SAN GORGONIO PASS
WATER AGENCY

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

WITH

INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED
JUNE 30, 2015 AND 2014

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A California Limited Liability Partnership
Certified Public Accounts

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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 years ended June 30, 2015 and 2014 and the related notes to the 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency'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 Agency'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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Gorgonio Pass Water Agency as of June 30, 2015 and 2014, and the 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.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, effective July 1, 2014, the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis - unaudited information, and information related to the pension and other postemployment benefits plans on pages 3 to 9 and 40 to 42, respectively, 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.

Other Information

Our audits were conducted for the purpose of forming opinions on the basic financial statements. The accompanying supplementary information on pages 43 and 44 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The organizational information on page 43 and schedule of board of directors and insurance coverage on page 44 have not been subjected to auditing procedures applied in the audits of the basic financial statements and accordingly, we do not express opinions or provide any assurance on them.

Ahern Adcock Devlin LLP

Riverside, California
December 16, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

SAN GORGONIO PASS WATER AGENCY

Management's Discussion and Analysis - Unaudited

June 30, 2015

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, 2015. 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 July 12, 1961. The purpose for creating this public agency by special law was for the "planning, conservation, development, distribution, control, and use of an adequate water supply for the public good and for the protection of life and property therein." As part of the act, the Agency was given taxing authority similar to the taxing power of other local governments.

The Agency has entered into a contract with the State Department of Water Resources to receive an annual allotment of 17,300 acre-feet from the State Water Project. However, water did not get delivered to the region, which extends from Calimesa through the San Gorgonio Pass area to Cabazon, until the completion of the East Branch Extension Phase 1 in 2003. The Department of Water Resources is currently 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 2017.

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, Expenses 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.

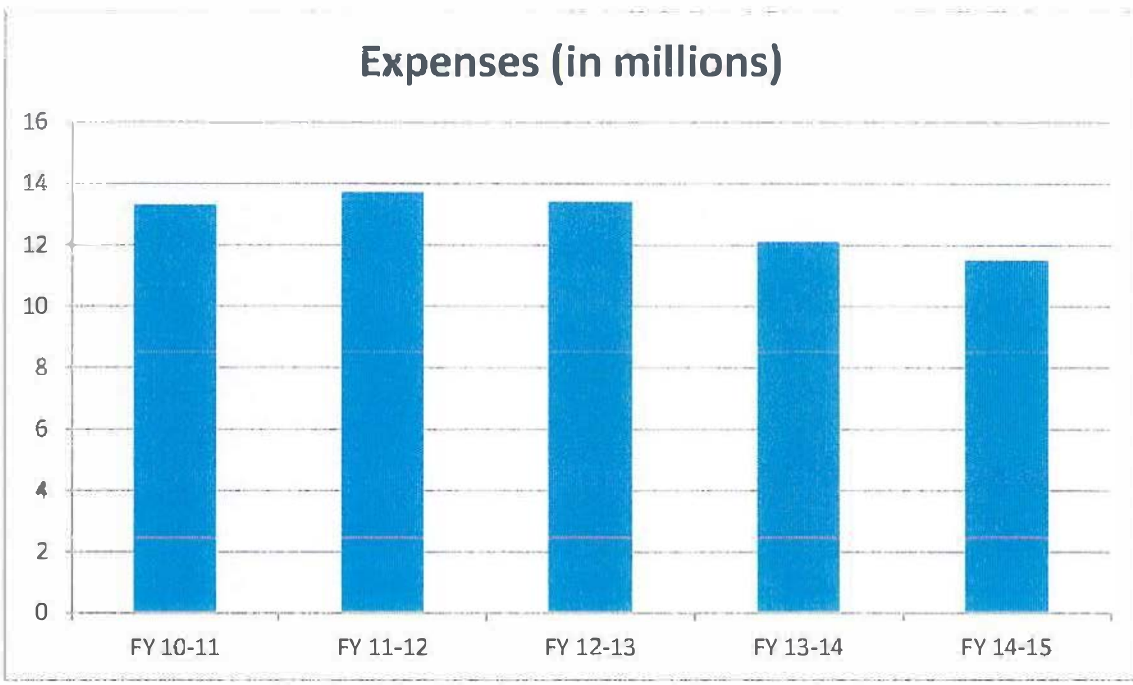
The Statement of Cash Flows conveys to financial statement readers how the Agency managed cash resources during the year. This statement converts the Change in Net Position presented on the Statement of Revenues, Expenses and Changes in Net Position into actual cash provided by or used for operations. 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.

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 nonoperations portion of the statements.

The expenses to maintain the operations portion of the Agency's efforts exceed its income 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 nonoperations 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 more than it spends.



Graph of Combined Operating and Nonoperating Expenses

By reviewing the table below, it is possible to see that overall income (Operating and Nonoperating) totals $21.05 million for FY 2014-15, an increase of $2.06 million from FY 2013-14. Overall expenses (Operating and Nonoperating) totaled $11.23 million for FY 2014-15, a decrease of $0.94 million from FY 2013-14. The resulting Net Income is $9.81 million.

Total Assets and Deferred Outflows for FY 2014-15 are $155.36 million, an increase of $8.99 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 decreased $1.57 million, Restricted Assets increased $2.65 million, and Capital Assets increased $7.65 million. Deferred Outflows were recorded in conjunction with pension contributions made during the year.

Current Liabilities are $0.37 million, a decrease of $0.76 million from FY 2013-14. Deferred Inflows were recorded for adjustments to the pension liability which was first recorded this year. Therefore, Total Net Position (Total Assets combined with Liabilities) for FY 2014-15 is $155.36 million, a net increase of $8.99 million, consisting of invested in capital assets of $105.86 million, Restricted for State Water Project of $38.92 million and Unrestricted of $10.58 million.

