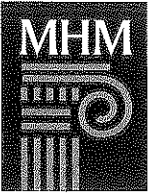


CHINO BASIN WATERMASTER
Basic Financial Statements and Supplemental Data
Year ended June 30, 2010
(With Independent Auditors' Report Thereon)

CHINO BASIN WATERMASTER
Basic Financial Statements and Supplemental Data
Year ended June 30, 2010

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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, 2010, 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, 2009 and, in our report dated December 11, 2009, 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, 2010, 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
October 11, 2010



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, 2010. 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, 2010
(With comparative totals for June 30, 2009)

	2010	2009	Difference	% Change
Assets				
Current	\$ 10,614,785	\$ 11,596,978	\$ (982,193)	-8.5%
Capital	46,889	53,176	(6,287)	-11.8%
Total Assets	10,661,674	11,650,154	(988,480)	-8.5%
Liabilities				
Current	1,989,063	469,002	1,520,061	324.1%
Non current	194,246	185,186	9,060	4.9%
Total Liabilities	2,183,309	654,188	1,529,121	233.8%
Net Assets				
Invested in capital assets	46,889	53,176	(6,287)	-11.8%
Restricted for Water Purchases	1,280,113	4,111,568	(2,831,455)	-68.9%
Unrestricted	7,151,363	6,831,222	320,141	4.7%
Total Net Assets	<u>\$ 8,478,365</u>	<u>\$10,995,966</u>	<u>(\$ 2,517,601)</u>	<u>-22.9%</u>

For the year ended June 30, 2010 and June 30, 2009, Watermaster's Total Net Assets was \$8,478,365 and \$10,995,966 respectively.

Total Assets decreased by \$988,480 or 8.5% in FY 2010 compared to FY 2009. Parties who extract water in excess of their rights are assessed on an annual basis to cover the cost of purchasing replenishment water. In fiscal year 2008/2009, Watermaster collected the money for the purchase of replenishment water but was unable to satisfy the purchase obligation of the replenishment water. For FY 2010, the majority of the decrease in Total Assets was a direct result of the purchase of replenishment water throughout the fiscal year. Comparing FY 2010 to FY 2009, Cash and Investments (Note 2 - pages 12-15) decreased by \$787,508 or 7.0% (net of the audit adjustment described below), Accounts Receivables decreased by \$176,515 or 89.2%, Prepaid Expenses decreased by \$18,170 or 54.3% and Capital Assets (net of accumulated depreciation) decreased by \$6,287 or 11.9%.

The first of four payments related to the purchase and sale agreement between the Overlying (Non-Agricultural) Pool and Watermaster (Note 9 - page 19) was issued on January 14, 2010 in the amount of \$2,166,022. At the end of the fiscal year June 30, 2010, three checks issued to members of the Overlying (Non-Agricultural) Pool totaling \$415,136 had not cleared the Watermaster bank account. As a result, an audit adjustment was recorded increasing the categories of Cash and Investments and Accounts Payable for \$415,136.

Total Liabilities increased by \$1,529,121 or 233.8% in FY 2010 as compared to FY 2009. Accounts Payable increased \$1,581,185 or 406.4% (which included the audit adjustment amount of \$415,136 listed above). The Accounts Payable increase was directly related to the recording and paying of outstanding invoices at fiscal year end June 30, 2010. Accrued Salaries and Benefits decreased by \$61,124 or 76.5% and Compensated Absences (Note 4 - page 16) increased by \$9,060 or 4.9%.

Statement of Revenues, Expenses, and Changes in Net Assets

	June 30, 2010 (With comparative totals for June 30, 2009)			
	2010	2009	Difference	% Change
Operating Revenues				
Administrative assessments	\$ 7,404,003	\$ 8,166,124	(\$ 762,121)	-9.3%
Mutual agency project revenue	0	51,217	(51,217)	-100.0%
Replenishment water	7,073,805	6,437,643	636,162	9.9%
Miscellaneous revenue	111,188	0	111,188	100.0%
Total Operating Revenues	14,588,996	14,654,984	(65,988)	-0.5%
Operating Expenses				
Watermaster administration	657,236	510,988	146,248	28.6%
Depreciation	29,103	25,577	3,526	13.8%
Pool, Advisory and Board	277,050	250,870	26,180	10.4%
Optimum Basin Management Plan	6,327,400	6,913,336	(585,936)	-8.5%
Mutual agency project costs	0	10,000	(10,000)	-100.0%
Groundwater replenishment	9,894,321	2,326,075	7,568,246	325.4%
Total Operating Expenses	17,185,110	10,036,846	7,148,264	71.2%
Income from operations	(2,596,114)	4,618,138	(7,214,252)	-156.2%
Non-Operating Revenues				
Interest	78,513	179,866	(101,353)	-56.3%
Total Non-Operating Revenues	78,513	179,866	(101,353)	-56.3%
Change in net assets	(2,517,601)	4,798,004	(7,315,605)	-152.5%
Net assets at beginning of year	10,995,966	6,197,962	4,798,004	77.4%
Total net assets at end of year	\$ 8,478,365	\$ 10,995,966	(\$ 2,517,601)	-22.9%

