

CHINO BASIN WATERMASTER
Basic Financial Statements and Supplemental Data
Year ended June 30, 2007
(With Independent Auditor's Report Thereon)

CHINO BASIN WATERMASTER

Basic Financial Statements and Supplemental Data

Year ended June 30, 2007

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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, 2007, 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 partial comparative information has been derived from the Chino Basin Watermaster's basic financial statements for the year ended June 30, 2006 and, in our report dated August 10, 2006, we expressed an unqualified opinion on those 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, 2007, 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 conducted 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 identified in the table of contents 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
January 23, 2008



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 governmental accounting standards, 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, 2007 and June 30, 2006 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, 2007 and 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 fiscal years ending June 30, 2007 and June 30, 2006. 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 2007 and 2006.

SUMMARY OF FINANCIAL INFORMATION

For the year ended June 30, 2007 and June 30, 2006, Watermaster's Total Net Assets was \$5,309,297 and \$6,402,408 respectively. These balances include funds that will be required to purchase water to meet the unmet replenishment obligation incurred during the previous fiscal year as well as funds set aside for specific use such as the Agricultural Pool funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007
(With comparative totals for June 30, 2006)

	<u>2007</u>	<u>2006</u>
Assets		
Current	\$ 8,026,597	\$ 8,251,351
Capital	<u>84,354</u>	<u>113,472</u>
Total Assets	8,110,951	8,364,823
Liabilities		
Current	2,686,624	1,877,815
Non current	<u>115,030</u>	<u>84,600</u>
Total Liabilities	2,801,654	1,962,415
Net Assets		
Invested in capital assets	84,354	113,472
Unrestricted	<u>5,224,943</u>	<u>6,288,936</u>
Total Net Assets	<u>\$ 5,309,297</u>	<u>\$ 6,402,408</u>

REVIEW OF REVENUES AND EXPENSES

Annual assessments are determined by dividing the adopted budget by the assessable production. Administrative assessment revenue increased over the previous year due to budgeted increases in OBMP expenses and recharge basin operations & maintenance expenses. Replenishment assessment revenue decreased due to decreases in production in excess of rights.

There was an increase in administrative expenditures over the previous year. Overall operating expenses (excluding replenishment activities) increased over the prior year from \$5,445,196 to \$8,569,855. This increase in expenses relates to increases in Administrative, OBMP and Special Project related expenditures.

Non-operating revenue represented interest income of \$256,311 and \$334,287 for the years ending June 30, 2007 and June 30, 2006. This decrease in income relates directly to the substantial decrease in the deposits held to purchase replenishment water from the 2006 fiscal year to the 2007 fiscal year.

The financial condition of Watermaster changed as indicated by the change in the Net Assets from the prior year in the amount of \$(1,093,111).

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

(With comparative totals for June 30, 2006)

	<u>2007</u>	<u>2006</u>
Operating Revenues		
Administrative assessments (note 1)	\$ 7,923,502	\$ 4,895,755
Mutual agency project revenue	142,149	200,138
Replenishment water	2,690,983	6,548,139
Miscellaneous revenue	<u>-</u>	<u>42,500</u>
Total Operating Revenues	<u>10,756,634</u>	<u>11,686,532</u>
Operating Expenses		
Watermaster administration	752,865	594,421
Depreciation	29,118	31,713
Pool, Advisory and Board administration	169,967	211,505
Optimum Basin Management Plan	7,607,905	4,603,629
Mutual agency project costs	10,000	31,928
Groundwater replenishment	<u>3,536,201</u>	<u>8,989,023</u>
Total Operating Expenses	<u>12,106,056</u>	<u>14,462,219</u>
Income from operations	<u>(1,349,422)</u>	<u>(2,775,687)</u>
Non-Operating Revenues		
Interest	<u>256,311</u>	<u>334,287</u>
Total Nonoperating Revenues	<u>256,311</u>	<u>334,287</u>
Change in net assets	(1,093,111)	(2,441,400)
Net assets at beginning of year	<u>6,402,408</u>	<u>8,843,808</u>
Total net assets at end of year	<u>\$ 5,309,297</u>	<u>\$ 6,402,408</u>

