

CHINO BASIN WATERMASTER
Basic Financial Statements and Supplemental Data
Year ended June 30, 2005

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Year ended June 30, 2005

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Board of Directors
Chino Basin Watermaster
Rancho Cucamonga, California

Independent Auditors' Report

We have audited the accompanying basic financial statements of the Chino Basin Watermaster as of and for the year ended June 30, 2005, as listed in the accompanying table of contents. These basic financial statements are the responsibility of Chino Basin Watermaster's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 basic financial statements referred to above present fairly, in all material respects, the financial position of Chino Basin Watermaster as of June 30, 2005 and the results of its operations and the cash flows for the year 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 basic 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 do not express an opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements that collectively comprise the Chino Basin Watermaster's basic financial statements. The supplementary information is presented for purposes of additional analysis of the basic financial statements and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Conrad and Associates, LLP

August 19, 2005



CHINO BASIN WATERMASTER

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MANAGEMENT'S DISCUSSION AND ANALYSIS

BACKGROUND

The Chino Basin Watermaster (Watermaster) was established under a Judgment entered in the Superior Court of the State of California for the County of San Bernardino, entitled "Chino Basin Municipal Water District v. City of Chino, et al.," (originally Case No. SCV 164327, the file was transferred in August 1989 and assigned a new Case No. RCV 51010). The judgment prescribes Watermaster's authorities and specifies classes of water production assessments to be used to fund certain activities. Those assessment categories are: administration, OBMP, special project and replenishment. Each class of assessment has a prescribed purpose and water production base. Assessment revenue is Watermaster's principal source of income.

Watermaster's operating revenues include not only funds for administrative, OBMP, special project and replenishment expenses collected in accordance with the annual budget, but also includes money collected by appropriators to help pay for improvements to recharge basins within our boundaries and contributions received on behalf of expenditures related to cooperative projects as approved through the budget process.

The Unrestricted Net Asset amount listed on the Statement of Net Assets includes assessments on production of water in excess of production rights. These funds will be used to purchase replenishment water to mitigate annual overdraft in the coming year

BASIC FINANCIAL STATEMENTS

To comply with new government accounting standards, all of Watermaster's assessment funds have been compiled into a single set of comprehensive interrelated financial statements. The financial statements that accompany this report include Statement of Net Assets, Statements of Revenues, Expenses and Changes in Net Assets, and Statements of Cash Flows. Also included are various notes providing additional explanation and detail relating to this financial information.

The Statement of Net Assets lists Watermaster's total assets, liabilities, and net assets, or the amount of assets free of debt, as of June 30, 2005. The Statements of Revenues, Expenses and Changes in Net Assets list Watermaster's income for the year compared to its expenses. Additionally, these statements identify the gain or loss in net assets for 2005. Finally, the Statements of Cash Flows indicate how cash was received and spent throughout the past year, highlighting the net change in cash and investments for 2005

SUMMARY OF FINANCIAL INFORMATION

For the year ended June 30, 2005, Watermaster's Total Net Assets was \$8,843,808. This balance includes cash that will be required to purchase water to meet the replenishment obligation incurred during the previous fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005
(With comparative totals for June 30, 2004)

	<u>2005</u>	<u>2004</u>
Assets		
Current	\$ 9,770,452	\$ 8,967,186
Capital	<u>79,179</u>	<u>106,641</u>
Total Assets	9,849,631	9,073,827
Liabilities		
Current	940,226	535,428
Non current	<u>65,597</u>	<u>46,691</u>
Total Liabilities	1,005,823	582,119
Net Assets		
Invested in capital assets	79,179	106,641
Unrestricted	<u>8,764,629</u>	<u>8,385,067</u>
Total Net Assets	<u>\$ 8,843,808</u>	<u>\$ 8,491,708</u>

REVIEW OF REVENUES AND EXPENSES

Administrative assessment revenue increased from the prior year by 3.1%. There was a significant increase in mutual agency project revenues over the prior year attributable to contributions from other agencies relating to cost sharing and financial contributions related to Watermaster's monitoring programs. Replenishment assessment revenue also increased 96.6% due to a significant increase in production in excess of rights.

