SAN GORGONIO PASS WATER AGENCY

FINANCIAL STATEMENTS

JUNE 30, 2009

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Board of Directors
San Gorgonio Pass Water Agency
Beaumont, California 92223

Independent Auditors' Report

We have audited the accompanying statements of net assets of the San Gorgonio Pass Water Agency as of June 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Gorgonio Pass Water Agency as of June 30, 2009 and 2008, and the respective changes in financial position and cash flows of the Agency for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion and analysis* is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Rogers, Anderson, Malody & Scott, LLP

October 14, 2009

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The Agency

The San Gorgonio Pass Water Agency is one of 29 state water contractors and was created by the Legislature of the State of California under Senate Bill Number 8, Chapter 40, which was signed into law by the Governor of California on April 19, 1962. The purpose of 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 completed the East Branch Extension, Phase 1, of the State Water Project. The Agency is the last of the State Water Project contractors to receive water. 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. The "Extension" delivers water to the Agency's service area, which extends from Calimesa to Cabazon through the San Gorgonio Pass area.

The Basic Financial Statements

San Gorgonio Pass Water Agency is a special purpose government (special District) engaged only in activities that support themselves through user and capacity fees and tax levies. Accordingly, the accompanying financial statements are presented in the format prescribed for proprietary funds by the Governmental Accounting Standards Board.

These financial statements consist of three interrelated statements designed to provide the reader with relevant, understandable data about the Agency's financial condition and operating results. They are the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows.

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

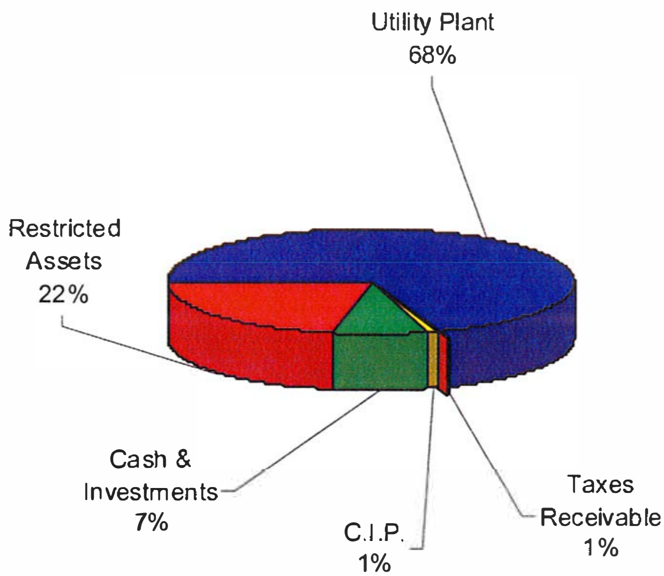
The Statement of Cash Flows conveys to financial statement users how the Agency managed cash resources during the year. This statement converts the Change in Net Assets presented on the Statement of Revenues, Expenses and Changes in Net Assets into actual cash provided by or used for operations. The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

Summary Financial Information and Analysis

During the year ended June 30, 2009, the Agency's Total Assets increased by $6.3 million and net assets increased by $6.2 million. A majority of the increase in Total Assets resulted from an increase in cash and investments ($4.7 million) and payments to the Department of Water Resources ($3.9 million) for Investment in State Water Rights in the State Water Project Transportation System.

Assets Owned

June 30, 2009



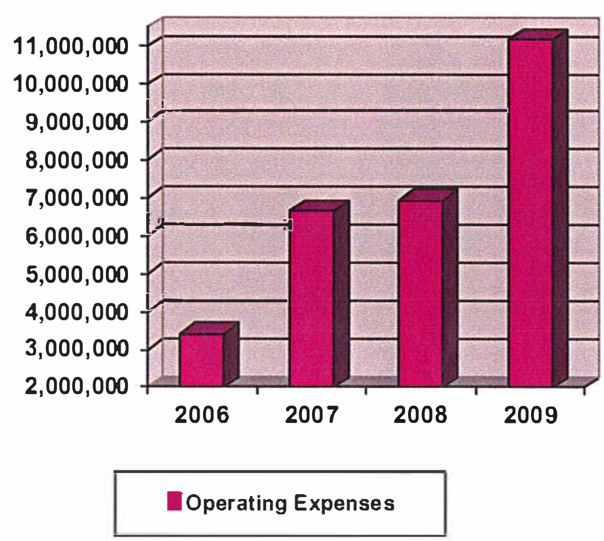
Total Cash in bank, Cash in Local Agency Investment Fund and Investments increased by $4.67 million. The increase can be further divided into general unrestricted and restricted cash and investments. Unrestricted cash and investments increased $2.26 million and restricted cash and investments increased $2.41 million. The $2.39 million increase in Current Assets was due primarily to an increase in cash and investments from water sales, property taxes and interest. The increase in Restricted Assets is a result of an increase in the amount of property taxes collected for debt service pertaining to the state water project.