COMPARISON OF FY 2006-2007 ADMINISTRATION BUDGET TO ACTUAL REVENUES/EXPENSE

The Administrative Assessment revenue exceeded budget because the 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 exceeded the budget in the categories of Administration, OBMP and Special Projects. Administrative expenses exceeded budget due to staff and overhead allocations. OBMP expenses exceeded budget due to unforeseen legal expenses related to the Santa Ana River hearings regarding water rights and general as well as special referee legal expenses due to continued Peace II negotiations. Special project expenses exceeded budget mostly relating to work done pertaining to Hydraulic Control.

Administration recorded a \$1,093,111 decrease in change in net assets for the year ending June 30, 2007, compared to a budgeted decrease of \$139,700.

CHINO BASIN WATERMASTER

Statement of Net Assets

June 30, 2007

(with comparative totals for June 30, 2006)

<u>Assets</u>	<u>2007</u>	<u>2006</u>
Current assets:		
Cash and investments (note 2)	\$ 4,834,960	7,137,616
Accounts receivable (note 9)	840,426	1,084,667
Prepaid expenses	<u>2,351,211</u>	<u>29,068</u>
Total current assets	<u>8,026,597</u>	<u>8,251,351</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation (note 3)	<u>84,354</u>	<u>113,472</u>
Total noncurrent assets	<u>84,354</u>	<u>113,472</u>
Total assets	<u>8,110,951</u>	<u>8,364,823</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	2,629,876	1,825,161
Accrued salaries and benefits	<u>56,748</u>	<u>52,654</u>
Total current liabilities	<u>2,686,624</u>	<u>1,877,815</u>
Noncurrent liabilities:		
Compensated absences (note 4)	<u>115,030</u>	<u>84,600</u>
Total noncurrent liabilities	<u>115,030</u>	<u>84,600</u>
Total liabilities	<u>2,801,654</u>	<u>1,962,415</u>
<u>Net Assets</u>		
Net assets:		
Invested in capital assets	84,354	113,472
Unrestricted	<u>5,224,943</u>	<u>6,288,936</u>
Total net assets	<u>\$ 5,309,297</u>	<u>6,402,408</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, 2007

(with comparative totals for June 30, 2006)

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Administrative assessments (note 1)	\$ 7,923,502	4,895,755
Mutual agency project revenue	142,149	200,138
Replenishment water	2,690,983	6,548,139
Grant revenue	<u>-</u>	<u>42,500</u>
Total operating revenues	<u>10,756,634</u>	<u>11,686,532</u>
Operating expenses:		
Watermaster administration	752,865	594,421
Depreciation	29,118	31,713
Pool, advisory and Board administration	169,967	211,505
Optimum Basin Management Plan	7,607,905	4,603,629
Mutual agency project costs	10,000	31,928
Groundwater replenishment	<u>3,536,201</u>	<u>8,989,023</u>
Total operating expenses	<u>12,106,056</u>	<u>14,462,219</u>
Income (loss) from operations	<u>(1,349,422)</u>	<u>(2,775,687)</u>
Nonoperating revenues:		
Interest income	<u>256,311</u>	<u>334,287</u>
Total nonoperating revenues	<u>256,311</u>	<u>334,287</u>
Change in net assets	(1,093,111)	(2,441,400)
Net assets at beginning of year	<u>6,402,408</u>	<u>8,843,808</u>
Total net assets at end of year	<u>\$ 5,309,297</u>	<u>6,402,408</u>

See accompanying notes to the basic financial statements.