Financial Statement Summary
(in millions)

	6/30/15	6/30/14	6/30/13
Current Assets	$ 11.45	$ 13.13	$ 12.33
Restricted Assets	38.92	36.16	32.82
Capital Assets	105.86	98.21	94.84
Deferred Outflows	0.32		
Current Liabilities	0.37	1.13	.50
Noncurrent Liabilities	0.66		
Deferred Inflows	0.16		
Net Position	155.36	146.37	139.49
Operating Revenues	1.48	2.44	2.59
Operating Expenses	(11.18)	(12.12)	(13.44)
Nonoperating Revenues			
Interest	0.13	0.16	0.11
Property Taxes	19.39	16.45	18.24
Miscellaneous	0.04	0.00	(0.9)
Nonoperating Expenses	(0.05)	(0.05)	(0.6)
Change in Net Position	$ 9.81	$ 6.88	$ 7.35
Change in Accounting Principle	$ (0.82)		

In addition, this is the first year that new standards regarding pension liabilities have been enacted. The new standard changes the way pension expenses and liabilities are recorded, and has an impact on the statements of the Agency.

Previously, contributions to 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. Current contributions are considered to be deferred outflows, or in other words, a pre-payment to the pension liability. Instead of listing this contribution in the Expense section of the Revenue, Expenses and Net Assets statement, it now appears below the Assets part of the Net Position statement.

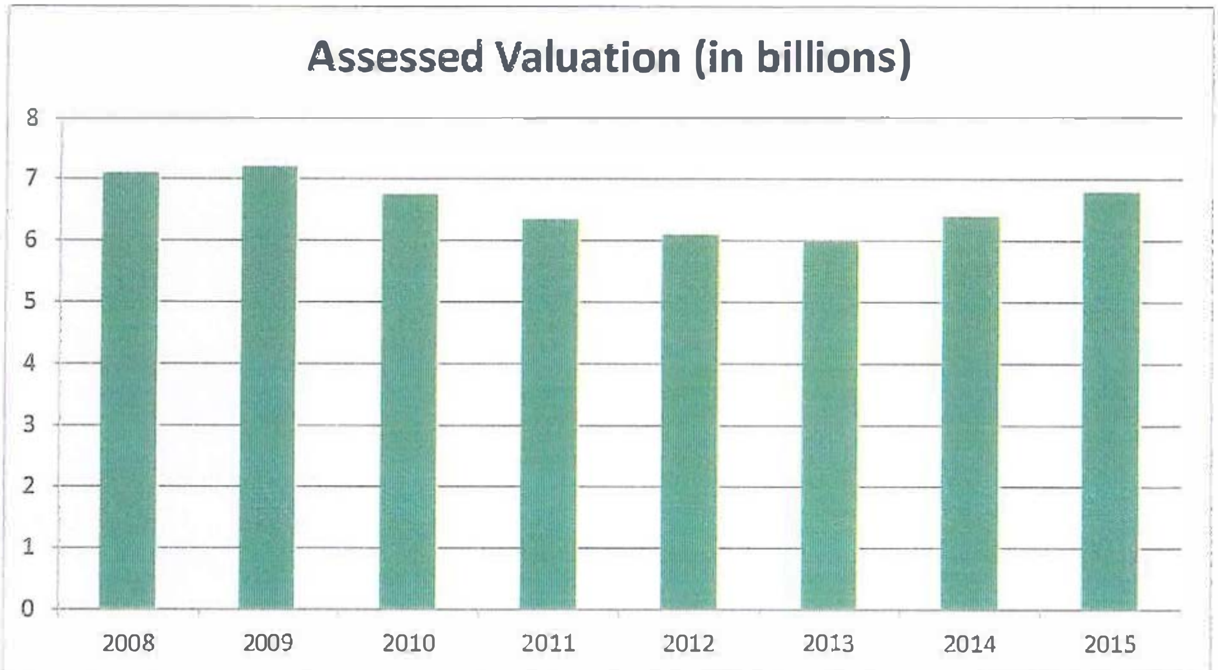
The potential future pension cost is determined by an actuarial study, which takes into account a number of factors, including current employees of the Agency, their years of service, retired employees of the Agency, and estimates for future earnings of investments made by CalPERS. The pension liability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

Finally, adjustments for differences between projections and actual earnings, and other factors are also listed as a future liability, but separate from the pension liability, below the Noncurrent Liabilities in the Liability section of the Net Assets statement.

For this year, there is also a prior period adjustment, to transition the statements to these new reporting requirements. The net effect for this year is to reduce Net Assets by $826,282, and to introduce a pension liability of $662,864.

Assessed Valuation

The following chart reflects the Agency's assessed property tax valuations. Assessed valuations 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 ended 2013. The year 2014 is the first year to see an increased valuation.



Categories of Net Position

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

Invested in Capital Assets

At June 30, 2015, Capital Assets totaled $105.86 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 below groups these assets by whether they are depreciated or amortized, or not.

SAN GORGONIO PASS WATER AGENCY

Management's Discussion and Analysis - Unaudited
(Continued)

