SAN GORGONIO PASS WATER AGENCY

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
JUNE 30, 2016 AND 2015

SAN GORGONIO PASS WATER AGENCY
CONTENTS
June 30, 2016

AhernAdcockDevlin

A Division of SingerLewak

Independent Auditors' Report

Board of Directors
San Gorgonio Pass Water Agency
Beaumont, California

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, 2016 and 2015 and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 and the State Controller's minimum audit requirements for California Special Districts. 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 opinion.

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, 2016 and 2015, 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 2 to the basic financial statements, effective July 1, 2015, the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Applications,* GASB 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,*, and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. 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 43 to 45, 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 that collectively comprise the Agency's basic financial statements. The accompanying supplementary information on pages 46 and 47 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The organizational information on page 46 and schedule of board of directors and insurance coverage on page 47 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

December 6, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

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 years ended June 30, 2016 and 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 on April 19, 1961. The purpose for creating this public agency by special law was for the "planning, conservation, development, distribution, control and use of an adequate water supply for the public good and for the protection of life and property therein." As part of the act, the Agency was given taxing authority similar to the taxing power of other local governments.

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

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

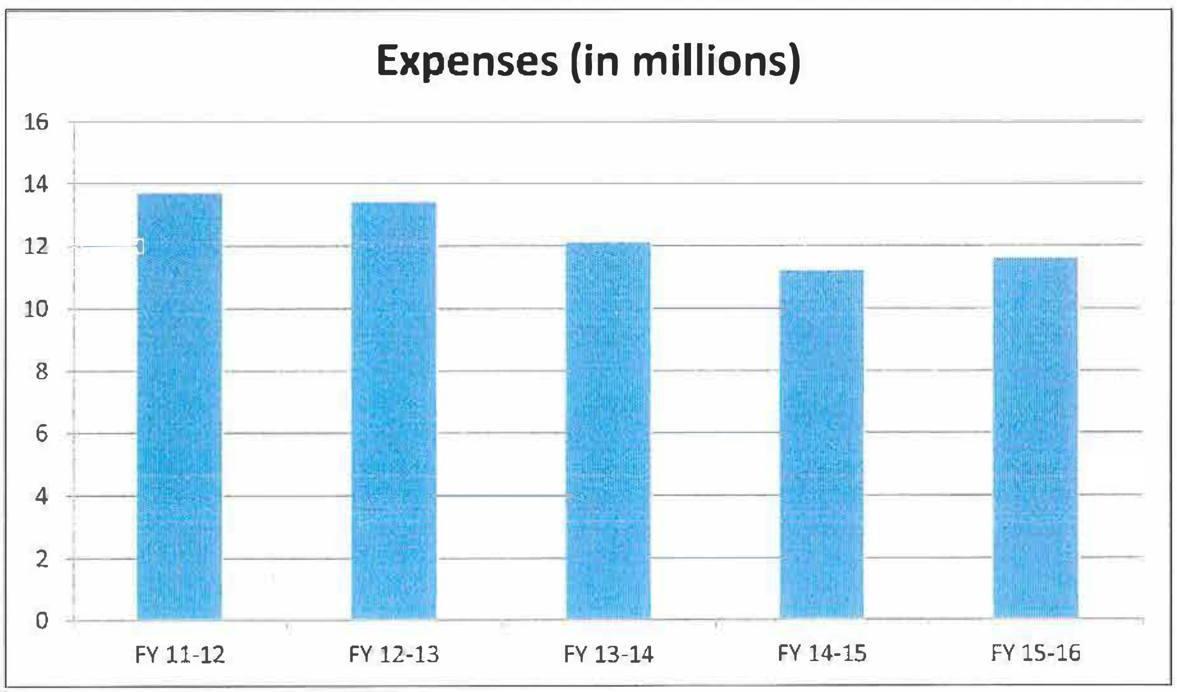
The Statement of Cash Flows conveys to financial statement readers how the Agency managed cash resources during the year. This statement converts the Change in Net Position presented on the Statement of Revenues, Expenses and Changes in Net Position into actual cash provided by or used for operations.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

Summary Financial Information and Analysis

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

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

However, the expenses to maintain the operations portion of the Agency's efforts exceed its income at this time. Examination of just the operations portion of the statements reveals what looks like a loss. However, tax revenue, by design, has been enacted to pay for some of the operations expense, but is relegated to the non-operations portion of the statements by accounting convention. So, even though operations looks like a loss, in actuality, by viewing the statements as a whole, it is clear that the Agency is receiving 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 Non-operating) totals $22.98 million for FY 2015-16, an increase of $1.94 million from FY 2014-15. Overall expenses (Operating and Non-Operating) totaled $11.59 million for FY 2015-16, an increase of $0.36 million from FY 2014-15. The resulting Net Income is $11.49 million.

Total Assets for FY 2015-16 are $168.02 million, an increase of $11.79 million from the previous fiscal year. This is divided into three categories: Current Assets (cash and investments that can be liquidated in 12 months), Restricted Assets (assets that are designated for a particular purpose) and Capital Assets (assets that have a life longer than 1 year and are not intended for sale during the normal course of business). Current Assets increased $1.90 million, Restricted Assets increased $0.78 million and Capital Assets increased $9.11 million.