REVIEW OF REVENUES AND EXPENSES

Total Operating Revenues decreased \$65,988 or 0.5% in FY 2010 as compared to FY 2009. Annual administrative assessments are determined by dividing the adopted budget by the total assessable production. Administrative assessment revenue for FY 2010 decreased \$762,121 or 9.3% from the previous year due to budgeted decreases in the overall OBMP expenses, recharge basin operations and maintenance expenses. Replenishment water assessment revenue for FY 2010 increased by \$636,162 or 9.9% compared to the previous year due to production increases in excess of production rights, and due to the increased cost of replenishment water. For the current fiscal year, there was no Mutual Agency Project Revenue recorded (a decrease of \$51,217 or 100.0%) and the Miscellaneous Revenue category increased by \$111,188 or 100.0% as compared to the previous year.

Overall operating expenses (excluding replenishment activities) decreased by \$419,982 or 5.4% in FY 2010 as compared to FY 2009. The operating expense categories for the fiscal year ending June 30, 2010 were as follows: Watermaster administrative expenses increased \$146,248 or 28.6%; Depreciation expense increased by \$3,526 or 13.8%; the Pools, Advisory and Board administration expenses increased by \$26,180 or 10.4%; Optimum Basin Management Plan (OBMP) decreased \$585,936 or 8.5%; and Mutual agency project costs decreased \$10,000 or 100% as compared to the previous fiscal year ended June 30, 2009.

Groundwater replenishment activities increased dramatically in FY 2010 as compared to FY 2009. The replenishment activities for FY 2010 were \$7,728,299, along with the water purchase of \$2,166,022 (see Note 9) for a total of \$9,894,321 as compared to \$2,326,075 for FY 2009, an increase of \$7,568,246 or 325.4% from the prior year.

Non-operating revenue represented interest income of \$78,513 and \$179,866 for the years ending June 30, 2010 and June 30, 2009, which decreased due to the 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 Joseph S. Joswiak, Chief Financial Officer at (909) 484-3888.

CHINO BASIN WATERMASTER

Statement of Net Assets

June 30, 2010

(with comparative totals for June 30, 2009)

<u>Assets</u>	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and investments (note 2)	\$ 10,578,034	\$ 11,365,542
Accounts receivable	21,458	197,973
Prepaid expenses	15,293	33,463
Total current assets	<u>10,614,785</u>	<u>11,596,978</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation (note 3)	46,889	53,176
Total noncurrent assets	<u>46,889</u>	<u>53,176</u>
Total assets	<u>10,661,674</u>	<u>11,650,154</u>
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	1,970,273	389,088
Accrued salaries and benefits	18,790	79,914
Total current liabilities	<u>1,989,063</u>	<u>469,002</u>
Noncurrent liabilities:		
Compensated absences (note 4)	194,246	185,186
Total noncurrent liabilities	<u>194,246</u>	<u>185,186</u>
Total liabilities	<u>2,183,309</u>	<u>654,188</u>
<u>Net Assets</u>		
Net assets:		
Invested in capital assets	46,889	53,176
Restricted for water purchases	1,280,113	4,111,568
Unrestricted	7,151,363	6,831,222
Total net assets	<u>\$ 8,478,365</u>	<u>\$ 10,995,966</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, 2010

(with comparative totals for June 30, 2009)

