

CHINO BASIN WATERMASTER  
Basic Financial Statements and Supplemental Data  
Year ended June 30, 2006

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**TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2
Basic Financial Statements:	
Statement of Net Assets	5
Statement of Revenues, Expenses and Changes in Net Assets	6
Statement of Cash Flows	7
Notes to the Basic Financial Statements	8
Supplementary Information:	
Combining Schedule of Revenues, Expenses, and Changes in Working Capital - For the Period July 1, 2005 through June 30, 2006	20
Combining Schedule of Revenues, Expenses, and Changes in Working Capital - For the Period July 1, 2004 through June 30, 2005	21



**Mayer Hoffman McCann P.C.**

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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, 2006, as listed in the table of contents. These basic financial statements are the responsibility of the management of Chino Basin Watermaster. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year summarized comparative financial information has been derived from the Chino Basin Watermaster's 2005 basic financial statements which were audited by Conrad and Associates, L.L.P., who merged with Mayer Hoffman McCann P.C. as of January 1, 2006, and whose report dated August 19, 2005 expressed an unqualified opinion on the basic financial statements.

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 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 Chino Basin Watermaster as of June 30, 2006, and respective changes in financial position and cash flows of the Chino Basin Watermaster 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Chino Basin Watermaster's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit 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.

*Mayer Hoffman McCann P.C.*

Irvine, California  
August 10, 2006



# 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 include 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 Statement of Cash Flows. The financial statements presented represent the year ended June 30, 2006 and June 30, 2005 for comparative purposes. 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, 2006. The Statements of Revenues, Expenses and Changes in Net Assets list Watermaster's income for the year and its expenses. Additionally, these statements identify the gain or loss in net assets for the years ending 2006 and 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 2006 and 2005.

### SUMMARY OF FINANCIAL INFORMATION

For the year ended June 30, 2006 and June 30, 2005, Watermaster's Total Net Assets was \$6,402,407 and \$8,843,808 respectively. These balances include funds 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, 2006  
(With comparative totals for June 30, 2005)

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Current	\$ 8,251,351	\$ 9,770,452
Capital	<u>113,472</u>	<u>79,179</u>
<b>Total Assets</b>	8,364,823	9,849,631
<b>Liabilities</b>		
Current	1,877,816	940,226
Non current	<u>84,600</u>	<u>65,597</u>
<b>Total Liabilities</b>	1,962,416	1,005,823
<b>Net Assets</b>		
Invested in capital assets	113,472	79,179
Unrestricted	<u>6,288,935</u>	<u>8,764,629</u>
<b>Total Net Assets</b>	<u>\$ 6,402,407</u>	<u>\$ 8,843,808</u>

### REVIEW OF REVENUES AND EXPENSES

Administrative assessment revenue remained basically unchanged from the previous year. There was a significant decrease 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 as the 2006 year reflected a reduction in costs incurred versus revenue. Replenishment assessment revenue decreased due to significant decreases in production in excess of rights.

There was a decrease in administrative expenditures, overall operating expenses (excluding replenishment activities) increased over the prior year from \$5,087,880. This increase in expenses relates to budgeted increases in OBMP related expenditures.

Non-operating revenue represented interest income of \$334,287 and \$211,595 for the years ending June 30, 2006 and June 30, 2005. 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 \$(2,441,401).

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006  
(With comparative totals for June 30, 2005)

	<u>2006</u>	<u>2005</u>
Operating Revenues		
Administrative assessments (note 1)	\$ 4,895,755	\$ 4,881,245
Mutual agency project revenue	200,138	895,836
Replenishment water	6,548,139	8,097,108
MZ1 supplemental water assessments	0	1,625,000
Miscellaneous revenue	<u>42,500</u>	<u>3,865</u>
Total Operating Revenues	<u>11,686,532</u>	<u>15,503,054</u>
Operating Expenses		
Watermaster administration	594,421	707,233
Depreciation	31,714	27,462
Pool, Advisory and Board administration	211,505	151,477
Optimum Basin Management Plan	4,603,629	4,144,077
Mutual agency project costs	31,928	57,631
Groundwater replenishment	8,989,023	10,125,526
MZ1 imported water	<u>-</u>	<u>149,143</u>
Total Operating Expenses	<u>14,462,220</u>	<u>15,362,549</u>
Income from operations	<u>(2,775,688)</u>	<u>140,505</u>
Non-Operating Revenues		
Interest	<u>334,287</u>	<u>211,595</u>
Total Nonoperating Revenues	<u>334,287</u>	<u>211,595</u>
Change in net assets	(2,441,401)	352,100
Net assets at beginning of year	<u>8,843,808</u>	<u>8,491,708</u>
Total net assets at end of year	<u>\$ 6,402,407</u>	<u>\$ 8,843,808</u>

