

SAN GORGONIO PASS WATER AGENCY

FINANCIAL STATEMENTS

JUNE 30, 2008

SAN GORGONIO PASS WATER AGENCY

FINANCIAL STATEMENTS

JUNE 30, 2008

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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, 2008 and 2007, 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, 2008 and 2007, 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 6, 2008

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# **SAN GORGONIO PASS WATER AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **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.

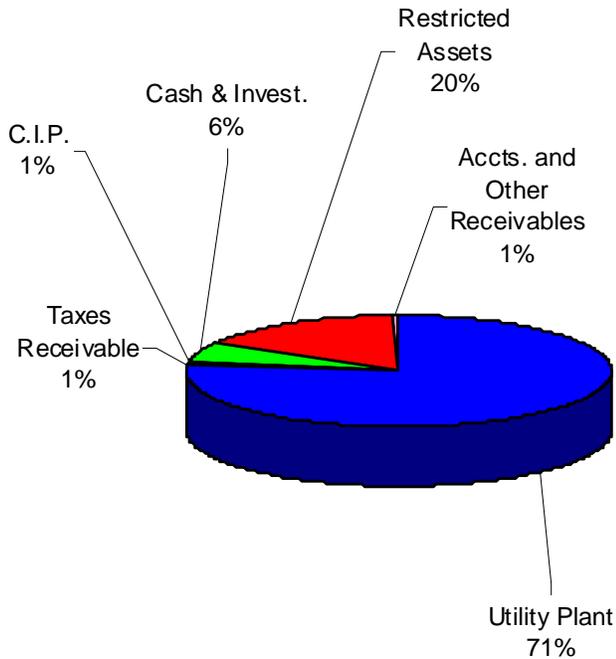
## **Summary Financial Information and Analysis**

During the year ended June 30, 2008, the Agency's Total Assets increased by \$11.04 million and net assets increased by \$10.81 million. A majority of the increase in Total Assets resulted from an increase in cash and investments (\$7.14 million) and payments to the Department of Water Resources (\$5.14 million) for Investment in State Water Rights in the State Water Project Transportation System.

**SAN GORGONIO PASS WATER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Assets Owned

**June 30, 2008**

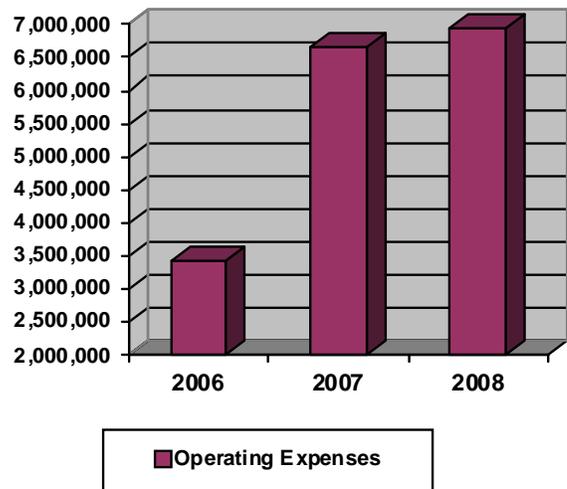


Total Cash in bank, Cash in Local Agency Investment Fund and Investments increased by \$7.15 million. The increase can be further divided into general unrestricted and restricted cash and investments. Unrestricted cash and investments increased \$.88 million and restricted cash and investments increased \$6.27 million. The \$.91 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 \$10.81 million increase in Net Assets included non-operating revenue net of expenses of \$16.91 million, and contributions of \$.11 million. These amounts were reduced by a loss from operations of \$6.21 million.

### Financial Statement Summary (In millions)

	6/30/08	6/30/07
<b>Current Assets</b>	\$ 7.82	\$ 6.89
<b>Restricted Assets</b>	23.46	16.56
<b>Capital Assets</b>	82.25	79.03
<b>Total Assets</b>	113.53	102.48
<b>Total Liabilities</b>	.50	.26
<b>Net Assets</b>	113.03	102.22
<b>Oper. Revenues</b>	.73	1.33
<b>Oper. Expenses</b>	(6.94)	(6.66)
<b>Non Oper. Rev.:</b>		
Interest	.94	.75
Property Taxes	15.99	14.03
Miscellaneous	.02	.11
<b>Non Oper. Exp.</b>	(.04)	(.04)
<b>Contributions</b>	.11	.06
<b>Change in Net Assets</b>	\$ 10.81	\$ 9.58