	2010	2009
Operating revenues:		
Administrative assessments (note 1)	\$ 7,404,003	\$ 8,166,124
Mutual agency project revenue	-	51,217
Replenishment water	7,073,805	6,437,643
Miscellaneous revenue	111,188	-
Total operating revenues	14,588,996	14,654,984
Operating expenses:		
Watermaster administration	657,236	510,988
Depreciation	29,103	25,577
Pool, advisory and Board administration	277,050	250,870
Optimum Basin Management Plan	6,327,400	6,913,336
Mutual agency project costs	-	10,000
Groundwater replenishment and other water purchases	9,894,321	2,326,075
Total operating expenses	17,185,110	10,036,846
Income (loss) from operations	(2,596,114)	4,618,138
Nonoperating revenues:		
Interest income	78,513	179,866
Total nonoperating revenues	78,513	179,866
Change in net assets	(2,517,601)	4,798,004
Net assets at beginning of year	10,995,966	6,197,962
Total net assets at end of year	\$ 8,478,365	\$ 10,995,966

See accompanying notes to the basic financial statements.

CHINO BASIN WATERMASTER

Statement of Cash Flows

Year ended June 30, 2010

(with comparative totals for June 30, 2009)

	2010	2009
Cash flows from operating activities:		
Cash received from customers	\$ 14,765,511	\$ 15,316,256
Cash received from other agencies	-	51,217
Cash paid to employees for services	(1,330,329)	(1,196,994)
Cash paid to suppliers of goods and services	<u>(14,278,387)</u>	<u>(9,111,868)</u>
Net cash provided by (used for) operating activities	<u>(843,205)</u>	<u>5,058,611</u>
Cash flows from capital financing activities:		
Acquisition of capital assets	<u>(22,816)</u>	<u>(19,530)</u>
Net cash provided by (used for) capital financing activities	<u>(22,816)</u>	<u>(19,530)</u>
Cash flows from investing activities:		
Interest received	<u>78,513</u>	<u>179,866</u>
Net cash provided by (used for) investing activities	<u>78,513</u>	<u>179,866</u>
Net increase (decrease) in cash	(787,508)	5,218,947
Cash and investments at the beginning of year	<u>11,365,542</u>	<u>6,146,595</u>
Cash and investments at the end of year	<u>\$ 10,578,034</u>	<u>\$ 11,365,542</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (2,596,114)	\$ 4,618,138
Adjustments to reconcile operating income (loss) to net cash used for operating activities:		
Depreciation	29,103	25,577
(Increase) decrease in accounts receivable	176,515	712,489
(Increase) decrease in prepaid expenses	18,170	(10,206)
Increase (decrease) in account payable	1,581,185	(404,168)
Increase (decrease) in accrued salaries and benefits	(61,124)	74,590
Increase (decrease) in compensated absences	<u>9,060</u>	<u>42,191</u>
Net cash provided by (used for) operating activities	<u>\$ (843,205)</u>	<u>\$ 5,058,611</u>

Noncash investing, capital and financing activities:

There were no significant noncash investing, capital or financing activities during the fiscal year ended June 30, 2010.

See accompanying notes to the basic financial statements.

CHINO BASIN WATERMASTER

Notes to the Basic Financial Statements

Year ended June 30, 2010

(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 2009-10 expenses are based on the 2008-09 production volume.

	<u>2008-09</u>	
	<u>Acre Feet</u>	<u>%</u>
Production Volume:		
Appropriative Pool	84,716	69.867
Agricultural Pool	32,143	26.509
Non-Agricultural Pool	<u>4,394</u>	<u>3.624</u>
Total Production Volume	<u>121,253</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 2008-09 interest revenue was allocated to the Appropriative Pool, resulting in a reduction of the 2009-10 assessments. The amount of administrative assessment received for the year ended June 30, 2010 was \$7,404,003.

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, 2010 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	<u>\$10,578,034</u>
Total cash and investments	<u>\$10,578,034</u>

Cash and investments as of June 30, 2010 consist of the following:

Cash on hand	\$	500
Deposits with financial institutions		603,604
Investments		<u>9,973,930</u>
Total cash and investments		<u>\$10,578,034</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>\$ 9,973,930</u>	<u>9,973,930</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 9,973,930</u>	<u>9,973,930</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>\$9,973,930</u>	N/A	<u>-</u>	<u>-</u>	<u>9,973,930</u>
Total	<u>\$9,973,930</u>		<u>-</u>	<u>-</u>	<u>9,973,930</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, 2010 is as follows:

	<u>Balances at July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances at June 30, 2010</u>
Computer equipment and software	\$ 94,774	22,816	-	117,590
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>250,992</u>	<u>22,816</u>	<u>-</u>	<u>273,808</u>
Less accumulated depreciation:				
Computer equipment and software	(74,055)	(13,565)	-	(87,620)
Office furniture and fixtures	(36,953)	(5,339)	-	(42,292)
Leasehold improvements	(14,068)	(2,345)	-	(16,413)
Automotive equipment	<u>(72,740)</u>	<u>(7,854)</u>	<u>-</u>	<u>(80,594)</u>
Total accumulated depreciation	<u>(197,816)</u>	<u>(29,103)</u>	<u>-</u>	<u>(226,919)</u>
Net capital assets	<u>\$ 53,176</u>	<u>(6,287)</u>	<u>-</u>	<u>46,889</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, 2010 was \$194,246.

