SAN GORGONIO PASS WATER AGENCY

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

WITH

INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED JUNE 30, 2012

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A California Limited Liability Partnership
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Independent Auditors' Report

To the Board of Directors
San Gorgonio Pass Water Agency

We have audited the accompanying basic financial statements of San Gorgonio Pass Water Agency (the "Agency") as of and for the year ended June 30, 2012 as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2012, and the changes in its financial position and its cash flows for the year then ended, in conformity with United States generally accepted accounting principles.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 9 be presented to supplement the basic financial statements. Such information, although not 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.

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Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information on pages 28 through 30 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedules of funding progress for pension plan and other post-employment benefits are presented for additional analysis as required by Government Accounting Standards Board. The schedules of funding progress are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The organizational information on page 28 and schedule of board of directors and insurance coverage on page 30 have not been subjected to auditing procedures applied in the audit of the basic financial statements and; accordingly, we do not express an opinion or provide assurance on them.

Ahern Adcock Devlin LLP

Riverside, California
October 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

SAN GORGONIO PASS WATER AGENCY

Management's Discussion and Analysis

June 30, 2012

Our discussion and analysis of San Gorgonio Pass Water Agency's (the "Agency") financial performance provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the Agency's financial statements which begin on page 10.

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, 1962. The purpose for creating this public agency by special law was for the "planning, conservation, development, distribution, control and use of an adequate water supply for the public good and for the protection of life and property therein." As part of the act, the Agency was given taxing authority similar to the taxing power of other local governments.

The Agency has entered into a contract with the State Department of Water Resources to receive an annual allotment of 17,300 acre-feet from the State Water Project. However, water did not get delivered to the region, which extends from Calimesa through the San Gorgonio Pass area to Cabazon, until the completion of the East Branch Extension Phase 1 in 2003. The Department of Water Resources is currently constructing Phase 2, which will increase the capacity of the facilities to deliver water by adding an additional pipeline, an additional reservoir, additional pumps and expanding an existing reservoir. The anticipated completion date is 2015.

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 assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows.

The statement of net assets 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 assets describes the financial results of the Agency's operations for the year reported on. The results, or changes in net assets, are the increases or decreases in the bottom line of the statement of net assets.

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 assets presented on the statement of revenues, expenses, and changes in net assets 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 those purposes.

Summary Financial Information and Analysis

During the year ending on June 30, 2012, the Agency's total assets increased by $5.05 million and net assets increased by $5.17 million. Beginning net assets were increased by $178,222 due to a prior period adjustment. A decrease in cash and investments ($1.5 million) was offset by an increase in land and rights of way ($2.95 million) and payments to the Department of Water Resources ($6.22 million) for investment in State Water Rights in the State Water Project Transportation System.

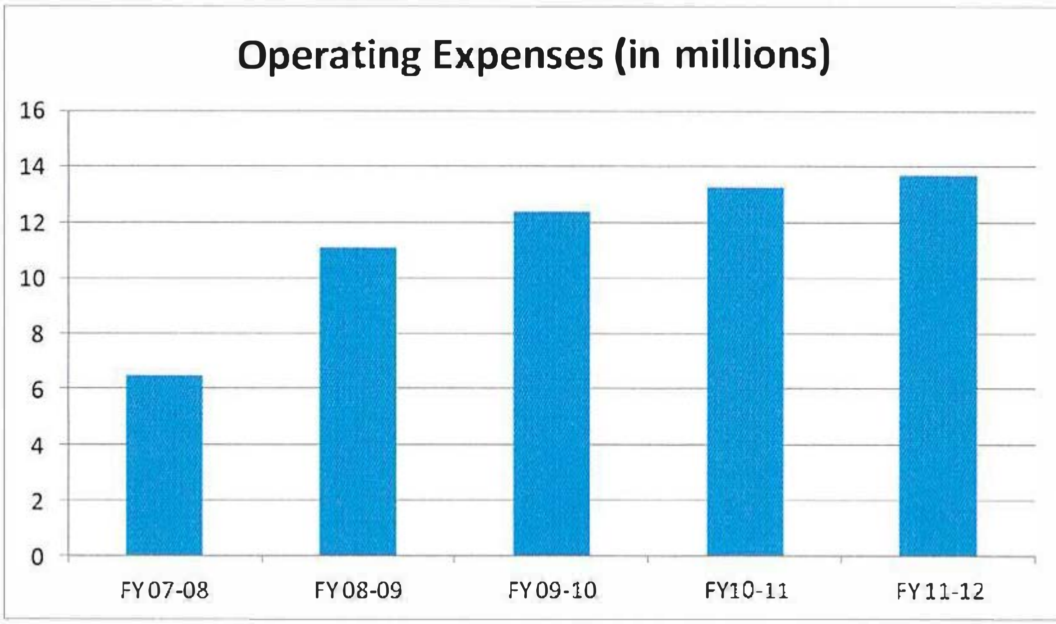
Total current assets (cash and investments) decreased by $1.53 million, but a piece of property was purchased for about $3 million, thereby increasing total noncurrent assets. Restricted assets increased by $2.47 million, mostly as a result of unexpected income from recently dissolved redevelopment agencies.

