



## **Chino Basin Watermaster**

### **Annual Financial Report**

**For the Fiscal Years Ended June 30, 2011 and 2010**

## Our Mission Statement

*“The Chino Basin Watermaster is a consensus-based organization facilitating development and utilization of the Chino groundwater basin”*

<u>Name</u>	<u>Title</u>	<u>Current Term Ending or Ongoing</u>
Kenneth Willis	Chairman	December 2011
Bob G. Kuhn	Vice-Chair	Ongoing
Tom Haughey	Secretary/Treasurer	December 2011
Robert Bowcock	Member	Ongoing
Geoffrey Vanden Heuvel	Member	Ongoing
Paul Hofer	Member	Ongoing
Charles D. Field	Member	Ongoing
Paula Lantz	Member	Ongoing
Steve Elie	Member	Ongoing

**Chino Basin Watermaster  
Ken Jeske, Interim CEO  
9641 San Bernardino Road  
Rancho Cucamonga, California 91730  
(909) 484-3888 – [www.cbwm.org](http://www.cbwm.org)**

**Chino Basin Watermaster**

**Annual Financial Report**

**For the Fiscal Years Ended June 30, 2011 and 2010**

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Annual Financial Report  
For the Fiscal Years Ended June 30, 2011 and 2010**

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# **Introductory Section**



January 26, 2012

Board of Directors  
Chino Basin Watermaster

## **Introduction**

It is our pleasure to submit the Annual Financial Report for the Chino Basin Watermaster (Watermaster) for the fiscal years ended June 30, 2011 and 2010, following guidelines set forth by the Governmental Accounting Standards Board. Watermaster staff prepared this financial report. The Watermaster is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance your understanding of the Watermaster's financial position and activities.

This report is organized into three sections: (1) Introductory, (2) Financial, and (3) Supplemental. The Introductory section offers general information about the Watermaster's organization and current Watermaster activities and reports on a summary of significant financial results. The Financial section includes the Independent Auditor's Report, Management's Discussion and Analysis of the Watermaster's basic financial statements, and the Watermaster's audited basic financial statements with accompanying Notes. The Supplemental section includes combining revenue and expense schedules.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Watermaster's MD&A can be found immediately after the Independent Auditor's Report.

## **Watermaster Structure and Leadership**

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, special districts, other public or private entities and utilities. The three Pools act together to form the "Advisory Committee".

The Chief Executive Officer administers the day-to-day operations of the Watermaster in accordance with policies and procedures established by the Board of Directors. The Watermaster employs nine regular and one part-time employee. The Watermaster's three Pools, the Advisory Committee and the Board of Directors meet each month.

### **Watermaster Mission and Services**

Chino Basin Watermaster's mission is "To manage the Chino Groundwater Basin in the most beneficial manner and to equitably administer and enforce the provisions of the Chino Basin Watermaster Judgment", Case No. RCV 51010 (formerly Case No. SCV 164327). 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. The Watermaster is progressively and actively implementing the Basin's Optimum Basin Management Program which includes extensive monitoring, further developing recharge capabilities, storage and recovery projects, managing salt loads, developing new yield such as reclaimed and storm water recharge and continuing to work with other agencies and entities to enhance this significant natural resource.

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).

### **Economic Condition and Outlook**

The Watermaster's office is located in the City of Rancho Cucamonga in San Bernardino County which has experienced significant economic growth and also recession within the region. The economic outlook for the Southern California region is one of cautious growth due to the prolonged real estate correction, the financial crisis that may impact customers, suppliers, and the ongoing California State budget challenges which are projected to continue in the future.

### **Internal Control Structure**

Watermaster management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the Watermaster are protected from loss, theft or misuse. The internal control structure also ensures adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The Watermaster's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

### **Budgetary Control**

The Watermaster's Board of Directors annually adopts an operating budget prior to the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the Watermaster's enterprise operations. The budget and reporting treatment applied to the Watermaster is consistent with the accrual basis of accounting and the financial statement basis.

### **Investment Policy**

The Board of Directors has adopted an investment policy that conforms to state law, Watermaster's ordinance and resolutions, prudent money management, and the "prudent person" standards. The objective of the Investment Policy is safety, liquidity and yield. Watermaster funds are invested in the State Treasurer's Local Agency Investment Fund and an institutional checking account.

**Water Rates and Watermaster Revenues**

The Judgment prescribes Watermaster’s authority 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.

**Audit and Financial Reporting**

State Law requires the Watermaster to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Charles Z. Fedak & Company, CPAs has conducted the audit of the Watermaster’s financial statements. Their unqualified Independent Auditor’s Report appears in the Financial Section.


**Other References**

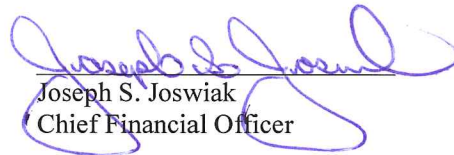
More information is contained in the Management’s Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

**Acknowledgements**

Preparation of this report was accomplished by the combined efforts of Watermaster staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to the Watermaster. We would also like to thank the members of the Board of Directors for their continued support in planning and implementation of the Chino Basin Watermaster’s fiscal policies.

