

CHINO BASIN WATERMASTER
Basic Financial Statements and Supplemental Data
Year ended June 30, 2008
(With Independent Auditors' Report Thereon)

CHINO BASIN WATERMASTER
Basic Financial Statements and Supplemental Data
Year ended June 30, 2008

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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, 2008, 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, 2007 and, in our report dated January 23, 2008, 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, 2008, 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
December 8, 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, Optimal Basin Management Program, Special Projects and Replenishment. Each class of assessment has a prescribed purpose and water production base. Assessment revenue is Watermaster's principal source of income.

This section of the Watermaster's annual financial report presents our analysis of the Watermaster's financial performance during the fiscal year ended on June 30, 2008. Please read it in conjunction with the basic financial statements that follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the Watermaster's basic financial statements, which are comprised of two components: Financial Statements (pages 6-8) and Notes to the Financial Statements (pages 9-19). This report also contains other supplementary information in addition to the basic financial statements (pages 20-22).

Required Financial Statements

The financial statements of the Watermaster report information using the accrual basis of accounting; accordingly, all of the current year's revenues and expenses are accounted for regardless of when the cash is received or paid. This accounting treatment is similar to the methods used by private sector companies and aids in answering the question of whether the Watermaster, as a whole, has improved or deteriorated as a result of this year's activities.

The Statement of Net Assets (page 6) includes all of the Watermaster's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Watermaster and assessing the liquidity and financial flexibility of the Watermaster.

The Statement of Revenues, Expenses and Changes in Net Assets (page 7) includes all of the current year revenues and expenses. This statement measures the success of the Watermaster's operations over the past year and can be used to determine whether the Watermaster has successfully recovered all of its costs through assessments and other charges.

The Statement of Cash Flows (page 8) reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. This statement demonstrates where the cash came from, how the cash was used, and how much the change in cash was during the fiscal year.

These statements are one of many different ways to measure the Watermaster's financial health, or financial position. Over time, increases or decreases in the Watermaster's net assets are one of the indicators of whether its financial position is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Watermaster's, assessment income, cost sharing agreements, and other operational measures to help assess the overall financial position of the Watermaster.

SUMMARY OF FINANCIAL INFORMATION

Statement of Net Assets

June 30, 2008
(With comparative totals for June 30, 2007)

	2008	2007	Difference	% Change
Assets				
Current	\$ 7,080,314	\$ 8,026,597	\$ (946,283)	-12%
Capital	59,223	84,354	(25,131)	-30%
Total Assets	7,139,537	8,110,951	(971,414)	-12%
Liabilities				
Current	798,580	2,686,624	(1,888,044)	-70%
Non current	142,995	115,030	27,965	24%
Total Liabilities	941,575	2,801,654	(1,860,079)	-66%
Net Assets				
Invested in capital assets	59,223	84,354	(25,131)	-30%
Unrestricted	6,138,739	5,224,943	913,796	17%
Total Net Assets	\$6,197,962	\$5,309,297	\$ 888,665	17%

For the year ended June 30, 2008 and June 30, 2007, Watermaster's Total Net Assets was \$6,197,962 and \$5,309,297 respectively.

Current Assets decreased by \$946,283 in FY 2008, which was a combination of a \$2.3 million decrease in Prepaid Expenses netted with an increase of Cash and Investments of approximately \$1.4 million. The reduction in Prepaid Expenses was due to a prepayment in 2007 for water purchases which was used in FY 2008. Cash and Investment balances increased in FY 2008 due to an excess of revenues over expenses. These balances include funds set aside for specific use such as the Agricultural Pool fund.

Net Capital Assets decreased by \$25,131 in FY 2008 due to depreciation expense for the year.

Total Liabilities decreased by \$1,860,179 in FY 2008 primarily due to the timing of payments for water purchases which were accrued in FY 2007 and paid in FY 2008.