The $5.17 million increase in net assets included nonoperating revenue reduced by nonoperating expenses for a net of $16.18 million. This amount was reduced by a loss from operations of $11.01 million, just $430,000 more than the fiscal year ended on June 30, 2011. This is a four percent increase from the prior year and is primarily due to an increase in purchased water costs. Generally, other administrative and general costs varied only slightly.

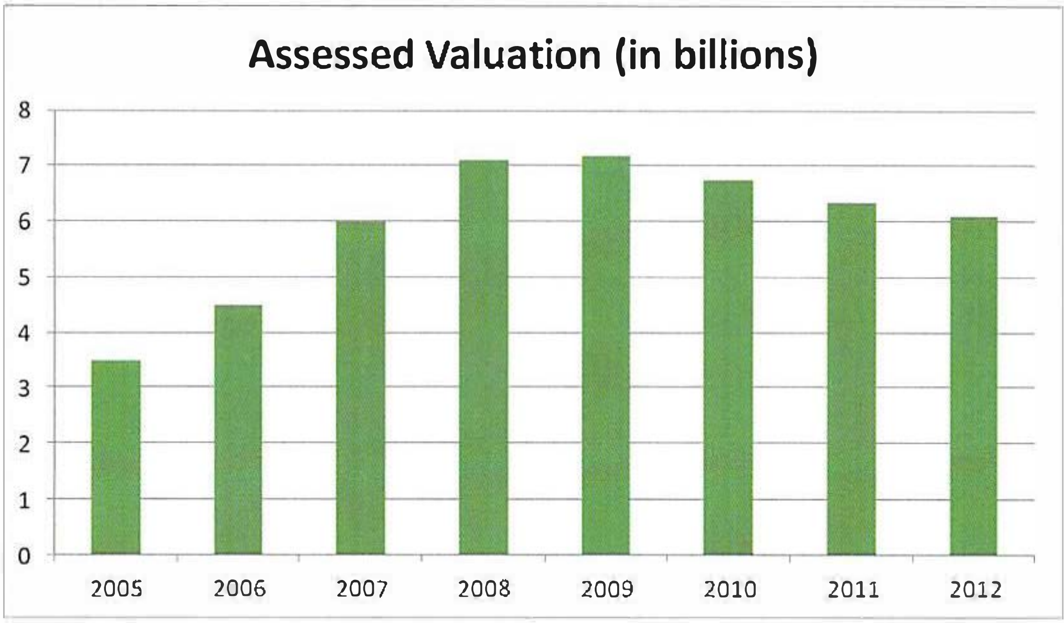
Financial Statement Summary
(in millions)

	6/30/12	6/30/11
Current Assets	$ 11.55	$ 13.08
Restricted Assets	28.02	25.55
Capital Assets	93.05	88.94
Total Liabilities	(.48)	(.78)
Net Assets	132.14	126.79
Operating Revenues	2.80	2.74
Operating Expenses	(13.81)	(13.33)
Non-Operating Revenues		
Interest	.13	.16
Property Taxes	16.07	13.54
Miscellaneous	.02	-
Non-Operating Expenses	(.04)	(.05)
Change in Net Assets	5.17	3.06

Nonoperating revenues increased by $2.51 million. Investment income decreased by about $28,000, and general purpose property taxes increased by about $89,000, which was a combination of a very slight decrease in regular property tax receipts, but an increase in payments from redevelopment agencies as they "caught up" from prior years, as a result of AB26. The vast majority of the increase was derived from an unexpected increase in debt service property taxes from recently dissolved redevelopment agencies in the Agency's service area, also as a result of AB26.