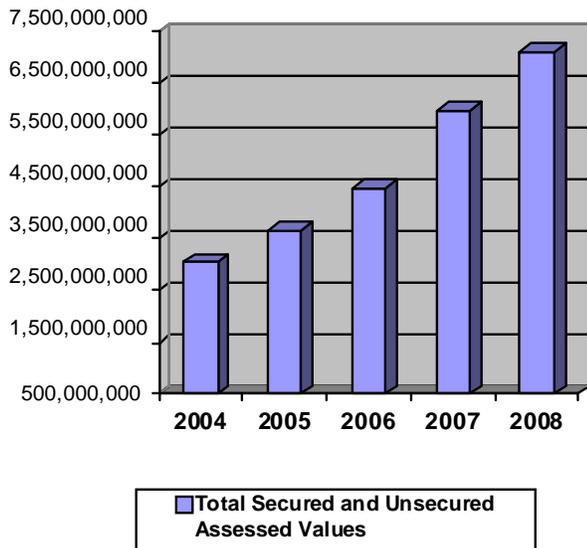


## **SAN GORGONIO PASS WATER AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS**

Operating expenses increased \$.27 million or 4% 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 increased \$900 thousand; amortization of State Water Rights decreased \$1.13 million; legal and engineering costs increased \$430 thousand over the prior year.

Non-operating revenues increased over the prior year. Total property taxes received increased \$1.96 million. This increase was derived from a \$447 thousand increase from general-purpose property tax distribution and \$1.51 million increase from Debt Service property taxes. The service area within the Agency has experienced major growth which has attributed to the increase in property taxes received. Interest earned on reserves increased by \$188 thousand that was mainly attributable to an increase in reserves available.

The following reflects the Agency's assessed property tax valuations. Assessed valuations have increased each of the four years ending on June 30, 2008. The percent increase in the current year was 16%.



### **Categories of Net Assets**

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

#### Invested in Capital Assets

At June 30, 2008, Invested in Capital Assets totaled \$82.24 million and consisted of Utility Plant in Service and Construction in Progress, net of Accumulated Depreciation and Amortization.

#### Restricted

The Agency had restricted Net Assets of \$23.46 million, which consisted of tax proceeds that were levied for State Water Project payments less actual State Water Project related expenditures.

#### Unrestricted

The Agency had unrestricted Net Assets of \$7.32 million at June 30, 2008.

**SAN GORGONIO PASS WATER AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Capital Asset activity for the year was as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Capital Assets not being depreciated:				
Land and rights of way	\$ 468,444	\$ -	\$ -	\$ 468,444
Construction in progress	521,549	164,725	-	686,274
Total Capital Assets, not being depreciated	989,993	164,725	-	1,154,718
Capital Assets being depreciated:				
Investment in State Water Rights	66,593,428	5,141,686	-	71,735,114
Source of supply	14,188,071	286,012	-	14,474,083
Transmission and distribution	1,351,614	-	-	1,351,614
Buildings	1,409,400	-	-	1,409,400
Furniture and fixtures	170,101	10,755	17,724	163,132
Technical equipment	50,075	3,625	-	53,700
Transportation equipment	21,954	22,545	-	44,499
Total Capital Assets, being depreciated	83,784,643	5,464,623	17,724	89,231,542
Total Capital Assets	\$ 84,774,636	\$ 5,629,348	\$ 17,724	\$ 90,386,260

**Capital Assets**

The Agency made payments to the Department of Water Resources during the year totaling \$6.99 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.

Since water deliveries have commenced minimum operations, maintenance and power costs and variable operations, maintenance, power and replacement costs paid this year were expensed on the Statement of Revenues, Expenses and Changes in Net Assets. State Water Project deliveries through the East Branch Extension to the Little San Gorgonio Creek Recharge Facility were started in July 2003 and during the 2007-08 year 4,141 acre feet of water was delivered.

The Agency's future commitment for State Water Project costs over the years 2008 to 2035, according to a payment schedule dated June 30, 2008, is estimated to total \$339 million.

**Construction in Progress (CIP)**

Construction in Progress increased \$165 thousand to \$686 thousand between July 1, 2007 and June 30, 2008.

The remaining projects in Construction in Progress include the FERC project, an instream recharge project at Noble Creek and Beaumont Cherry Valley Water District turn out.