The $6.2 million increase in Net Assets included non-operating revenue net of non-operating expenses of $16.6 million. This amount was reduced by a loss from operations of $10.40 million.

Financial Statement Summary

(In millions)

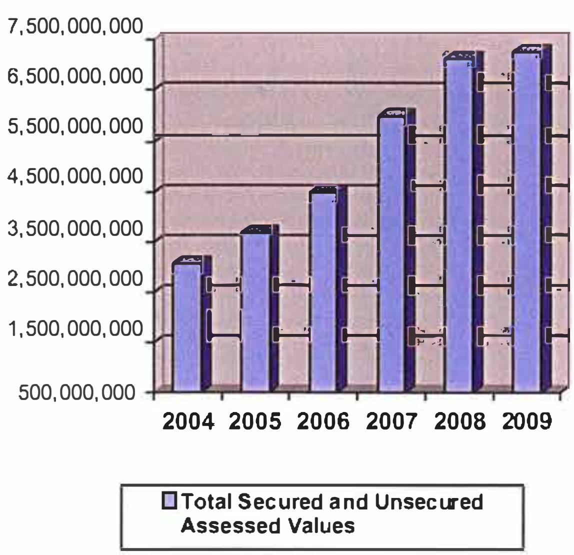
	6/30/09	6/30/08
Current Assets	$ 9.88	$ 7.82
Restricted Assets	26.33	23.46
Capital Assets	83.59	82.25
Total Assets	119.80	113.53
Total Liabilities	.55	.50
Net Assets	119.25	113.03
Oper. Revenues	.78	.73
Oper. Expenses	(11.18)	(6.94)
Non Oper. Rev.:		
Interest	.68	.94
Property Taxes	16.01	15.99
Miscellaneous	-	.02
Non Oper. Exp.	(.06)	(.04)
Contributions	-	.11
Change in Net Assets	$ 6.23	$ 10.81



Operating expenses increased $4.25 million or 61% from the prior year. The increase in operating expenses is primarily attributable to costs associated with the increased purchase and delivery of water and legal and engineering fees. Source of supply maintenance expenditures increased $3.22 million; amortization of State Water Rights increased $458 thousand; legal and engineering costs increased $142 thousand over the prior year.

Non-operating revenues decreased over the prior year. Total property taxes received increased $14 thousand. This net increase was derived from a $191 thousand decrease from general-purpose property tax distribution and $206 thousand increase from Debt Service property taxes. Interest earned on reserves decreased by $261 thousand that was attributable to a reduction of interest rates even though there was an increase in reserves available.

The following reflects the Agency's assessed property tax valuations. Assessed valuations have increased significantly each of the prior five years; however, as a result of the economic slow down assessed values leveled off for the year ending on June 30, 2009. The percent increase in the current year was 1.8%.



Categories of Net Assets

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

<u>Invested in Capital Assets</u>

At June 30, 2009, Invested in Capital Assets totaled $83.60 million and consisted of Utility Plant in Service and Construction in Progress, net of Accumulated Depreciation and Amortization.

<u>Restricted</u>

The Agency had restricted Net Assets of $26.33 million, which consisted of tax proceeds that were levied for State Water Project payments less actual State Water Project related expenditures.

<u>Unrestricted</u>

The Agency had unrestricted Net Assets of $9.33 million at June 30, 2009.