June 30, 2015

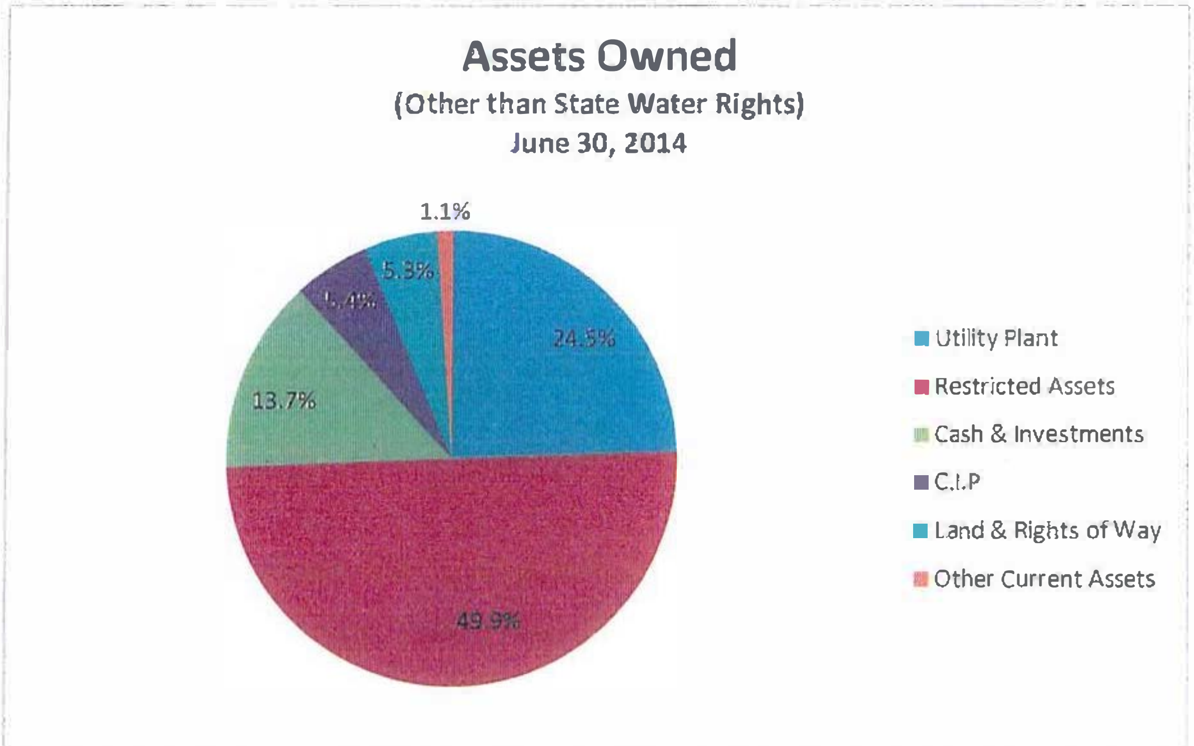
Capital Asset Activity for the Year

	Balance, July 1, 2013	Balance July 1, 2014	Additions	Deletions	Balance, June 30, 2015
Capital assets, not being depreciated					
Land and rights of way	$ 4,138,966	$ 4,138,966			$ 4,138,966
Construction in progress	2,709,249	3,479,319	$ 1,223,278	$486,448	4,216,149
Total capital assets, not being depreciated	6,848,215	7,618,285	1,223,278	486,448	8,355,115
Capital assets, being depreciated/ amortized					
Investments in State Water Rights	100,253,014	107,392,080	9,476,851		116,868,931
Source of supply	15,181,890	15,271,890	486,448		15,758,338
Transmission and distribution	1,351,614	1,351,614			1,351,614
Buildings and improvements	1,524,909	1,524,909			1,524,909
Furniture and fixtures	174,261	174,261			174,261
Technical equipment	214,823	214,823			214,823
Transportation equipment	52,060	52,060			52,060
Total capital assets being depreciated or amortized	118,752,571	125,981,637	9,963,299	-	135,944,936
Total capital assets	$125,600,786	$133,599,922	$11,186,577	$486,448	$144,300,051

The Agency made payments to the Department of Water Resources during the year totaling $14.52 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 project 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 FY 2014-15 totaled 14 acre-feet. Deliveries to retailers in FY 2014-15 totaled 5,006 acre-feet which is considerably less than the previous fiscal year, because of the drought California has been experiencing.

Construction in Progress increased by $1.22 million between July 1, 2014 and June 30, 2015. The Beaumont-Cherry Valley Water District permanent connection was completed, and that project is now listed in Fixed Assets, rather than Construction in Progress; $486,448 was transferred to the Capital Asset category of Source of Supply. The projects currently in Construction in Progress include improvements to the East Branch Extension Phase 1 project, a new recharge facility, plans for a pipeline for water delivery to the City of Banning, and the East Branch Extension Phase 2 project.



Restricted Assets

The Agency had Restricted Assets of $38.9 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 $11.45 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,	2015	2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	As adjusted Note 1	
Current assets		
Cash and cash equivalents	$ 4,581,744	$ 11,104,418
Investments	5,997,623	1,000,042
Accounts receivable	182,755	326,602
Property taxes receivable, less allowance of $8,832 in 2015 and 2014	639,313	684,494
Interest receivable	39,784	11,400
Other	6,380	6,760
Total current assets	11,447,599	13,133,716
Restricted assets		
Cash and cash equivalents	19,720,149	13,741,472
Cash in Local Agency Investment Fund	16,295,887	19,249,014
Property taxes receivable, less allowance of $76,168 in 2015 and 2014	2,903,814	3,166,423
Total restricted assets	38,919,850	36,156,909
Noncurrent assets		
Capital assets		
Investment in State Water Rights	116,868,931	107,392,080
Utility plant in service	19,076,004	18,589,556
Less accumulated depreciation and amortization	(38,436,931)	(35,387,075)
Land and rights of way	4,138,966	4,138,966
Construction in progress	4,216,149	3,479,319
Total noncurrent assets	105,863,119	98,212,846
Total assets	156,230,568	147,503,471
Deferred outflows of resources		
Pension contributions	321,301	
Total deferred outflows of resources	321,301	-
Total assets and deferred outflows of resources	$156,551,869	$147,503,471

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

June 30,	2015	2014
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	As adjusted Note 1	
Current liabilities		
Accounts payable	259,590	1,036,229
Accrued vacation and sick leave	106,099	94,339
Total current liabilities	365,689	1,130,568
Noncurrent liabilities		
Net pension liability	662,864	
Total noncurrent liabilities	662,864	-
Total liabilities	1,028,553	-
Deferred inflows of resources		
Net difference between projected and actual earnings on plan investments	143,118	
Adjustment due to differences in proportions	20,300	
Total deferred inflows of resources	163,418	-
Net position		
Invested in capital assets, including State Water Project costs	105,863,119	98,212,846
Restricted for State Water Project	38,919,850	36,156,909
Unrestricted	10,576,929	12,003,148
Total net position	155,359,898	146,372,903
Total liabilities, deferred inflows of resources, and net position	$156,551,869	$147,503,471