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, 2010, 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 lease for rent of office space on September 1, 2003, expiring August 30, 2018. The amount paid under this lease was \$65,940 for the year ended June 30, 2010. The future minimum lease payments for this lease are as follows:

<u>Year Ending June 30:</u>	<u>Amount</u>
2011	69,504
2012	69,504
2013	69,504
2014	69,504
2015-2019	<u>289,600</u>
Total	<u>\$567,616</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 8% 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, 2009 to June 30, 2010 has been determined by an actuarial valuation of the plan as of June 30, 2007. The Watermaster's covered payroll for PERS was \$862,905.01 for the year ended June 30, 2010, while the Watermaster's total payroll for all employees was \$862,905.01 during the same period. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2010, the contribution rate is multiplied by the payroll of covered employees that were paid during the period from July 1, 2009 to June 30, 2010.

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>
6/30/08	10.345%	144,250	100%	-
6/30/09	11.346%	176,576	100%	-
6/30/10	11.417%	165,298	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. The Watermaster's share of the cost for 2009 is \$515,006.

(9) Purchase of Water from Non-Agricultural Pool

As part of the Peace II Agreement, a purchase and sale agreement between the Overlying (Non-Agricultural) Pool and Watermaster was signed on September 27, 2007. The signed agreement (Attachment "G") was titled "PURCHASE AND SALE AGREEMENT FOR THE PURCHASE OF WATER BY WATERMASTER FROM THE OVERLYING (NON-AGRICULTURAL) POOL". Section D of the Agreement states:

"Commencing thirty (30) calendar days from the Notice of Intent to Purchase ("Payment Date") Watermaster will pay to the Non-Agricultural Overlying Pool for each acre-foot of the Storage Transfer Quantity in accordance with the following schedule as the schedule is adjusted for inflation by the consumers price index ("CPI") for San Bernardino County from May 31, 2006 until the Payment Date:

1. \$215 times 1/4 of the Storage Transfer Quantity on the Payment Date.
2. \$220 times 1/4 of the Storage Transfer Quantity on the first anniversary of the Payment Date.
3. \$225 times 1/4 of the Storage Transfer Quantity on the second anniversary of the Payment Date.
4. \$230 times 1/4 of the Storage Transfer Quantity on the third anniversary of the Payment Date.

However, all payments provided for herein, including inflation adjustments, are subject to an express price cap and will not exceed ninety-two (92) percent of the then prevailing MWD replenishment rate in any year".

The Notice of Intent to Purchase ("Payment Date") was December 18, 2009. On January 14, 2010 the first of four installment payments in the amount of \$2,166,022 (adjusted for inflation as prescribed by Section D) were issued to the Non-Agricultural Overlying Pool. The future three payments (adjusted for inflation) will be issued in accordance to Section D.

SUPPLEMENTARY INFORMATION

CHINO BASIN WATERMASTER
 COMBINING SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN WORKING CAPITAL
 FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 30, 2010

