY WATER AGENCY

By: _____
General Manager

CENTRAL COAST WATER AUTHORITY

By: _____
Executive Director

CRESTLINE-LAKE ARROWHEAD WATER AGENCY

By: _____
General Manager

Date: _____

KERN COUNTY WATER AGENCY

By: _____
General Manager

Date: _____

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

By: _____
Group Manager, Water Resource Management

Date: _____

MOJAVE WATER AGENCY

By: _____
General Manager

Date: _____

NAPA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

By: _____
District Engineer

Date: _____

PALMDALE WATER DISTRICT

By: _____
General Manager

Date: _____

SAN BERNARDINO VALLEY MUNICIPAL WATER DISTRICT

By: _____
General Manager

Date: _____

SAN GORGONIO PASS WATER AGENCY

By: _____
General Manager and Chief Engineer

Date: _____

**SAN LUIS OBISPO COUNTY FLOOD CONTROL
AND WATER CONSERVATION DISTRICT**

By: _____
Public Works Director

Date: _____

SANTA CLARA VALLEY WATER DISTRICT

By: _____
General Manager

Date: _____

SOLANO COUNTY WATER AGENCY

By: _____
General Manager

Date: _____

STATE WATER PROJECT CONTRACTORS AUTHORITY

By: _____
General Manager

Date: _____

The State Water Contractors accepts assignment of the Agreement as set forth herein.

STATE WATER CONTRACTORS

By: _____
General Manager

Date: _____