Capital Asset activity for the year was as follows:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Capital Assets not being depreciated:				
Land and rights of way	$ 468,444	$ -	$ -	$ 468,444
Construction in progress	686,274	61,184	-	747,458
Total Capital Assets, not being depreciated	1,154,718	61,184	-	1,215,902
Capital Assets being depreciated:				
Investment in State Water Rights	71,735,114	3,900,072	-	75,635,186
Source of supply	14,474,083	198,300	-	14,672,383
Transmission and distribution	1,351,614	-	-	1,351,614
Buildings	1,409,400	29,996	-	1,439,396
Furniture and fixtures	163,132	17,748	10,438	170,442
Technical equipment	53,700	-	-	53,700
Transportation equipment	44,499	29,515	21,954	52,060
Total Capital Assets, being depreciated	89,231,542	4,175,631	32,392	93,374,781
Total Capital Assets	$ 90,386,260	$ 4,236,815	$ 32,392	$ 94,590,683

Capital Assets

The Agency made payments to the Department of Water Resources during the year totaling $8.93 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, would then be applied to actual water deliveries in the current year.

State Water Project deliveries through the East Branch Extension and the Cherry Valley Pump Station to the Agency service area started in July, 2003. Deliveries to the Little San Gorgonio Creek Recharge Facility in the 2008-09 year totaled 936 acre feet for overdraft mitigation. Deliveries to retailers in the 2008-09 year totaled 4,211 acre feet.

The Agency's future commitment for State Water Project costs over the years 2009 to 2035, according to a payment schedule dated June 30, 2009, is estimated to total $283 million.

Construction in Progress (CIP)

Construction in Progress increased $61 thousand to $747 thousand between July 1, 2008 and June 30, 2009.

The projects in Construction in Progress include consulting on repairs to the Whitewater River diversion in Banning Canyon, an in-stream recharge project at Noble Creek and a permanent turnout for the Beaumont Cherry Valley Water District.

Contacting the Agency's Financial Management

This financial report is designed to provide our customers, investors, and creditors with an overview of the Agency's financial operations and condition. If you have questions about this report or need additional information, you may contact the Agency's Finance Manager at 1210 Beaumont Ave., Beaumont, California 92223.

SAN GORGONIO PASS WATER AGENCY

STATEMENT OF NET ASSETS

JUNE 30, 2009 AND 2008

ASSETS	2009	2008
CURRENT ASSETS:		
Cash in bank and on hand	$ 318,012	$ 73,665
Cash in Local Agency Investment Fund	4,289,960	-
Investments	4,368,838	6,643,165
Accounts receivable	170,497	129,729
Taxes receivable	627,925	725,629
Interest receivable	99,045	119,875
Prepaid expenses	4,050	4,770
Other receivable	-	121,571
Total Current Assets	9,878,327	7,818,404
RESTRICTED ASSETS:		
Cash in Local Agency Investment Fund	23,496,952	18,621,547
Investments	-	2,464,140
Taxes receivable	2,835,815	2,372,213
Total Restricted Assets	26,332,767	23,457,900
NONCURRENT ASSETS:		
Capital Assets:		
Investment in State Water Rights	75,635,186	71,735,114
Utility plant in service	17,739,595	17,496,428
Less: accumulated depreciation	2,923,798	2,367,379
accumulated amortization	8,074,311	5,775,079
	82,376,672	81,089,084
Land and rights of way	468,444	468,444
Construction in progress	747,458	686,274
Total Noncurrent Assets	83,592,574	82,243,802
TOTAL ASSETS	119,803,668	113,520,106

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

SAN GORGONIO PASS WATER AGENCY

STATEMENT OF NET ASSETS

JUNE 30, 2009 AND 2008

	2009	2008
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	$ 483,468	$ 443,641
Accrued vacation and sick leave	64,546	52,209
Total Current Liabilities	548,014	495,850
NET ASSETS		
Invested in capital assets	83,592,575	82,243,802
Restricted for State Water Project	26,332,767	23,457,900
Unrestricted	9,330,312	7,322,554
TOTAL NET ASSETS	$ 119,255,654	$ 113,024,256