Although there was a slight decrease in administrative expenditures, overall operating expenses (excluding replenishment activities) increased over the prior year from \$4,389,120 to \$5,087,880. This increase in expenses relates to budgeted increases in monitoring costs, hydraulic control related costs and general OBMP related expenditures

Non-operating revenue represented interest income of \$211,595 and \$91,863 for the years ending June 30, 2005 and June 30, 2004. This increase in income relates directly to the substantial increase in the deposits held to purchase replenishment water.

The financial condition of the Watermaster changed as indicated by the change in the Net Assets from the prior year in the amount of \$352,100.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005
(With comparative totals for June 30, 2004)

	<u>2005</u>	<u>2004</u>
Operating Revenues		
Administrative assessments (note 1)	\$ 4,881,245	\$ 4,736,516
Mutual agency project revenue	895,836	301,209
Replenishment water	8,097,108	4,135,998
MZ1 supplemental water assessments	1,625,000	1,585,854
Miscellaneous revenue	<u>3,865</u>	<u>-</u>
Total Operating Revenues	<u>15,503,054</u>	<u>10,759,577</u>
Operating Expenses		
Watermaster administration	707,233	726,638
Depreciation	27,462	28,804
Pool, Advisory and Board administration	151,477	311,099
Educational	-	375
Optimum Basin Management Plan	4,144,077	3,240,788
Mutual agency project costs	57,631	81,416
Groundwater replenishment	10,125,526	984,671
MZ1 imported water	<u>149,143</u>	<u>870,623</u>
Total Operating Expenses	<u>15,362,549</u>	<u>6,244,414</u>
Income from operations	<u>140,505</u>	<u>4,515,163</u>
Non-Operating Revenues		
Interest	<u>211,595</u>	<u>91,863</u>
Total Nonoperating Revenues	<u>211,595</u>	<u>91,863</u>
Change in net assets	352,100	4,607,026
Net assets at beginning of year, as restated	<u>8,491,708</u>	<u>3,884,682</u>
Total net assets at end of year	<u>\$ 8,843,808</u>	<u>\$ 8,491,708</u>

COMPARISON OF FY 2004-2005 ADMINISTRATION BUDGET TO ACTUAL REVENUES/EXPENSE

The revenue exceeded budget primarily from assessments related to replenishment obligations incurred and because actual cash on hand at the end of the fiscal year which was used to offset assessments, was less than forecasted when the budget was prepared.

Actual operating expenses fell short of the budget while the replenishment water purchases exceeded the budgeted amount. This was due to a reduction in planned expenses related to certain management zones within the basin.

Administration recorded an increase in change in net assets for the year ending June 30, 2005, compared to a budgeted loss \$1,618,993 million. This planned operating deficit was the result of a budgeted usage of accumulated net assets

CHINO BASIN WATERMASTER

Statement of Net Assets

June 30, 2005

(with comparative totals for June 30, 2004)

<u>Assets</u>	<u>Total</u>	<u>2004</u>
Current assets:		
Cash and investments (note 2)	\$ 8,795,321	8,763,233
Accounts receivable	941,025	167,905
Prepaid expenses	<u>34,106</u>	<u>36,048</u>
Total current assets	<u>9,770,452</u>	<u>8,967,186</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation (note 3)	<u>79,179</u>	<u>106,641</u>
Total noncurrent assets	<u>79,179</u>	<u>106,641</u>
Total assets	<u>9,849,631</u>	<u>9,073,827</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	904,450	527,307
Accrued salaries and benefits	<u>35,776</u>	<u>8,121</u>
Total current liabilities	<u>940,226</u>	<u>535,428</u>
Noncurrent liabilities:		
Compensated absences (note 4)	<u>65,597</u>	<u>46,691</u>
Total noncurrent liabilities	<u>65,597</u>	<u>46,691</u>
Total liabilities	<u>1,005,823</u>	<u>582,119</u>
<u>Net Assets</u>		
Net assets:		
Invested in capital assets	79,179	106,641
Unrestricted	<u>8,764,629</u>	<u>8,385,067</u>
Total net assets	<u>\$ 8,843,808</u>	<u>8,491,708</u>

See accompanying notes to the basic financial statements.