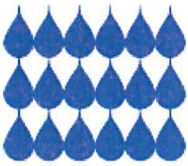
Respectfully submitted,

  
\_\_\_\_\_  
Ken Jeske  
Interim CEO

  
\_\_\_\_\_  
Joseph S. Joswiak  
Chief Financial Officer



## **Financial Section**



Charles Z. Fedak, CPA, MBA  
Paul J. Kaymark, CPA  
Christopher J. Brown, CPA

# Charles Z. Fedak & Company

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An Accountancy Corporation

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## Independent Auditor's Report

Board of Directors  
Chino Basin Watermaster  
Rancho Cucamonga, California

We have audited the accompanying financial statements of the Chino Basin Watermaster (Watermaster) as of and for the year ended June 30, 2011, which collectively comprise the Watermaster's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Watermaster's management. Our responsibility is to express an opinion on these financial statements based on our audit. The comparative financial information as of June 30, 2010 was audited by other auditors whose report dated October 11, 2010, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's Minimum Audit Requirements for California Special Districts. 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 respective financial position of the Chino Basin Watermaster as of June 30, 2011, and the respective changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 26, 2012, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits. That report can be found on page 26.

Accounting principals generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

### Independent Auditor's Report, continued

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Watermaster's basic financial statements as a whole. The introductory section and the supplemental information on pages 24 through 25 are presented for purposes of additional analysis and are not required parts of the basic financial statements. The supplemental information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Charles Z. Fedak and Company CPAs - An Accountancy Corporation*

**Charles Z. Fedak and Company, CPAs - An Accountancy Corporation**  
Cypress, California  
January 26, 2012

**Chino Basin Watermaster**  
*Management's Discussion and Analysis*  
**For the Fiscal Years Ended June 30, 2011 and 2010**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Chino Basin Watermaster (Watermaster) provides an introduction to the financial statements of the Watermaster for the fiscal years ended June 30, 2011 and 2010. The two year presentation is provided for comparative purposes. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

**Financial Highlights**

- The Watermaster's net assets decreased 7.11% or \$602,977 to \$7,875,388 in fiscal year 2011 as the result of operations. In 2010, the Watermaster's net assets decreased 22.90% or \$2,517,601 to \$8,478,365 as the result of operations.
- The Watermaster's operating revenues increased 11.29% or \$1,647,301 in 2011 primarily due to a 35.95% or \$2,543,323 increase in replenishment water revenues that was offset by a 12.10% or \$895,834 decrease in administrative assessments. In 2010, the Watermaster's operating revenues decreased 0.5% or \$65,988 to \$14,588,996.
- The Watermaster's operating expenses decreased 1.59% or \$272,346 in 2011 primarily due to a 22.63% decrease in optimum basin management plan costs that was offset by a 11.09% increase in groundwater replenishment costs. In 2010, the Watermaster's operating expenses increased 71.4% or \$7,144,738 to \$17,156,007 due to increased groundwater replenishment costs.

**Required Financial Statements**

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and Statement of Cash Flows provide information about the activities and performance of the Watermaster using accounting methods similar to those used by private sector companies.

The Statement of Net Assets includes all of the Watermaster's investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing a rate of return, evaluating the capital structure of the Watermaster and assessing the liquidity and financial flexibility of the Watermaster. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Watermaster's operations over the past year and can be used to determine if the Watermaster has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the Watermaster's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

**Financial Analysis of the Watermaster**

One of the most important questions asked about the Watermaster's finances is, "Is the Watermaster better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Watermaster in a way that helps answer this question.

**Chino Basin Watermaster**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

**Financial Analysis of the Watermaster, continued**

These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Watermaster's *net assets* and changes in them. You can think of the Watermaster's net assets – the difference between assets and liabilities – as one way to measure the Watermaster's financial health, or *financial position*. Over time, *increases or decreases* in the Watermaster's net assets are one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in federal and state water quality standards.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 13 through 23.

**Statement of Net Assets**

**Condensed Statements of Net Assets**

	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>Percentage Change</u>
Assets:				
Current assets	\$ 11,075,096	10,614,785	460,311	4.34%
Capital assets, net	26,190	46,889	(20,699)	-44.14%
<b>Total assets</b>	<u>\$ 11,101,286</u>	<u>10,661,674</u>	<u>439,612</u>	<u>4.12%</u>
Liabilities:				
Current liabilities	\$ 3,135,273	2,057,049	1,078,224	52.42%
Non-current liabilities	90,625	126,260	(35,635)	-28.22%
<b>Total liabilities</b>	<u>3,225,898</u>	<u>2,183,309</u>	<u>1,042,589</u>	<u>47.75%</u>
Net assets:				
Invested in capital assets	26,190	46,889	(20,699)	-44.14%
Unrestricted	7,849,198	8,431,476	(582,278)	-6.91%
<b>Total net assets</b>	<u>7,875,388</u>	<u>8,478,365</u>	<u>(602,977)</u>	<u>-7.11%</u>
<b>Total liabilities and net assets</b>	<u>\$ 11,101,286</u>	<u>10,661,674</u>	<u>439,612</u>	<u>4.12%</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Watermaster, assets of the Watermaster exceeded liabilities by \$7,875,388 and \$8,478,365 as of June 30, 2011 and 2010, respectively.