Statement of Revenues, Expenses, and Changes in Net Assets

June 30, 2008
(With comparative totals for June 30, 2007)

	2008	2007	Difference	% Change
Operating Revenues				
Administrative assessments	\$ 7,602,975	\$ 7,923,502	\$ (320,527)	-4%
Mutual agency project revenue	237,370	142,149	95,221	67%
Replenishment water	3,402,393	2,690,983	711,410	26%
Miscellaneous revenue	35,054	-	35,054	100%
Total Operating Revenues	11,277,792	10,756,634	521,158	5%
Operating Expenses				
Watermaster administration	510,175	752,865	(242,690)	-32%
Depreciation	25,131	29,118	(3,987)	-14%
Pool, Advisory and Board	219,545	169,967	49,578	29%
Optimum Basin Management Plan	6,485,337	7,607,905	(1,122,568)	-15%
Mutual agency project costs	10,000	10,000	-	0%
Groundwater replenishment	3,325,123	3,536,201	(211,078)	-6%
Total Operating Expenses	10,575,311	12,106,056	(1,530,745)	-13%
Income from operations	702,481	(1,349,422)	2,051,903	152%
Non-Operating Revenues				
Interest	186,184	256,311	(70,127)	-27%
Total Non-Operating Revenues	186,184	256,311	(70,127)	-27%
Change in net assets	888,665	(1,093,111)	1,981,776	181%
Net assets at beginning of year	5,309,297	6,402,408	(1,093,111)	-17%
Total net assets at end of year	\$ 6,197,962	\$ 5,309,297	\$ 888,665	17%

REVIEW OF REVENUES AND EXPENSES

Annual assessments are determined by dividing the adopted budget by the assessable production. Administrative assessment revenue decreased \$320,527 in FY 2008, or 4% from the previous year due to budgeted decreases in OBMP expenses and recharge basin operations and maintenance expenses.

Replenishment assessment revenue increased by \$711,410 in FY 2008 or 26% due to increases in production in excess of rights.

Overall operating expenses (excluding replenishment activities) decreased over the prior year from \$8,569,855 to \$7,250,188, down by 15% from the prior year. Specifically, administrative expenses decreased by \$242,690 in FY 2008, or 32%, due to a concerted effort by Watermaster staff to control costs and operate efficiently as well as a change in the methodology of labor overhead allocations. Additionally, the Optimal Basin Management Plan decreased by \$1,122,568 in FY 2008 or 15% due to less legal and other expenditures in 2008 than in 2007.

Non-operating revenue represented interest income of \$186,184 and \$256,311 for the years ending June 30, 2008 and June 30, 2007, which decreased due to falling interest rates.

CONTACTING THE WATERMASTER

This financial report is designed to provide a general overview of the Watermaster's finances and to demonstrate the Watermaster's accountability for the resources it receives. If you have any questions about this report, or need additional information, please contact Sheri Rojo, Assistant General Manager/Chief Financial Officer at (909) 484-3888.

CHINO BASIN WATERMASTER

Statement of Net Assets

June 30, 2008

(with comparative totals for June 30, 2007)

<u>Assets</u>	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and investments (note 2)	\$ 6,146,595	4,834,960
Accounts receivable (note 9)	910,462	840,426
Prepaid expenses	<u>23,257</u>	<u>2,351,211</u>
Total current assets	<u>7,080,314</u>	<u>8,026,597</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation (note 3)	<u>59,223</u>	<u>84,354</u>
Total noncurrent assets	<u>59,223</u>	<u>84,354</u>
Total assets	<u>7,139,537</u>	<u>8,110,951</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	793,256	2,629,876
Accrued salaries and benefits	<u>5,324</u>	<u>56,748</u>
Total current liabilities	<u>798,580</u>	<u>2,686,624</u>
Noncurrent liabilities:		
Compensated absences (note 4)	<u>142,995</u>	<u>115,030</u>
Total noncurrent liabilities	<u>142,995</u>	<u>115,030</u>
Total liabilities	<u>941,575</u>	<u>2,801,654</u>
<u>Net Assets</u>		
Net assets:		
Invested in capital assets	59,223	84,354
Unrestricted	<u>6,138,739</u>	<u>5,224,943</u>
Total net assets	<u>\$ 6,197,962</u>	<u>5,309,297</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, 2008