SAN GORGONIO PASS WATER AGENCY

Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30,	2015	2014
	As adjusted Note 1	
Operating revenues		
Water sales	$ 1,480,339	$ 2,443,119
Operating expenses		
Source of supply		
Maintenance	5,299,658	3,879,540
Purchased water	1,284,030	1,914,896
Total source of supply	6,583,688	5,794,436
Transmission and distribution		
Utilities	9,035	8,585
Maintenance	36,173	82,707
Total transmission and distribution	45,208	91,292
General and administrative expenses		
Salaries	421,889	407,378
Director expense	115,897	123,978
Payroll taxes	35,230	34,258
Employee health benefits	59,927	59,302
Employee retirement benefits		409,175
Office supplies and expense	21,477	21,557
Travel expenses	18,117	22,270
Automotive expense	9,022	11,962
Utilities and telephone	12,502	12,649
Repairs and maintenance	20,170	22,326
Insurance	30,120	29,387
Administration expense	4,604	3,963
Membership dues and assessments	25,929	27,661
Public relations	65,034	9,200
Election expense	106,307	
Legal services	177,671	131,164
Engineering and consulting services	348,855	239,729
Accounting and auditing	25,249	24,574
Outside professional services	850	18,604
Depreciation	634,346	643,350
Amortization	2,415,510	3,983,733
Total general and administrative	4,548,706	6,236,220
Total operating expenses	11,177,602	12,121,948
Operating loss	(9,697,263)	(9,678,829)

SAN GORGONIO PASS WATER AGENCY

Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30,	2015	2014
Operating loss	$ (9,697,263)	$ (9,678,829)
Nonoperating revenues (expenses)		
Property taxes - general purpose	1,905,088	1,999,626
Property taxes - debt service	17,482,812	14,453,011
Investment income	136,359	95,602
Unrealized gain on investments	(2,043)	58,351
Other	35,562	3,150
County collection charge	(47,238)	(51,870)
Total nonoperating revenues (expenses)	19,510,540	16,557,870
Increase in net position	9,813,277	6,879,041
Net position		
Beginning of year, as previously reported	146,372,903	139,493,862
Less: cumulative effect of change in accounting principle (Note 1)	(826,282)	
Beginning of year, as restated	145,546,621	139,493,862
Net position, end of year	$155,359,898	$146,372,903

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,	2015	2014
Cash flows from operating activities		
Cash received from customers	$ 1,624,186	$ 2,374,978
Cash paid to suppliers and employees	(9,213,545)	(6,867,461)
Net cash used in operating activities	(7,589,359)	(4,492,483)
Cash flows from noncapital financing activities		
Property taxes	19,695,689	16,140,839
Net cash provided by noncapital financing activities	19,695,689	16,140,839
Cash flows from capital and related financing activities		
Purchase of capital assets	(10,700,129)	(7,999,136)
Other revenue	35,562	3,150
Other expenses	(47,238)	(51,870)
Net cash used in capital and related financing activities	(10,711,805)	(8,047,856)
Cash flows from investing activities		
Purchased investments	(5,980,757)	(2,000,000)
Proceeds from maturing investments and return of principal	1,000,000	4,000,000
Interest received	89,108	101,507
Net cash provided by (used in) investing activities	(4,891,649)	2,101,507
Net change in cash and cash equivalents	(3,497,124)	5,702,007
Cash and cash equivalents		
Balance, beginning of year	44,094,904	38,392,897
Balance, end of year	$ 40,597,780	$44,094,904

SAN GORGONIO PASS WATER AGENCY

Statements of Cash Flows

For the Years Ended June 30,	2015	2014
Reconciliation of cash and cash equivalents to statements of net position		
Unrestricted cash and cash equivalents	$ 4,581,744	$11,104,418
Restricted cash and cash equivalents	36,016,036	32,990,486
Total cash and cash equivalents	$40,597,780	$44,094,904
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$(9,697,263)	$(9,678,829)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation and amortization	3,049,856	4,627,083
(Increase) decrease in:		
Accounts receivable	143,847	(68,141)
Other current assets	381	29
Other items	(321,301)	
Increase (decrease) in:		
Accounts payable	(776,639)	608,923
Accrued vacation and sick	11,760	18,452
Net cash used in operating activities	$(7,589,359)	$(4,492,483)

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"), 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").

Basis of Accounting and Measurement Focus

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

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

Cash and Cash Equivalents

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

Investments

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

Property Taxes

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

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, 2015, 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.

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.

Pension Accounting

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

Net Position

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

Invested 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.

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.

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.

1. Reporting Entity and Significant Accounting Policies (Continued)

Use of Estimates

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

Net Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources, Pension Expense, and Implementation of Accounting Principles

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.

GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* (GASB 71) requires that, at transition to the new accounting standards in accordance with GASB 68, a government should recognize a beginning deferred outflow of resources for its pension contributions made after the measurement date of the beginning net pension liability. However, it continues to require that the beginning balances for other deferred outflows and deferred inflows be reported at transition only if it is practical to determine such amounts. The Agency did not restate the financial statements for the year ended June 30, 2014 because the necessary actuarial information from CalPERS was not provided for the prior year presented. As of July 1, 2014, the Agency restated beginning net position in the amount of ($826,282) to record the beginning deferred pension contributions and net pension liability.

New Accounting Pronouncements

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

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 is intended to improve accounting and financial reporting for state and local governments' investments by enhancing the comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. GASB 72 is effective for the Agency's fiscal year ending June 30, 2016.