The Watermaster's investment in capital assets is comprised of capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The Watermaster uses these capital assets to provide services to customers within the Watermaster's service area; consequently, these assets are not available for future spending.

**Chino Basin Watermaster**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

**Statement of Net Assets, continued**

At the end of fiscal years 2011 and 2010, the Watermaster showed a positive balance in its unrestricted net assets of \$7,849,198 and \$8,431,476, respectively, which may be utilized in future years. See note 7 for further discussion.

**Statement of Revenues, Expenses and Changes in Net Assets**

**Condensed Statements of Revenues, Expenses and Changes in Net Assets**

	<u>2011</u>	<u>2010</u>	<u>Change</u>	<u>Percentage Change</u>
Operations:				
Operating revenues	16,236,297	14,588,996	1,647,301	11.29%
Operating expenses	16,883,661	17,156,007	(272,346)	-1.59%
<b>Net loss from operations</b>	(647,364)	(2,567,011)	1,919,647	-74.78%
Depreciation	20,699	29,103	(8,404)	-28.88%
<b>Operating loss</b>	(668,063)	(2,596,114)	1,928,051	-74.27%
Non-operating:				
Interest earnings	65,086	78,513	(13,427)	-17.10%
<b>Total non-operating revenues</b>	65,086	78,513	(13,427)	-17.10%
<b>Change in net assets</b>	(602,977)	(2,517,601)	1,914,624	-76.05%
<b>Net assets, beginning of year</b>	8,478,365	10,995,966	(2,517,601)	-22.90%
<b>Net assets, end of year</b>	7,875,388	8,478,365	(602,977)	-7.11%

The statement of revenues, expenses and changes of net assets shows how the Watermaster's net assets changed during the fiscal years. In the case of the Watermaster, net assets decreased by \$602,977 and \$2,517,601 for the fiscal years ended June 30, 2011 and 2010, respectively.

A closer examination of the sources of changes in net assets reveals that:

The Watermaster's operating revenues increased 11.29% or \$1,647,301 in 2011 primarily due to a 35.95% or \$2,543,323 increase in replenishment water revenues that was offset by a 12.10% or \$895,834 decrease in administrative assessments.

In 2010, the Watermaster's operating revenues decreased 0.5% or \$65,988 to \$14,588,996 primarily due to a 9.9% or \$636,162 increase in replenishment water revenues and a 100.0% or \$111,188 increase in miscellaneous revenue that was offset by a 9.3% or \$762,121 decrease in administrative assessments and a 100.0% or \$51,217 decrease in mutual agency project revenue.

The Watermaster's operating expenses decreased 1.59% or \$272,346 in 2011 primarily due to a 22.63% decrease in Optimum Basin Management Plan costs that was offset by a 11.09% increase in groundwater replenishment costs.

In 2010, the Watermaster's operating expenses increased 71.4% or \$7,144,738 to \$17,156,007 due to increased Groundwater replenishment costs.

**Chino Basin Watermaster**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

**Capital Asset Administration**

At the end of fiscal year 2011 and 2010, the Watermaster's investment in capital assets amounted to \$26,190 and \$46,889 (net of accumulated depreciation), respectively. This investment in capital assets includes leasehold improvements, office equipment, and vehicles. There were no major capital assets additions during the year ended June 30, 2011.

Changes in capital assets in 2011 were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance 2011</u>
Capital assets:				
Depreciable assets	273,808	-	-	273,808
Accumulated depreciation	<u>(226,919)</u>	<u>(20,699)</u>	-	<u>(247,618)</u>
Total capital assets	<u>46,889</u>	<u>(20,699)</u>	-	<u>26,190</u>

Changes in capital assets in 2010 were as follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance 2010</u>
Capital assets:				
Depreciable assets	250,992	22,816	-	273,808
Accumulated depreciation	<u>(197,816)</u>	<u>(29,103)</u>	-	<u>(226,919)</u>
Total capital assets	<u>53,176</u>	<u>(6,287)</u>	-	<u>46,889</u>

**Conditions Affecting Current Financial Position**

Management is unaware of any conditions which could have a significant impact on the Watermaster's current financial position, net assets or operating results based on past, present and future events.

**Requests for Information**

This financial report is designed to provide the Watermaster's funding sources, customers, stakeholders and other interested parties with an overview of the Watermaster's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Watermaster's Chief Financial Officer at 9641 San Bernardino Road, Rancho Cucamonga, CA 91730.