Current Liabilities are $0.64 million, an increase of $0.27 million from FY 2014-15. The Total Net Position (Total Assets, Deferred Inflows, Liabilities and Deferred Outflows) for FY 2015-16 is $166.85 million, a net increase of $11.49 million.

Financial Statement Summary
(In millions)

	6/30/16	6/30/15	6/30/14
Current Assets	$ 13.35	$ 11.45	$ 13.13
Restricted Assets	39.70	38.92	36.16
Capital Assets	114.97	105.86	98.21
Deferred Outflows	0.20	0.32	-
Current Liabilities	0.64	0.37	1.13
Noncurrent Liabilities	1.26	0.66	-
Deferred Inflows	0.11	0.16	-
Net Position	166.85	155.36	146.37
Operating Revenues	1.86	1.48	2.44
Operating Expenses	(11.52)	(11.18)	(12.12)
Non-Operating Revenues			
Interest	0.31	0.14	0.10
Property Taxes	20.64	19.39	16.45
Miscellaneous	0.17	0.03	0.00
Non-Operating Expenses	(0.07)	(0.05)	(0.05)
Change in Net Position	11.49	9.81	6.88

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

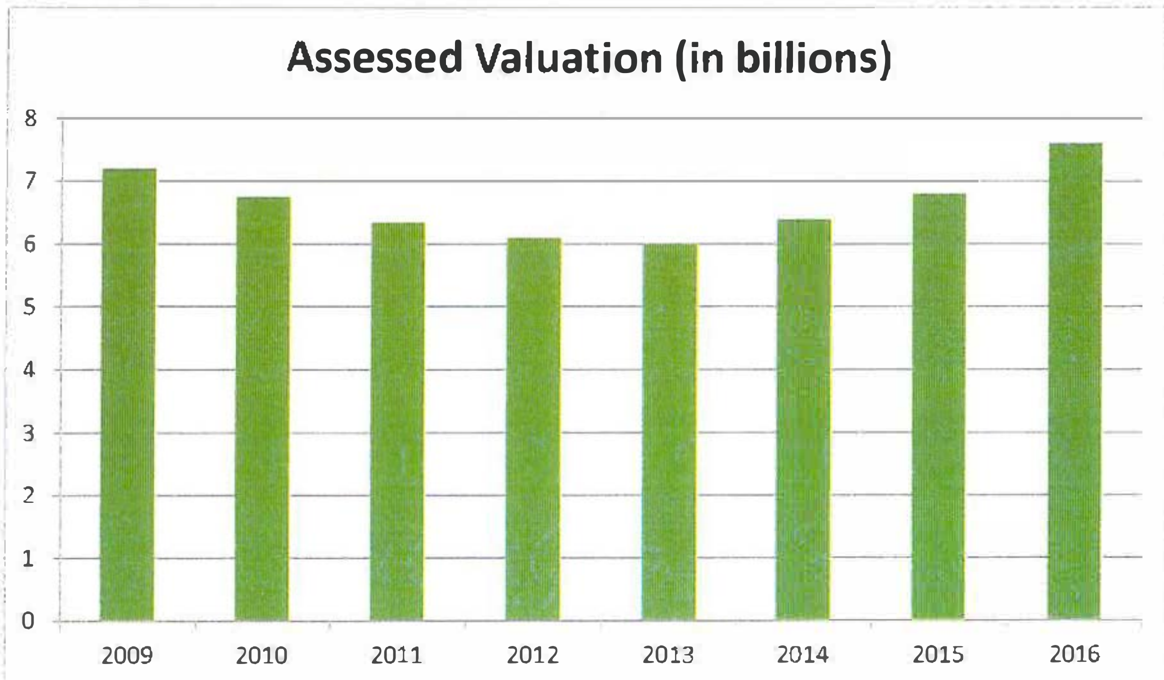
Previously, contributions to the CalPERS defined benefit pension plan were recorded as current expenses. Notes to the financial statements provided information about the composition and status of the miscellaneous risk pool that the Agency was assigned to by CalPERS.

Now, in an attempt to more accurately categorize the transactions associated with current and future pension costs, Agency contributions to pension plans have been reclassified. In the Agency's financial statements, current year pension contributions are recorded. In addition, the statements include deferred outflows and deferred inflows (in essence, pre-payments and deferred expenses), as well as a long-term pension liability.

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

Assessed Valuation

The following chart reflects the Agency's assessed property tax valuations. Assessed valuations increased significantly from the years ending June 30, 2005 to 2008; however as a result of the economic downturn, assessed values leveled off for the year ending in 2009, and declined by about 17% by the year ending in 2013. 2014 was the first year to see an increased valuation. This trend has continued, with 2016 not only regaining what was lost since 2009, but increasing slightly above 2009 valuations.



Categories of Assets

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, 2016, Capital Assets totaled $114.97 million (net of Accumulated Depreciation and Amortization) and consisted of Investment in State Water Project, Utility Plant in Service, and Construction in Progress. Utility Plant in Service is divided into additional categories of Land and Rights of Way, Source of Supply, Transmission and Distribution, Buildings, Furniture and Fixtures, Technical Equipment and Transportation Equipment. The table on the next page groups these assets by whether they are depreciated or amortized, or not.