1. Reporting Entity and Significant Accounting Policies (Continued)

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB 73), which establishes requirements for defined benefit pensions that are not within the scope of GASB 68, as well as for the assets accumulated for the purposes of providing those pensions. GASB 73 amends certain provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans* (GASB 67), and GASB 68 for pension plans and pensions that are within their respective scopes. GASB 73 addresses the recognition of the total pension liability of such plans and the disclosures necessary for the plans that did not meet the definition of GASB 68. GASB 73 is effective for the Agency's fiscal year ending June 30, 2016.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 74), which establishes new accounting and financial reporting requirements for governments whose employees are provided with other postemployment benefits (OPEB), as well as for certain nonemployer governments that have a legal obligation to provide financial support to OPEB provided to the employees of other entities. GASB 74 also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria. GASB 74 replaces GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended* (GASB 43), and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans* (GASB 57). It also includes requirements for defined contributions OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended*, GASB 43, and GASB Statement No. 50, *Pension Disclosures*. GASB 74 is effective for the Agency's fiscal year ending June 30, 2017.

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

SAN GORGONIO PASS WATER AGENCY

Notes to Financial Statements

1. Reporting Entity and Significant Accounting Policies (Continued)

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 76). GASB 76 identifies the hierarchy of generally accepted accounting principles (GAAP) used to prepare financial statements of state and local governmental entities. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. GASB 76 supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and is effective for the Agency's fiscal year ending June 30, 2016.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures* (GASB 77), which requires governments that enter into tax abatement agreements to disclose information about (1) the government's own tax abatement agreements and (2) those that are entered into by other governments and reduce the reporting government's tax revenues. In addition, GASB 77 requires the disclosure of the nature and magnitude of tax abatements to make these transactions more transparent to financial statement users. The Agency does not enter into tax abatement agreements; as such, this statement does not apply.

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.

These future payments have been estimated at June 30, 2015 by the State Department of Water Resources through 2035 as follows:

Transportation charge:	
Capital cost components:	
State Water Project	$ 14,399,691
East branch extension	86,433,344
Minimum operations, maintenance, power, and replacement component	77,426,316
Variable operations, maintenance, power, and replacement component	56,627,684
	234,887,035
Delta water charges	27,060,751
Water system revenue bond surcharge	6,236,977
Total	$268,184,763

2. State Water Project (Continued)

The Agency has been billed formally through calendar year 2015 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, 2015	$ 182,763
Due January 1, 2016	234,291
Due July 1, 2016	234,290
Allocated capital costs of East Branch Extension:	
Due September 1, 2015	10,768,962
Due March 1, 2016	4,339,552
Due September 1, 2016	8,357,216
Minimum operations, maintenance, power, and replacement component:	
Monthly payments of $364,169 from July 1 to December 31, 2015	2,185,014
Monthly payments of $350,896 for the calendar year 2016	4,210,757
July through December 2015 payments of $1,809 for off-aqueduct power facilities	10,854
Monthly payments of $9,715 for 2016 off-aqueduct power facilities	116,584
Monthly payments of $15,142 from July 1 to December 31, 2015 for Devil Canyon - Castaic facilities	90,852
Monthly payments of $13,838 for 2016 Devil Canyon - Castaic facilities	166,056
Variable operations, maintenance, power, and replacement component:	
Monthly payments of $214,003 from July 1 to December 31, 2015	1,284,018
Monthly payments of $207,034 for the calendar year 2016	2,484,405
Allocated capital costs of Tehachapi second afterbay facilities:	
Due September 1, 2015	24,592
Due March 1, 2016	24,745
Due September 1, 2016	24,744
Allocated capital costs of Devil Canyon - Castaic contract:	
Due September 1, 2015	48,329
Due March 1, 2016	48,574
Due September 1, 2016	48,574
Water system revenue bond surcharge and 25 percent bond cover charge:	
Due July 1, 2015	216,968
Due January 1, 2016	219,251
Due July 1, 2016	219,249
Total	$35,540,640

2. State Water Project (Continued)

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 statements of net position as follows:

	2015	2014
Cash and cash equivalents – unrestricted	$ 4,581,744	$11,104,418
Cash and cash equivalents – restricted	36,016,036	32,990,486
Total cash and cash equivalents	40,597,780	44,094,904
Investments	5,997,623	1,000,042
	$46,595,403	$45,094,946

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

	2015	2014
Deposits	$24,301,893	$24,845,890
Investments	22,293,510	20,249,056
	$46,595,403	$45,094,946

Investments Authorized by the Agency's Investment Policy

Under the 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 identified in the following table:

Authorized Investment Type	Maximum Maturity
U.S. Treasury	2 years
Federal agency	
Municipal bonds	
Negotiable certificates of deposit	2 years
Repurchase agreements	1 year
Medium term notes	5 years
Money market mutual funds	
Local Agency Investment Fund ("LAIF")	

3. Cash, Cash Equivalents, and Investments (Continued)

Concentration of Credit Risk

Investments at June 30 in any one issuer, other than U.S. Treasury Securities and LAIF that represent 5 percent or more of the total investments of the Agency are as follows:

Issuer	Investment Type	2015	2014
Federal Farm CR BKS 3/2018	U.S. Government bonds	$1,985,400	
Federal Farm CR BKS 2/2019	U.S. Government bonds	$2,001,760	
Federal Farm CR BKS 2/2018	U.S. Government bonds	$999,780	
Federal National Mortgage Assoc.	U.S. agency securities	$991,440	$1,000,042

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.

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 fair value of all securities is calculated and reported quarterly to the board for investments. Investment fair value and duration at June 30 are as follows:

Authorized Investment Type	2015	Effective Duration (YR)
U.S. agency securities	$991,440	2020
U.S. Government bonds	$2,985,180	2018
U.S. Government bonds	$2,001,760	2019

Authorized Investment Type	2014	Effective Duration (YR)
U.S. agency securities	$1,000,042	2017

3. 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
As of June 30, 2015:					
Cash	$ 100				$100
Deposits with financial institutions	24,301,793			$24,301,793	
U.S. Government bonds	5,006,183		$5,006,183*		
U.S. agency securities	991,440		991,440		
LAIF	16,295,887	$16,295,887			
	$46,595,403	$16,295,887	$5,997,623	$24,301,793	$100

* Includes money market $19,243.

