

CHINO BASIN WATERMASTER
Basic Financial Statements and Supplemental Data
Year ended June 30, 2009
(With Independent Auditors' Report Thereon)

CHINO BASIN WATERMASTER
Basic Financial Statements and Supplemental Data
Year ended June 30, 2009

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2
Basic Financial Statements:	
Statement of Net Assets	6
Statement of Revenues, Expenses and Changes in Net Assets	7
Statement of Cash Flows	8
Notes to the Basic Financial Statements	9
Supplementary Information:	
Combining Schedule of Revenues, Expenses and Changes in Working Capital - For the period July 1, 2008 through June 30, 2009	21
Combining Schedule of Revenues, Expenses and Changes in Working Capital - For the period July 1, 2007 through June 30, 2008	22



Mayer Hoffman McCann P.C.

An Independent CPA Firm

2301 Dupont Drive, Suite 200
Irvine, California 92612
949-474-2020 ph
949-263-5520 fx
www.mhm-pc.com

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, 2009, 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, 2008 and, in our report dated December 11, 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, 2009, 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 11, 2009



CHINO BASIN WATERMASTER

9641 San Bernardino Road, Rancho Cucamonga, Ca 91730
Tel: 909.484.3888 Fax: 909.484.3890 www.cbwm.org

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, 2009. 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 9-20). This report also contains other supplementary information in addition to the basic financial statements (pages 21-22).

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, 2009
(With comparative totals for June 30, 2008)

	2009	2008	Difference	% Change
Assets				
Current	\$ 11,596,978	\$ 7,080,314	\$ 4,516,664	64%
Capital	53,176	59,223	(6,047)	-10%
Total Assets	11,650,154	7,139,537	4,510,617	63%
Liabilities				
Current	469,002	798,580	(329,578)	-41%
Non current	185,186	142,995	42,191	30%
Total Liabilities	654,188	941,575	(287,387)	-31%
Net Assets				
Invested in capital assets	53,176	59,223	(6,047)	-10%
Restricted for Water Purchases	4,111,568	-	4,111,568	100%
Unrestricted	6,831,222	6,138,739	692,483	11%
Total Net Assets	\$10,995,966	\$6,197,962	\$ 4,798,004	77%

For the year ended June 30, 2009 and June 30, 2008, Watermaster's Total Net Assets was \$10,995,966 and \$6,197,962 respectively.

Total Assets increased by \$4,510,617 in FY 2009, which was mostly due to the Cumulative Unmet Replenishment Obligation (CURO). Parties who extract water in excess of their rights are assessed on an annual basis to cover the cost of purchasing replenishment water. In 2008/2009, Watermaster collected the money but was unable to satisfy the purchase obligation of the replenishment water. The obligation to purchase the water will carry forward into the future and Watermaster will seek opportunities to secure the required replenishment water.

Total Liabilities decreased by \$287,387 in FY 2009 primarily due to the timing of payables which were accrued in FY 2007 and paid in FY 2008.

Statement of Revenues, Expenses, and Changes in Net Assets

June 30, 2009
(With comparative totals for June 30, 2008)

	2009	2008	Difference	% Change
Operating Revenues				
Administrative assessments	\$8,166,124	\$ 7,602,975	\$ 563,149	7%
Mutual agency project revenue	51,217	237,370	(186,153)	-78%
Replenishment water	6,437,643	3,402,393	3,035,250	89%
Miscellaneous revenue	-	35,054	(35,054)	-100%
Total Operating Revenues	14,654,984	11,277,792	3,377,192	30%
Operating Expenses				
Watermaster administration	510,988	510,175	813	0%
Depreciation	25,577	25,131	446	2%
Pool, Advisory and Board	250,870	219,545	31,325	14%
Optimum Basin Management Plan	6,913,336	6,485,337	427,999	7%
Mutual agency project costs	10,000	10,000	-	0%
Groundwater replenishment	2,326,075	3,325,123	(999,048)	-30%
Total Operating Expenses	10,036,846	10,575,311	(538,465)	-5%
Income from operations	4,618,138	702,481	3,915,657	557%
Non-Operating Revenues				
Interest	179,866	186,184	(6,318)	-3%
Total Non-Operating Revenues	179,866	186,184	(6,318)	-3%
Change in net assets	4,798,004	888,665	3,909,339	440%
Net assets at beginning of year	6,197,962	5,309,297	888,665	17%
Total net assets at end of year	\$ 10,995,966	\$ 6,197,962	\$ 4,798,004	77%