CHINO BASIN WATERMASTER
Statement of Cash Flows
Year ended June 30, 2007
(with comparative totals for June 30, 2006)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Cash received from customers	\$ 10,858,726	11,300,252
Cash received from other agencies	142,149	242,638
Cash paid to employees for services	(1,159,406)	(1,002,721)
Cash paid to suppliers of goods and services	<u>(12,400,436)</u>	<u>(12,466,155)</u>
Net cash provided by (used for) operating activities	<u>(2,558,967)</u>	<u>(1,925,986)</u>
Cash flows from capital financing activities:		
Acquisition of capital assets	<u>-</u>	<u>(66,006)</u>
Net cash provided by (used for) capital financing activities	<u>-</u>	<u>(66,006)</u>
Cash flows from investing activities:		
Interest received	<u>256,311</u>	<u>334,287</u>
Net cash provided by (used for) investing activities	<u>256,311</u>	<u>334,287</u>
Net increase (decrease) in cash	(2,302,656)	(1,657,705)
Cash and investments at the beginning of year	<u>7,137,616</u>	<u>8,795,321</u>
Cash and investments at the end of year	<u>\$ 4,834,960</u>	<u>7,137,616</u>
Reconciliation of operating income to net cash used for operating activities:		
Operating income (loss)	\$ (1,349,422)	(2,775,687)
Adjustment to reconcile operating income (loss) to net cash used for operating activities:		
Depreciation	29,118	31,712
(Increase) decrease in accounts receivable	244,241	(143,642)
(Increase) decrease in prepaid expenses	(2,322,143)	5,038
Increase (decrease) in account payable	804,715	920,712
Increase (decrease) in accrued salaries and benefits	4,094	16,878
Increase (decrease) in compensated absences	<u>30,430</u>	<u>19,003</u>
Net cash used for operating activities	<u>\$ (2,558,967)</u>	<u>(1,925,986)</u>

Noncash investing, capital and financing activities:

There were no noncash investing, capital or financing activities during the fiscal year ended June 30, 2007.

See accompanying notes to the basic financial statements.

CHINO BASIN WATERMASTER

Notes to the Basic Financial Statements

Year ended June 30, 2007

(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 2006-07 expenses are based on the 2005-06 production volume.

	<u>2005-06</u>	
	<u>Acre Feet</u>	<u>%</u>
Production Volume:		
Appropriative Pool	124,315	77.099
Agricultural Pool	33,900	21.024
Non-Agricultural Pool	<u>3,026</u>	<u>1.877</u>
Total Production Volume	<u>161,241</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 2005-06 interest revenue was allocated to the Appropriative Pool, resulting in a reduction of the 2006-07 assessments. The amount of administrative assessment received for the year ended June 30, 2007 was \$7,923,502.

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, 2007 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	<u>\$4,834,960</u>
Total cash and investments	<u>\$4,834,960</u>

Cash and investments as of June 30, 2007 consist of the following:

Cash on hand	\$ 500
Deposits with financial institutions	509,011
Investments	<u>4,325,449</u>
Total cash and investments	<u>\$4,834,960</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 *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>\$4,325,449</u>	<u>4,325,449</u>	<u>-</u>	<u>-</u>
Total	<u>\$4,325,449</u>	<u>4,325,449</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>\$4,325,449</u>	N/A	<u>-</u>	<u>-</u>	<u>4,325,449</u>
Total	<u>\$4,325,449</u>		<u>-</u>	<u>-</u>	<u>4,325,449</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, 2007, \$922,801 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, 2007 is as follows:

	Balances at July 1, 2006	Additions	Deletions	Balances at June 30, 2007
Computer equipment and software	\$75,244	-	-	75,244
Office furniture and fixtures	42,291	-	-	42,291
Leasehold improvements	23,443	-	-	23,443
Automotive equipment	90,484	-	-	90,484
Total costs of depreciable assets	<u>231,462</u>	<u>-</u>	<u>-</u>	<u>231,462</u>
Less accumulated depreciation:				
Computer equipment and software	(46,436)	(10,063)	-	(56,499)
Office furniture and fixtures	(17,813)	(6,380)	-	(24,193)
Leasehold improvements	(7,033)	(2,345)	-	(9,378)
Automotive equipment	(46,708)	(10,330)	-	(57,038)
Total accumulated depreciation	<u>(117,990)</u>	<u>(29,118)</u>	<u>-</u>	<u>(147,108)</u>
Net capital assets	<u>\$113,472</u>	<u>(29,118)</u>	<u>-</u>	<u>84,354</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, 2007 was \$115,030.