Authorized Investment	Amount	Exempt from Disclosure	Aaa	A(1-3)	Not Rated
As of June 30, 2014:					
Cash	$ 100				$100
Deposits with financial institutions	24,845,790			$24,845,790	
U.S. agency securities	1,000,042		$1,000,042		
LAIF	19,249,014	$19,249,014			
	$45,094,946	$19,249,014	$1,000,042	$24,845,790	$100

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, 2015 and 2014, the carrying amount of the Agency's deposits is $24,301,892 and $24,845,890, respectively, and the bank balances were $24,320,749 and $24,904,034, 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.

3. Cash, Cash Equivalents, and Investments (Continued)

Investments

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.

Investments at June 30, 2015 were as follows:

	Category			Fair
	1	2	3	Value
U.S. Government bonds	$5,006,183			$ 5,006,183
Obligations of U.S. Government agencies	991,440			991,440
	$5,997,623	$ -	$ -	5,997,623
Not subject to categorization				
State pooled funds (LAIF)				16,295,887
				$22,293,510

Investments at June 30, 2014 were as follows:

	Category			Fair
	1	2	3	Value
Obligations of U.S. Government agencies	$1,000,042			$ 1,000,042
	$1,000,042	$ -	$ -	1,000,042
Not subject to categorization				
State pooled funds (LAIF)				19,249,014
				$20,249,056

At June 30, 2015 and 2014, the Agency had no investments in repurchase and reverse repurchase agreements and did not invest in such during the years 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.

SAN GORGONIO PASS WATER AGENCY

Notes to Financial Statements

4. Capital Assets

For the year ended June 30, 2015, the changes in utility plant for the Agency were as follows:

	Balance July 1, 2014	Additions	Disposals	Balance June 30, 2015
Investment in state water rights	$107,392,080	$9,476,851		$116,868,931
Land and rights of way	4,138,966			4,138,966
Source of supply	15,288,155	486,448		15,774,603
Recharge facilities	1,351,614			1,351,614
Technical equipment	94,438			94,438
Office building	1,508,644			1,508,644
Solar equipment	120,384			120,384
Furniture and fixtures	174,261			174,261
Transportation equipment	52,060			52,060
	$130,120,602	$9,963,299	$ -	$140,083,901

For the year ended June 30, 2015, the changes in accumulated depreciation and amortization for the Agency were as follows:

	Balance July 1, 2014	Additions	Disposals	Balance June 30, 2015
Investment in state water rights	$29,288,614	$2,415,510		$31,704,124
Source of supply	4,426,137	490,718		4,916,855
Recharge facilities	709,598	67,580		777,178
Technical equipment	94,045	394		94,439
Office building	607,296	60,341		667,637
Solar equipment	42,179	12,031		54,210
Furniture and fixtures	167,147	3,282		170,429
Transportation equipment	52,059			52,059
	$35,387,075	$3,049,856	$ -	$38,436,931

For the year ended June 30, 2014, the changes in utility plant for the Agency were as follows:

	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
Investment in state water rights	$100,253,014	$7,139,066		$107,392,080
Land and rights of way	4,138,966			4,138,966
Source of supply	15,198,155	90,000		15,288,155
Recharge facilities	1,351,614			1,351,614
Technical equipment	94,438			94,438
Office building	1,508,644			1,508,644
Solar equipment	120,384			120,384
Furniture and fixtures	174,261			174,261
Transportation equipment	52,060			52,060
	$122,891,536	$7,229,066	$ -	$130,120,602

4. Capital Assets (Continued)

For the year ended June 30, 2014, the changes in accumulated depreciation and amortization for the Agency were as follows:

	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
Investment in state water rights	$25,304,881	$3,983,733		$29,288,614
Source of supply	3,943,750	482,387		4,426,137
Recharge facilities	642,017	67,581		709,598
Technical equipment	85,897	8,148		94,045
Office building	546,955	60,341		607,296
Solar equipment	30,148	12,031		42,179
Furniture and fixtures	157,728	9,419		167,147
Transportation equipment	48,616	3,443		52,059
	$30,759,992	$4,627,083	$ -	$35,387,075

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 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.

5. Joint Ventures (Joint Powers Agreements) (Continued)

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

	2014	2013
Total assets	$195,584,006	$194,823,604
Total liabilities	$107,626,833	$100,307,836
Net position	87,957,173	94,515,768
Total liabilities and net position	$195,584,006	$194,823,604
Total revenues	$ 142,014,403	$ 140,290,060
Total expenses	(149,684,189)	(133,299,974)
Total other income	1,111,191	162,348
Change in net position	$ (6,558,595)	$ 7,152,434

6. 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, an agent 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.

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).

6. Pension Plan (Continued)

The new class of employees are employees who were hired on or after January 1, 2013. The Agency will pay its portion of retirement, referred to as the Employer Contribution, and the employee will contribute 7 percent of their annual covered salary as pre-taxable deduction. The Agency is not allowed by law to contribute to this part of the pension obligation. There are no members of this employee class at the Agency at this time.

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.

The Agency contributes the balance of the 8 percent of EPMC. So, for 2013, the Agency paid 7 percent of the EPMC in addition to the Employer Contribution. For 2014, the Agency paid 6 percent of the EPMC. For 2015, the Agency pays 5 percent of the EPMC. For FY 2014-15, Agency paid $25,107 of EPMC.