REVIEW OF REVENUES AND EXPENSES

Annual administrative assessments are determined by dividing the adopted budget by the assessable production. Administrative assessment revenue increased \$563,149 in FY 2009, or 7% from the previous year due to budgeted increases in OBMP expenses and recharge basin operations and maintenance expenses. Replenishment water assessment revenue increased by \$3,035,250 in FY 2009, or 89% due to production increases in excess of production rights.

Overall operating expenses (excluding replenishment activities) increased over the prior year from \$7,250,188 to \$7,710,771 up by 6% from the prior year. More specifically, administrative expenses remained relatively constant over the previous year. The increase occurred in the area of Optimal Basin Management Plan, which increased by \$427,999 in FY 2009 or 7% due to higher legal, engineering and other expenditures in 2009 than in 2008.

Non-operating revenue represented interest income of \$ 179,866 and \$186,184 for the years ending June 30, 2009 and June 30, 2008, 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, 2009

(with comparative totals for June 30, 2008)

<u>Assets</u>	<u>2009</u>	<u>2008</u>
Current assets:		
Cash and investments (note 2)	\$ 11,365,542	\$ 6,146,595
Accounts receivable (note 9)	197,973	910,462
Prepaid expenses	<u>33,463</u>	<u>23,257</u>
Total current assets	<u>11,596,978</u>	<u>7,080,314</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation (note 3)	<u>53,176</u>	<u>59,223</u>
Total noncurrent assets	<u>53,176</u>	<u>59,223</u>
Total assets	<u>11,650,154</u>	<u>7,139,537</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	389,088	793,256
Accrued salaries and benefits	<u>79,914</u>	<u>5,324</u>
Total current liabilities	<u>469,002</u>	<u>798,580</u>
Noncurrent liabilities:		
Compensated absences (note 4)	<u>185,186</u>	<u>142,995</u>
Total noncurrent liabilities	<u>185,186</u>	<u>142,995</u>
Total liabilities	<u>654,188</u>	<u>941,575</u>
<u>Net Assets</u>		
Net assets:		
Invested in capital assets	53,176	59,223
Restricted for water purchases	4,111,568	-
Unrestricted	<u>6,831,222</u>	<u>6,138,739</u>
Total net assets	<u>\$ 10,995,966</u>	<u>\$ 6,197,962</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, 2009

(with comparative totals for June 30, 2008)

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Administrative assessments (note 1)	\$ 8,166,124	\$ 7,602,975
Mutual agency project revenue	51,217	237,370
Replenishment water	6,437,643	3,402,393
Miscellaneous revenue	<u>-</u>	<u>35,054</u>
Total operating revenues	<u>14,654,984</u>	<u>11,277,792</u>
Operating expenses:		
Watermaster administration	510,988	510,175
Depreciation	25,577	25,131
Pool, advisory and Board administration	250,870	219,545
Optimum Basin Management Plan	6,913,336	6,485,337
Mutual agency project costs	10,000	10,000
Groundwater replenishment	<u>2,326,075</u>	<u>3,325,123</u>
Total operating expenses	<u>10,036,846</u>	<u>10,575,311</u>
Income (loss) from operations	<u>4,618,138</u>	<u>702,481</u>
Nonoperating revenues:		
Interest income	<u>179,866</u>	<u>186,184</u>
Total nonoperating revenues	<u>179,866</u>	<u>186,184</u>
Change in net assets	4,798,004	888,665
Net assets at beginning of year	<u>6,197,962</u>	<u>5,309,297</u>
Total net assets at end of year	<u>\$ 10,995,966</u>	<u>\$ 6,197,962</u>

See accompanying notes to the basic financial statements.