CHINO BASIN WATERMASTER

Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2005

(with comparative totals for June 30, 2004)

	<u>Total</u>	<u>2004</u>
Operating revenues:		
Administrative assessments (note 1)	\$ 4,881,245	4,736,516
Mutual agency project revenue	895,836	301,209
Replenishment water	8,097,108	4,135,998
MZ1 supplemental water assessments	1,625,000	1,585,854
Miscellaneous revenue	<u>3,865</u>	<u>-</u>
Total operating revenues	<u>15,503,054</u>	<u>10,759,577</u>
Operating expenses:		
Watermaster administration	707,233	726,638
Depreciation	27,462	28,804
Pool, advisory and Board administration	151,477	311,099
Educational	-	375
Optimum Basin Management Plan	4,144,077	3,240,788
Mutual agency project costs	57,631	81,416
Groundwater replenishment	10,125,526	984,671
MZ1 imported water	<u>149,143</u>	<u>870,623</u>
Total operating expenses	<u>15,362,549</u>	<u>6,244,414</u>
Income from operations	<u>140,505</u>	<u>4,515,163</u>
Nonoperating revenues:		
Interest income	<u>211,595</u>	<u>91,863</u>
Total nonoperating revenues	<u>211,595</u>	<u>91,863</u>
Change in net assets	352,100	4,607,026
Net assets at beginning of year	<u>8,491,708</u>	<u>3,884,682</u>
Total net assets at end of year	<u>\$ 8,843,808</u>	<u>8,491,708</u>

See accompanying notes to the basic financial statements.

CHINO BASIN WATERMASTER

Statement of Cash Flows

Year ended June 30, 2005

(with comparative totals for June 30, 2004)

	Total	2004
Cash flows from operating activities:		
Cash received from customers	\$ 4,108,125	4,603,399
Cash received from other agencies	899,702	301,209
Cash received from replenishment water	8,097,108	4,135,998
Cash received from MZ1 supplemental water assessments	1,625,000	1,585,854
Cash paid to employees for services	(884,016)	(923,670)
Cash paid to suppliers of goods and services	(14,025,426)	(5,401,274)
Net cash provided by (used for) operating activities	(179,507)	4,301,516
Cash flows from capital financing activities:		
Acquisition of capital assets	-	(90,177)
Net cash provided by (used for) capital financing activities	-	(90,177)
Cash flows from investing activities:		
Interest received	211,595	91,863
Net cash provided by (used for) investing activities	211,595	91,863
Net increase (decrease) in cash	32,088	4,303,202
Cash and investments at the beginning of year	8,763,233	4,460,031
Cash and investments at the end of year	\$ 8,795,321	8,763,233
Reconciliation of operating income to net cash used for operating activities:		
Operating income	\$ 140,505	4,515,163
Adjustment to reconcile operating income (loss) to net cash used for operating activities:		
Depreciation	27,462	28,804
(Increase) decrease in accounts receivable	(773,120)	(133,117)
(Increase) decrease in prepaid expenses	1,942	(4,173)
Increase (decrease) in account payable	377,143	(77,796)
Increase (decrease) in accrued salaries and benefits	27,655	(14,595)
Increase (decrease) in compensated absences	18,906	(12,770)
Net cash used for operating activities	\$ (179,507)	4,301,516

Noncash investing, capital and financing activities:

There were no noncash investing, capital or financing activities during the fiscal years ended June 30, 2005 and June 30, 2004.

