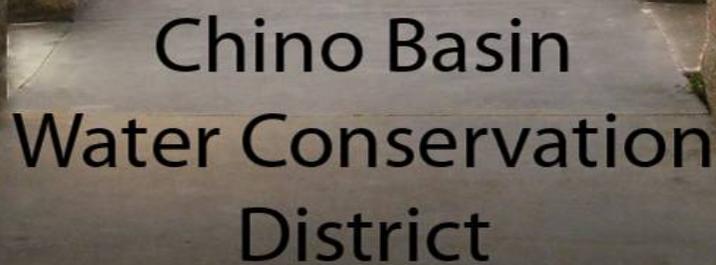


The logo for Chino Basin Water Conservation District (CBWCD) is displayed on a sign. It features the letters 'C B W C D' in a bold, blue, sans-serif font. The letters are set against a white background with a light blue wavy border at the top and bottom, resembling water ripples. The sign is mounted on a light blue metal frame.

CBWCD

A large banner is stretched across the top of a covered walkway. The banner is white with black text. The text reads 'Financial Statements' in a large, bold, sans-serif font, and 'June 30, 2010' in a smaller, italicized, sans-serif font below it. The walkway is flanked by stone walls and glass railings. The ceiling of the walkway is made of dark metal beams and a translucent material.

**Financial
Statements**
June 30, 2010

The entrance to the Chino Basin Water Conservation District building is visible through the walkway. It features a set of double glass doors with a grey awning above them. The walls are made of light-colored stone blocks. There are several potted plants, including ferns and other greenery, on either side of the entrance. The floor is a light-colored concrete.

**Chino Basin
Water Conservation
District**

Our Mission Statement

The Chino Basin Water Conservation District is a public agency whose goal is the protection of the Chino Groundwater Basin in order to guarantee that current and future water needs will be met. The Basin is protected by the capture and percolation of waters through the District's network of channels, basins and spreading grounds. Water conservation education is provided to the individuals and organizations within the service area to further promote the efficient use of our water resources.

Board of Directors as of June 30, 2010

| <u>Name</u> | <u>Title</u> | <u>Elected/ Appointed</u> | <u>Term</u> |
|------------------------|----------------|-------------------------------|---------------|
| Kati Parker | President | Elected | 12/08 - 12/12 |
| Paul Hofer | Vice-President | Appointed In-Lieu | 12/08 - 12/12 |
| Henry De Haan, Jr. | Treasurer | Appointed In-Lieu | 12/08 - 12/12 |
| Gilbert Aldaco | Director | Appointed In-Lieu | 12/08 - 12/12 |
| Terry King | Director | Appointed In-Lieu | 12/06 - 12/10 |
| John Reddick | Director | Appointed In-Lieu | 12/06 - 12/10 |
| Geoffrey Vanden Heuvel | Director | Appointed In-Lieu | 12/06 - 12/10 |

**Chino Basin Water Conservation District
Eunice Ulloa, General Manager
4594 San Bernardino Street
Montclair, California 91763-0900
(909) 626-2711**

Chino Basin Water Conservation District

Financial Statements

For the Year Ended June 30, 2010

**Chino Basin Water Conservation District
Financial Statements
For the Year Ended June 30, 2010**

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Introductory Section



Chino Basin Water Conservation District

September 20, 2010

The Honorable Board of Directors of the
Chino Basin Water Conservation District

Introduction

It is our pleasure to submit the Annual Financial Report for the Chino Basin Water Conservation District (District) for the fiscal year ending June 30, 2010. District staff, following guidelines set forth by the Governmental Accounting Standards Board (GASB), prepared this financial report. The District is ultimately responsible for both the accuracy of the data and the completeness and fairness of the 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 is necessary to enhance your understanding of the District'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 District's organization, current District activities, and reports on a summary of significant financial results. The Financial section includes the Independent Auditors' Report, Management's Discussion and Analysis of the District's financial statements, as well as the District's audited financial statements with accompanying notes. The Supplemental section includes selected financial information generally presented in greater detail than presented in the District's financial statements.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of a 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 District's MD&A is located immediately following the Independent Auditors' Report.

District Structure and Leadership

The Chino Basin Water Conservation District, incorporated on December 6, 1949, is an independent special district that operates under the authority of Division 21 of the California Water Code. Located in the western region of San Bernardino County, in California, the District encompasses the entire cities of Montclair and Chino, and portions of the cities of Chino Hills, Upland, Ontario, Rancho Cucamonga and some of the unincorporated areas of western San Bernardino County.