**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, 2008 AND 2007

<b>ASSETS</b>	<u>2008</u>	<u>2007</u>
<b>CURRENT ASSETS:</b>		
Cash in bank and on hand	\$ 73,665	\$ 84,428
Cash in Local Agency Investment Fund	-	4,761,202
Investments	6,643,165	994,268
Accounts receivable	129,729	294,571
Taxes receivable	725,629	532,834
Interest receivable	119,875	214,359
Prepaid expenses	4,770	5,350
Other receivable	121,571	202
Total Current Assets	<u>7,818,404</u>	<u>6,887,214</u>
<b>RESTRICTED ASSETS:</b>		
Cash in Local Agency Investment Fund	18,621,547	14,814,386
Investments	2,464,140	-
Taxes receivable	2,372,213	1,745,129
	<u>23,457,900</u>	<u>16,559,515</u>
<b>NONCURRENT ASSETS:</b>		
Capital Assets:		
Investment in State Water Rights	71,735,114	66,593,428
Utility plant in service	17,496,428	17,191,215
Less: accumulated depreciation	2,367,379	1,806,653
accumulated amortization	5,775,079	3,934,320
	<u>81,089,084</u>	<u>78,043,670</u>
Land and rights of way	468,444	468,444
Construction in progress	686,274	521,549
Total Noncurrent Assets	<u>82,243,802</u>	<u>79,033,663</u>
<b>TOTAL ASSETS</b>	<u>113,520,106</u>	<u>102,480,392</u>

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

SAN GORGONIO PASS WATER AGENCY

STATEMENT OF NET ASSETS

JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 443,641	\$ 228,089
Accrued vacation and sick leave	52,209	35,290
Total Current Liabilities	<u>495,850</u>	<u>263,379</u>
<b>NET ASSETS</b>		
Invested in capital assets	82,243,802	79,033,663
Restricted for State Water Project	23,457,900	16,559,515
Unrestricted	<u>7,322,554</u>	<u>6,623,835</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 113,024,256</u>	<u>\$ 102,217,013</u>

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, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<b>OPERATING REVENUES:</b>		
Water sales - purveyors	\$ 731,848	\$ 1,329,304
<b>OPERATING EXPENSES:</b>		
<b>Source of Supply</b>		
Maintenance	1,897,140	997,890
Purchased water	893,952	896,100
	<u>2,791,092</u>	<u>1,893,990</u>
<b>Transmission and Distribution</b>		
Utilities	5,340	4,734
Maintenance	51,842	101,236
	<u>57,182</u>	<u>105,970</u>
<b>General and Administrative Expenses</b>		
Salaries	341,526	280,384
Director fees	77,915	75,695
Payroll taxes	22,397	19,080
Employee health benefits	73,957	65,485
Employee retirement benefits	117,283	103,748
Office supplies and expense	18,366	17,030
Travel expense	18,929	14,340
Automotive expense	10,563	4,658
Utilities and telephone	23,334	23,649
Repairs and maintenance	24,069	11,735
Computer and telephone support and service	5,174	6,865
Insurance	19,336	19,579
Administration expense	1,437	1,309
Membership dues and assessments	22,521	24,497
Public relations	87,327	36,179
Legal services	257,563	136,635
Engineering services	497,890	188,166
Consulting services	23,520	4,655
Accounting and auditing	21,773	16,592
Outside professional services	3,863	8,090
Election expense	-	67,406
Depreciation	578,114	567,050
Amortization	1,840,759	2,971,961
	<u>4,087,616</u>	<u>4,664,788</u>
Total Operating Expenses	<u>6,935,890</u>	<u>6,664,748</u>
<b>LOSS FROM OPERATIONS</b>	<u>(6,204,042)</u>	<u>(5,335,444)</u>

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, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest	\$ 943,737	\$ 756,185
Property taxes:		
General-purpose distribution	2,628,357	2,181,262
Debt service	13,361,862	11,854,138
Miscellaneous income	14,670	109,594
County collection charges	(42,996)	(38,617)
Loss on disposal of assets	(336)	-
	<u>16,905,294</u>	<u>14,862,562</u>
Income Before Contributions	<u>10,701,252</u>	<u>9,527,118</u>
CONTRIBUTIONS:		
Local government	105,991	55,600
	<u>105,991</u>	<u>55,600</u>
Change in Net Assets	10,807,243	9,582,718
NET ASSETS, Beginning of year	<u>102,217,013</u>	<u>92,634,295</u>
NET ASSETS, End of year	<u>\$ 113,024,256</u>	<u>\$ 102,217,013</u>