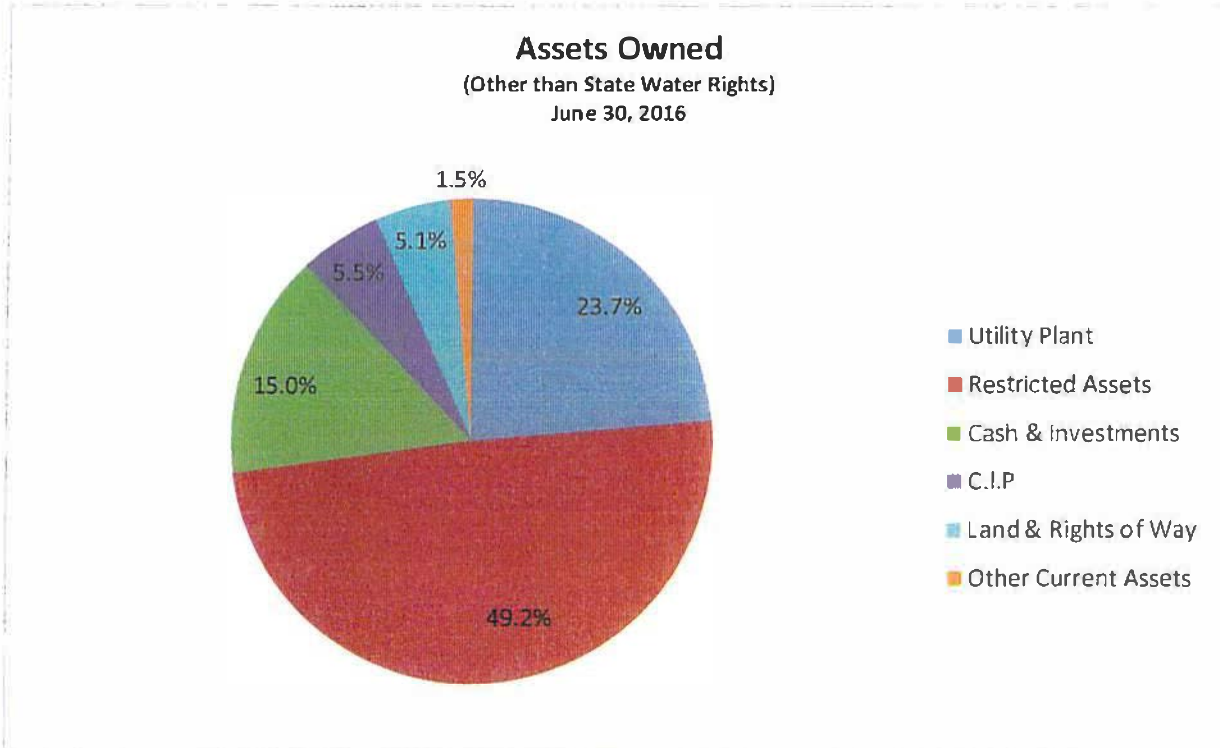
Capital Asset Activity for the Year

	Balance, July 1, 2014	Balance July 1, 2015	Additions	Deletions	Balance, June 30, 2016
Capital assets, not being depreciated					
Land and rights of way	$ 4,138,966	$ 4,138,966			$ 4,138,966
Construction in progress	3,479,319	4,216,149	$ 194,273		4,410,422
Total capital assets, not being depreciated	7,618,285	8,355,115	194,273		8,549,388
Capital assets, being depreciated/ amortized					
Investments in State Water Rights	107,392,080	116,868,930	12,642,483		129,511,413
Source of supply	15,271,890	15,758,338			15,758,338
Transmission and distribution	1,351,614	1,351,614			1,351,614
Buildings and improvements	1,524,909	1,524,909			1,524,909
Furniture and fixtures	174,261	174,261		$ 1,300	172,961
Technical equipment	214,823	214,823			214,823
Transportation equipment	52,060	52,060	44,948	22,545	74,463
Total capital assets being depreciated or amortized	125,981,637	135,944,935	12,687,431	23,845	148,608,521
Total capital assets	$133,599,922	$144,300,050	$12,881,704	$23,845	$157,157,909

The Agency made payments to the Department of Water Resources during the year totaling $17.55 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 2015-16 totaled 21 acre-feet. Deliveries to retailers in FY 2015-16 totaled 9,880 AF which is more than the previous fiscal year.

Construction in Progress increased by $0.19 million between July 1, 2015 and June 30, 2016. 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. In addition, a deposit was received from the Beaumont-Cherry Valley Water District for study and possible work to increase the size of their connection to the Agency's delivery system.



Restricted Assets

The Agency had Restricted Assets of $39.70 million, which consisted of tax proceeds that were levied for State Water Project payments less actual State Water Project related expenditures.