CHINO BASIN WATERMASTER
Statement of Cash Flows
Year ended June 30, 2009
(with comparative totals for June 30, 2008)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Cash received from customers	\$ 15,316,256	\$ 10,970,386
Cash received from other agencies	51,217	237,370
Cash paid to employees for services	(1,196,994)	(1,217,790)
Cash paid to suppliers of goods and services	<u>(9,111,868)</u>	<u>(8,864,515)</u>
Net cash provided by (used for) operating activities	<u>5,058,611</u>	<u>1,125,451</u>
Cash flows from capital financing activities:		
Acquisition of capital assets	<u>(19,530)</u>	<u>-</u>
Net cash provided by (used for) capital financing activities	<u>(19,530)</u>	<u>-</u>
Cash flows from investing activities:		
Interest received	<u>179,866</u>	<u>186,184</u>
Net cash provided by (used for) investing activities	<u>179,866</u>	<u>186,184</u>
Net increase (decrease) in cash	5,218,947	1,311,635
Cash and investments at the beginning of year	<u>6,146,595</u>	<u>4,834,960</u>
Cash and investments at the end of year	<u>\$ 11,365,542</u>	<u>\$ 6,146,595</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ 4,618,138	\$ 702,481
Adjustments to reconcile operating income (loss) to net cash used for operating activities:		
Depreciation	25,577	25,131
(Increase) decrease in accounts receivable	712,489	(70,036)
(Increase) decrease in prepaid expenses	(10,206)	2,327,954
Increase (decrease) in account payable	(404,168)	(1,836,620)
Increase (decrease) in accrued salaries and benefits	74,590	(51,424)
Increase (decrease) in compensated absences	<u>42,191</u>	<u>27,965</u>
Net cash provided by (used for) operating activities	<u>\$ 5,058,611</u>	<u>\$ 1,125,451</u>

Noncash investing, capital and financing activities:

There were no significant noncash investing, capital or financing activities during the fiscal year ended June 30, 2009.

See accompanying notes to the basic financial statements.

CHINO BASIN WATERMASTER

Notes to the Basic Financial Statements

Year ended June 30, 2009

(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 2008-09 expenses are based on the 2007-08 production volume.

	2007-08	
	<u>Acre Feet</u>	<u>%</u>
Production Volume:		
Appropriative Pool	103,078	75.005
Agricultural Pool	30,910	22.492
Non-Agricultural Pool	<u>3,440</u>	<u>2.503</u>
Total Production Volume	<u>137,428</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.

The Watermaster applies all applicable GASB pronouncements in accounting and reporting for proprietary operations as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principals Board (APB) Opinions, and Accounting Research Bulletins (ARB's) of the Committee on Accounting Procedure.

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.

CHINO BASIN WATERMASTER

Notes to the Basic Financial Statements

(Continued)

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

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.

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, 2009 was \$8,166,124.

CHINO BASIN WATERMASTER

Notes to the Basic Financial Statements

(Continued)

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

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.

(2) Cash and Investments

Cash and investments as of June 30, 2009 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	<u>\$11,365,542</u>
Total cash and investments	<u>\$11,365,542</u>

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

Cash on hand	\$ 500
Deposits with financial institutions	470,843
Investments	<u>10,894,199</u>
Total cash and investments	<u>\$11,365,542</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>	<u>Authorized</u> <u>By</u> <u>Investment</u> <u>Policy</u>	<u>*Maximum</u> <u>Maturity</u>	<u>*Maximum</u> <u>Percentage</u> <u>Of</u> <u>Portfolio</u>	<u>*Maximum</u> <u>Investment</u> <u>In One</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 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>\$10,894,199</u>	<u>10,894,199</u>	<u>-</u>	<u>-</u>
Total	<u>\$10,894,199</u>	<u>10,894,199</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>\$10,894,199</u>	N/A	<u>-</u>	<u>-</u>	<u>10,894,199</u>
Total	<u>\$10,894,199</u>		<u>-</u>	<u>-</u>	<u>10,894,199</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, 2009 is as follows:

	<u>Balances at July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances at June 30, 2009</u>
Computer equipment and software	\$75,244	19,530	-	94,774
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>19,530</u>	<u>-</u>	<u>250,992</u>
Less accumulated depreciation:				
Computer equipment and software	(65,054)	(9,001)	-	(74,055)
Office furniture and fixtures	(30,573)	(6,380)	-	(36,953)
Leasehold improvements	(11,723)	(2,345)	-	(14,068)
Automotive equipment	<u>(64,889)</u>	<u>(7,851)</u>	<u>-</u>	<u>(72,740)</u>
Total accumulated depreciation	<u>(172,239)</u>	<u>(25,577)</u>	<u>-</u>	<u>(197,816)</u>
Net capital assets	<u>\$ 59,223</u>	<u>(6,047)</u>	<u>-</u>	<u>53,176</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, 2009 was \$185,186.