See accompanying notes to the basic financial statements.

CHINO BASIN WATERMASTER

Notes to the Basic Financial Statements

Year Ended June 30, 2005

(1) Reporting Entity and Summary of Significant Accounting Policies

Description of Reporting Entity

The Chino Basin Watermaster ("Watermaster") was established under a judgment entered in Superior Court of the State of California for the County of San Bernardino as a result of Case No. RCV 51010 (formerly Case No. SCV 164327) entitled "Chino Basin Municipal Water District v. City of Chino, et al.", signed by the Honorable Judge Howard B. Wiener on January 27, 1978. The effective date of this Judgment for accounting and operations was July 1, 1977.

Pursuant to the Judgment, the Chino Basin Municipal Water District (CBMWD) five member Board of Directors was initially appointed as "Watermaster". Their term of appointment as Watermaster was for five years, and the Court, by subsequent orders, provides for successive terms or for a successor Watermaster. Pursuant to a recommendation of the Advisory Committee, the Honorable J. Michael Gunn appointed a nine-member board as Watermaster on September 28, 2000.

Under the Judgment, three Pool committees were formed: (1) Overlying (Agricultural) Pool which includes the State of California and all producers of water for overlying uses other than industrial or commercial purposes; (2) Overlying (Non-Agricultural) Pool which represents producers of water for overlying industrial or commercial purposes; and (3) Appropriative Pool which represents cities, districts, other public or private entities and utilities. The three Pools act together to form the "Advisory Committee".

The Watermaster provides the Chino Groundwater Basin service area with services which primarily include: accounting for water appropriations and components of acre-footage of stored water by agency, purchase of replenishment water, groundwater monitoring and implementation of special projects.

Watermaster expenditures are allocated to the pools based on the prior year's production volume (or the same percentage used to set the annual assessments). Allocations for fiscal year 2004-05 expenses are based on the 2003-04 production volume.

	2003-04	
	<u>Acre Feet</u>	<u>%</u>
Production Volume:		
Appropriative Pool	136,795	75.291
Agricultural Pool	41,978	23.105
Non-Agricultural Pool	<u>2,915</u>	<u>1.604</u>
Total Production Volume	<u>181,688</u>	<u>100.000</u>

CHINO BASIN WATERMASTER
Notes to the Basic Financial Statements
(Continued)

(1) Reporting Entity and Summary of Significant Accounting Policies. (Continued)

The Agricultural Pool members ratified an agreement with the Appropriative Pool at their meeting of June 16, 1988, wherein the Appropriative Pool assumes Agricultural Pool administrative expenses and special project cost allocations in exchange for an accelerated transfer of unpumped agricultural water to the Appropriative Pool. In addition the Agricultural Pool transferred all pool administrative reserves at June 30, 1988 to the Appropriative Pool effective July 1, 1988.

In July of 2000, the principal parties in the Basin signed an agreement, known as the Peace Agreement, which among other things formalized the commitment of the Basin parties to implement an Optimum Basin Management Program. The Peace Agreement was signed by all of the parties, and the Court has approved the agreement and ordered the Watermaster to proceed in accordance with the terms of the agreement. The Court has approved revisions to the Chino Basin Watermaster Rules and Regulations.

Basis of Accounting

The Watermaster is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges. The Watermaster utilizes the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred.

Cash and Investments

Investments are reported in the accompanying balance sheet at fair value. Changes in fair value that occur during a fiscal year are recognized as interest income reported for that fiscal year.

Watermaster pools cash and investments of all fund balance reserves. Interest income earned by the pooled investments is allocated quarterly to the various reserves based on each reserve's average cash and investments balance.

Cash Equivalents

For the purposes of the Statements of Cash Flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of three months or less.