Unrestricted Assets

The Agency had Unrestricted Assets of $13.35 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

June 30,	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		As adjusted Note 2
Current assets		
Cash and cash equivalents	$ 1,449,062	$ 4,581,744
Cash in Local Agency Investment Fund	10,675,678	
Investments		5,997,623
Accounts receivable	528,421	182,755
Property taxes receivable, less allowance of $8,832 in 2016 and 2015	639,909	639,313
Interest receivable	47,395	39,784
Other	6,630	6,380
Total current assets	13,347,095	11,447,599
Restricted assets		
Cash and cash equivalents		19,720,149
Cash in Local Agency Investment Fund	1,655,119	16,295,887
Investments	35,237,114	
Property taxes receivable, less allowance of $76,168 in 2016 and 2015	2,804,400	2,903,814
Total restricted assets	39,696,633	38,919,850
Noncurrent assets		
Capital assets		
Investment in State Water Project	129,511,413	116,868,931
Utility plant in service	19,097,108	19,076,004
Less accumulated depreciation and amortization	(42,184,563)	(38,436,931)
Land and rights of way	4,138,966	4,138,966
Construction in progress	4,410,422	4,216,149
Total noncurrent assets	114,973,346	105,863,119
Total assets	168,017,074	156,230,568
Deferred outflows of resources		
Pension related		
Pension contributions	109,010	321,301
Difference between expected and actual experience	6,064	
Change in proportion	83,037	
Total deferred outflows of resources	198,111	321,301
Total assets and deferred outflows of resources	$168,215,185	$156,551,869

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

June 30,	2016	2015
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		As adjusted Note 2
Current liabilities		
Accounts payable	$ 507,487	$ 259,590
Accrued vacation and sick leave	110,463	106,099
Construction deposit	25,000	
Total current liabilities	642,950	365,689
Noncurrent liabilities		
Net pension liability	613,519	662,864
Total noncurrent liabilities	613,519	662,864
Total liabilities	1,256,469	1,028,553
Deferred inflows of resources		
Pension related		
Net difference between projected and actual earnings on plan investments	28,762	143,118
Adjustment due to differences in proportions		20,300
Difference between actual and projected contributions	24,636	
Changes in assumptions	57,373	
Total deferred inflows of resources	110,771	163,418
Net position		
Invested in capital assets, including State Water Project costs	114,973,346	105,863,119
Restricted for State Water Project	39,696,633	38,919,850
Unrestricted	12,177,966	10,576,929
Total net position	166,847,945	155,359,898
Total liabilities, deferred inflows of resources, and net position	$168,215,185	$156,551,869

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

For the Years Ended June 30,	2016	2015
		As adjusted Note 2
Operating revenues		
Water sales	$ 1,859,344	$ 1,480,339
Operating expenses		
Source of supply		
Maintenance	5,168,558	5,304,357
Purchased water	1,197,421	1,284,030
Total source of supply	6,365,979	6,588,387
Transmission and distribution		
Utilities	9,509	9,035
Maintenance	24,433	36,173
Total transmission and distribution	33,942	45,208
General and administrative expenses		
Salaries	418,698	421,889
Director expense	128,480	115,897
Payroll taxes	36,038	35,230
Employee health benefits	60,765	59,927
Employee retirement benefits	116,245	
Office supplies and expense	29,481	21,477
Travel expenses	20,480	18,117
Automotive expense	9,048	2,480
Utilities and telephone	14,119	12,502
Repairs and maintenance	21,868	26,712
Insurance	30,632	30,120
Administration expense	4,994	4,604
Membership dues and assessments	27,706	25,929
Public relations	17,040	65,034
Sponsorships	1,000	
Election expense		106,307
Legal services	166,020	177,671
Engineering and consulting services	216,280	348,855
Accounting and auditing	21,755	20,550
Outside professional services	4,350	850
Depreciation	648,643	634,346
Amortization	3,122,834	2,415,510
Total general and administrative	5,116,476	4,544,007
Total operating expenses	11,516,397	11,177,602
Operating loss	(9,657,053)	(9,697,263)

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

For the Years Ended June 30,	2016	2015
Operating loss	$ (9,657,053)	$ (9,697,263)
Nonoperating revenues (expenses)		
Property taxes – general purpose	2,136,273	1,905,088
Property taxes – debt service	18,506,495	17,482,812
Investment income	306,338	136,359
Unrealized gain (loss) on investments	152,539	(2,043)
Other	24,720	35,562
County collection charge	(66,351)	(47,238)
Total nonoperating revenues (expenses)	21,060,014	19,510,540
Income before capital contributions	11,402,961	9,813,277
Capital contributions – government	85,086	
Change in net position	11,488,047	9,813,277
Net position		
Beginning of year, as previously reported	155,359,898	146,372,903
Less: cumulative effect of change in accounting principle (Note 2)		(826,282)
Beginning of year, as restated	155,359,898	145,546,621
Net position, end of year	$166,847,945	$155,359,898