The following chart reflects the Agency's assessed property tax valuations. Assessed valuations have increased significantly from the years ended June 30, 2005 to 2008; however as a result of the economic downturn, assessed values leveled off for the year ended 2009, and declined by about 15 percent by the year ending in 2012.



Categories of Net Assets

The Agency is required to present its net assets in three categories: invested in capital assets, restricted assets and unrestricted assets.

Invested in Capital Assets

At June 30, 2012, net assets invested in capital assets totaled $93.05 million and consisted of investment in State water rights, utility plant in service, and construction in progress, net of accumulated depreciation and amortization. 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 below groups these assets by whether they are depreciated or amortized, or not.

SAN GORGONIO PASS WATER AGENCY

Management's Discussion and Analysis
(Continued)

June 30, 2012

Capital Asset Activity for the Year

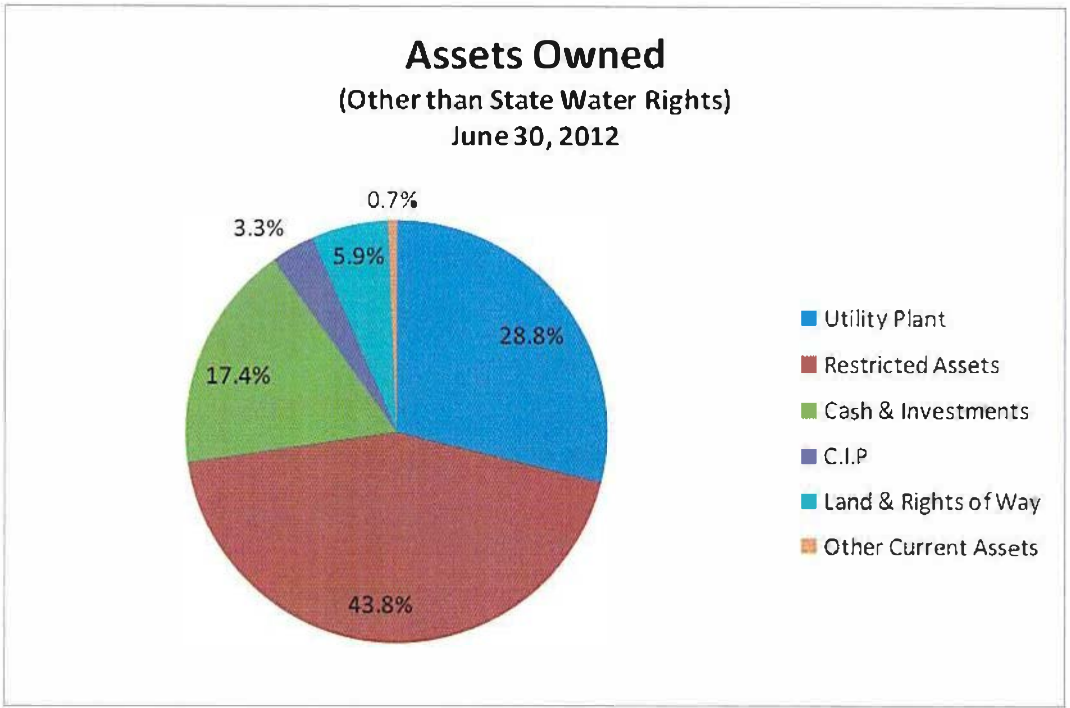
	Balance, July 1, 2011	Additions	Deletions	Balance, June 30, 2012
Capital assets, not being depreciated				
Land and rights of way	$ 829,409	$2,950,626		$ 3,780,035
Construction in progress	1,875,476	259,936		2,135,412
Total capital assets, not being depreciated	2,704,885	3,210,562	$ -	5,915,447
Capital assets, being depreciated/ amortized				
Investments in State Water Rights	88,119,106	6,219,243		94,338,349
Source of supply	14,985,663	124,258		15,109,921
Transmission and distribution	1,351,614			1,351,614
Buildings	1,485,656	22,988		1,508,644
Furniture and fixtures	189,169			189,169
Technical equipment	215,448		(625)	214,823
Transportation equipment	52,060			52,060
Total capital assets being depreciated or amortized	106,398,716	6,366,489	(625)	112,764,580
Total capital assets	$109,103,601	$9,577,051	$(625)	$118,680,027

The Agency made payments to the Department of Water Resources during the year totaling $10.73 million, net of credits and refunds for participation rights in the State Water Project. 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 projected repayment period. The resulting rate, which will be adjusted periodically to reflect changes in estimates, will then be applied to actual water deliveries in the current year.