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, 2009, 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 \$65,940 for the year ended June 30, 2009. The future minimum lease payments for this lease are as follows:

<u>Year Ending June 30:</u>	<u>Amount</u>
2010	\$ 65,940
2011	65,940
2012	65,940
2013	65,940
2014	<u>10,990</u>
Total	<u>\$274,750</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. Effective May 2009, the Watermaster changed from a 2% at 55 Risk Pool during year ending June 30, 2008 to a 2.5% at 55 Risk Pool. 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, 2008 to June 30, 2009 has been determined by an actuarial valuation of the plan as of June 30, 2006. The Watermaster's covered payroll for PERS was \$916,078 for the year ended June 30, 2009, while the Watermaster's total payroll for all employees was \$916,078 during the same period. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2009, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2008 to June 30, 2009.

Three-Year Trend Information

Annual Pension cost (Safety)

<u>Fiscal Year</u>	Employer Contribution <u>Rate</u>	Employer <u>Contribution</u>	Percentage <u>Contributed</u>	Net Pension <u>Obligation</u>
6/30/07	10.947%	\$145,515	100%	-
6/30/08	10.345%	144,250	100%	-
6/30/09	11.346%	176,576	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 in 2008 was in dispute; however, the amount was received during fiscal year ending June 30, 2009.

SUPPLEMENTARY INFORMATION

CHINO BASIN WATERMASTER
 COMBINING SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN WORKING CAPITAL
 FOR THE
 PERIOD JULY 1, 2008 THROUGH JUNE 30, 2009

	WATERMASTER ADMINISTRATION	OPTIMUM BASIN MANAGEMENT	POOL ADMINISTRATION	AND SPECIAL PROJECTS NON-AGRIC.	GROUNDWATER REPLENISHMENT	EDUCATION FUNDS	GRAND TOTALS	BUDGET 2008-2009
Administrative Revenues								
Administrative Assessments	-	-	7,993,307	-	-	-	8,166,124	\$ 7,992,648
Interest Revenue	-	-	111,927	10,198	-	27	124,977	174,368
Mutual Agency Project Revenue	-	-	49,935	-	-	-	51,217	148,410
Grant Income	-	-	-	-	-	-	-	-
Miscellaneous Income	-	-	-	-	-	-	-	-
Total Revenues	-	-	8,155,169	10,198	176,924	27	8,342,318	8,315,426
Administrative & Project Expenditures								
Watermaster Administration	536,190	-	-	-	-	-	536,190	619,960
Watermaster Board-Advisory Committee	58,265	-	-	-	-	-	58,265	61,201
Pool Administration	-	20,294	-	167,194	5,117	-	192,605	196,523
Optimum Basin Mgmt Administration	-	1,930,126	-	-	-	-	1,930,126	2,023,380
OBMP Project Costs	-	3,721,316	-	-	-	-	3,721,316	4,142,393
Debt Service	-	1,261,894	-	-	-	-	1,261,894	1,261,594
Education Funds Use	-	-	-	-	-	375	375	375
Mutual Agency Project Costs	-	10,000	-	-	-	-	10,000	10,000
Total Administrative/OBMP Expenses	594,455	6,923,336	20,294	167,194	5,117	375	7,710,771	8,315,426
Net Administrative/OBMP Expenses	(594,455)	(6,923,336)						
Allocate Net Admin Expenses To Pools	594,455	445,873	133,703	14,879	-	-	-	-
Allocate Net OBMP Expenses To Pools	-	4,344,583	1,273,351	43,508	-	-	-	-
Allocate Debt Service to App Pool	-	1,261,894	-	-	-	-	-	-
Agricultural Expense Transfer*	-	1,552,774	(1,552,774)	-	-	-	-	-
Total Expenses	7,625,418	21,474	63,504	113,420	375	(348)	7,710,771	8,315,426
Net Administrative Income	529,751	(11,276)	113,420	4,166,457	(348)	631,547	4,798,004	-
Other Income/(Expense)								
Replenishment Water Assessments	-	-	-	6,437,643	-	-	6,437,643	-
Interest Revenue	-	-	-	54,889	-	-	54,889	-
Water Purchases	-	-	-	(2,326,075)	-	-	(2,326,075)	-
Balance Adjustment	-	-	-	-	-	-	-	-
Groundwater Replenishment	-	-	-	4,166,457	-	-	4,166,457	-
Net Other Income	-	-	-	4,166,457	-	-	4,166,457	-
Revenues Over (Under) Expenditures	529,751	(11,276)	113,420	4,166,457	(348)	4,798,004	4,798,004	-
Working Capital, July 1, 2008	5,413,216	481,995	143,157	-	158,251	1,343	6,197,962	-
Working Capital, End Of Period	5,942,967	470,719	256,577	4,166,457	158,251	995	10,995,966	\$ 10,995,966
07/08 Assessable Production	103,077,956	30,909,693	3,439,822				137,427,473	
07/08 Production Percentages	75.005%	22.492%	2.503%				100.000%	