# **Basic Financial Statements**



**Chino Basin Watermaster**  
**Statement of Net Assets**  
**June 30, 2011 and 2010**

<i>Assets</i>	<b>2011</b>	<b>2010</b>
<b>Current assets:</b>		
Cash and cash equivalents (note 2)	\$ 7,187,623	10,578,034
Accrued interest receivable	14,729	20,658
Accounts receivable	3,750,628	800
Prepaid expenses	122,116	15,293
<b>Total current assets</b>	<b>11,075,096</b>	<b>10,614,785</b>
<b>Non-current:</b>		
Capital assets, net (note 3)	26,190	46,889
<b>Total non-current assets</b>	<b>26,190</b>	<b>46,889</b>
<b>Total assets</b>	<b>\$ 11,101,286</b>	<b>10,661,674</b>
<b><i>Liabilities</i></b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 3,064,607	1,970,273
Accrued salaries and benefits	21,868	18,790
Long-term liabilities – due within one year:		
Compensated absences (note 4)	48,798	67,986
<b>Total current liabilities</b>	<b>3,135,273</b>	<b>2,057,049</b>
<b>Non-current liabilities:</b>		
Long-term liabilities – due in more than one year:		
Compensated absences (note 4)	90,625	126,260
<b>Total non-current liabilities</b>	<b>90,625</b>	<b>126,260</b>
<b>Total liabilities</b>	<b>3,225,898</b>	<b>2,183,309</b>
<b>Net assets: (note 6)</b>		
Investment in capital assets, net of related debt	26,190	46,889
Unrestricted	7,849,198	8,431,476
<b>Total net assets</b>	<b>7,875,388</b>	<b>8,478,365</b>
<b>Total liabilities and net assets</b>	<b>\$ 11,101,286</b>	<b>10,661,674</b>

See accompanying notes to the basic financial statements

**Chino Basin Watermaster**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Administrative assessments	\$ 6,508,169	7,404,003
Replenishment water revenue	9,617,128	7,073,805
Other revenue	<u>111,000</u>	<u>111,188</u>
Total operating revenue	<u>16,236,297</u>	<u>14,588,996</u>
Operating expenses:		
Groundwater replenishment and other water purchases	10,991,245	9,894,321
Optimum basin management plan	4,895,469	6,327,400
Watermaster administration	544,784	657,236
Pool, advisory, and board administration	<u>452,163</u>	<u>277,050</u>
Total operating expense	<u>16,883,661</u>	<u>17,156,007</u>
Operating loss before depreciation	(647,364)	(2,567,011)
Depreciation expense	<u>(20,699)</u>	<u>(29,103)</u>
Operating loss	<u>(668,063)</u>	<u>(2,596,114)</u>
Non-operating revenues:		
Interest earnings	<u>65,086</u>	<u>78,513</u>
Total non-operating revenues	<u>65,086</u>	<u>78,513</u>
Change in net assets	(602,977)	(2,517,601)
Net assets at beginning of year	<u>8,478,365</u>	<u>10,995,966</u>
Net assets at end of year	<u>\$ 7,875,388</u>	<u>8,478,365</u>

See accompanying notes to the basic financial statements

**Chino Basin Watermaster**  
**Statement of Cash Flows**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from stakeholders	\$ 12,486,469	14,765,511
Cash paid to employees for salaries and wages	(892,464)	(900,275)
Cash paid to vendors and suppliers for materials and services	<u>(15,055,431)</u>	<u>(14,708,441)</u>
Net cash used in operating activities	<u>(3,461,426)</u>	<u>(843,205)</u>
Cash flows from capital financing activities:		
Acquisition of capital assets	<u>-</u>	<u>(22,816)</u>
Net cash used in capital financing activities	<u>-</u>	<u>(22,816)</u>
Cash flows from investing activities:		
Interest earnings received	<u>71,015</u>	<u>78,513</u>
Net cash provided by investing activities	<u>71,015</u>	<u>78,513</u>
Net decrease in cash	(3,390,411)	(787,508)
Cash and cash equivalent at the beginning of year	<u>10,578,034</u>	<u>11,365,542</u>
Cash and cash equivalent at the end of year	<u>\$ 7,187,623</u>	<u>10,578,034</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ <u>(668,063)</u>	<u>(2,596,114)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	20,699	29,103
Changes in assets and liabilities		
(Increase) decrease in assets:		
Accounts receivable	(3,749,828)	176,515
Prepaid expenses	(106,823)	18,170
Increase (decrease) in liabilities:		
Accounts payable and accrued expense	1,094,334	1,581,185
Accrued salaries and benefits	3,078	(61,124)
Compensated absences	<u>(54,823)</u>	<u>9,060</u>
Total adjustments	<u>(2,793,363)</u>	<u>1,752,909</u>
Net cash used in operating activities	<u>\$ (3,461,426)</u>	<u>(843,205)</u>
Non-cash investing, capital and financing transactions:		
Change in fair-market value of investments	<u>\$ 13,450</u>	<u>-</u>
See accompanying notes to the basic financial statements		

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

**(1) Reporting Entity and Summary of Significant Accounting Policies**

**A. Organization and Operations of the 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. Weiner 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 2010-11 expenses are based on the 2009-2010 production volume.

Production volume	Fiscal Year 2010	
	Acre Feet	Percentage
Appropriative Pool	78,733	68.765%
Agricultural Pool	31,855	27.822%
Non-agricultural Pool	3,908	3.413%
Total production volume	114,496	100.000%

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.

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

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

**B. Basis of Accounting and Measurement Focus**

The Watermaster reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Watermaster is that the costs of providing water to its service area on a continuing basis be financed or recovered primarily through user charges (water sales), capital grants and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as replenishment water revenues and groundwater replenishment, result from exchange transactions associated with the principal activity of the Watermaster. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

**C. Financial Reporting**

The Watermaster's basic financial statements are presented in conformance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*" (GASB No. 34). This statement established revised financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports.