### **COMPARISON OF FY 2005-2006 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, 2006

(with comparative totals for June 30, 2005)

<u>Assets</u>	<u>2006</u>	<u>2005</u>
Current assets:		
Cash and investments (note 2)	\$ 7,137,616	8,795,321
Accounts receivable	1,084,667	941,025
Prepaid expenses	<u>29,068</u>	<u>34,106</u>
Total current assets	<u>8,251,351</u>	<u>9,770,452</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation (note 3)	<u>113,472</u>	<u>79,179</u>
Total noncurrent assets	<u>113,472</u>	<u>79,179</u>
Total assets	<u>8,364,823</u>	<u>9,849,631</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	1,825,162	904,450
Accrued salaries and benefits	<u>52,654</u>	<u>35,776</u>
Total current liabilities	<u>1,877,816</u>	<u>940,226</u>
Noncurrent liabilities:		
Compensated absences (note 4)	<u>84,600</u>	<u>65,597</u>
Total noncurrent liabilities	<u>84,600</u>	<u>65,597</u>
Total liabilities	<u>1,962,416</u>	<u>1,005,823</u>
<u>Net Assets</u>		
Net assets:		
Invested in capital assets	113,472	79,179
Unrestricted	<u>6,288,936</u>	<u>8,764,629</u>
Total net assets	<u>\$ 6,402,408</u>	<u>8,843,808</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, 2006

(with comparative totals for June 30, 2005)

	<u>2006</u>	<u>2005</u>
Operating revenues:		
Administrative assessments (note 1)	\$ 4,895,755	4,881,245
Mutual agency project revenue	200,138	895,836
Replenishment water	6,548,139	8,097,108
Grant revenue	42,500	-
MZ1 supplemental water assessments	-	1,625,000
Miscellaneous revenue	-	<u>3,865</u>
 Total operating revenues	 <u>11,686,532</u>	 <u>15,503,054</u>
Operating expenses:		
Watermaster administration	594,421	707,233
Depreciation	31,713	27,462
Pool, advisory and Board administration	211,505	151,477
Optimum Basin Management Plan	4,603,629	4,144,077
Mutual agency project costs	31,928	57,631
Groundwater replenishment	8,989,023	10,125,526
MZ1 imported water	-	<u>149,143</u>
 Total operating expenses	 <u>14,462,219</u>	 <u>15,362,549</u>
 Income (loss) from operations	 <u>(2,775,687)</u>	 <u>140,505</u>
Nonoperating revenues:		
Interest income	<u>334,287</u>	<u>211,595</u>
 Total nonoperating revenues	 <u>334,287</u>	 <u>211,595</u>
 Change in net assets	 (2,441,400)	 352,100
Net assets at beginning of year	<u>8,843,808</u>	<u>8,491,708</u>
 Total net assets at end of year	 <u>\$ 6,402,408</u>	 <u>8,843,808</u>

See accompanying notes to the basic financial statements.



CHINO BASIN WATERMASTER  
Statement of Cash Flows  
Year ended June 30, 2006  
(with comparative totals for June 30, 2005)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from customers	\$ 11,300,252	12,205,233
Cash received from other agencies	242,638	2,524,702
Cash paid to employees for services	(1,002,721)	(884,016)
Cash paid to suppliers of goods and services	<u>(12,466,155)</u>	<u>(14,025,426)</u>
Net cash provided by (used for) operating activities	<u>(1,925,986)</u>	<u>(179,507)</u>
Cash flows from capital financing activities:		
Acquisition of capital assets	<u>(66,006)</u>	<u>-</u>
Net cash provided by (used for) capital financing activities	<u>(66,006)</u>	<u>-</u>
Cash flows from investing activities:		
Interest received	<u>334,287</u>	<u>211,595</u>
Net cash provided by (used for) investing activities	<u>334,287</u>	<u>211,595</u>
Net increase (decrease) in cash	(1,657,705)	32,088
Cash and investments at the beginning of year	<u>8,795,321</u>	<u>8,763,233</u>
Cash and investments at the end of year	<u>\$ 7,137,616</u>	<u>8,795,321</u>
Reconciliation of operating income to net cash used for operating activities:		
Operating income (loss)	\$ (2,775,687)	140,505
Adjustment to reconcile operating income (loss) to net cash used for operating activities:		
Depreciation	31,712	27,462
(Increase) decrease in accounts receivable	(143,642)	(773,120)
(Increase) decrease in prepaid expenses	5,038	1,942
Increase (decrease) in account payable	920,712	377,143
Increase (decrease) in accrued salaries and benefits	16,878	27,655
Increase (decrease) in compensated absences	<u>19,003</u>	<u>18,906</u>
Net cash used for operating activities	<u>\$ (1,925,986)</u>	<u>(179,507)</u>

Noncash investing, capital and financing activities:

There were no noncash investing, capital or financing activities during the fiscal years ended June 30, 2006 and June 30, 2005.