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

SAN GORGONIO PASS WATER AGENCY

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 775,320	\$ 1,040,211
Cash payments to suppliers for goods and services	(3,667,806)	(2,766,725)
Cash payments to employees for services	(616,159)	(274,409)
Other income received	14,670	109,392
Net Cash Used For Operating Activities	<u>(3,493,975)</u>	<u>(1,891,531)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Property taxes received	<u>2,425,491</u>	<u>2,087,359</u>
Net Cash Provided By Noncapital Financing Activities	<u>2,425,491</u>	<u>2,087,359</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Property taxes received	12,701,853	11,227,102
Contributions received	10,378	55,600
Capital payments	<u>(5,533,735)</u>	<u>(5,382,113)</u>
Net Cash Provided By Capital and Related Financing Activities	<u>7,178,496</u>	<u>5,900,589</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(8,987,247)	-
Sale of investments	1,000,000	-
Interest received	<u>912,431</u>	<u>664,309</u>
Net Cash (Used) Provided By Investing Activities	<u>(7,074,816)</u>	<u>664,309</u>
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>(964,804)</b>	<b>6,760,726</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b><u>19,660,016</u></b>	<b><u>12,899,290</u></b>
<b>CASH AT END OF YEAR</b>	<b><u>\$ 18,695,212</u></b>	<b><u>\$ 19,660,016</u></b>
<b>CASH AT END OF YEAR</b>		
Current Assets:		
Cash in bank and on hand	\$ 73,665	\$ 84,428
Cash in Local Agency Investment Fund	-	4,761,202
Restricted Cash in Local Agency Investment Fund	<u>18,621,547</u>	<u>14,814,386</u>
	<u>\$ 18,695,212</u>	<u>\$ 19,660,016</u>

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

SAN GORGONIO PASS WATER AGENCY

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:		
Operating loss	\$ (6,204,042)	\$ (5,335,444)
Adjustments:		
Depreciation and amortization	2,418,873	3,539,011
Miscellaneous income	14,670	109,392
Change in Assets and Liabilities:		
(Increase) decrease in accounts receivable	164,842	(290,968)
(Increase) decrease in prepaid expenses	580	(530)
(Increase) decrease in other receivable	(121,370)	-
Increase (decrease) in accounts payable	215,553	109,771
Increase (decrease) in accrued vacation and sick leave	16,919	5,975
Increase (decrease) in construction deposits	-	(28,738)
Net Cash Used For Operating Activities	<u>\$ (3,493,975)</u>	<u>\$ (1,891,531)</u>
Non Cash Capital, Financing and Investing Activities:		
None to Report		

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

SAN GORGONIO PASS WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

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. 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.

SAN GORGONIO PASS WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

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.

SAN GORGONIO PASS WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

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:

<u>Assets</u>	<u>Years</u>
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 XIII A 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

SAN GORGONIO PASS WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

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, 2008 are classified in the accompanying financial statements as follows:

Statement of Net Assets:

Current Assets:

Cash in bank and on hand	\$ 73,665
Investments	6,643,165

Restricted Funds:

Cash in Local Agency Investment Fund	18,621,547
Investments	2,464,140

Total cash and investments	<u>\$ 27,802,517</u>
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Cash and investments as of June 30, 2008 consist of the following:

Cash on hand	\$ 100
Deposits with financial institutions	73,565
Investments	27,728,852

Total cash and investments	<u>\$ 27,802,517</u>
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SAN GORGONIO PASS WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

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	No	5 years	None	None
U.S. Treasury Obligations	Yes	2 year	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
Negotiable Certificates of Deposit	Yes	2 years	None	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	No	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.

SAN GORGONIO PASS WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

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:

Investment Type	Amount	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
U.S. Treasury notes	\$ 2,991,712	\$ 2,991,712	\$ -	\$ -	\$ -
Certificates of Deposit	6,115,593	6,115,593	-	-	-
Local Agency Investment Fund	18,621,547	18,621,547	-	-	-
Total	<u>\$ 27,728,852</u>	<u>\$ 27,728,852</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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.

Investment Type	Amount	Minimum Legal Rating	Exempt from Disclosure	Rating as of Year End		
				AAA	AA	Not Rated
U.S. Treasury notes	\$ 2,991,712	N/A	\$ 2,991,712	\$ -	\$ -	\$ -
Certificates of deposit	6,115,593	N/A	-	-	-	-
Local Agency Investment Fund	18,621,547	N/A	-	-	-	18,621,547
Total	<u>\$27,728,852</u>		<u>\$ 9,107,305</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$18,621,547</u>

SAN GORGONIO PASS WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

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 U.S. Treasury securities and 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, 2008, \$13,362 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.