CHINO BASIN WATERMASTER
Notes to the Basic Financial Statements
(Continued)

(1) Reporting Entity and Summary of Significant Accounting Policies, (Continued)

Capital Assets

Capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. The Watermaster capitalizes all assets with a historical cost of at least \$5,000 and a useful life of at least three years. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciation is computed utilizing the straight-line method over the following estimated useful lives:

Computer equipment and software	5 years
Office furniture and fixtures	7 years
Leasehold improvements	10 years
Automotive equipment	7 years

Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Appropriative Interest Revenue Allocation

On August 30, 1979, the Appropriative Pool unanimously approved assessment procedures whereby any interest earned from the Watermaster assessments paid by Appropriative Pool members would reduce the total current assessment due from those members. Fiscal year 2003-04 interest revenue was allocated to the Appropriative Pool, resulting in a reduction of the 2004-05 assessments. The amount of administrative assessment received for the year ended June 30, 2005 was \$4,881,245.

(2) Cash and Investments

Cash and investments as of June 30, 2005 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	<u>\$ 8,795,321</u>
Total cash and investments	<u>\$ 8,795,321</u>

CHINO BASIN WATERMASTER

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Cash and investments as of June 30, 2005 consist of the following:

Cash on hand	\$ 500
Deposits with financial institutions	522,554
Investments	<u>8,272,267</u>
Total cash and investments	<u>\$ 8,795,321</u>

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

The table below identifies the investment types that are authorized for the Watermaster by the California Government Code and the Watermaster's investment policy. The table also identifies certain provisions of the California Government Code (or the Watermaster's investment policy, if more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

<u>Investment Types Authorized by State Law</u>	<u>Authorized By Investment Policy</u>	<u>*Maximum Maturity</u>	<u>*Maximum Percentage Of Portfolio</u>	<u>*Maximum Investment In One Issuer</u>
Local Agency Bonds	Yes	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	25%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	Yes	92 days	20% of base value	None
Medium-Term Notes	Yes	5 years	30%	None
Mutual Funds	Yes	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	Yes	5 years	20%	None
County Pooled Investment Funds	Yes	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
JPA Pools (other investment pools)	Yes	N/A	None	None

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

CHINO BASIN WATERMASTER

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments. (Continued)

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 Watermaster 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.

Information about the sensitivity of the fair values of the Watermaster's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Watermaster's investments by maturity:

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>			
	<u>Total Amount</u>	<u>12 Months Or Less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>
State investment pool	<u>\$8,272,267</u>	<u>8,272,267</u>	<u>-</u>	<u>-</u>
Total	<u>\$8,272,267</u>	<u>8,272,267</u>	<u>-</u>	<u>-</u>

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 Watermaster's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>	<u>Total Amount</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
State investment pool	<u>\$8,272,267</u>	<u>N/A</u>	<u>-</u>	<u>-</u>	<u>8,272,267</u>
Total	<u>\$8,272,267</u>	<u>N/A</u>	<u>-</u>	<u>-</u>	<u>8,272,267</u>

CHINO BASIN WATERMASTER

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments. (Continued)

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 Watermaster'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 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. California law also allows financial institutions to secure Watermaster deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Investment in State Investment Pool

The Watermaster 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 Watermaster's investment in this pool is reported in the accompanying financial statements at amounts based upon the Watermaster'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.

CHINO BASIN WATERMASTER

Notes to the Basic Financial Statements

(Continued)

(3) Capital Assets

Capital asset activity for the year ended June 30, 2005 is as follows:

	<u>Balances at</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances at</u> <u>June 30, 2005</u>
Computer equipment and software	\$49,768	-	-	49,768
Office furniture and fixtures	36,371	-	-	36,371
Leasehold improvements	23,443	-	-	23,443
Automotive equipment	<u>79,173</u>	<u>-</u>	<u>(23,299)</u>	<u>55,874</u>
Total costs of depreciable assets	<u>188,755</u>	<u>-</u>	<u>(23,299)</u>	<u>165,456</u>
Less accumulated depreciation:				
Computer equipment and software	(26,418)	(9,954)	-	(36,372)
Office furniture and fixtures	(6,237)	(5,196)	-	(11,433)
Leasehold improvements	(2,344)	(2,344)	-	(4,688)
Automotive equipment	<u>(47,115)</u>	<u>(9,968)</u>	<u>23,299</u>	<u>(33,784)</u>
Total accumulated depreciation	<u>(82,114)</u>	<u>(27,462)</u>	<u>23,299</u>	<u>(86,277)</u>
Net capital assets	<u>\$106,641</u>	<u>(27,462)</u>	<u>-</u>	<u>79,179</u>

(4) Compensated Absences

Permanent Watermaster employees earn from 10 to 20 vacation days a year, depending upon their length of employment and 12 sick days a year. Employees may carry vacation days forward up to the equivalent number of days earned in the immediately preceding twenty-four (24) month period. There is no maximum accumulation of sick leave; and upon retirement or resignation at age 55 or greater, employees with continuous employment for a minimum of twenty (20) years are compensated for all accumulated sick leave at 50% of their rate of pay at termination. Other employees are paid based upon length of employment and age at time of retirement or resignation. The amount of compensated absences outstanding as of June 30, 2005 was \$65,597.

CHINO BASIN WATERMASTER

Notes to the Basic Financial Statements

(Continued)

(5) Deferred Compensation Plan

The Watermaster has established deferred compensation plans for all employees of Watermaster in accordance with Internal Revenue Code Section 457, whereby employees authorize the Watermaster to defer a portion of their salary to be deposited in individual investment accounts. Participation in the plans is voluntary and may be revoked at any time upon advance written notice. Generally, the amount of compensation subject to deferral until retirement, disability, or other termination by a participant may not exceed the lesser of \$12,000 or 33.33% of includible compensation, or 25% of gross compensation. Amounts withheld by Watermaster under this plan are deposited regularly with California Public Employees' Retirement System. The Watermaster makes no contribution under the plan. As of June 30, 2005, the deferred compensation plan assets were held in trust accounts for the sole benefit of the employees and their beneficiaries, and accordingly have been excluded from Watermaster's reported assets.

(6) Operating Lease

The Watermaster entered into a new lease for rent of office space on September 1, 2003, expiring August 30, 2013. The amount paid under this lease was \$60,455 for the year ended June 30, 2005. The future minimum lease payments for this lease are as follows:

<u>Year Ending June 30:</u>	<u>Amount</u>
2006	\$ 58,800
2007	58,800
2008	58,800
2009	58,800
2010	58,800
2011	58,800
2012	58,800
2013	<u>58,800</u>
Total	<u>\$470,400</u>

CHINO BASIN WATERMASTER

Notes to the Basic Financial Statements

(Continued)

(7) Defined Benefit Pension Plan (PERS)

The Chino Basin Watermaster contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, 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. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

Participants are required to contribute 7% of their annual covered salary. The Watermaster makes the contribution required by the employees on their behalf and for their account. The Watermaster is required to contribute at an actuarially determined rate. The current rate is 11.146% of annual covered payroll. The contribution requirements of plan members and the Watermaster are established and may be amended by PERS.

Under GASB 27, an employer reports an annual pension cost (APC) equal to the annual required contribution (ARC) plus an adjustment for the 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, 2004 to June 30, 2005 has been determined by an actuarial valuation of the plan as of June 30, 2002. The contribution rate indicated for the period is 14.262% of payroll for the Retirement Program. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2005, this contribution rate would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2004 to June 30, 2005.

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

Valuation Date	June 30, 2002
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	9 Years as of the Valuation Date
Asset Valuation Method	3 Year Smoothed Market
Actuarial Assumptions	
Investment Rate of Return	8.25% (net of administrative expenses)
Projected Salary Increases	3.75% to 14.20% depending on Age, Service, and type of employment
Inflation	3.50%
Payroll Growth	3.75%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.5% and an annual production growth of 0.25%.