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

SAN GORGONIO PASS WATER AGENCY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
OPERATING REVENUES:		
Water sales - purveyors	$ 783,169	$ 731,848
Total Operating Revenues	783,169	731,848
OPERATING EXPENSES:		
Source of Supply		
Maintenance	5,121,562	1,897,140
Purchased water	1,029,319	893,952
	6,150,881	2,791,092
Transmission and Distribution		
Utilities	4,805	5,340
Maintenance	91,628	51,842
	96,433	57,182
General and Administrative Expenses		
Salaries	398,540	341,526
Director fees	85,891	77,915
Payroll taxes	26,751	22,397
Employee health benefits	147,673	73,957
Employee retirement benefits	138,520	117,283
Office supplies and expense	14,251	18,366
Travel expense	32,778	18,929
Automotive expense	11,650	10,563
Utilities and telephone	23,510	23,334
Repairs and maintenance	15,948	24,069
Computer and telephone support and service	4,539	5,174
Insurance	22,335	19,336
Administration expense	2,494	1,437
Membership dues and assessments	51,989	22,521
Public relations	20,858	87,327
Legal services	314,117	257,563
Engineering services	583,528	497,890
Consulting services	37,810	23,520
Accounting and auditing	22,718	21,773
Outside professional services	18,263	3,863
Election expense	73,958	-
Depreciation	588,811	578,114
Amortization	2,299,232	1,840,759
	4,936,164	4,087,616
Total Operating Expenses	11,183,478	6,935,890
LOSS FROM OPERATIONS	(10,400,309)	(6,204,042)

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

SAN GORGONIO PASS WATER AGENCY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
NON-OPERATING REVENUES (EXPENSES):		
Interest	$ 682,367	$ 943,737
Property taxes:		
General-purpose distribution	2,436,998	2,628,357
Debt service	13,568,172	13,361,862
Miscellaneous income	372	14,670
County collection charges	(56,202)	(42,996)
Loss on disposal of assets	-	(336)
	16,631,707	16,905,294
Income Before Contributions	6,231,398	10,701,252
CONTRIBUTIONS:		
Local government	-	105,991
	-	105,991
Change in Net Assets	6,231,398	10,807,243
NET ASSETS, Beginning of year	113,024,256	102,217,013
NET ASSETS, End of year	$ 119,255,654	$ 113,024,256

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

SAN GORGONIO PASS WATER AGENCY

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 863,972	$ 775,320
Cash payments to suppliers for goods and services	(7,457,513)	(3,667,806)
Cash payments to employees for services	(785,038)	(616,159)
Other income received	372	14,670
Net Cash Used For Operating Activities	(7,378,207)	(3,493,975)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property taxes received	2,524,513	2,425,491
Net Cash Provided By Noncapital Financing Activities	2,524,513	2,425,491
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Property taxes received	13,058,557	12,701,853
Contributions received	-	10,378
Capital payments	(4,236,815)	(5,533,735)
Net Cash Provided By Capital and Related Financing Activities	8,821,742	7,178,496
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(4,243,943)	(8,987,247)
Sale of investments	9,228,970	1,000,000
Interest received	456,637	912,431
Net Cash (Used) Provided By Investing Activities	5,441,664	(7,074,816)
NET INCREASE (DECREASE) IN CASH	9,409,712	(964,804)
CASH AT BEGINNING OF YEAR	18,695,212	19,660,016
CASH AT END OF YEAR	$ 28,104,924	$ 18,695,212
CASH AT END OF YEAR		
Current Assets:		
Cash in bank and on hand	$ 318,012	$ 73,665
Cash in Local Agency Investment Fund	4,289,960	-
Restricted Cash in Local Agency Investment Fund	23,496,952	18,621,547
	$ 28,104,924	$ 18,695,212

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

SAN GORGONIO PASS WATER AGENCY

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:		
Operating loss	$ (10,400,309)	$ (6,204,042)
Adjustments:		
Depreciation and amortization	2,888,043	2,418,873
Miscellaneous income	372	14,670
Change in Assets and Liabilities:		
(Increase) decrease in accounts receivable	(40,768)	164,842
(Increase) decrease in prepaid expenses	720	580
(Increase) decrease in other receivable	121,571	(121,370)
Increase (decrease) in accounts payable	39,827	215,553
Increase (decrease) in accrued vacation and sick leave	12,337	16,919
Net Cash Used For Operating Activities	$ (7,378,207)	$ (3,493,975)

Non Cash Capital, Financing and Investing Activities:
None to Report

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

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

The San Gorgonio Pass Water Agency is one of 29 state water contractors created by the state legislature. The Agency will ultimately manage water resources and supply water to local water districts. The Agency's service area extends from Calimesa to Cabazon through the Pass area.