The plan's provisions and benefits in effect at June 30, 2015 and 2014 are summarized as follows:

	Miscellaneous	
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	3.0 percent at 60	2.0 percent at 62
Benefit vesting schedule	5 years	5 years
Benefit payments	Monthly for life	Monthly for life
Final average compensation period	12 months	12 months
Sick leave credit	Yes	Yes
Retirement age	60	62
Monthly benefits as a percent of eligible compensation	2.0 percent to 2.418 percent	2.0 percent to 2.5 percent
Cost of living adjustment	4.0 percent maximum	4.0 percent maximum
Required employee contribution rates		
2015	3.0 percent	7.0 percent
2014	2.0 percent	7.0 percent
Required employee paid member contributions		
2015	5.0 percent	0 percent
2014	6.0 percent	0 percent
Required employer contribution rates		
2015	27.173 percent	
2014	25.929 percent	

At June 30, 2015, the following employees were covered by benefits:

Inactive employees (or their beneficiaries) currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	1
Active members	4
Total	7

6. Pension Plan (Continued)

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

For the measurement period ending June 30, 2014 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2013 total pension liability.

The June 30, 2013 and the June 30, 2014 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial cost method	Entry age normal
Actuarial Assumptions:	
Discount rate	7.50 percent
Inflation	2.75 percent
Salary increases	Varies by entry age and service
Investment rate of return	7.50 percent net of pension plan investment and administrative expenses; includes inflation
Mortality rate table	Derived using CalPERS' membership data for all funds
Post-retirement benefit increase	Contract COLA up to 2.75 percent until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75 percent thereafter.

The mortality table used was developed based on CalPERS' specific data. The table includes 20-year mortality improvements using Society of Actuaries Scale BB.

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, 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, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculations is not necessary. The long-term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. 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 discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the Agency's financial statements.

6. Pension Plan (Continued)

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses of GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

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 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 for each fund. The expected rate of return was set by calculating the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10[1]	Real Return 11+[2]
Global equity	47%	5.25%	5.71%
Global fixed income	19%	.99%	2.43%
Inflation sensitive	6%	.45%	3.36%
Private equity	12%	6.83%	6.95%
Real estate	11%	4.50%	5.13%
Infrastructure and forestland	3%	4.50%	5.09%
Liquidity	2%	(.55)%	(1.05)%
Total	100%		

[1]An expected inflation of 2.5 percent used for this period.
[2]An expected inflation of 3.0 percent used for this period.

6. Pension Plan (Continued)

(c) Changes in the Net Pension Liability

The following table shows the changes in net position liability recognized over the measurement period.

	Increase (decrease)		
	Total Pension Liability	**Pension Fiduciary Net Position**	**Net Pension Liability**
Balance at June 30, 2013 (valuation date)	$2,592,183	$1,786,601	$ 805,582
Changes recognized for the measurement period:			
Service cost	95,268		95,268
Interest on the total pension liability	192,962		192,962
Adjustments due to differences in proportions		7,250	(7,250)
Differences between expected and actual experience		7,387	(7,387)
Contributions from the employer		69,218	(69,218)
Contributions from employees		34,988	(34,988)
Net investment income		312,105	(312,105)
Benefit payments, including refunds of employee contributions	(133,970)	(133,970)	
Net changes	154,260	296,978	(142,718)
Balance at June 30, 2014	$2,746,443	$2,083,579	$ 662,864

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the plan as of the measurement date calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.0 percentage – 1.0 point lower (6.50 percent) or 1.0 percentage-point higher (8.50 percent) than current rate:

	Discount Rate -1.0%	**Current Discount**	**Discount Rate +1.0%**
Net pension liability	(6.50%)	(7.50%)	(8.50%)
	$1,027,215	$662,864	$360,487

Pension Plan Fiduciary Net Position

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

6. Pension Plan (Continued)

Subsequent Events

The Agency paid $201,578 to CalPERS on September 8, 2014 subsequent to measurement date of June 30, 2014. The payment produced a reduction in the employer contribution rate from 27.173 percent to 19.028 percent as of September 15, 2014. The purpose of this payment was to eliminate an obligation the Agency incurred when joining CalPERS in 1990. This obligation was called a "side fund" and was the difference between the funded status of the pool and the funded status of the Agency. The Agency has paid an amortized portion of the original obligation annually since joining CalPERS. This payment eliminated the obligation and produced a reduction in the employer contribution rate from 27.173 percent of covered payroll to 19.028 percent of covered payroll as of September 15, 2014.

Recognition of Gains and Losses

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings	5 year straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired).

The EARSL for the Plan for the 2013-14 measurement period is 3.8 years which was obtained by dividing the total service years of 460,700 (the sum of remaining service lifetimes of the active employees) by 122,789 (the total number of participants: active, inactive, and retired). Inactive employees and retirees have remaining service lifetimes equal to zero and total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

6. Pension Plan (Continued)

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

For the year ended June 30, 2015, the Agency recognized pension expense of $321,301. At June 30, 2015, the Agency deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$321,301	
Net difference between projected and actual earnings on pension plan investments		$(143,118)
Adjustment due to differences in proportion		(20,300)
Total	$321,301	$(163,418)

The amounts above are net of outflows and inflows recognized in the pension expense for the fiscal year ended June 30, 2015. The $43,030 reported as deferred inflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016.

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 of Resources
2016	$(43,030)
2017	$(43,030)
2018	$(41,580)
2019	$(35,778)

Fiscal Year 2014 Pension Disclosures

(e) Funding Policy

The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2014 was 25.929 percent. The contribution rate is established and may be amended by CalPERS.

6. Pension Plan (Continued)

(f) Annual Pension Cost and Net Pension Obligation

For fiscal year 2014, the Agency's annual pension cost and contribution made were $112,424. The annual pension cost included $28,167 for the Agency's pickup of the employee's 6 percent for 6 months and 7 percent for 6 months share at June 30, 2014. The required contribution for fiscal year 2014 was based on CalPERS June 30, 2011 actuarial valuation using the actuarial assumptions discussed in Note 6(b). For fiscal year 2013, the Agency's annual pension cost and contribution made were $100,368. The annual pension cost included $31,023 for the Agency's pickup of the employee's 7 percent for 6 months and 8 percent for 6 months share.