CHINO BASIN WATERMASTER

Notes to the Basic Financial Statements

(Continued)

(7) Defined Benefit Pension Plan (PERS), (Continued)

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 percent of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are 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 period may not be lower than the payment calculated over a 30 year amortization period.

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.

Required Supplementary Information

Retirement Program

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability/ (Excess Assets)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>*UAAL As a % of Payroll</u>
6/30/01	\$192,890	178,838	14,052	92.7%	291,502	4.8%
6/30/02	294,441	262,540	31,901	89.2%	517,200	6.2%
6/30/03	419,723	391,922	27,801	93.4%	476,486	5.8%

* UAAL refers to unfunded actuarial accrued liability.

Information for the June 30, 2004 valuation date was not available for inclusion in the financial statements.

(8) Project Commitments

Under a financing agreement developed pursuant to the OBMP Recharge Master Plan, the Watermaster is obligated to pay for one-half of the fixed project costs for certain recharge facilities in the Chino Basin area that are being constructed to increase the recharge of imported water, storm water, and recycled water to the Chino Groundwater Basin. The recharge facilities being constructed will be owned by the Inland Empire Utilities Agency pursuant to a Recharge Operations Agreement. When complete, the recharge project will enable the Watermaster to increase annual recharge supplemental water to the Chino Groundwater Basin. In addition, stormwater and recycled water recharge would be increased. Fixed project costs include construction costs, debt service on the related bond financing and reserves for repair, replacement, improvement and debt service.

SUPPLEMENTARY INFORMATION

CHINO BASIN WATERMASTER

Combining Schedule of Revenues, Expenses and Changes in Working Capital (by subfund)

For the Period July 1, 2004 through June 30, 2005

	WATERMASTER ADMINISTRATION	OPTIMUM BASIN MANAGEMENT	POOL ADMINISTRATION AND SPECIAL PROJECTS			GROUNDWATER OPERATIONS		EDUCATION FUNDS	GRAND TOTALS	BUDGET 2004-05
			APPROPRIATIVE POOL	AGRICULTURAL POOL	NON-AGRIC. POOL	GROUNDWATER REPLENISHMENT	SB222 FUNDS			
Administrative Revenues										
Administrative Assessments			4,807,004		74,241				4,881,245	\$3,984,888
Interest Revenue			193,951	11,148	6,453			43	211,595	78,330
Mutual Agency Project Revenue		895,836							895,836	-
Miscellaneous Income	3,865								3,865	-
Total Revenues	3,865	895,836	5,000,955	11,148	80,694	-	-	43	5,992,541	4,063,218
Administrative & Project Expenditures										
Watermaster Administration	734,695								734,695	621,784
Watermaster Board-Advisory Committee	47,159								47,159	37,018
Pool Administration			13,459	87,794	3,065				104,318	91,153
Optimum Basin Mgmt Administration		1,265,673							1,265,673	1,019,183
OBMP Project Costs		2,878,404							2,878,404	3,733,694
Education Funds Use									-	375
Mutual Agency Project Costs	57,631								57,631	80,004
Total Administrative/OBMP Expenses	839,485	4,144,077	13,459	87,794	3,065	-	-	-	5,087,880	5,583,211
Net Administrative/OBMP Income	(835,620)	(3,248,241)								
Allocate Net Admin Income To Pools	835,620		629,148	193,066	13,406				-	-
Allocate Net OBMP Income To Pools		3,248,241	2,445,639	750,491	52,111				-	-
Agricultural Expense Transfer			1,020,199	(1,020,199)					-	-
Total Expenses			4,108,446	11,152	68,581	-	-	-	5,087,880	5,583,211
Net Administrative Income			892,509	(4)	12,113			43	904,661	(1,519,993)
Other Income/(Expense)										
Replenishment Water Purchases						8,097,108			8,097,108	-
MZ1 Supplemental Water Assessments						1,625,000			1,625,000	2,179,500
Water Purchases									-	-
MZ1 Imported Water Purchase									-	(2,278,500)
Groundwater Replenishment						(10,274,669)			(10,274,669)	-
Net Other Income						(552,561)			(552,561)	(99,000)
Net Transfers To/(From) Reserves			892,509	(4)	12,113	(552,561)		43	352,100	(1,618,993)
Working Capital, July 1, 2004			3,560,227	463,055	174,920	4,133,060	158,251	2,195	8,491,708	
Working Capital, End Of Period			4,452,736	463,051	187,033	3,580,499	158,251	2,238	8,843,808	
03/04 Production			136,795,139	41,978,182	2,914,774				181,688,095	
03/04 Production Percentages			75.291%	23.105%	1.604%				100.000%	