Basis of Accounting and Measurement Focus

The Agency accounts for its operation in an enterprise fund using the economic resources measurement focus and the accrual basis of accounting in conformity with the Uniform System of Accounts for Water Utility Districts as prescribed by the Controller of the State of California. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Agency's principal ongoing operations. The principal operating revenues of the Agency will be charges for wholesale water sales to purveyors within the Agency service area. Operating expenses of the Agency include cost of sales, administrative expenses, depreciation and amortization on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Agency has elected to follow Financial Accounting Standards Board pronouncements issued before November 30, 1989, and all pronouncements of the Governmental Accounting Standards Board.

On July 1, 2000, the Agency adopted the provisions of Governmental Accounting Standards Board Statement No. 34 *"Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments."* Statement 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- *Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

- *Restricted* – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted net assets* – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

On July 1, 2000, the Agency also adopted the provisions of Governmental Accounting Standards Board Statement No. 33 "*Accounting and Financial Reporting for Nonexchange Transactions*." This statement requires that capital contributions to the Agency be presented as a change in net assets.

Cash and Investments

Changes in fair value that occur during a fiscal year are recognized as *interest* reported for that fiscal year. *Interest* also includes interest earnings and any gains or losses realized upon the liquidation, maturity, or sale of investments. Investments are reported in the accompanying balance sheet at fair value except for certain investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Comparative Data

Prior year data has been included where practical for comparison purposes only. The prior year data does not represent a complete presentation in accordance with generally accepted accounting principles.

Capital Assets

Capital assets are stated at original cost. The capital cost component of the transportation charges and the Delta water charge the Agency pays for participation rights in the State Water Project are being capitalized as paid in accordance with instructions from the Controller of the State of California. Amortization of these water rights has been calculated based on the actual water delivery in the current fiscal year over the estimated total water delivery over the life of the State Water Project contract.

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets include property, plant, equipment and infrastructure assets, and are defined by the Agency as assets with an initial cost of more than $750 and an estimated useful life in excess of two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Property, plant and equipment of the Agency is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Pipelines	20 - 40
Spreading Ground Facilities	20
Buildings	25
Furniture and Fixtures	5 - 10
Technical Equipment	5
Transportation	5

Investment in Water Rights is 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.

Property Taxes

Property tax in California is levied in accordance with Article XIIIA of the State Constitution at 1% of countywide assessed valuations. The property taxes are placed in a pool and are then allocated to the local governmental units based upon complex formulas. Property tax revenue is recognized in the fiscal year in which taxes have been levied.

The property tax calendar is as follows:

Lien date:	January 1
Levy date:	July 1
Due date:	First installment – November 1
	Second installment – February 1
Delinquent date:	First installment – December 11
	Second installment – April 11

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Accrued Vacation and Sick Leave

The Agency has a policy whereby an employee can accumulate unused sick leave and vacation. Sick leave is to be used for extended periods of sickness; however, upon termination or retirement, a portion will be paid as additional benefits to the employee. At retirement or termination, employees will be paid for 50% of the then unused sick leave up to the maximum of 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% of the earned and unused sick leave up to the maximum number of hours and 100% of the earned and unused vacation.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, deposits with financial institutions and deposits in the State of California Local Agency Investment Fund. Investments are carried at fair value and deposits in the Local Agency Investment Fund can be withdrawn at any time.

NOTE 2: CASH AND INVESTMENTS

Cash and investments as of June 30, 2009 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Current Assets:	
Cash in bank and on hand	$ 318,012
Cash in Local Agency Investment Fund	4,289,960
Investments	4,368,838
Restricted Funds:	
Cash in Local Agency Investment Fund	23,496,952
Total cash and investments	$ 32,473,762

Cash and investments as of June 30, 2009 consist of the following:

Cash on hand	$ 100
Deposits with financial institutions	317,912
Investments	32,155,750
Total cash and investments	$ 32,473,762

NOTE 2: CASH AND INVESTMENTS (continued)

Investments Authorized by the California Government Code and the Agency's Investment Policy

The following table identifies the investment types that are authorized for the Agency by the California Government Code and the Agency's investment policy. The table also identifies certain provisions of the California Government Code (or the Agency's investment policy, if more restrictive) that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Agency, rather than the general provisions of the California Government Code or the Agency's investment policy.