(with comparative totals for June 30, 2007)

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Administrative assessments (note 1)	\$ 7,602,975	7,923,502
Mutual agency project revenue	237,370	142,149
Replenishment water	3,402,393	2,690,983
Miscellaneous revenue	<u>35,054</u>	<u>-</u>
Total operating revenues	<u>11,277,792</u>	<u>10,756,634</u>
Operating expenses:		
Watermaster administration	510,175	752,865
Depreciation	25,131	29,118
Pool, advisory and Board administration	219,545	169,967
Optimum Basin Management Plan	6,485,337	7,607,905
Mutual agency project costs	10,000	10,000
Groundwater replenishment	<u>3,325,123</u>	<u>3,536,201</u>
Total operating expenses	<u>10,575,311</u>	<u>12,106,056</u>
Income (loss) from operations	<u>702,481</u>	<u>(1,349,422)</u>
Nonoperating revenues:		
Interest income	<u>186,184</u>	<u>256,311</u>
Total nonoperating revenues	<u>186,184</u>	<u>256,311</u>
Change in net assets	888,665	(1,093,111)
Net assets at beginning of year	<u>5,309,297</u>	<u>6,402,408</u>
Total net assets at end of year	<u><u>\$ 6,197,962</u></u>	<u><u>\$ 5,309,297</u></u>

See accompanying notes to the basic financial statements.

CHINO BASIN WATERMASTER
Statement of Cash Flows
Year ended June 30, 2008
(with comparative totals for June 30, 2007)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash received from customers	\$ 10,970,386	10,858,726
Cash received from other agencies	237,370	142,149
Cash paid to employees for services	(1,217,790)	(1,159,406)
Cash paid to suppliers of goods and services	<u>(8,864,515)</u>	<u>(12,400,436)</u>
Net cash provided by (used for) operating activities	<u>1,125,451</u>	<u>(2,558,967)</u>
Cash flows from investing activities:		
Interest received	<u>186,184</u>	<u>256,311</u>
Net cash provided by (used for) investing activities	<u>186,184</u>	<u>256,311</u>
Net increase (decrease) in cash	1,311,635	(2,302,656)
Cash and investments at the beginning of year	<u>4,834,960</u>	<u>7,137,616</u>
Cash and investments at the end of year	<u>\$ 6,146,595</u>	<u>\$ 4,834,960</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ 702,481	(1,349,422)
Adjustments to reconcile operating income (loss) to net cash used for operating activities:		
Depreciation	25,131	29,118
(Increase) decrease in accounts receivable	(70,036)	244,241
(Increase) decrease in prepaid expenses	2,327,954	(2,322,143)
Increase (decrease) in account payable	(1,836,620)	804,715
Increase (decrease) in accrued salaries and benefits	(51,424)	4,094
Increase (decrease) in compensated absences	<u>27,965</u>	<u>30,430</u>
Net cash provided by (used for) operating activities	<u>\$ 1,125,451</u>	<u>\$ (2,558,967)</u>

Noncash investing, capital and financing activities:

There were no significant noncash investing, capital or financing activities during the fiscal year ended June 30, 2008.

See accompanying notes to the basic financial statements.

CHINO BASIN WATERMASTER

Notes to the Basic Financial Statements

Year ended June 30, 2008

(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 2007-08 expenses are based on the 2006-07 production volume.