GASB No. 34 and its related GASB pronouncements provide for a revised view of financial information and restructure the format of financial information provided prior to its adoption. A statement of net assets replaces the balance sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A statement of revenues, expenses and changes in net assets replaces both the income statement and the statement of changes in retained earnings and contributed capital. GASB No. 34 also requires that the statement of cash flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

Under GASB No. 34, enterprise funds, such as the Watermaster, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The Watermaster has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

**D. Assets, Liabilities and Net Assets**

**1. Use of Estimates**

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net assets during the reporting period. Actual results could differ from those estimates.

**2. Cash and Cash Equivalents**

Substantially all of the Watermaster's cash is invested in interest bearing accounts. The Watermaster considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

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

**D. Assets, Liabilities and Net Assets, continued**

**3. Investments**

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

**4. Accounts Receivable and Allowance for Uncollectible Accounts**

The Watermaster extends credit to customers in the normal course of operations. Management has determined that all amounts are considered collectable. As a result, the Watermaster has not recorded an allowance for doubtful accounts at June 30, 2011.

**5. Prepaid Expenses**

Certain payments to vendors reflects costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

**6. Compensated Absences**

The Watermaster's policy is to permit employees to accumulate earned vacation up to a total of 320 hours with amounts exceeding the limit being paid out as part of the employee's regular compensation. Upon termination of employment, employees are paid all unused vacation and forfeit any unused sick time.

**7. Water Production Assessments**

Water Production Assessment categories include: Administration, Optimal Basin Management Program, Special Projects, and Water Replenishment. Assessments are billed on a yearly basis.

**8. Capital Assets**

Capital assets acquired and/or constructed are capitalized at historical cost. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Computer equipment and software	5 years
Office furniture and fixtures	7 years
Leasehold improvements	10 years
Automotive equipment	7 years

**9. Budgetary Policies**

The Watermaster adopts an annual operational budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

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

**D. Assets, Liabilities and Net Assets, continued**

**10. Net Assets**

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- **Investment in Capital Assets, net of related debt** – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction or improvement of those assets.
- **Restricted Net Assets** – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Assets** – This component of net assets consists of net assets that do not meet the definition of *restricted* or *investment in capital assets, net of related debt*.

**(2) Cash and Investments**

Cash and investments as of June 30, are classified in the Statements of Net Assets as follows:

	<b>2011</b>	<b>2010</b>
Cash and cash equivalents	\$ 7,187,623	10,578,034
Total cash and cash equivalents	\$ 7,187,623	10,578,034

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

	<b>2011</b>	<b>2010</b>
Cash on hand	\$ 500	500
Deposits with financial institutions	141,907	603,604
Investments	7,045,216	9,973,930
Total cash and investments	\$ 7,187,623	10,578,034

As of June 30, the Watermaster's authorized deposits had the following maturities:

	<b>2011</b>	<b>2010</b>
Deposits held with the California Local Agency Investment Fu:	237 days	203 days

***Investments Authorized by the California Government Code and the Watermaster's Investment Policy***

The table below identifies the investment types that are authorized by the Watermaster in accordance with the California Government Code (or the Watermaster's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Watermaster's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

**(2) Cash and Investments, continued**

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury obligations	5 years	None	None
Federal agency and bank obligations	5 years	None	None
Certificates-of-deposit (negotiable or placed)	5 years	30%	10%
Commercial paper (prime)	270 days	10%	10%
Money market mutual funds	N/A	20%	None
State and local bonds, notes and warrants	N/A	None	None
California Local Agency Investment Fund (LAIF)	N/A	None	None

***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 California Government Code and the Watermaster's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits:

The California Government Code requires that a financial institution secure deposits made by state or local 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. Of the Watermaster's bank balances, up to \$250,000 at June 30, 2011 and 2010, were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the Watermaster's name.

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 Code and the Watermaster's investment policy contains legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

***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 Financial Statements**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

**(2) Cash and Investments, continued**

***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 matures or comes close to maturity evenly over time as necessary to provide for cash flow requirements and liquidity needed for operations.

***Credit Risk***

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Watermaster's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

***Concentration of Credit Risk***

The Watermaster's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Watermaster's investments at June 30, 2011 and 2010, respectively.

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

**(3) Capital Assets**

Changes in capital assets for 2011 were as follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance 2011</u>
Depreciable assets:				
Computer equipment	\$ 117,590	-	-	117,590
Furniture and fixtures	42,291	-	-	42,291
Leasehold improvements	23,443	-	-	23,443
Vehicles and equipment	90,484	-	-	90,484
Total depreciable assets	<u>273,808</u>	<u>-</u>	<u>-</u>	<u>273,808</u>
Accumulated depreciation:				
Computer equipment	(87,620)	(8,469)	-	(96,089)
Furniture and fixtures	(42,292)	-	-	(42,292)
Leasehold improvements	(16,413)	(2,344)	-	(18,757)
Vehicles and equipment	(80,594)	(9,886)	-	(90,480)
Total accumulated depreciation:	<u>(226,919)</u>	<u>(20,699)</u>	<u>-</u>	<u>(247,618)</u>
Total capital assets, net	<u>\$ 46,889</u>			<u>26,190</u>

There were no major capital assets additions during the fiscal year.