Investment Types Authorized by State Law	Authorized by Investment Policy	*Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	Yes	5 years	None	None
U.S. Treasury Obligations	Yes	2 years	None	None
U.S. Agency Securities	No	5 years	None	None
Banker's Acceptances	No	180 days	None	None
Commercial Paper	No	270 days	None	None
Certificates of Deposit	Yes	2 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	No	92 days	None	None
Medium-Term Notes	No	5 years	None	None
Mutual Funds	No	N/A	None	None
Money Market Mutual Funds	Yes	N/A	None	None
Mortgage Pass-Through Securities	No	5 years	None	None
County Pooled Investment Funds	No	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
JPA Pools (other investment pools)	No	N/A	None	None

* Based on state law requirements or investment policy requirements, whichever is more restrictive.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk 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. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

NOTE 2: CASH AND INVESTMENTS (continued)

Information about the sensitivity of the fair values of the Agency's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

		Remaining Maturity (in Months)			
Investment Type	Amount	12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Certificates of Deposit	$ 4,368,838	$ 4,368,838	$ -	$ -	$ -
Local Agency Investment Fund	27,786,912	27,786,912	-	-	-
Total	$ 32,155,750	$ 32,155,750	$ -	$ -	$ -

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The Agency does not hold investments that are highly sensitive to interest rate fluctuation beyond that already indicated in the information provided above.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Agency's investment policy, and the actual rating as of year end for each investment type.

				Rating as of Year End		
Investment Type	Amount	Minimum Legal Rating	Exempt from Disclosure	AAA	AA	Not Rated
Certificates of deposit	$ 4,368,838	N/A	$ -	$ -	$ -	$ 4,368,838
Local Agency Investment Fund	27,786,912	N/A	-	-	-	27,786,912
Total	$32,155,750		$ -	$ -	$ -	$32,155,750

NOTE 2: CASH AND INVESTMENTS (continued)

Concentration of Credit Risk

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The Agency did not hold any investments in any one issuer (other than external investment pools) that represent 5% or more of total Agency investments.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. 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% of the total amount deposited by the public agencies. As of June 30, 2009, none of the Agency's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

Investment in State Investment Pool

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE 3: CAPITAL ASSETS

A summary of changes in capital assets follows:

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Business-type activities:				
Capital assets, not being depreciated:				
Land and rights of way	$ 468,444	$ -	$ -	$ 468,444
Construction in progress	686,274	61,184	-	747,458
Total capital assets, not being depreciated	1,154,718	61,184	-	1,215,902
Capital assets, being depreciated/ amortized:				
Investment in State Water Rights	71,735,114	3,900,072	-	75,635,186
Source of supply	14,474,083	198,300	-	14,672,383
Transmission and distribution	1,351,614	-	-	1,351,614
Buildings	1,409,400	29,996	-	1,439,396
Furniture and fixtures	163,132	17,748	10,438	170,442
Technical equipment	53,700	-	-	53,700
Transportation equipment	44,499	29,515	21,954	52,060
Total capital assets, being depreciated / amortized	89,231,542	4,175,631	32,392	93,374,781
Less accumulated depreciation/amortization for:				
Investment in State Water Rights	5,775,079	2,299,232	-	8,074,311
Source of supply	1,628,179	442,237	-	2,070,416
Transmission and distribution	304,113	67,581	-	371,694
Buildings	253,692	56,973	-	310,665
Furniture and fixtures	115,279	11,959	10,438	116,800
Technical equipment	41,531	3,093	-	44,624
Transportation equipment	24,585	6,968	21,954	9,599
Total accumulated depreciation	8,142,458	2,888,043	32,392	10,998,109
Total capital assets, being depreciated / amortized, net	81,089,084	1,287,588	-	82,376,672
Total capital assets, net	$ 82,243,802	$ 1,348,772	$ -	$ 83,592,574

NOTE 4: COMMITMENTS

STATE WATER PROJECT

The Agency has entered into a contract with the State Department of Water Resources to receive an annual entitlement for water from the State Water Project. The Agency assumed a proportionate share of capital costs and minimum operations, maintenance, power and replacement costs of the state facilities, in addition to paying variable operations, maintenance, power and replacement costs on a per-acre-foot charge for water deliveries when they are received. The Agency received delivery of 5,041 acre feet of State Project Water during the fiscal year ended June 30, 2009.