	2006-07	
	<u>Acre Feet</u>	<u>%</u>
Production Volume:		
Appropriative Pool	130,826	76.288
Agricultural Pool	37,295	21.748
Non-Agricultural Pool	<u>3,369</u>	<u>1.965</u>
Total Production Volume	<u>171,490</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 2006-07 interest revenue was allocated to the Appropriative Pool, resulting in a reduction of the 2007-08 assessments. The amount of administrative assessment received for the year ended June 30, 2008 was \$7,602,975.

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. Accordingly, such information should be read in conjunction with the Watermaster's prior year financial statements, from which the financial data was derived.

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

(2) Cash and Investments

Cash and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	<u>\$6,146,595</u>
Total cash and investments	<u>\$6,146,595</u>

Cash and investments as of June 30, 2008 consist of the following:

Cash on hand	\$ 500
Deposits with financial institutions	152,464
Investments	<u>5,993,631</u>
Total cash and investments	<u>\$6,146,595</u>

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

(2) Cash and Investments, (Continued)

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</u> <u>Authorized by State Law</u>	Authorized By Investment <u>Policy</u>	*Maximum <u>Maturity</u>	*Maximum Percentage Of <u>Portfolio</u>	*Maximum Investment In One <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 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>\$5,993,631</u>	<u>5,993,631</u>	<u>-</u>	<u>-</u>
Total	<u>\$5,993,631</u>	<u>5,993,631</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, 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>\$5,993,631</u>	N/A	<u>-</u>	<u>-</u>	<u>5,993,631</u>
Total	<u>\$5,993,631</u>		<u>-</u>	<u>-</u>	<u>5,993,631</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, 2008 is as follows:

	<u>Balances at July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances at June 30, 2008</u>
Computer equipment and software	\$75,244	-	-	75,244
Office furniture and fixtures	42,291	-	-	42,291
Leasehold improvements	23,443	-	-	23,443
Automotive equipment	<u>90,484</u>	<u>-</u>	<u>-</u>	<u>90,484</u>
Total costs of depreciable assets	<u>231,462</u>	<u>-</u>	<u>-</u>	<u>231,462</u>
Less accumulated depreciation:				
Computer equipment and software	(56,499)	(8,555)	-	(65,054)
Office furniture and fixtures	(24,193)	(6,380)	-	(30,573)
Leasehold improvements	(9,378)	(2,345)	-	(11,723)
Automotive equipment	<u>(57,038)</u>	<u>(7,851)</u>	<u>-</u>	<u>(64,889)</u>
Total accumulated depreciation	<u>(147,108)</u>	<u>(25,131)</u>	<u>-</u>	<u>(172,239)</u>
Net capital assets	<u>\$ 84,354</u>	<u>(25,131)</u>	<u>-</u>	<u>59,223</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, 2008 was \$142,995.

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, 2008, 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 \$63,135 for the year ended June 30, 2008. The future minimum lease payments for this lease are as follows:

<u>Year Ending June 30:</u>	<u>Amount</u>
2009	\$ 65,940
2010	65,940
2011	65,940
2012	65,940
2013	65,940
2014	<u>10,990</u>
Total	<u>\$340,690</u>

(7) Defined Benefit Pension Plan (PERS)

Plan Description

The 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. PERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost sharing plans that are administered by PERS. 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.

For each of the fiscal years shown below, the Watermaster has contributed at the actuarially determined rate provided by PERS' actuaries. 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, 2007 to June 30, 2008 has been determined by an actuarial valuation of the plan as of June 30, 2005. The Watermaster's covered payroll for PERS was \$845,033 for the year ended June 30, 2008, while the Watermaster's total payroll for all employees was \$845,033 during the same period. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2008, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2007 to June 30, 2008.

Three-Year Trend Information

Annual Pension cost (Safety)

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
6/30/06	11.291%	\$136,372	100%	-
6/30/07	10.947%	145,515	100%	-
6/30/08	10.345%	144,250	100%	-

CHINO BASIN WATERMASTER

Notes to the Basic Financial Statements

(Continued)

(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.

(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. The receivable is in dispute and the amount that is expected to be received is not determinable at this time.