See accompanying notes to the basic financial statements.

CHINO BASIN WATERMASTER

Notes to the Basic Financial Statements

Year Ended June 30, 2006

(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 2005-06 expenses are based on the 2004-05 production volume.

	2004-05	
	<u>Acre Feet</u>	<u>%</u>
Production Volume:		
Appropriative Pool	127,811	77.655
Agricultural Pool	34,450	20.931
Non-Agricultural Pool	<u>2,327</u>	<u>1.414</u>
Total Production Volume	<u>164,588</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 2004-05 interest revenue was allocated to the Appropriative Pool, resulting in a reduction of the 2005-06 assessments. The amount of administrative assessment received for the year ended June 30, 2006 was \$4,895,755.

Prior Year Data

The information included in the accompanying financial statements for the prior year has been presented for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles.

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

(2) Cash and Investments

Cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	<u>\$7,137,616</u>
Total cash and investments	<u>\$7,137,616</u>

Cash and investments as of June 30, 2006 consist of the following:

Cash on hand	\$ 500
Deposits with financial institutions	1,431,133
Investments	<u>5,705,983</u>
Total cash and investments	<u>\$7,137,616</u>

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

(2) Cash and Investments

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.

Investment Types	Authorized By Investment	*Maximum Maturity	*Maximum Percentage Of Portfolio	*Maximum Investment In One Issuer
<u>Authorized by State Law</u>	<u>Policy</u>	<u>Maturity</u>	<u>Portfolio</u>	<u>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 investment 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>
Local Agency Investment Fund	<u>\$5,705,983</u>	<u>5,705,983</u>	<u>-</u>	<u>-</u>
Total	<u>\$5,705,983</u>	<u>5,705,983</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>
Local Agency Investment Fund	<u>\$5,705,983</u>	<u>N/A</u>	<u>-</u>	<u>-</u>	<u>5,705,983</u>
Total	<u>\$5,705,983</u>	<u>N/A</u>	<u>-</u>	<u>-</u>	<u>5,705,983</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. As of June 30, 2006, \$1,231,133 of the Watermaster's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

##### 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, 2006 is as follows:

	<u>Balances at</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances at</u> <u>June 30, 2006</u>
Computer equipment and software	\$49,768	25,476	-	75,244
Office furniture and fixtures	36,371	5,920	-	42,291
Leasehold improvements	23,443	-	-	23,443
Automotive equipment	<u>55,874</u>	<u>34,610</u>	<u>-</u>	<u>90,484</u>
Total costs of depreciable assets	<u>165,456</u>	<u>66,006</u>	<u>-</u>	<u>231,462</u>
Less accumulated depreciation:				
Computer equipment and software	(36,372)	(10,064)	-	(46,436)
Office furniture and fixtures	(11,433)	(6,380)	-	(17,813)
Leasehold improvements	(4,688)	(2,345)	-	(7,033)
Automotive equipment	<u>(33,784)</u>	<u>(12,924)</u>	<u>-</u>	<u>(46,708)</u>
Total accumulated depreciation	<u>(86,277)</u>	<u>(31,713)</u>	<u>-</u>	<u>(117,990)</u>
Net capital assets	<u>\$79,179</u>	<u>34,293</u>	<u>-</u>	<u>113,472</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, 2006 was \$84,600.

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. The amount of compensation subject to deferral until retirement, disability, or other termination by a participant may not exceed the maximum legal amounts for deferred compensation plans. 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, 2006, 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 \$62,460 for the year ended June 30, 2006. The future minimum lease payments for this lease are as follows:

<u>Year Ending June 30:</u>	<u>Amount</u>
2007	\$ 58,800
2008	58,800
2009	58,800
2010	58,800
2011	58,800
2012	58,800
2013	<u>9,800</u>
Total	<u>\$362,600</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), a cost-sharing 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 11.291% 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, 2005 to June 30, 2006 has been determined by an actuarial valuation of the plan as of June 30, 2003. The contribution rate indicated for the period is 11.291% 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, 2006, this contribution rate would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2005 to June 30, 2006.

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

Valuation Date	June 30, 2003
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	14 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	3.00%
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%.