CHINO BASIN WATERMASTER

Combining Schedule of Revenues, Expenses and Changes in Working Capital (by subfund)

For the Period July 1, 2003 through June 30, 2004

	WATERMASTER ADMINISTRATION	OPTIMUM BASIN MANAGEMENT	POOL ADMINISTRATION AND SPECIAL PROJECTS			GROUNDWATER OPERATIONS		GRAND TOTALS	BUDGET 2003-04
			APPROPRIATIVE POOL	AGRICULTURAL POOL	NON-AGRIC. POOL	GROUNDWATER REPLENISHMENT	SB222 FUNDS		
Administrative Revenues									
Administrative Assessments			4,614,056		122,460			4,736,516	\$3,940,516
Interest Revenue			81,090	7,111	3,624		38	91,863	112,025
Mutual Agency Project Revenue		301,209						301,209	-
Total Revenues	-	301,209	4,695,146	7,111	126,084	-	38	5,129,588	4,052,541
Administrative & Project Expenditures									
Watermaster Administration	755,442							755,442	617,732
Watermaster Board-Advisory Committee	47,569							47,569	43,442
Pool Administration			13,796	246,513	3,221			263,530	255,148
Optimum Basin Mgmt Administration		932,272						932,272	1,034,064
OBMP Project Costs		2,308,516						2,308,516	3,365,079
Education Funds Use							375	375	375
Mutual Agency Project Costs	81,416							81,416	85,004
Total Administrative/OBMP Expenses	884,427	3,240,788	13,796	246,513	3,221		375	4,389,120	5,400,844
Net Administrative/OBMP Income	(884,427)	(2,939,579)							
Allocate Net Admin Income To Pools	884,427		656,109	202,129	26,189			-	-
Allocate Net OBMP Income To Pools		2,939,579	2,180,717	671,817	87,046			-	-
Agricultural Expense Transfer			1,110,333	(1,110,333)				-	-
Total Expenses			3,960,955	10,125	116,456	-	375	4,389,120	5,400,844
Net Administrative Income			734,191	(3,014)	9,628		(337)	740,468	(1,348,303)
Other Income/(Expense)									
Replenishment Water Purchases						4,135,998		4,135,998	-
MZI Supplemental Water Assessments						1,585,854		1,585,854	2,189,500
Water Purchases								-	-
MZI Imported Water Purchase								-	(2,273,500)
Groundwater Replenishment						(1,855,294)		(1,855,294)	-
Net Other Income						3,866,558		3,866,558	(84,000)
Net Transfers To/(From) Reserves			734,191	(3,014)	9,628	3,866,558		4,607,026	(1,432,303)
Working Capital, July 1, 2003, As Restated			2,826,036	466,069	165,292	266,502	158,251	2,532	3,884,682
Working Capital, End Of Period			3,560,227	463,055	174,920	4,133,060	158,251	2,195	8,491,708
02/03 Production			121,586,420	37,457,315	4,853,247				163,896,982
02/03 Production Percentages			74.185%	22.854%	2.961%				100.000%