State Water Project deliveries through the East Branch Extension and the Cherry Valley Pump station to the Agency service area started in July 2003. Deliveries to the Little San Gorgonio Creek Recharge Facility in the 2011-12 year totaled 1,986 acre-feet for overdraft mitigation. Deliveries to retailers in the 2011-12 year totaled 8,696 acre-feet.

The Agency's future commitment for State Water Project costs over the years 2012 to 2035, according to a payment schedule dated June 30, 2012, is estimated to total about $251 million.

Construction in progress increased by $259,936 to $2.14 million between July 1, 2011 and June 30, 2012. The projects in construction in progress include a permanent turnout for the Beaumont Cherry Valley Water District, improvements to the East Branch Extension Phase1 project, a new recharge facility, plans for a pipeline for delivery to the City of Banning, and the East Branch Extension Phase 2 project.



Restricted Assets

The Agency had restricted net assets of $28.02 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 net assets of $11.04 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.

FINANCIAL STATEMENTS

SAN GORGONIO PASS WATER AGENCY

Statement of Net Assets

June 30, 2012

ASSETS	
Current assets	
Cash and cash equivalents	$ 6,180,690
Cash in Local Agency Investment Fund	2,931,387
Investments	2,004,081
Accounts receivable	258,257
Property taxes receivable, less allowance of $8,832	143,641
Interest receivable	28,627
Other	6,310
Total current assets	11,552,993
Restricted assets	
Cash in Local Agency Investment Fund	25,727,239
Property taxes receivable, less allowance of $76,168	2,291,581
Total restricted assets	28,018,820
Noncurrent assets	
Capital assets	
Investment in state water rights	94,338,349
Utility plant in service	18,426,230
Less accumulated depreciation and amortization	(25,633,195)
Land and rights of way	3,780,035
Construction in progress	2,135,412
Total noncurrent assets	93,046,831
Total assets	132,618,644
LIABILITIES	
Current liabilities	
Accounts payable	418,060
Accrued vacation and sick leave	61,282
Total liabilities	479,342
NET ASSETS	
Invested in capital assets, net of related debt	93,046,831
Restricted for state water project	28,018,820
Unrestricted, restated	11,073,651
Total net assets	$132,139,302

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

SAN GORGONIO PASS WATER AGENCY

Statement of Revenues, Expenses, and Changes in Net Assets

For the Year Ended June 30, 2012

Operating revenues	
Water sales	$ 2,804,051
Operating expenses	
Source of supply	
Maintenance	4,948,118
Purchased water	1,939,229
Total source of supply	6,887,347
Transmission and distribution	
Utilities	7,976
Maintenance	28,616
Total transmission and distribution	36,592
General and administrative expenses	
Salaries	363,953
Director fees	119,336
Payroll taxes	31,244
Employee health benefits	62,170
Employee retirement benefits	182,390
Office supplies and expense	20,442
Travel expenses	13,883
Automotive expense	15,968
Utilities and telephone	11,485
Repairs and maintenance	57,382
Insurance	27,117
Administration expense	3,476
Membership dues and assessments	29,767
Public relations	41,986
Legal services	86,872
Engineering and consulting services	161,428
Accounting and auditing	24,661
Outside professional services	2,900
Depreciation	647,117
Amortization	4,998,078
Other	(9,743)
Total general and administrative	6,891,912
Total operating expenses	13,815,851
Loss from operations	(11,011,800)

SAN GORGONIO PASS WATER AGENCY

Statement of Revenues, Expenses, and Changes in Net Assets

For the Year Ended June 30, 2012

Loss from operations	$ (11,011,800)
Nonoperating revenues (expenses)	
Property taxes – general purpose	2,081,804
Property taxes – debt service	13,987,297
Investment income	134,912
Unrealized loss on investments	(2,181)
Other	15,309
County collection charge	(36,162)
Total nonoperating revenues	16,180,979
Increase in net assets	5,169,179
Net assets, beginning of year	126,791,901
Prior period adjustment	178,222
Net assets, end of year	$132,139,302