SUPPLEMENTARY INFORMATION

CHINO BASIN WATERMASTER

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

For the period July 1, 2007 through June 30, 2008

	WATERMASTER ADMINISTRATION	OPTIMUM BASIN MANAGEMENT	POOL APPROPRIATIVE	POOL ADMINISTRATION AND SPECIAL PROJECTS AGRICULTURAL	POOL NON-AGRIC.	GROUNDWATER REPLENISHMENT	GROUNDWATER OPERATIONS SB222	EDUCATION FUNDS	GRAND TOTALS	BUDGET 2007-2008
Administrative Revenues			7,480,677		122,298				7,602,975	\$7,540,370
Administrative Assessments			161,051		4,370			63	186,184	161,500
Interest Revenue				20,700					237,370	145,500
Mutual Agency Project Revenue		237,370								
Miscellaneous Income			35,013		41				35,054	-
Total Revenues	-	237,370	7,676,741	20,700	126,709	-	-	63	8,061,583	7,867,370
Administrative & Project Expenditures										
Watermaster Administration	534,931								534,931	627,797
Watermaster Board-Advisory Committee	54,884								54,884	60,645
Pool Administration			20,280	137,820	6,561				164,661	162,333
Optimum Basin Mgmt Administration		2,462,439							2,462,439	2,852,337
OBMP Project Costs		4,022,898							4,022,898	4,153,883
Education Funds Use								375	375	375
Mutual Agency Project Costs		10,000							10,000	10,000
Total Administrative/OBMP Expenses	589,815	6,495,337	20,280	137,820	6,561			375	7,250,188	7,867,370
Net Administrative/OBMP Income	(589,815)	(6,257,967)							-	-
Allocate Net Admin Income To Pools	589,815		449,956	128,272	11,587				-	-
Allocate Net OBMP Income To Pools		6,257,967	4,774,055	1,360,969	122,943				-	-
Agricultural Expense Transfer			1,612,751	(1,612,751)					-	-
Total Expenses	6,857,043	14,309	6,857,043	14,309	141,091			375	7,250,188	7,867,370
Net Administrative Income	819,698		6,391	(14,382)				(312)	811,395	-
Other Income/(Expense)										
Replenishment Water Purchases						3,402,393			3,402,393	-
MZI Supplemental Water Assessments									-	-
Water Purchases									-	-
Balance Adjustment			370,656		1,011	(371,667)			-	-
Groundwater Replenishment						(3,325,123)			(3,325,123)	-
Net Other Income			370,656		1,011	(294,397)			77,270	-
Net Transfers To/(From) Reserves			1,190,354	6,391	(13,371)	(294,397)		(312)	888,665	-
Working Capital, July 1, 2007			4,222,862	475,604	156,528	294,397	158,251	1,655	5,309,297	
Working Capital, End Of Period			5,413,216	481,995	143,157	-	158,251	1,343	6,197,962	
06/07 Assessable Production			130,826,204	37,295,410	3,369,080				171,490,694	
06/07 Production Percentages			76.288%	21.748%	1.965%				100.000%	

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 ADMINISTRATION AND SPECIAL PROJECTS AGRICULTURAL	POOL NON-AGRIC.	GROUNDWATER REPLENISHMENT	GROUNDWATER OPERATIONS SB222	EDUCATION FUNDS	GRAND TOTALS	BUDGET 2006-2007
Administrative Revenues			7,800,290		123,212				7,923,502	\$7,308,205
Administrative Assessments		142,149	232,105	15,893	8,225			88	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	131,437			88	8,321,962	7,562,705
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)								
Allocate Net Admin Income To Pools	843,162		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		7,465,756	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						(3,536,201)			(3,536,201)	0
Groundwater Replenishment						(845,218)			(845,218)	0
Net Other Income										0
Net Transfers To/(From) Reserves			(222,109)	5,043	(30,540)	(845,218)		(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%	