Changes in capital assets for 2010 were as follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance 2010</u>
Depreciable assets:				
Computer equipment	\$ 94,774	22,816	-	117,590
Furniture and fixtures	42,291	-	-	42,291
Leasehold improvements	23,443	-	-	23,443
Vehicles and equipment	90,484	-	-	90,484
Total depreciable assets	<u>250,992</u>	<u>22,816</u>	<u>-</u>	<u>273,808</u>
Accumulated depreciation:				
Computer equipment	(74,055)	(13,565)	-	(87,620)
Furniture and fixtures	(36,953)	(5,339)	-	(42,292)
Leasehold improvements	(14,068)	(2,345)	-	(16,413)
Vehicles and equipment	(72,740)	(7,854)	-	(80,594)
Total accumulated depreciation:	<u>(197,816)</u>	<u>(29,103)</u>	<u>-</u>	<u>(226,919)</u>
Total capital assets, net	<u>\$ 53,176</u>			<u>46,889</u>

Major capital assets additions during the year include upgrades to computer equipment.

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

**(4) Compensated Absences**

The changes to compensated absences balances at June 30, were as follows:

<u>Balance</u> <u>2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2011</u>	<u>Current</u>	<u>Long Term</u>
\$ 194,246	118,816	(173,639)	139,423	48,798	90,625

<u>Balance</u> <u>2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2010</u>	<u>Current</u>	<u>Long Term</u>
\$ 185,186	102,238	(93,178)	194,246	67,986	126,260

**(5) Defined Benefit Pension Plan**

*Plan Description*

The Agency contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing multi-employer defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public agencies within the State of California. Benefit provisions and all other requirements are established by state statute and the Agency. Copies of CalPERS annual financial report may be obtained from their executive Office: 400 P Street, Sacramento, CA, 95814.

*Funding Policy*

The Watermaster participates in the 2.5% at 55 Risk Pool. 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.

Also, the Watermaster is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2011, 2010 and 2009 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For Fiscal years 2011, 2010 and 2009, the Watermaster's annual contributions for the CalPERS plan were equal to the Agencies required and actual contributions for each fiscal year as follows:

*Three Year Trend Information:*

<u>Fiscal</u> <u>Year</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>	<u>APC</u> <u>Percentage</u> <u>of Payroll</u>
2008-2009	176,576	100%	-	11.346%
2009-2010	165,298	100%	-	11.417%
2010-2011	163,231	100%	-	14.298%

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

**(6) Net Assets**

Calculation of net assets as of June 30, were as follows:

	<b>2011</b>	<b>2010</b>
Net investment in capital assets:		
Capital assets, net	\$ 26,190	46,889
Total net investment in capital assets	26,190	46,889
Unrestricted net assets:		
Non-spendable net assets:		
Prepaid expenses and deposits	122,116	15,293
Total non-spendable net assets	122,116	15,293
Spendable net assets are designated as follows:		
Undesignated net assets reserve	7,727,082	8,416,183
Total spendable net assets	7,727,082	8,416,183
Total unrestricted net assets	7,849,198	8,431,476
Total net assets	\$ 7,875,388	8,478,365

**(7) Risk Management**

The Watermaster is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Watermaster is insured for a variety of potential exposures. The following is a summary of the insurance policies carried by the Watermaster as of June 30, 2011:

- Commercial General Liability: \$2,000,000 General Aggregate Limit (Other than Products/Completed Operations); \$2,000,000 Products/Completed Operations Aggregate Limit (Any One Person or Organization); \$1,000,000 Personal and Advertising Injury Limit; \$1,000,000 Each Occurrence Limit; \$100,000 Rented To You Limit; \$5,000 Medical Expenses Limit (Any One Person).
- Commercial Excess Liability: Limits of Liability are \$10,000 Retained Limit, \$4,000,000 Each Occurrence, \$4,000,000 General Aggregate Limit, \$4,000,000 Products/Completed Operations to Aggregate.
- Automobile: \$1,000,000 Combined Bodily Injury and Property Damage Single Limit (Each Accident); \$500,000 Uninsured Motorists Single Limit. \$500 deductible for Comprehensive and \$1,000 deductible for Collision.
- Property: \$525,000 with liability limits varying by property type with a \$1,000 deductible.
- Crime coverage: \$50,000 per claim with a \$1,000 deductible.
- Director and Officer/Crisis Management: \$5,000 to \$50,000 with liability limits varying by type of coverage.
- Workers compensation: \$2,000,000 each accident or each employee by disease.

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

**(8) Governmental Accounting Standards Board Statements Issued, Not Yet Effective**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2011, that have effective dates that may impact future financial presentations.