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

SAN GORGONIO PASS WATER AGENCY

Statement of Cash Flows

For the Year Ended June 30, 2012

Cash flows from operating activities	
Cash received from customers	$ 2,790,789
Cash paid to suppliers and employees	(8,469,247)
Net cash used in operating activities	(5,678,458)
Cash flows from noncapital financing activities	
Property taxes	16,197,841
Net cash provided by noncapital financing activities	16,197,841
Cash flows from capital and related financing activities	
Purchase of capital assets	(9,576,425)
Other revenue	15,309
Other expenses	(36,162)
Net cash used in capital and related financing activities	(9,597,278)
Cash flows from investing activities	
Purchased investments	(5,000,000)
Proceeds from maturing investments and return of principal	6,000,000
Interest received	127,226
Net cash provided by investing activities	1,127,226
Net increase in cash and cash equivalents	2,049,331
Cash and cash equivalents	
Balance, beginning of year	32,789,985
Balance, end of year	$34,839,316

SAN GORGONIO PASS WATER AGENCY

Statement of Cash Flows

For the Year Ended June 30, 2012

Reconciliation of cash and cash equivalents to statements of net assets	
Unrestricted cash and cash equivalents	$ 9,112,077
Restricted cash and cash equivalents	25,727,239
Total cash and cash equivalents	$34,839,316
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	$(11,011,800)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation and amortization	5,645,196
Increase in:	
Accounts receivable	(13,262)
Other current assets	(431)
Increase (decrease) in:	
Accounts payable	(306,093)
Accrued vacation and sick	7,932
Net cash used in operating activities	$ (5,678,458)

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

SAN GORGONIO PASS WATER AGENCY

Notes to Financial Statements

1. Reporting Entity and Significant Accounting Policies

The San Gorgonio Pass Water Agency (the "Agency") 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").

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 statement of net assets.

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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

Property Taxes

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

1. Reporting Entity and Significant Accounting Policies (Continued)

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

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

The County will designate property taxes relating to debt service (restricted) or general purposes. Funds have been established by the Agency to account for the use of these designated assets. As of June 30, 2012, certain taxes levied by the County and allocated to the Agency remain uncollected. The Agency has established allowances to estimate the extent of uncollectible property taxes.

Capital Assets

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

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

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

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

SAN GORGONIO PASS WATER AGENCY

Notes to Financial Statements

1. Reporting Entity and Significant Accounting Policies (Continued)

Accrued Vacation and Sick Leave

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

Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

Invested in Capital Assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction, or improvement of those assets.

Restricted – This component of net assets consists of constraints placed on net assets 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 Assets – This component of net assets consists of net assets that do not meet the definition of restricted or net investment in capital assets.

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.

1. Reporting Entity and Significant Accounting Policies (Continued)

Effect of New Governmental Accounting Standards Board Pronouncements

Governmental Accounting Standards Board ("GASB") Statement No. 62 – In June 2011, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board ("FASB") and American Institute of Certified Public Accountants ("AICPA") Pronouncements.* The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA pronouncements issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements. This statement is not effective until June 30, 2013. The Agency has not determined the effect of this statement.

GASB Statement No. 63 - In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Positions.* This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and the resulting net position. This statement is not effective until June 30, 2013. The Agency has not determined the effect of this statement.

GASB Statement 65 – In June 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows or inflows of resources, certain items that were previously reported as assets and liabilities. This statement is not effective until June 30, 2014. The Agency has not determined the effect of this statement.

GASB Statement 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27.* This statement's objective is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement is not effective until June 30, 2015. The Agency has not determined the effect of this statement.

2. State Water Project

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

SAN GORGONIO PASS WATER AGENCY

Notes to Financial Statements

2. State Water Project (Continued)

These future payments have been estimated at June 30, 2012 by the State Department of Water Resources through 2035 as follows:

Transportation charge:	
Capital cost components:	
State Water Project	$ 12,029,771
East branch extension	101,090,894
Minimum operations, maintenance, power, and replacement component	69,295,227
Variable operations, maintenance, power, and replacement component	48,399,129
	230,815,021
Delta water charges	17,407,944
Water system revenue bond surcharge	2,423,254
Total	$250,646,219

The Agency has been billed formally through calendar year 2012 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:

Transportation charges:	
Capital cost component:	
State Water Project	
Due July 1, 2012 (refund)	$ (98,104)
Due January 1, 2013	197,418
Due July 1, 2013	611,829
Allocated capital costs of East Branch Extension:	
Due September 1, 2012	4,181,395
Due March 1, 2013	3,044,745
Due September 1, 2013	5,441,543
Minimum operations, maintenance, power, and replacement component:	
Monthly payments of $280,754 from July 1 to December 31, 2012	1,684,524
Monthly payments of $237,970 for the calendar year 2013	2,855,635
July through December 2012 payments of $121,306 for off-aqueduct power facilities	727,836
Monthly payments of $49,212 for 2013 off-aqueduct power facilities	590,561
Monthly payments of $13,573 for 2013 Devil Canyon - Castaic facilities	162,876
Variable operations, maintenance, power, and replacement component:	
Monthly payments of $143,811 for the calendar year 2013	1,725,737

2. State Water Project (Continued)

Allocated capital costs of Tehachapi second afterbay facilities:	
Due September 1, 2012	$ 23,122
Due March 1, 2013	23,243
Due September 1, 2013	23,241
Allocated capital costs of Devil Canyon – Castaic contract:	
Due September 1, 2012	47,567
Due March 1, 2013	47,676
Due September 1, 2013	47,676
Water system revenue bond surcharge and 25 percent bond cover charge:	
Due July 1, 2012	182,625
Due January 1, 2013	197,855
Due July 1, 2013	197,854
Total	$21,916,854

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

3. Cash, Cash Equivalents, and Investments

Cash, cash equivalents, and investments are included in the statement of net assets as follows:

Cash and cash equivalents – unrestricted	$ 9,112,077
Cash and cash equivalents – restricted	25,727,239
Total cash and cash equivalents	34,839,316
Investments	2,004,081
	$36,843,397

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

Deposits	$ 6,180,690
Investments	30,662,707
	$36,843,397

3. Cash and Investments (Continued)

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of government investment pools, such as Local Agency Investment Funds (LAIF).

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, 2012, the carrying amount of the Agency's deposit was $6,180,590 and the bank balance was $6,190,256. 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.

Investments

Under provisions of the Agency's investment policy, adopted by Board Resolution No. 2010-02 in February 2010, which is in accordance with California Government Code Sections 53600 through 53686 et seq., the types of investments authorized for deposit are: certificates of deposit, state local agency investment fund, repurchase agreements and reverse repurchase agreements, treasury bills and notes, bonds or certificates of indebtedness, shares of beneficial interest (mutual funds), medium-term notes issued by United States corporations, and municipal bonds.

Investments are classified in three categories of credit risk as follows: Category 1 – insured or registered, with securities held by the Agency or its agent in the Agency's name; Category 2 – uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Agency's name; and Category 3 – uncollateralized, uninsured, unregistered, and classifiable investment not belonging to 1 or 2 above with securities held by the counterpart or by its trust department or agent, but not in the Agency's name. Investments in pools managed by other governments or in mutual funds are not required to be categorized because they are not evidenced by securities that exist in physical or book entry form.

3. Cash and Investments (Continued)

Investments at June 30, 2012 were as follows:

	Category 1	Category 2	Category 3	Fair Value
Obligations of U.S. Government agencies	$2,004,081			$2,004,081
	$2,004,081			2,004,081
Not subject to categorization				
State pooled funds (Local Agency Investment Fund)				28,658,626
				$30,662,707

At June 30, 2012, the Agency had no investments in repurchase and reverse repurchase agreements and did not invest in such during the year then ended.

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 fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts 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 balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

4. Utility Plant in Service

For the year ended June 30, 2012, the changes in utility plant for the Agency were as follows:

	Balance July 1, 2011	Additions	Disposals	Balance June 30, 2012
Investment in state water rights	$ 88,119,106	$6,219,243		$ 94,338,349
Land and rights of way	669,019	3,111,016		3,780,035
Source of supply	14,985,663	124,259		15,109,922
Recharge facilities	1,351,614			1,351,614
Technical equipment	94,439			94,439
Office building	1,485,654	22,988		1,508,642
Solar equipment	121,009	(625)		120,384
Furniture and fixtures	189,169			189,169
Transportation equipment	52,060			52,060
	$107,067,733	$9,476,881	$ -	$116,544,614

5. 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 5620 Birdcage Street, Suite 200, Citrus Heights, California 95610.