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

For the Years Ended June 30,	2016	2015
Cash flows from operating activities		
Cash received from customers	$ 1,513,678	$ 1,624,186
Cash paid to suppliers and employees	(7,422,365)	(9,213,545)
Net cash used in operating activities	(5,908,687)	(7,589,359)
Cash flows from noncapital financing activities		
Property taxes	20,741,586	19,695,689
Net pension liability	(49,345)	
Net cash provided by noncapital financing activities	20,692,241	19,695,689
Cash flows from capital and related financing activities		
Purchase of capital assets	(12,881,705)	(10,700,129)
Other revenue	24,720	35,562
Contributed capital	85,086	
Construction deposit	25,000	
Other expenses	(66,351)	(47,238)
Net cash used in capital and related financing activities	(12,813,250)	(10,711,805)
Cash flows from investing activities		
Purchased investments	(30,106,513)	(5,980,757)
Proceeds from maturing investments and return of principal	1,000,000	1,000,000
Interest received	318,288	89,108
Net cash used in investing activities	(28,788,225)	(4,891,649)
Net change in cash and cash equivalents	(26,817,921)	(3,497,124)
Cash and cash equivalents		
Balance, beginning of year	40,597,780	44,094,904
Balance, end of year	$ 13,779,859	$ 40,597,780

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

For the Years Ended June 30,	2016	2015
Reconciliation of cash and cash equivalents to statements of net position		
Unrestricted cash and cash equivalents	$ 1,449,062	$ 4,581,744
Unrestricted cash in Local Agency Investment Fund	10,675,678	
Restricted cash and cash equivalents		19,720,149
Restricted cash in Local Agency Investment Fund	1,655,119	16,295,887
Total cash and cash equivalents	$13,779,859	$40,597,780
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$(9,657,053)	$(9,697,263)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation and amortization	3,771,477	3,049,856
Noncash pension expense	(141,747)	
(Increase) decrease in:		
Accounts receivable	(345,666)	143,847
Other current assets	(250)	381
Pension deferrals	212,291	(321,301)
Increase (decrease) in:		
Accounts payable	247,897	(776,639)
Accrued vacation and sick	4,364	11,760
Net cash used in operating activities	$(5,908,687)	$(7,589,359)

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

NOTE 1 - REPORTING ENTITY

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Measurement Focus

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

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

Cash and Cash Equivalents

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

Investments

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

Property Taxes

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The County will designate property taxes relating to debt service (restricted) or general purposes. Funds have been established by the Agency to account for the use of these designated assets. As of June 30, 2016, certain taxes levied by the County and allocated to the Agency remain uncollected. The Agency has established allowances to estimate the extent of uncollectible property taxes.

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

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

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

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued Vacation and Sick Leave

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

Pension Accounting

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

Net Position

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

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.

Restricted and Unrestricted Resources

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

Budgetary Policies

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

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

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

GASB 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. 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.

Implementation of Accounting Principles

Effective July 1, 2015, the Agency adopted the following accounting principles:

Statement No. 72, *Fair Value Measurement and Application* (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. It also requires measurement at acquisition value for donated capital assets, which were previously required to be measured at fair value.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB 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), 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 Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (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.*

<u>New Accounting Pronouncements</u>
The Agency is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB statements:

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 contribution 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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

In March 2016, GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73* (GASB 82). GASB 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB 82 is effective for the Agency's fiscal year ending June 30, 2017.

NOTE 3 - STATE WATER PROJECT

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

These future payments have been estimated at June 30, 2016 by the State Department of Water Resources through 2035 as follows:

Transportation charge:	
Capital cost components:	
State Water Project	$ 11,490,240
East branch extension	81,247,258
Minimum operations, maintenance, power, and replacement component	82,040,428
Variable operations, maintenance, power, and replacement component	61,811,404
	236,589,330
Delta water charges	23,877,036
Water system revenue bond surcharge	8,163,460
Total	$268,629,826

NOTE 3 - STATE WATER PROJECT (Continued)

The Agency has been billed formally through calendar year 2016 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, 2016	$ 234,290
Due January 1, 2017	209,906
Due July 1, 2017	209,906
Allocated capital costs of East Branch Extension:	
Due September 1, 2016	8,357,216
Due March 1, 2017	4,343,355
Due September 1, 2017	8,361,799
Minimum operations, maintenance, power, and replacement component:	
Monthly payments of $345,564 from July 1 to December 31, 2016	2,073,383
Monthly payments of $413,460 for the calendar year 2017	4,961,521
July 2016 payment of $9,715 and August through December 2016 payments of $347 for off–aqueduct power facilities	11,450
Monthly payments of $939 for 2017 off–aqueduct power facilities	11,267
Monthly payments of $13,838 from July 1 to December 31, 2016 for Devil Canyon – Castaic facilities	83,028
Monthly payments of $15,344 for 2017 Devil Canyon – Castaic facilities	184,128
Variable operations, maintenance, power, and replacement component:	
Monthly payments of $214,003 from July 1 to December 31, 2016	1,284,021
Monthly payments of $233,028 for the calendar year 2017	2,796,341
Allocated capital costs of Tehachapi second afterbay facilities:	
Due September 1, 2016	24,744
Due March 1, 2017	22,918
Due September 1, 2017	22,917
Allocated capital costs of Devil Canyon – Castaic contract:	
Due September 1, 2016	48,574
Due March 1, 2017	48,824
Due September 1, 2017	48,824
Water system revenue bond surcharge and 25 percent bond cover charge:	
Due July 1, 2016	219,249
Due January 1, 2017	230,320
Due July 1, 2017	230,319
Total	$34,018,300

NOTE 3 - 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.