SAN GORGONIO PASS WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE 3: CAPITAL ASSETS

A summary of changes in capital assets follows:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2008</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land and rights of way	\$ 468,444	\$ -	\$ -	\$ 468,444
Construction in progress	521,549	164,725	-	686,274
Total capital assets, not being depreciated	<u>989,993</u>	<u>164,725</u>	<u>-</u>	<u>1,154,718</u>
Capital assets, being depreciated/ amortized:				
Investment in State Water Rights	66,593,428	5,141,686	-	71,735,114
Source of supply	14,188,071	286,012	-	14,474,083
Transmission and distribution	1,351,614	-	-	1,351,614
Buildings	1,409,400	-	-	1,409,400
Furniture and fixtures	170,101	10,755	17,724	163,132
Technical equipment	50,075	3,625	-	53,700
Transportation equipment	21,954	22,545	-	44,499
Total capital assets, being depreciated / amortized	<u>83,784,643</u>	<u>5,464,623</u>	<u>17,724</u>	<u>89,231,542</u>
Less accumulated depreciation/amortization for:				
Investment in State Water Rights	3,934,320	1,840,759	-	5,775,079
Source of supply	1,195,729	432,450	-	1,628,179
Transmission and distribution	236,532	67,581	-	304,113
Buildings	197,316	56,376	-	253,692
Furniture and fixtures	120,409	12,258	17,388	115,279
Technical equipment	39,103	2,428	-	41,531
Transportation equipment	17,564	7,021	-	24,585
Total accumulated depreciation	<u>5,740,973</u>	<u>2,418,873</u>	<u>17,388</u>	<u>8,142,458</u>
Total capital assets, being depreciated / amortized, net	<u>78,043,670</u>	<u>3,045,750</u>	<u>336</u>	<u>81,089,084</u>
Total capital assets, net	<u>\$ 79,033,663</u>	<u>\$ 3,210,475</u>	<u>\$ 336</u>	<u>\$ 82,243,802</u>

SAN GORGONIO PASS WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

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 4,141 acre feet of State Project Water during the fiscal year ended June 30, 2008.

The Agency's future commitment for State Water Project costs over the years 2008 to 2035, according to a payment schedule dated June 30, 2008, is estimated as follows:

Transportation charge:		
Capital cost component:		
State Water Project	\$	15,173,941
East branch extension		118,158,143
Minimum operations, maintenance, power and replacement component		60,537,993
Variable operations, maintenance, power and replacement component		125,799,730
		<hr/> 319,669,807
Delta water charges		16,670,863
Water system revenue bond surcharge		<hr/> 2,961,344
		<hr/>
Total	\$	<u><u>339,302,014</u></u>

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.

SAN GORGONIO PASS WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

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, 2008, the amount contributed by the Agency on behalf of the employees was \$117,284. The required employer contributions rate for fiscal year ended June 30, 2008 was 28,210%.

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, 2007 to June 30, 2008 has been determined by an actuarial valuation of the plan as of June 30, 2005. The contribution rate for the indicated period is 28.210% of covered payroll. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2008, 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, 2007 to June 30, 2008.

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

Valuation Date	June 30, 2005
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	17 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.

SAN GORGONIO PASS WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

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 2008 and 2007 were \$117,284 and \$103,748, respectively. In 2008, the Agency paid \$117,284 and the employees paid \$0. In 2007, the Agency paid \$103,748 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 28.210% 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:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2006	\$ 96,022	100%	\$ 0
June 30, 2007	\$ 103,748	100%	\$ 0
June 30, 2008	\$ 117,284	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.

SAN GORGONIO PASS WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE 5: EMPLOYEES' RETIREMENT PLAN (continued)

Risk Pool

*Required Supplementary Information*

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability Entry Age</u>	<u>Unfunded AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
June 30, 2004	\$ 334,956,019	\$426,958,282	\$ 92,002,263	78.5%	\$90,667,029	101.5%
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%

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, 2008, 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.

SAN GORGONIO PASS WATER AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

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, 2007 is as follows:

Total Assets	\$ 111,476,713
Total Liabilities	<u>79,950,846</u>
Net Assets	<u>\$ 31,525,867</u>
Total Revenues	\$ 23,913,223
Total Expenses	<u>21,254,709</u>
Increase in Net Assets	<u>\$ 2,658,514</u>

NOTE 7: POST-EMPLOYMENT MEDICAL HEALTH CARE BENEFITS

In addition to the pension benefits described in Note 5, the Agency provides post-employment medical benefits to eligible employees who retire from the Agency. The benefits provide retired employees with the same medical insurance coverage available to current employees. Pre-Medicare retirees, after attaining age 50 with 5 years service, will receive paid medical benefits up to a maximum dollar amount as set by board resolution.

At June 30, 2008, two retirees met these eligibility requirements. Expenditures for post-employment medical health care benefits are recognized as the premiums are paid. Expenditures of \$13,295 and \$14,273 were incurred by the Agency for post-employment medical health care benefits for the years ended June 30, 2008 and 2007, respectively.

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.