The Association of California Water Agencies Joint Powers Insurance Authority arranges for and provides insurance coverage for its nearly 300 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 year ended September 30, 2011 follows:

Total assets	$126,769,966
Total liabilities	$79,457,922
Net assets	47,312,044
Total liabilities and net assets	$126,769,966
Total revenues	$ 28,149,474
Total expenses	(26,286,230)
Total other income	1,446,926
Increase in net assets	$ 3,310,170

SAN GORGONIO PASS WATER AGENCY

Notes to Financial Statements

6. Employee Retirement Plan

Plan Description: The Agency's defined benefit pension plan, the Miscellaneous Plan of the Agency, provides retirement (three percent at age 60) and disability benefits, annual cost–of–living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions, as well as other requirements, is established by State statutes within the Public Employees' Retirement Law. The Agency selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through board approval. Additional elected benefits are one–year final compensation, post–retirement survivor, improved nonindustrial disability allowance, credit for unused sick leave, and fourth–level 1959 survivor benefits. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 "P" Street, Sacramento, California 95814.

All full-time Agency employees are eligible to participate in CalPERS with benefits vesting after five years of service. Agency employees who retire at age 60 with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in increasing percentage increments up to three percent of their average full-time monthly pay rate for the highest 12 consecutive months for each year of credited service.

Funding Policy: Active plan members in the Miscellaneous Plan of the Agency are required to contribute eight percent of their annual covered salary. The Agency is required to contribute the actuarially determined amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2011-12 was 24.72 percent. Beginning July 1, 2012, the rate is 24.266 percent. Contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. Active plan members in the Miscellaneous Plan of the Agency are also required to contribute eight percent of their annual covered salary. The Agency has chosen to make this contribution on behalf of the members. For the fiscal years 2011-12 and 2010-11, the Agency's contribution for the employee's portion of CalPERS amounted to $31,699 and $32,835, repectively.

Annual Pension Cost: For fiscal year 2011-12, the Agency's annual pension cost was $97,961 and the Agency actually contributed $97,961. The Agency's covered payroll for CalPERS was $396,316 for the year ended June 30, 2012. The required contribution for fiscal year 2011-12 was determined as part of the June 30, 2010 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) a 7.75 percent investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.55 to 14.45 percent for miscellaneous members; and (c) an inflation component of 3.0 percent and payroll growth of 3.25 percent. The actuarial value of the Plan was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two– to five-year period depending on the size of investment gains and/or losses. The Plan unfunded accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a fresh-start basis over a twenty-year amortization period.

6. Employee Retirement Plan (Continued)

For each of the fiscal years shown below, the Agency contributed at the actuarially determined rate provided by CalPERS actuaries.

Three-Year Trend Information for the San Gorgonio Pass Water Agency PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/10	$108,914	100	-0-
6/30/11	$94,642	100	-0-
6/30/12	$97,961	100	-0-

7. Post-Employment Benefits Other Than Pensions

Plan Description

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

Funding Policy and Annual Other Postemployment Benefit Costs

Contribution requirements of the Agency are established and may be amended through board action to update the original Ordinance. The Agency's annual OPEB expense for the plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The remaining amortization period at June 30, 2012 was 26 years. The Agency's annual OPEB cost for the current year and the related information for the plan are shown below.

Annual required contribution	$63,845
Contribution made	(63,845)
Net OPEB obligation, end of year	$ -

The Agency's annual OPEB cost which is equal to its annual required contribution has been recognized as a part of the operating expenses of the Agency in the accompanying financial statements.

7. Post-Employment Benefits Other Than Pensions (Continued)

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2012, 2011, and 2010 are presented below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/10	$72,120	$72,120	100%	-0-
6/30/11	$73,012	$73,012	100%	-0-
6/30/12	$63,845	$63,845	100%	-0-

The funded status of the plan as of June 30, 2012, based on the July 1, 2011 actuarial valuation is as follows:

Actuarial accrued liability (AAL)	$569,271
Actuarial value of trust assets	(186,326)
Unfunded actuarial accrued liability (UAAL)	$382,945
Funded ratio (actuarial value of trust assets/AAL)	32.7%
Covered payroll (active members)	N/A
UAAL as a percentage of covered payroll	N/A

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

Actuarial Methods and Assumptions

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

7. Post-Employment Benefits Other Than Pensions (Continued)

Significant methods and assumptions were as follows:

Valuation date	July 1, 2011
Actuarial cost method	Entry age normal
Amortization method	Level percent of covered payroll
Remaining amortization period	27 years as of the valuation date
Asset valuation method	N/A – no assets
Actuarial assumptions:	
Investment rate of return	7.61%
Payroll growth	3.25%
Healthcare Trend Rate (Estimated Increase)	
2013	7.3%
2014	7.0%
2015	6.7%
2016	6.4%
2017	6.1%

8. Reimbursement of Prior Year Expenses

During the year ended June 30, 2012, the Agency received refunds on various payments made by the State Department of Water Resources for the Agency's participation in the State Water Project. Some of these refunds were applicable to prior years. Since the Agency has no way to determine when and if the Agency will receive refunds from the State, these funds have been reflected in the year in which they were received and included in operating revenues.

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 5. 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.

10. Prior Period Adjustment

The beginning of the year, net assets – unrestricted balance was restated to correct an error in the calculation of the State Water Project amortization in a prior period. This restatement resulted in an increase in the net assets – unrestricted beginning balance in the amount of $178,222.

11. Subsequent Events

In the preparation of these financial statements, the Agency considered subsequent events through October 31, 2012, which is the date these financial statements were issued.

SUPPLEMENTARY INFORMATION

SAN GORGONIO PASS WATER AGENCY

Organizational Information

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. Scheduled delivery totaled 17,300 acre feet for 2012.

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.

The Agency is also committed to pay in future years its share of the cost of supplemental water facilities which may be necessary to enable it to benefit fully from participation in the State Water Project. Such supplemental facilities could be in the form of an aqueduct to transport State Water Project water from Hesperia or San Bernardino to the Coachella Valley or could consist of a desalting plant and/or other facilities necessary to continue the exchange of the Agency's Northern California water entitlement for Colorado River water. The cost of supplemental water facilities will be shared by other agencies which will benefit from their construction.

SAN GORGONIO PASS WATER AGENCY

Schedules of Funding Progress

June 30, 2012

Pension Plan

The following schedule presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing overtime relative to the actuarial accrued liability for benefits. As required by state law effective July 1, 2005, the Agency's Miscellaneous Plan was terminated, and the employees in the plan were required by CalPERS to join a new state-wide pool. CalPERS' latest actuarial value and funding progress for the state-wide pool follows.

Required Supplementary Information Plan's Risk Pool History of Funded Status and Funding Progress (Dollar Amounts in Millions)

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll
6/30/06	$501.7	$620.5	$118.8	80.9%	$126.0	94.2%
6/30/07	$576.1	$699.7	$123.6	82.3%	$139.3	88.7%
6/30/08	$641.2	$776.2	$135.0	82.6%	$155.1	87.0%
6/30/09	$694.4	$883.4	$189.1	78.6%	$162.0	116.7%
6/30/10	$754.9	$945.2	$190.4	79.9%	$159.2	119.6%

Other Postemployment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)— Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2011	$186,326	$569,271	$382,945	32.7%	N/A	N/A

Actuarial valuations of the ongoing plan involved estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about demographics regarding retirement, disability, turnover, mortality, and healthcare cost trend. See Note 7.

SAN GORGONIO PASS WATER AGENCY

Schedule of Board of Directors and Insurance Coverage

Officers, Directors, and Senior Management

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

	Term Expires
John Jeter, President	November 2014
Bill Dickson, Vice President	November 2012
Mary Ann Melleby, Treasurer	November 2012
Ron Duncan, Director	November 2012
Ted Haring, Director	November 2012
W. Ray Morris, Director	November 2014
Barbara Voigt, Director	November 2014
Jeff Davis, General Manager and Secretary of the Board	N/A

Insurance Coverage

The agreement with the Joint Powers Insurance Authority is for liability, property, and workers' compensation insurance. The first $2,000,000 of basic coverage is pooled with excess insurance purchased by the JPIA. The coverage in excess of $2,000,000 is covered by the JPIA and insures the Agency from the $2,000,000 base through $20,000,000. The property insurance carries no co-insurance requirement and has a $25,000 self-insured retention, similar to a deductible, per occurrence.

Earthquake coverage includes a 10 percent or a $50,000 minimum and a $25,000 deductible. Flood coverage includes a 5 percent or a $50,000 minimum and a $25,000 deductible. Earthquake and flood have a maximum $5,000,000 limit per occurrence, respectively.