NOTE 4 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

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

	2016	2015
Cash and cash equivalents – unrestricted	$12,124,740	$ 4,581,744
Cash and cash equivalents – restricted	1,655,119	36,016,036
Total cash and cash equivalents	13,779,859	40,597,780
Investments	35,237,114	5,997,623
	$49,016,973	$46,595,403

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

	2016	2015
Deposits	$ 1,449,062	$24,301,893
Investments	47,567,911	22,293,510
	$49,016,973	$46,595,403

Investments Authorized by the Agency's Investment Policy

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

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

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

Concentration of Credit Risk

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

Issuer	Investment Type	2016	2015
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

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

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

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

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

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

Authorized Investment	Amount	Exempt from Disclosure	Aaa	A(1-3)	Not Rated	% of Portfolio
As of June 30, 2015:						
Cash	$ 100				$100	N/A
Deposits with financial institutions	24,301,793			$24,301,793		N/A
Money market	19,243		$ 19,243			0.09%
U.S. Government bonds	4,986,940		4,986,940			22.37%
U.S. agency securities	991,440		991,440			4.45%
LAIF	16,295,887	$16,295,887				73.10%
	$46,595,403	$16,295,887	$5,997,623	$24,301,793	$100	100.00%

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

Deposits
The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. At June 30, 2016 and 2015, the carrying amount of the Agency's deposits is $1,449,063 and $24,301,893, respectively, and the bank balances were $1,455,324 and $24,320,749, respectively. The Agency has cash in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000, and the remaining balance is collateralized in accordance with the California Government Code.

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

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

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

The two funds the Agency has invested in are the Short-term fund and the Medium-term fund. The Short-term fund has a targeted portfolio duration of 0 to 2 years and the medium-term fund has a targeted portfolio duration of 1 ½ to 3 ½ years. Investment strategies are to attain as high a level of current income as is consistent with the preservation of principal.

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

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

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

Investments

Fair Value of Investments

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

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

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

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

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. Disclosure requirements for fair value were adopted in the year ended June 30, 2016. Although the fair value disclosures for investments have been revised, there has been no change in the methodologies used at June 30, 2016 and 2015:

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

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

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

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

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

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

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

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

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

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

The following table sets forth by level, within the fair value hierarchy, the Agency's investment assets at fair value as of June 30, 2015:

	Level 1	Level 2	Level 3	Total
Money markets	$ 19,243			$ 19,243
U.S. government bonds	4,986,940			4,986,940
U.S. agency securities	991,440			991,440
State pooled funds (Local Agency Investment Fund)		$16,295,887		$16,295,887
	$5,997,623	$16,295,887	$ -	$22,293,510

At June 30, 2016 and 2015, the Agency had no investments in repurchase and reverse repurchase agreements and did not invest in such during the years then ended.

NOTE 5 – CAPITAL ASSETS

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

	Balance July 1, 2015	Additions	Disposals	Balance June 30, 2016
Investment in state water project	$116,868,930	$12,642,483		$129,511,413
Land and rights of way	4,138,966			4,138,966
Source of supply	15,774,603			15,774,603
Recharge facilities	1,351,614			1,351,614
Technical equipment	94,439			94,439
Office building	1,508,644			1,508,644
Solar equipment	120,384			120,384
Furniture and fixtures	174,261		$ 1,300	172,961
Transportation equipment	52,060	44,948	22,545	74,463
	$140,083,901	$12,687,431	$23,845	$152,747,487

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

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

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 project	$107,392,079	$9,476,851		$116,868,930
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	94,439			94,439
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

NOTE 5 – CAPITAL ASSETS (Continued)

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 project	$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

NOTE 6 – JOINT VENTURES (JOINT POWERS AGREEMENTS)

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

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

NOTE 6 – 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:

	2015	2014
Total assets	$194,775,717	$195,584,006
Deferred outflows of resources	625,003	
Total assets and deferred outflows of resources	$195,400,720	$195,584,006
Total liabilities	$113,620,777	$107,626,833
Deferred inflows of resources	846,155	
Net position	80,933,818	87,957,173
Total liabilities, deferred inflows, and net position	$195,400,750	$195,584,006
Total revenues	$ 157,661,735	$ 142,014,403
Total expenses	(164,195,428)	(149,684,189)
Total other income	2,738,962	1,111,191
Change in net position	$ (3,794,731)	$ (6,558,595)

NOTE 7 – PENSION PLAN

(a) General Information About the Pension Plan

Plan Description

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

Benefits Provided

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

NOTE 7 – PENSION PLAN (Continued)

Contribution Description
Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance any unfunded accrued costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Agency is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The Agency's total employer contributions were $109,010 and $112,424 for the fiscal years ended June 30, 2016 and 2015, respectively. Active plan members who were hired before January 1, 2013, sometimes referred to as "Classic" employees, are required to contribute 8 percent of their annual covered salary. A resolution passed by the Board of the Agency directed the Agency to pay this portion, called Employer Paid Member Contributions (EPMC) through December 31, 2012. Beginning January 1, 2013, the Agency established two classes of employees, as dictated by the newly enacted Public Employees Pension Reform Act (PEPRA). By Board action, "Classic" employees began paying a portion of the EPMC starting January 1, 2013. For calendar year 2013, they contributed 1.0 percent of the annual covered salary as a pre-tax deduction. For calendar year 2014, they paid 2 percent of their annual covered salary. For calendar year 2015, and continuing, they pay 3 percent of their annual covered salary.