The Agency's future commitment for State Water Project costs over the years 2009 to 2035, according to a payment schedule dated June 30, 2009, is estimated as follows:

Transportation charge:	
Capital cost component:	
State Water Project	$ 14,199,151
East branch extension	114,400,055
Minimum operations, maintenance, power and replacement component	69,963,550
Variable operations, maintenance, power and replacement component	64,338,953
	262,901,709
Delta water charges	17,470,990
Water system revenue bond surcharge	2,848,279
Total	$ 283,220,978

NOTE 5: EMPLOYEES' RETIREMENT PLAN

Plan Description: San Gorgonio Pass Water Agency contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and Agency policy. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

All full-time Agency employees are eligible to participate in PERS with benefits vesting after five years of service. Agency employees who retire at age 60 with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in increasing percentage increments up to 3% of their average full-time monthly par rate for the highest 12 consecutive months for each year of credited service.

NOTE 5: EMPLOYEES' RETIREMENT PLAN (continued)

Funding Policy: Agency employees are required to contribute 8% of their annual salary to PERS. The Agency makes the contributions required of Agency employees on their behalf and for their account. The Agency is required to contribute an amount necessary to fund the benefits of its members, using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the Board of Administration. For the year ended June 30, 2009, the amount contributed by the Agency on behalf of the employees was $138,520. The required employer contributions rate for fiscal year ended June 30, 2009 was 27.998%.

Annual Pension Cost: Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the net pension obligation (NPO). The ARC for the period July 1, 2008 to June 30, 2009 has been determined by an actuarial valuation of the plan as of June 30, 2006. The contribution rate for the indicated period is 27.998% of covered payroll. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2009, this contribution rate, as modified by any amendments for the year, would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2008 to June 30, 2009.

A summary of principal assumptions and methods used to determine the ARC is shown below.

Valuation Date	June 30, 2006
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	16 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.25% to 14.45% depending on Age, Service, and type of employment
Inflation	3.0%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.0% and an annual production growth of 0.25%

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan area amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

NOTE 5: EMPLOYEES' RETIREMENT PLAN (continued)

Assembly Bill 1974, which added Sections 20840-20842 to the California Government Code allowed PERS to create risk pools and mandate public agency participation in those pools. Commencing with the valuation of June 30, 2003, mandatory pooling was established for plans with less than 100 active members. Henceforth, the San Gorgonio Pass Water Agency was required to participate in a risk pool of plans with less than 100 employees.

At the time of joining the risk pool (valuation of June 30, 2003), a side fund was created to account for the differences between the funded status of the pool and funded status of the Agency's plan. The side fund will be credited, on an annual basis, with the actuarial investment return assumption. This assumption is currently 7.75%. The side fund will also be subject to amortization on an annual basis.

A positive side fund meant that the employer will have to contribute less than the pool's required contribution rate while a negative side fund indicates the employer will have to contribute more than the pool's required contribution rate.

The total contribution paid to the PERS for 2009 and 2008 were $138,520 and $117,284, respectively. In 2009, the Agency paid $138,520 and the employees paid $0. In 2008, the Agency paid $117,284 and the employees paid $0. The contributions were made in accordance with actuarially determined requirements computed through an actuarial valuation performed prior to the beginning of each fiscal year by the PERS Actuarial Divisions. The combined employer and employee contribution consisted of 27.998% of current covered payroll and no amount to amortized unfunded actuarial accrued liability. In order to maintain a level of contributions, the Agency has chosen to amortize the overfunded actuarial liability for a period of 20 years.

Three Year Trend Information:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2007	$ 103,748	100%	$ 0
June 30, 2008	$ 117,284	100%	$ 0
June 30, 2009	$ 138,520	100%	$ 0

The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded accrued liability to payroll.

NOTE 5: EMPLOYEES' RETIREMENT PLAN (continued)

Risk Pool

Required Supplementary Information

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability Entry Age	Unfunded AAL	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
June 30, 2005	$ 405,480,805	$499,323,280	$ 93,842,475	81.2%	$108,618,321	86.4%
June 30, 2006	501,707,110	620,492,183	118,785,073	80.9%	126,049,770	94.2%
June 30, 2007	576,069,687	699,663,524	123,593,837	82.3%	139,334,562	88.7%

NOTE 6: JOINT VENTURE

The Agency participates in a joint venture under a joint powers agreement (JPA) with the Association of California Water Agencies Joint Powers Insurance Authority (Authority). The Authority is a risk-pooling self-insurance authority created under the provisions of California Government Code Section 6500 et. sec.