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, 2007, 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 \$63,552 for the year ended June 30, 2007. The future minimum lease payments for this lease are as follows:

<u>Year Ending June 30:</u>	<u>Amount</u>
2008	\$ 64,200
2009	64,200
2010	64,200
2011	64,200
2012	64,200
2013	64,200
2014	<u>10,700</u>
Total	<u>\$395,900</u>

(7) Defined Benefit Pension Plan (PERS)

Plan Description

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.

CHINO BASIN WATERMASTER

Notes to the Basic Financial Statements

(Continued)

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

Contributions

Participants are required to contribute 7% of their annual covered salary. The Watermaster makes the contributions required of the employees on their behalf and for their account. Benefit provisions and all other requirements are established by state statute and the Watermaster contract with employee bargaining groups.

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, 2006 to June 30, 2007 has been determined by an actuarial valuation of the plan as of June 30, 2004. The contribution rate indicated for the period is 10.947% of payroll for the Retirement Program. The Watermaster's covered payroll for PERS was \$641,628 for the year ended June 30, 2007, while the Watermaster's total payroll for all employees was \$733,404 during the same period. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2007, this contribution rate would be multiplied by the payroll of covered employees that was actually paid during the period July 1, 2006 to June 30, 2007.

Three-Year Trend Information

Annual Pension Cost (Employer Contribution)

<u>Fiscal Year</u>		<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/05	\$106,742	100%	-
6/30/06	136,372	100%	-
6/30/07	148,515	100%	-

(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.

CHINO BASIN WATERMASTER

Notes to the Basic Financial Statements

(Continued)

(9) Receivables from Inland Empire Utilities Agency

Chino Basin Watermaster works closely with Inland Empire Utilities Agency on a variety of regionally beneficial and required projects. The Agreement for Cooperative Efforts Common Monitoring Programs between Chino Basin Watermaster (Watermaster) and Inland Empire Utilities Agency (IEUA) was entered into in 2004. The agreement called for work to be performed by Watermaster and its consultants for which IEUA would reimburse Watermaster an agreed upon percentage of costs, depending on the type of work performed. The work undertaken in the Annual Monitoring Program (AMP) is required by the Regional Water Quality Control Board and is comprised of the following monitoring programs: water quality and water level monitoring in support of the triennial ambient Water Quality update, water quality and water level monitoring in support of the Hydraulic Control Monitoring Program. For 2004/2005 and 2005/2006, IEUA reimbursed Watermaster the amount invoiced. IEUA is contesting the \$618,115.29 that was invoiced by Watermaster and recorded as a receivable as of June 30, 2007.