The employee contribution rate was 8.0 percent of annual pay for Classic members and 7.0 percent for PEPRA members for the measurement periods ended June 30, 2015 and 2014. The Agency contributes 5 percent for Classic members. At June 30, 2016 and 2015 the Agency's pickup of the employee's 5% share was $$23,093 and $25,107, respectively. There are no PEPRA members employed by the Agency.

The plan's provisions and benefits in effect at June 30, 2016 and 2015 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		
2016	3.0 percent	7.0 percent
2015	3.0 percent	7.0 percent
Required employee paid member contributions		
2016	5.0 percent	0 percent
2015	5.0 percent	0 percent
Required employer contribution rates		
2016	13.995 percent	
2015	19.028 percent	

NOTE 7 – PENSION PLAN (Continued)

Net Pension Liability

The Agency's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The pension liability and fiduciary net position was calculated as a portion of the CalPERS miscellaneous risk pool in a report entitled "Schedule of Employer Allocation by Rate Plan" in which the Agency's proportionate share of the pension liability was .021259 percent and the fiduciary net position was .022108 percent. The Agency's share of contributions was .032166 percent.

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

For the measurement period ending June 30, 2015 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2014 total pension liability determined in the June 30, 2014 actuarial accounting valuation.

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

Actuarial cost method		Entry age normal in accordance with the requirements of GASB Statement No. 68
Actuarial Assumptions:		
Discount rate	2015	7.65 percent
	2014	7.50 percent
Inflation		2.75 percent
Salary increases		Varies by entry age and service
Investment rate of return	2015	7.65 percent net of pension plan investment expenses, including inflation.
	2014	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 years of mortality improvements using Society of Actuaries Scale BB.

All other actuarial assumptions used in the June 30, 2014 and 2013 valuations were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS'website under Forms and Publications.

NOTE 7 – PENSION PLAN (Continued)

Change of Assumptions
GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate was changed from 7.50 percent (net of administrative expense in 2014) to 7.65 percent as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

Discount Rate
The discount rate used to measure the total pension liability at June 30, 2015 and 2014 was 7.65 percent and 7.50 percent, respectively. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans. CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the discount rates used at June 30, 2015 and 2014 measurement dates were appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rates of 7.65 percent and 7.50 percent at June 30, 2105 and 2014 measurement dates, respectively, were applied to all plans in the Public Employees Retirement Funds. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

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

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

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

NOTE 7 – PENSION PLAN (Continued)

Asset Class	New Strategic Allocation		Real Return Years 1-10[1]	11+[2]
	2015	2014	2015 and 2014	2015 and 2014
Global equity	51%	47%	5.25%	5.71%
Global fixed income	19%	19%	.99%	2.43%
Inflation sensitive	6%	6%	.45%	3.36%
Private equity	10%	12%	6.83%	6.95%
Real estate	10%	11%	4.50%	5.13%
Infrastructure and forestland	2%	3%	4.50%	5.09%
Liquidity	2%	2%	(.55)%	(1.05)%
Total	100%	100%		

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

(c) 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 7.65 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1.0 percentage – 1.0 point lower (6.65 percent) or 1.0 percentage-point higher (8.65 percent) than current rate:

		Discount Rate -1.0%	Current Discount	Discount Rate +1.0%
Net pension liability	2015	(6.65%)	(7.65%)	(8.65%)
		$1,028,914	$613,519	$270,563
	2014	(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.

Payment Activity
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.

NOTE 7 – PENSION PLAN (Continued)

Subsequent Events
There were no subsequent events that would materially affect the results presented in this disclosure.

Amortization of Deferred Outflows and Deferred Inflows of Resources
Under GASB 68, actuarial 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 on pension plan investments	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 pensions (active, inactive, and retired) as of the beginning of the measurement period.

The Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments is amortized over a five-year period on a straight-line basis. One-fifth is recognized in pension expense during the measurement period, and the remaining Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments at the measurement date is to be amortized over the remaining four-year period. The Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments in the Schedule of Collective Pension amounts represents the unamortized balance relating to the current measurement period and the prior measurement period on a net basis.