## 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, 2005 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, 2005 through June 30, 2006

	WATERMASTER ADMINISTRATION	OPTIMUM BASIN MANAGEMENT	POOL ADMINISTRATION AND SPECIAL PROJECTS APPROPRIATIVE POOL	AGRICULTURAL POOL	NON-AGRIC. POOL	GROUNDWATER OPERATIONS GROUNDWATER REPLENISHMENT	SB222 FUNDS	EDUCATION FUNDS	GRAND TOTALS	BUDGET 2004-05
Administrative Revenues			4,829,595		66,160				4,895,755	\$3,984,888
Administrative Assessments			307,788	16,958	9,462			79	334,287	78,330
Interest Revenue									200,138	0
Mutual Agency Project Revenue		200,138							42,500	0
Grant Income		42,500							-	0
Miscellaneous Income								79	-	0
<b>Total Revenues</b>	<b>-</b>	<b>242,638</b>	<b>5,137,383</b>	<b>16,958</b>	<b>75,622</b>	<b>-</b>	<b>-</b>	<b>79</b>	<b>5,472,680</b>	<b>4,063,218</b>
Administrative & Project Expenditures									572,534	621,784
Watermaster Administration	572,534								56,707	37,018
Watermaster Board-Advisory Committee	56,707								154,798	91,153
Pool Administration			20,015	130,683	4,100				1,455,200	1,019,183
Optimum Basin Mgmt Administration		1,455,200							3,148,429	3,733,694
OBMP Project Costs		3,148,429						375	375	375
Education Funds Use									31,928	80,004
Mutual Agency Project Costs	31,928							375	5,419,971	5,583,211
Total Administrative/OBMP Expenses	661,169	4,603,629	20,015	130,683	4,100					
Net Administrative/OBMP Income	(661,169)	(4,360,991)							-	0
Allocate Net Admin Income To Pools	661,169		513,431	138,391	9,347				-	0
Allocate Net OBMP Income To Pools		4,360,991	3,386,526	912,812	61,653				-	0
Agricultural Expense Transfer			1,170,836	(1,170,836)					-	0
Total Expenses			5,090,808	11,050	75,100	-	-	375	5,419,971	5,583,211
Net Administrative Income			46,575	5,908	522			(296)	52,709	(1,519,993)
Other Income/(Expense)						6,548,139			6,548,139	0
Replenishment Water Purchases									-	2,179,500
MZ1 Supplemental Water Assessments									-	0
Water Purchases									-	(2,278,500)
MZ1 Imported Water Purchase						(8,989,023)			(8,989,023)	0
Groundwater Replenishment						(2,440,884)			(2,440,884)	(99,000)
Net Other Income										
			46,575	5,908	522	(2,440,884)	-	(296)	(2,388,175)	(1,618,993)
Net Transfers To/(From) Reserves										
			4,450,869	464,653	187,298	3,580,499	158,251	2,238	8,843,808	
Working Capital, July 1, 2005			4,497,444	470,561	187,820	1,139,615	158,251	1,942	6,455,633	
Working Capital, End Of Period										
			127,810.967	34,450.449	2,326.836				164,588.252	
04/05 Production			77.655%	20.931%	1.414%				100.000%	
04/05 Production Percentages										

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									4,881,245	53,984,888
Administrative Assessments			4,807,004		74,241			43	211,595	78,330
Interest Revenue			193,951	11,148	6,453				895,836	-
Mutual Agency Project Revenue		895,836							3,865	-
Miscellaneous Income	3,865							43	5,992,541	4,063,218
<b>Total Revenues</b>	<b>3,865</b>	<b>895,836</b>	<b>5,000,955</b>	<b>11,148</b>	<b>80,694</b>	<b>-</b>	<b>-</b>	<b>43</b>		
Administrative & Project Expenditures									734,695	621,784
Watermaster Administration	734,695								47,159	37,018
Watermaster Board-Advisory Committee	47,159								104,318	91,153
Pool Administration			13,459	87,794	3,065				1,265,673	1,019,183
Optimum Basin Mgmt Administration		1,265,673							2,878,404	3,733,694
OBMP Project Costs		2,878,404							-	375
Education Funds Use									57,631	80,004
Mutual Agency Project Costs	57,631								5,087,880	5,583,211
<b>Total Administrative/OBMP Expenses</b>	<b>839,485</b>	<b>4,144,077</b>	<b>13,459</b>	<b>87,794</b>	<b>3,065</b>			<b>-</b>		
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)					5,087,880	5,583,211
<b>Total Expenses</b>	<b>4,108,446</b>		<b>4,108,446</b>	<b>11,152</b>	<b>68,581</b>	<b>-</b>	<b>-</b>	<b>43</b>	<b>904,661</b>	<b>(1,519,993)</b>
Net Administrative Income			892,509	(4)	12,113					
Other Income/(Expense)									8,097,108	-
Replenishment Water Purchases						8,097,108			1,625,000	2,179,500
MZ1 Supplemental Water Assessments						1,625,000			-	-
Water Purchases									-	(2,278,500)
MZ1 Imported Water Purchase									(10,274,669)	-
Groundwater Replenishment						(10,274,669)			(552,561)	(99,000)
Net Other Income						(552,561)			-	-
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	
<b>03/04 Production</b>			136,795.139	41,978.182	2,914.774				181,688.095	
<b>03/04 Production Percentages</b>			75.291%	23.105%	1.604%				100.000%	