Two-Year Trend Information for CalPERS

Year ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2013	$100,368	100%	0
2014	$112,424	100%	0

(g) Funded Status and Funding Progress

As of June 30, 2012, the actuarial valuation date, the plan was 66.6 percent funded. The actuarial accrued liability for benefits was $2,253,971 and the actuarial value of assets was $1,500,685, resulting in an unfunded actuarial accrued liability ("UAAL") of $753,286. The covered payroll (annual payroll of active employees covered by the plan) was $396,233, and the ratio of the UAAL to the covered payroll was 190.11 percent. This valuation reflects changes to the method for calculating the actuarial value of assets.

The Schedule of Funding Progress, presented as required supplementary information (RSI) following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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.

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

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, 2015 was 25 years. The Agency's annual OPEB cost for the current year and the related information for the plan are shown below.

Annual required contribution	$ 44,120
Contribution made	(44,120)
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. The Agency chose to increase the contribution to CERBT to reduce the total liability in the year ended June 30, 2014 and contributed $318,970, which included the annual required contribution.

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, 2015, 2014, and 2013 are presented below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/12	$63,845	$63,845	100%	-0-
6/30/13	$66,640	$66,640	100%	-0-
6/30/14	$42,358	$42,358*	100%	-0-
6/30/15	$44,120	$44,120*	100%	-0-

*Applied from $318,970 contribution made in fiscal year 2013-14.

The funded status of the plan as of June 30, 2015, based on the July 1, 2013 actuarial valuation is as follows:

Actuarial accrued liability (AAL)	$511,306
Actuarial value of trust assets	304,451
Unfunded actuarial accrued liability (UAAL)	$206,855
Funded ratio (actuarial value of trust assets/AAL)	59.5%
Covered payroll (active members)	N/A
UAAL as a percentage of covered payroll	N/A

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

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.

Significant methods and assumptions were as follows:

Valuation date	July 1, 2013
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)	
2015	6.7%
2016	6.4%
2017	6.1%
2018	5.8%
2019	5.5%

8. Reimbursement of Prior Year Expenses

During the year ended June 30, 2015, 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. Contractual Commitments

The Agency has entered into various contractual agreements for engineering and consulting services. The remaining contractual commitments for the flume project total $113,459, the urban water management plan total $59,372, the geological studies total $135,307, and various others total $84,390 as of June 30, 2015. These commitments have not been recorded in the accompanying financial statements.

11. Subsequent Events

In the preparation of these financial statements, the Agency considered subsequent events through December 16, 2015, which is the date these financial statements were issued.

SUPPLEMENTARY INFORMATION - UNAUDITED

SAN GORGONIO PASS WATER AGENCY

Required Supplementary Information – Unaudited

June 30, 2015

Schedule of Changes in Net Pension Liability and Related Ratios

	2015[1]
TOTAL PENSION LIABILITY	
Service cost	$ 95,268
Interest on total pension liability	192,962
Benefit payments, including refunds of employee contributions	(133,970)
Net change in total pension liability	154,260
Total pension liability – beginning	2,592,183
Total pension liability – ending (a)	$2,746,443
PLAN FIDUCIARY NET POSITION	
Contribution – employer	$ 112,491
Contribution – employee	6,352
Net investment income	312,105
Benefit payments, including refunds of employee contributions	(133,970)
Net change in fiduciary net position	296,978
Plan fiduciary net position – beginning	1,786,601
Plan fiduciary net position – ending (b)	$2,083,579
Plan net pension liability – ending (a) – (b)	$662,864
Plan fiduciary net position as a percentage of the total pension liability	75.86%
Covered employee payroll	$425,739
Plan net pension liability as a percentage of covered-employee payroll	155.70%

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

Notes to Schedule:

Benefit changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit.

Changes of Assumptions: There were no changes in assumptions.

SAN GORGONIO PASS WATER AGENCY

Required Supplementary Information – Unaudited

June 30, 2015

Schedule of Plan Contributions[1]

(Dollars in thousands)	2015
Actuarially determined contribution	$ 112,491
Contributions in relation to the actuarially determined contribution	(112,491)
Contribution deficiency (excess)	$ -
Covered employee payroll	$425,739
Contributions as a percentage of covered-employee payroll	26.42%

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

Notes to Schedule:

Valuation date: June 30, 2013

Methods and assumptions used to actuarially determine contributions rates for fiscal year 2015.

Actuarial Cost Method	Entry Age Normal
Amortization method/period	Level of percent of payroll/ 22 years as of the valuation date
Asset valuation method	15 year smoothed market
Inflation	2.75 percent
Salary increases	Merit scale by duration of employment and assumed inflation growth of 2.75 percent and annual production growth of .25 percent
Payroll growth	3.00 percent
Investment rate of return	7.50 percent (net of administrative expenses)
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

SAN GORGONIO PASS WATER AGENCY

Required Supplementary Information - Unaudited

June 30, 2015

Funding Progress of Pension Plan

The table below provides a history of the funded status of the Agency's pension plan.

Actuarial Valuation Date	Entry Age Normal Accrued Liability	Actuarial Asset Value	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll
6/30/11	$2,115,823	$1,466,019	$649,804	69.3%	$385,932	168.37%
6/30/12	$2,253,971	$1,500,685	$753,286	66.6%	$387,781	194.26%
6/30/13	$2,592,183	$1,786,601	$805,582	68.9%	$413,338	194.90%

Funding Progress of Other Postemployment Benefits

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

Actuarial Valuation Date	Accrued Liability	Actuarial Asset Value	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll
7/01/13*	$511,306	$304,451	$206,855	59.50%	N/A	N/A
7/01/11	$621,526	$236,645	$384,881	38.10%	N/A	N/A

*Most recent actuarial valuation date.

SAN GORGONIO PASS WATER AGENCY

Organizational Information - Unaudited

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

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 2016
Mary Ann Melleby, Treasurer	November 2016
Ron Duncan, Director	November 2016
Lenard Stephenson, Director	November 2016
Blair Ball, Director	November 2018
Vacant	November 2016
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.