***Governmental Accounting Standards Board Statement No. 60***

In November 2010, the GASB issued Statement No.60, *Accounting and Financial Reporting for Service Concession Arrangements*. This standard address how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. This statement is effective for financial statements for periods beginning after January 26, 2012. The impact of the implementation of this Statement to the Watermaster's financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 61***

In November 2010, the GASB issued Statement No.61, *The Financial Reporting Entity, Omnibus*. This standard is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis for State and local Governments*. This statement is effective for financial statements for periods beginning after January 26, 2012. The impact of the implementation of this Statement to the Watermaster's financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 63***

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This statement is effective for financial statements for periods beginning after January 26, 2012. The impact of the implementation of this Statement to the Watermaster's financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 64***

In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. This standard is designed to improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or swap counterparty's credit support provider, is replaced. This statement is effective for financial statements for periods beginning after January 26, 2012. The impact of the implementation of this Statement to the Watermaster's financial statements has not been assessed at this time.

**(9) Commitments and Contingencies**

***Grant Awards***

Grant funds received by the Watermaster are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the Watermaster believes that such disallowances, if any, would not be significant.

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2011 and 2010**

**(9) Commitments and Contingencies, continued**

*Litigation*

In the ordinary course of operations, the Watermaster is subject to claims and litigation from outside parties. After consultation with legal counsel, the Watermaster believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

**(10) Subsequent Events**

Events occurring after June 30, 2011 have been evaluated for possible adjustment to the financial statements or disclosure as of January 26, 2012, which is the date the financial statements were available to be issued.

## **Supplemental Information Section**

**Chino Basin Watermaster**  
**Combining Schedule of Revenue, Expenses, and Changes in Net Assets**  
**For the Fiscal Year Ended June 30, 2011**

	Watermaster Administration	Optimum Basin Management	Appropriative Pool	Agricultural Pool	Non-Agricultural Pool	Groundwater Replenishment	Groundwater Operations SB 222 Funds	Education Funds	Grand Totals	Budget 2010-2011
<b>Administrative revenues:</b>										
Administrative assessments	\$ -	-	6,165,079	-	343,090	-	-	-	6,508,169	6,508,070
Interest revenue	(272)	-	33,547	2,324	1,327	-	-	4	36,930	175,010
Mutual agency project revenue	111,000	-	-	-	-	-	-	-	111,000	148,410
Grant income	-	-	-	-	-	-	-	-	-	-
Miscellaneous income	-	-	-	-	-	-	-	-	-	-
<b>Total revenues</b>	<b>110,728</b>	<b>-</b>	<b>6,198,626</b>	<b>2,324</b>	<b>344,417</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>6,656,099</b>	<b>6,831,490</b>
<b>Administrative &amp; project expenditures:</b>										
Watermaster administration	565,108	-	-	-	-	-	-	-	565,108	512,546
Watermaster board-advisory committee	68,732	-	-	-	-	-	-	-	68,732	73,073
Pool administration	-	-	51,778	186,152	145,903	-	-	-	383,833	474,856
Optimum basin management administration	-	1,626,892	-	-	-	-	-	-	1,626,892	1,350,390
OBMP project costs	-	2,901,787	-	-	-	-	-	-	2,901,787	3,772,619
Debt service	-	366,790	-	-	-	-	-	-	366,790	700,964
Education funds use	-	-	-	-	-	-	-	375	375	375
Mutual agency project costs	-	-	-	-	-	-	-	-	-	10,000
<b>Total administrative/OBMP expenses</b>	<b>633,840</b>	<b>4,895,469</b>	<b>51,778</b>	<b>186,152</b>	<b>145,903</b>	<b>-</b>	<b>-</b>	<b>375</b>	<b>5,913,517</b>	<b>6,894,823</b>
<b>Net administrative/OBMP expenses:</b>	<b>(523,112)</b>	<b>(4,895,469)</b>								
Allocate net admin expenses to pools	\$ 523,112		359,719	145,539	17,855				-	-
Allocate net OBMP expenses to pools		4,528,679	3,114,151	1,259,958	154,570				-	-
Allocate debt service to app pool		366,790							-	-
<b>Agricultural expense transfer*</b>			<b>1,591,649</b>	<b>(1,591,649)</b>						
Total expenses			5,484,086	-	318,328			375	5,913,517	6,894,823
Net administrative income			714,540	2,324	26,089			(371)	742,582	(63,333)
Other income/(expense)						3,622,004			3,622,004	-
Replenishment water assessments			2,244,496						2,244,496	-
Non-Ag stored water purchases						28,158			28,158	-
Interest revenue						3,750,628			3,750,628	-
MWD water purchases			(2,255,436)						(2,255,436)	-
Non-Ag stored water purchases						(3,750,628)			(3,750,628)	-
MWD water purchases						(4,984,780)			(4,984,780)	-
Groundwater replenishment						(1,334,618)			(1,334,618)	-
Net other income			(10,940)			(1,334,618)			(1,345,558)	-
Net transfers to/(from) reserves			703,600	2,324	26,089	(1,334,618)		(371)	(602,976)	(63,333)
Net Assets July 1, 2010			6,219,006	473,483	256,631	1,369,992	158,251	1,001	8,478,364	-
Net Assets, End of Period			6,922,606	475,807	282,720	35,374	158,251	630	7,875,388	7,875,388
<b>2009/2010 assessable production</b>			78,733,238	31,854,766	3,907,911				114,495,915	
<b>2009/2010 production percentages</b>			68.765%	27.822%	3.413%				100.000%	