Deferred outflows of resources and deferred inflows of resources relating to Differences Between Expected and Actual Experience, Changes of Assumptions and employer-specific amounts should be amortized over the Expected Average Remaining Service Lifetime (EARSL) of members provided with pensions through the Plan. The EARSL for the plan for the June 30, 2015 measurement date is 3.8 years, which was obtained by dividing the total service years of 467,023 (the sum of remaining service lifetimes of the active employees) by 122,410 (the total number of participants: active, inactive, and retired). Inactive employees and retirees have remaining service lifetimes equal to zero. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

NOTE 7 – PENSION PLAN (Continued)

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

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

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2016	**2015**	**2016**	**2015**
Pension contributions subsequent to measurement date	$109,010	$321,301		
Net difference between projected and actual earnings on pension plan investments			$ (28,762)	$(143,118)
Difference between actual and projected contributions			(24,636)	
Changes in assumptions			(57,373)	
Difference between expected and actual experience	6,064			
Change in proportion	83,037			(20,300)
Total	$198,111	$321,301	$(110,771)	$(163,418)

The amounts above are net of outflows and inflows recognized in the pension expense for the fiscal year ended June 30, 2016. The $109,010 reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 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	Deferred Outflows of Resources
2017	$(40,617)	$139,682
2018	$(40,025)	$31,316
2019	$(30,129)	$27,113

Fiscal Year 2015 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 2015 was 13.995 percent. The contribution rate is established and may be amended by CalPERS. The Agency's proportionate share of the Plan's contributions was $94,616 or .032166 percent.

NOTE 7 – PENSION PLAN (Continued)

(f) Annual Pension Cost and Net Pension Obligation

For fiscal year 2015, the Agency's annual pension cost and contribution made were $109,010. The annual pension cost included $23,093 for the Agency's pickup of the employee's 5 percent share at June 30, 2015. The required contribution for fiscal year 2015 was based on CalPERS June 30, 2012 actuarial valuation using the actuarial assumptions discussed in Note 6(b). 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.

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
2015	$109,010	100%	0

(g) Funded Status and Funding Progress

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.

NOTE 8 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

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

NOTE 8 – 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, 2016 was 23 years. The Agency's annual OPEB cost for the current year and the related information for the plan are shown below.

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

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, 2016, 2015, and 2014 are presented below:

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/14	$42,358	$42,358*	100%	-0-
6/30/15	$44,120	$44,120*	100%	-0-
6/30/16	$45,958	$45,958*	100%	-0-

*Applied from $318,970 contribution made in fiscal year 2014-15.

The funded status of the plan as of June 30, 2016, based on the July 1, 2013 actuarial valuation is as follows:

Actuarial accrued liability (AAL)	$598,332
Actuarial value of trust assets	644,392
Funding in excess of actuarial accrued liability (UAAL)	$(46,060)
Funded ratio (actuarial value of trust assets/AAL)	108%
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.

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

Actuarial Methods and Assumptions

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

Significant methods and assumptions were as follows:

Valuation date	July 1, 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)	
2016	6.4%
2017	6.1%
2018	5.8%
2019	5.5%
2020	5.0%

NOTE 9 – REIMBURSEMENT OF PRIOR YEAR EXPENSES

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

NOTE 10 – RISK MANAGEMENT

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

NOTE 11 – CONTRACTUAL COMMITMENTS

The Agency has entered into various contractual agreements for engineering and consulting services. The remaining contractual commitments for the Beaumont Avenue recharge project total $105,857, the geological studies total $99,610, and various others total $146,788 as of June 30, 2016. These commitments have not been recorded in the accompanying financial statements.

NOTE 12 – SUBSEQUENT EVENTS

In the preparation of these financial statements, the Agency considered subsequent events through December 6, 2016, which is the date these financial statements were issued.

SUPPLEMENTARY INFORMATION - UNAUDITED

Pension Plan

The Agency is a participant in CalPERS a cost-sharing multiple-employer public employee defined benefit pension plan in the miscellaneous risk pool. In the most recent valuation for the year ended June 30, 2015, CalPERS changed their method of reporting to the various participant employers. As part of the valuation for June 30, 2015 there were changes in the method of calculating the pension components.

There was a change in assumptions with respect to the discount rate being used. The discount rate was 7.5 as of June 30, 2014, and was changed to 7.65 as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

CalPERS also changed it's method of reporting to the participant employers. The prior year reporting included valuations by employer plan for purposes of GASB 68 reporting. In the current reporting period ended June 30, 2015, CalPERS provided reporting by plan only to the extent of the employer's participation in the miscellaneous risk pool. This change resulted in the individual actuarial valuations by employer and the amounts reported in the pool being different. Since GASB 68 requirements are met in the miscellaneous risk pool reporting, those calculated pension components are being used. In the report the Agency's proportionate share of the collective pension liability is $613,519 or .021259% of the total liability, and the fiduciary net position was $2,179,235 or .022108%.

Schedule of Plan Contributions[1]

(Dollars in thousands)	**2016**
Actuarially determined contribution	$109,010
Contributions in relation to the actuarially determined contribution	109,010
Contribution deficiency (excess)	$ -
Covered employee payroll	$461,852
Contributions as a percentage of covered-employee payroll	23.60%

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

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	$2,438,712	$1,757,288	$681,424	72.1%	$413,338	164.86%
6/30/14	$2,792,754	$2,179,235	$613,519	78.0%	$432,672	141.80%

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	59.54%	N/A	N/A
7/01/11	$621,526	$236,645	$384,881	38.07%	N/A	N/A

*Most recent actuarial valuation date.

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.

Officers, Directors, and Senior Management

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

	Term Expires
John Jeter, President	November 2018
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
David Fenn, Director	November 2018
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.