*Fund balance transfer as agreed to in the Peace Agreement.

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	NON-AGRIC. POOL	GROUNDWATER REPLENISHMENT	GROUNDWATER OPERATIONS SB222	EDUCATION FUNDS	GRAND TOTALS	BUDGET 2007-2008
Administrative Revenues	-	-	7,480,877	-	122,298	-	-	-	7,602,975	\$ 7,540,370
Administrative Assessments	-	-	161,051	20,700	4,370	-	-	63	186,184	181,500
Interest Revenue	-	237,370	-	-	-	-	-	-	237,370	145,500
Mutual Agency Project Revenue	-	-	35,013	-	41	-	-	-	35,054	-
Miscellaneous Income	-	-	-	-	-	-	-	-	-	-
Total Revenues	-	237,370	7,676,741	20,700	126,709	-	-	63	8,061,583	7,867,370
Administrative & Project Expenditures	534,931	-	-	-	-	-	-	-	534,931	627,797
Watermaster Administration	54,884	-	-	-	-	-	-	-	54,884	60,645
Watermaster Board-Advisory Committee	-	-	-	-	-	-	-	-	-	162,333
Pool Administration	-	20,280	-	137,820	6,561	-	-	-	164,661	2,852,337
Optimum Basin Mgmt Administration	-	2,462,439	-	-	-	-	-	-	2,462,439	4,153,883
OBMP Project Costs	-	4,022,898	-	-	-	-	-	-	4,022,898	375
Education Funds Use	-	-	-	-	-	-	-	375	375	10,000
Mutual Agency Project Costs	-	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	6,257,967	449,956	128,272	11,587	-	-	-	-	-
Allocate Net OBMP Income To Pools	-	-	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	819,898	6,391	819,898	6,391	(14,382)	-	-	(312)	811,395	-
Other Income/(Expense)	-	-	-	-	-	3,402,393	-	-	3,402,393	-
Replenishment Water Purchases	-	-	-	-	-	-	-	-	-	-
MZ1 Supplemental Water Assessments	-	-	-	-	-	-	-	-	-	-
Water Purchases	-	-	-	-	-	-	-	-	-	-
Balance Adjustment	-	-	370,656	-	1,011	(371,667)	-	-	(3,325,123)	-
Groundwater Replenishment	-	-	-	-	-	(3,325,123)	-	-	(3,325,123)	-
Net Other Income	370,656	-	370,656	-	1,011	(294,397)	-	-	77,270	-
Revenues Over (Under) Expenditures	1,190,354	6,391	1,190,354	6,391	(13,371)	(294,397)	-	(312)	888,665	-
Working Capital, July 1, 2007	4,222,862	475,604	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	5,413,216	481,995	143,157	-	158,251	1,343	6,197,962	-
06/07 Assessable Production	130,826,204	37,295,410	130,826,204	37,295,410	3,369,080	-	-	-	171,490,694	-
06/07 Production Percentages	76.288%	21.748%	76.288%	21.748%	1.965%	-	-	-	100.000%	-