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



**Chino Basin Watermaster**  
**Combining Schedule of Revenue, Expenses, and Changes in Net Assets**  
**For the Fiscal Year Ended June 30, 2010**

	Watermaster Administration	Optimum Basin Management	Pool Administration and Special Projects		Groundwater Operations		Education Funds	Grand Totals	Budget 2009-2010
			Appropriative Pool	Agricultural Pool	Non-Agricultural Pool	Groundwater Replenishment			
<b>Administrative revenues:</b>									
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	-	-	-	-	-	-	-	-	-
Other	111,000	-	188	-	-	-	-	111,188	-
<b>Total revenues</b>	<b>111,000</b>	<b>-</b>	<b>7,218,184</b>	<b>2,764</b>	<b>226,760</b>	<b>-</b>	<b>6</b>	<b>7,558,714</b>	<b>7,680,789</b>
<b>Administrative &amp; project expenditures:</b>									
Watermaster administration	686,338	-	-	-	-	-	-	686,338	580,238
Watermaster board-advisory committee	61,245	-	-	-	-	-	-	61,245	61,901
Pool administration	-	-	22,733	186,478	6,596	-	-	215,807	229,860
Optimum basin management administration	-	1,710,617	-	-	-	-	-	1,710,617	1,557,820
OBMP project costs	-	3,726,780	-	-	-	-	-	3,726,780	4,109,362
Debt service	-	890,006	-	-	-	-	-	890,006	1,131,233
Education funds use	-	-	-	-	-	-	-	-	375
Mutual agency project costs	-	-	-	-	-	-	-	-	10,000
<b>Total administrative/OBMP expenses</b>	<b>747,583</b>	<b>6,327,403</b>	<b>22,733</b>	<b>186,478</b>	<b>6,596</b>	<b>-</b>	<b>-</b>	<b>7,290,793</b>	<b>7,680,789</b>
<b>Net administrative/OBMP expenses:</b>	<b>(636,583)</b>	<b>(6,327,403)</b>							
Allocate net admin expenses to pools	\$ 636,583		444,761	168,752	23,070			-	-
Allocate net OBMP expenses to pools		5,437,397	3,798,946	1,441,400	197,051			-	-
Allocate debt service to app pool		890,006						-	-
<b>Agricultural expense transfer*</b>			<b>1,796,629</b>	<b>(1,796,629)</b>					
<b>Total expenses</b>			<b>6,953,076</b>	<b>-</b>	<b>226,717</b>			<b>7,290,793</b>	<b>7,680,789</b>
<b>Net administrative income</b>			<b>265,108</b>	<b>2,764</b>	<b>43</b>		<b>6</b>	<b>267,921</b>	<b>-</b>
<b>Other income/(expense)</b>									
Replenishment water assessments						7,073,805		7,073,805	-
Interest revenue						34,994		34,994	-
Water purchases						-		-	-
Balance adjustment						-		-	-
Other water purchases						(2,176,961)		(2,166,022)	-
Groundwater replenishment						(7,728,299)		(7,728,299)	-
<b>Net other income</b>			<b>10,939</b>	<b>-</b>	<b>-</b>	<b>(2,796,461)</b>	<b>-</b>	<b>(2,785,522)</b>	<b>-</b>
<b>Net transfers to/(from) reserves</b>			<b>276,047</b>	<b>2,764</b>	<b>43</b>	<b>(2,796,461)</b>	<b>6</b>	<b>(2,517,601)</b>	<b>-</b>
<b>Net Assets July 1, 2009</b>			<b>5,942,967</b>	<b>470,719</b>	<b>256,577</b>	<b>4,166,457</b>	<b>995</b>	<b>10,995,966</b>	<b>8,478,365</b>
<b>Net Assets, End of Period</b>			<b>6,219,014</b>	<b>473,483</b>	<b>256,620</b>	<b>1,369,996</b>	<b>1,001</b>	<b>8,478,365</b>	<b>8,478,365</b>
<b>2008/2009 assessable production</b>			<b>84,716,450</b>	<b>32,142,764</b>	<b>4,393,990</b>			<b>121,253,204</b>	
<b>2008/2009 production percentages</b>			<b>69.867%</b>	<b>26.509%</b>	<b>3.624%</b>			<b>100.000%</b>	

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

**Report on Internal Controls and Compliance**



Charles Z. Fedak, CPA, MBA  
Paul J. Kaymark, CPA  
Christopher J. Brown, CPA

## Charles Z. Fedak & Company

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### **Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Board of Directors  
Chino Basin Watermaster  
Rancho Cucamonga, California

We have audited the basic financial statements of the Chino Basin Watermaster (Watermaster) as of and for the year ended June 30, 2011, and have issued our report thereon dated January 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### ***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the Watermaster's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Watermaster's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Watermaster's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Watermaster's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

*Charles Z. Fedak & Company CPAs - An Accountancy Corporation*

**Charles Z. Fedak and Company, CPAs - An Accountancy Corporation**  
Cypress, California  
January 26, 2012