	WATERMASTER ADMINISTRATION	OPTIMUM BASIN MANAGEMENT	POOL ADMINISTRATION & SPECIAL PROJECTS			GROUNDWATER OPERATIONS		EDUCATION FUNDS	GRAND TOTALS	BUDGET 2009-2010
			APPROPRIATIVE POOL	AG POOL	NON-AG POOL	GROUNDWATER REPLENISHMENT	SB222 FUNDS			
Administrative Revenues:										
Administrative Assessments	-	-	7,178,987	-	225,016	-	-	-	7,404,003	\$7,340,839
Interest Revenue	-	-	39,009	2,764	1,744	-	-	6	43,523	191,540
Mutual Agency Project Revenue	-	-	-	-	-	-	-	-	-	148,410
Grant Income	-	-	-	-	-	-	-	-	-	-
Miscellaneous Income	111,000	-	188	-	-	-	-	-	111,188	-
Total Revenues	111,000	-	7,218,184	2,764	226,760	-	-	6	7,558,714	7,680,789
Administrative & Project Expenditures:										
Watermaster Administration	686,339	-	-	-	-	-	-	-	686,339	580,238
Watermaster Board-Advisory Committee	61,245	-	-	-	-	-	-	-	61,245	61,901
Pool Administration	-	-	22,731	186,478	6,596	-	-	-	215,805	229,860
Optimum Basin Mgmt Administration	-	1,710,617	-	-	-	-	-	-	1,710,617	1,557,820
OBMP Project Costs	-	3,726,777	-	-	-	-	-	-	3,726,777	4,109,362
Debt Service	-	890,006	-	-	-	-	-	-	890,006	1,131,233
Education Funds Use	-	-	-	-	-	-	-	-	-	375
Mutual Agency Project Costs	-	-	-	-	-	-	-	-	-	10,000
Total Administrative/OBMP Expenses	747,584	6,327,400	22,731	186,478	6,596	-	-	-	7,290,789	7,680,789
Net Administrative/OBMP Expenses	(636,584)	(6,327,400)	-	-	-	-	-	-	-	-
Allocate Net Admin Expenses To Pools	636,584	-	444,765	168,751	23,069	-	-	-	-	-
Allocate Net OBMP Expenses To Pools	-	5,437,394	3,798,965	1,441,388	197,041	-	-	-	-	-
Allocate Debt Service to App Pool	-	890,006	890,006	-	-	-	-	-	-	-
Agricultural Expense Transfer*	-	-	1,796,616	(1,796,616)	-	-	-	-	-	-
Total Expenses	-	-	6,953,083	-	226,706	-	-	-	7,290,789	7,680,789
Net Administrative Income	-	-	265,101	2,764	54	-	-	6	267,925	-
Other Income/(Expense)										
Replenishment Water Assessments	-	-	-	-	-	7,073,805	-	-	7,073,805	-
Interest Revenue	-	-	-	-	-	34,990	-	-	34,990	-
Water Purchases	-	-	-	-	-	-	-	-	-	-
Balance Adjustment	-	-	-	-	-	-	-	-	-	-
Other Water Purchases	-	-	10,939	-	-	(2,176,961)	-	-	(2,166,022)	-
Groundwater Replenishment	-	-	-	-	-	(7,728,299)	-	-	(7,728,299)	-
Net Other Income	-	-	10,939	-	-	(2,796,465)	-	-	(2,785,526)	-
Net Transfers To/(From) Reserves	-	-	276,040	2,764	54	(2,796,465)	-	6	(2,517,601)	-
Working Capital, July 1, 2009	-	-	5,942,967	470,719	256,577	4,166,457	158,251	995	10,995,966	-
Working Capital, End Of Period	-	-	6,219,007	473,483	256,631	1,369,992	158,251	1,001	8,478,365	8,478,365
08/09 Assessable Production	-	-	84,716,450	32,142,764	4,393,990	-	-	-	121,253,204	-
08/09 Production Percentages	-	-	69.867%	26.509%	3.624%	-	-	-	100.000%	-

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

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 APPROPRIATIVE POOL	AGRICULTURAL POOL	NON-AGRIC. POOL	GROUNDWATER OPERATIONS GROUNDWATER REPLENISHMENT	SB222 FUNDS	EDUCATION FUNDS	GRAND TOTALS	BUDGET 2008-2009
Administrative Revenues										
Administrative Assessments	-	-	7,993,307	-	172,817	-	-	-	\$ 8,166,124	\$ 7,992,648
Interest Revenue	-	-	111,927	10,198	2,825	-	-	27	124,977	174,368
Mutual Agency Project Revenue	-	-	49,935	-	1,282	-	-	-	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		5,661,442	4,344,583	1,273,351	43,508	-	-	-	-	-
Allocate Debt Service to App Pool		1,261,894	1,261,894	-	-	-	-	-	-	-
Agricultural Expense Transfer*			1,552,774	(1,552,774)	-	-	-	-	-	-
Total Expenses			7,625,418	21,474	63,504	-	-	375	7,710,771	8,315,426
Net Administrative Income			529,751	(11,276)	113,420	-	-	(348)	631,547	-
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			-	-	-	-	-	-	-	-
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	-
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			103,077.958	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.