SUPPLEMENTARY INFORMATION

CHINO BASIN WATERMASTER

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

For the period July 1, 2006 through June 30, 2007

	WATERMASTER ADMINISTRATION	OPTIMUM BASIN MANAGEMENT	POOL APPROPRIATIVE	POOL AGRICULTURAL NON-AGRIC.	POOL GROUNDWATER REPLENISHMENT	SB222 GROUNDWATER OPERATIONS FUNDS	EDUCATION FUNDS	GRAND TOTALS	BUDGET 2006-2007
Administrative Revenues			7,800,290	123,212			88	7,923,502	\$7,308,205
Administrative Assessments			232,105	8,225				256,311	136,500
Interest Revenue								142,149	138,000
Mutual Agency Project Revenue		142,149							
Total Revenues		142,149	8,032,395	15,893			88	8,321,962	7,582,705
Administrative & Project Expenditures									
Watermaster Administration	781,608							781,608	601,598
Watermaster Board-Advisory Committee	51,554							51,554	52,123
Pool Administration		21,947	90,413	6,053				118,413	118,245
Optimum Basin Mgmt Administration		2,373,383						2,373,383	1,855,795
OBMP Project Costs		5,234,522						5,234,522	5,089,269
Education Funds Use							375	375	375
Mutual Agency Project Costs	10,000							10,000	5,000
Total Administrative/OBMP Expenses	843,162	7,607,905	21,947	90,413	6,053		375	8,569,855	7,722,405
Net Administrative/OBMP Income	(843,162)	(7,465,756)						-	0
Allocate Net Admin Income To Pools	843,162	7,465,756	650,069	177,270	15,823			-	0
Allocate Net OBMP Income To Pools			5,756,023	1,569,631	140,102			-	0
Agricultural Expense Transfer			1,826,464	(1,826,464)				-	0
Total Expenses	8,254,504		10,850	161,977			375	8,569,855	7,722,405
Net Administrative Income	(222,109)		5,043	(30,540)			(287)	(247,893)	(139,700)
Other Income/(Expense)									
Replenishment Water Purchases					2,690,983			2,690,983	0
MZ1 Supplemental Water Assessments								-	0
Water Purchases								-	0
MZ1 Imported Water Purchase								-	0
Groundwater Replenishment					(3,536,201)			(3,536,201)	0
Net Other Income					(845,218)			(845,218)	0
Net Transfers To/(From) Reserves	(222,109)		5,043	(30,540)			(287)	(1,093,111)	(139,700)
Working Capital, July 1, 2006	4,444,971		470,561	187,068	1,139,615	158,251	1,942	6,402,408	
Working Capital, End Of Period	4,222,862		475,604	156,528	294,397	158,251	1,655	5,309,297	
05/06 Assessable Production	124,315,140		33,899,960	3,025,832				161,240,932	
05/06 Production Percentages	77.099%		21.024%	1.877%				100.000%	

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 APPROPRIATE	POOL AGRICULTURAL NON-AGRIC.	POOL REPLENISHMENT	GROUNDWATER OPERATIONS 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		9,462		79	334,287	78,330
Interest Revenue		200,138						200,138	0
Mutual Agency Project Revenue		42,500						42,500	0
Grant Income									0
Miscellaneous Income									0
Total Revenues		242,638	5,137,383	16,958	75,622		79	5,472,680	4,063,218
Administrative & Project Expenditures									
Watermaster Administration	625,759							625,759	621,784
Watermaster Board-Advisory Committee	56,707							56,707	37,018
Pool Administration			20,015	130,683	4,100			154,798	91,153
Optimum Basin Mgmt Administration		1,455,200						1,455,200	1,019,183
OBMP Project Costs		3,148,429						3,148,429	3,733,694
Education Funds Use							375	375	375
Mutual Agency Project Costs	31,928							31,928	80,004
Total Administrative/OBMP Expenses	714,394	4,603,629	20,015	130,683	4,100		375	5,473,196	5,583,211
Net Administrative/OBMP Income	(714,394)	(4,360,991)						-	0
Allocate Net Admin Income To Pools	714,394		554,762	149,532	10,100			-	0
Allocate Net OBMP Income To Pools			3,386,526	912,812	61,653			-	0
Agricultural Expense Transfer			1,181,977	(1,181,977)				-	0
Total Expenses	5,143,281		11,050	75,852			375	5,473,196	5,583,211
Net Administrative Income	(5,888)		5,908	(230)			(296)	(516)	(1,519,993)
Other Income/(Expense)									
Replenishment Water Purchases				6,548,139				6,548,139	0
MZ1 Supplemental Water Assessments									2,179,500
Water Purchases									0
MZ1 Imported Water Purchase									(2,278,500)
Groundwater Replenishment				(8,989,023)				(8,989,023)	0
Net Other Income				(2,440,884)				(2,440,884)	(99,000)
Net Transfers To/(From) Reserves			(5,898)	5,908	(230)		(296)	(2,441,400)	(1,618,993)
Working Capital, July 1, 2005			4,450,869	464,653	187,298		2,238	8,843,808	
Working Capital, End Of Period			4,444,971	470,561	187,068		1,942	6,402,408	
04/05 Production	127,810,967		34,450,449	2,326,836				164,588,252	
04/05 Production Percentages	77.655%		20.931%	1.414%				100.000%	