The Authority is governed by a board consisting of a representative from each member agency. The board controls the operations of the Authority including selection of management and approval of operating budgets. The relationship between the Agency and the Authority is such that the Authority is not a component unit of the Agency for financial reporting purposes.

The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. At June 30, 2009, the Agency participation in the self-insurance programs of the Authority was as follows:

Property Loss: Insured up to replacement value with $1,000 deductible for building and personal property and $0 for mobile licensed equipment per occurrence; the Authority is self-insured up to $10,000 per occurrence and has purchased excess insurance coverage.

General Liability: Insured up to $40,000,000 per occurrence with $2,500 shared expense; the Authority is self-insured up to $1,000,000 and excess insurance coverage has been purchased.

Crime Coverage - Public Employee Dishonesty, Forgery and Alteration, and Computer Fraud: Insured up to $100,000 per occurrence with a $1,000 deductible.

NOTE 6: JOINT VENTURE (continued)

Terrorism Coverage: Provides up to $2,500,000 per occurrence for property damage caused by malicious or violent act declared by the U.S. government to involve terrorism.

Crisis Management Coverage by Public Response: Insured up to $250,000 above the coverage limits.

Condensed financial information of the Authority for the year ended September 30, 2008 is as follows:

Total Assets	$ 117,864,564
Total Liabilities	$ 79,504,266
Designated Equity	38,360,298
Total Liabilities and Designated Equity	$ 117,864,564
Total Revenues	$ 28,445,936
Total Expenses	21,611,505
Increase in Designated Equity	$ 6,834,431

NOTE 7: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

During the year ended June 30, 2009, the Agency implemented GASB No. 45 which changed the accounting and financial reporting used by local government employers for postemployment benefits. Previously, the costs of such benefits were generally recognized as expenses of local government employers on a pay-as-you-go basis. The new reporting requirements for these benefit programs as they pertain to the Agency are as set forth in the following.

a) Plan Description

Through CalPERS, the Agency offers health care benefits to active and retired employees, as well as their qualified dependents. 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 5 years 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 his or her dependents. The Agency provided health care benefits continue for the life of the retiree and spouse.

NOTE 7: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (continued)

b) Funding Policy and Annual Other Postemployment Benefit Costs

Contributions requirements of the Agency are established and may be amended through Board action to update the original Ordinance. The Agency's annual other postemployment benefit (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 Agency's annual OPEB cost for the current year and the related information for the plan are shown below.

Annual required contribution	$ 68,847
Contribution made	(68,847)
Net OPEB obligation – end of year	$ -

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

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 are shown in the following table. The Agency implemented GASB Statement No. 45 for the June 30, 2009 fiscal year end, as a result information is not available for the prior two years.

Plan	Year End	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation
Retired Employees Healthcare Plan	June 30, 2009	$ 68,847	$ 68,847	100%	$ -0-

c) Funded Status

The funded status of the plan as of June 30, 2009, based on the July 1, 2008 actuarial valuation is as follows:

Actuarial accrued liability (AAL)	$ 403,532
Actuarial value of Trust Assets	-
Unfunded actuarial accrued liability (UAAL)	403,532
Funded ratio (actuarial value of plan assets / AAL)	0.0%
Covered payroll (active plan members)	370,529
UAAL as a percentage of covered payroll	108.9%

NOTE 7: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (continued)

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

d) 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 the 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, 2008	
Actuarial cost method	Entry age normal	
Amortization method	Level percent of payroll	
Remaining amortization period	30 years as of the value date	
Asset valuation method	N/A – no assets	
Actuarial assumptions:		
Investment rate of return	7.75%	
Payroll growth	3.25%	
	Year	Increase
Healthcare trend rate	2010	8.2%
	2011 – 2015	7.3%
	2016 – 2018	6.1%
	2019+	5.5%

NOTE 8: DEFERRED COMPENSATION PLAN

The Agency offers its employees a deferred compensation plan through the California Public Employees Deferred Compensation Plan and was created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time Agency employees, permits them to defer a portion of their salary to be deposited in individual investment accounts. Funds may be withdrawn by participants upon termination, retirement, death or certified emergency. All assets and income of the deferred compensation plan are held in trust for the exclusive benefit of plan participants and their beneficiaries.