The District is governed by a seven-member Board of Directors. Each elected Director must reside within the geographical area established for their respective Divisions. The District's Board of Directors meets on the second Monday of each month. Meetings are publicly noticed and citizens are encouraged to attend.

In order to conduct the business of the District, Director Parker continued in her respective position of "President of the Board," Director Hofer remained in his respective position of "Vice-President of the

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Fax: (909) 626-5974

Board,” and Director De Haan, Jr. continued to hold the position of “District Treasurer.” The “terms of service” for each of the named positions, ends in December 2010. The District committees and committee members are as follows:

| | | | |
|--------------------------|----------------------------|----------------------------|---------------------------|
| Finance Committee | Personnel Committee | Education Committee | Recycled Committee |
| De Haan, Jr. - Chair | Reddick - Chair | Parker - Chair | King - Chair |
| Aldaco | Aldaco | Aldaco | Parker |
| Reddick | Parker | Reddick | Reddick |

| | | |
|-----------------------------|---------------------------------------|----------------------------------|
| Facilities Committee | Advertising Committee (ad hoc) | Basin Landscape Committee |
| Aldaco - Chair | Hofer - Chair | Hofer |
| Parker | Aldaco | Aldaco |
| Reddick | Reddick | Parker |

The “terms of service” for Board officers and committee members end in December 2010.

General Manager Ulloa continued in the position of General Manager/District Secretary. The General Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The District employs a total of thirteen employees consisting of nine full-time employees and four part-time employees.

Major Objectives

The activities of the Board and staff at the District are driven by our Mission Statement: “The Chino Basin Water Conservation District is a public agency whose goal is the protection of the Chino Groundwater Basin in order to guarantee that current and future water needs will be met. The Basin is protected by the capture and percolation of water through the District’s network of channels, basins, and spreading grounds. Water conservation education is provided to the individuals and organizations within the District’s service area to further promote the efficient use of our water resources.”

The goals of the Board of Directors are:

1. To continue to provide the most efficient physical recharge services and the highest quality educational information at the lowest possible cost;
2. To cooperate with others in the economical and cost effective development and operation of new and enhanced existing groundwater recharge facilities;
3. To actively promote and expand, as-needed, the District’s water conservation educational programs while actively supporting the conservation programs and activities of other agencies;
4. To assist others in the economical implementation and operation of recycled water recharge projects and other projects involving groundwater remediation; and
5. Actively participate, as an independent voice, in the oversight and protection of the Chino Groundwater Basin by providing additional engineering expertise to assist in the review of current groundwater management practices and the formulation of future policies.

All programs and operations of the District are developed and performed to provide the highest and most economical level of service to those reliant upon the Chino Groundwater Basin for their water supply and storage needs.

District Services

The District operates and maintains eight water conservation recharge basins which, on an average annual basis, capture and recharge a volume of water in excess of 10,400 acre-feet. Of this amount, the annual average includes 3,410 acre-feet of storm and nuisance water, 550 acre-feet of recycled water, and 6,440 acre-feet of imported water. Annually, the nominal present value of this captured and recharged water is in excess of \$8,400,000. The District continues to investigate and implement newer and more economical methods for maintaining and improving the percolation rates of its recharge facilities.

In addition to recharging the Chino Groundwater Basin, the District also provides other water conservation services to approximately 400,000 customers within its 112 square mile service area. The District owns and maintains a Water Conservation Demonstration Garden that is available to public viewing and plays host to thousands of elementary school students who visit the Garden as part of their yearly curriculum for earth sciences. To assist interested visitors in converting their water thirsty landscapes to more drought tolerant plant materials, the District offers expertise in landscape modification by providing information on plant selection and irrigation methods like those demonstrated in the Garden and the District's Wilderness Park.

California's water supply continues to be a concern due to projected population increases, warming climate trends, and on-going drought conditions. Heightened awareness has increased interest in water conservation and the use of reclaimed water for groundwater recharge, industrial uses, and irrigation. The District's recycled water conversion program offers financial assistance to convert publically owned parks and schools within the District boundaries from using potable (drinking) water to recycled water to irrigate their outdoor landscaping.

Continuing urbanization has resulted in a need to increase efforts toward more intense regional water conservation. In order to meet the current and future challenges, the District has continued to expand its water conservation education programs to inform the public and District area students of the various water conservation methods, tools, and techniques to reduce waste. To assist the residents, businesses and governmental agencies in reducing water usage, the District also provides irrigation auditing services with its "Landscape Evaluation Audit Program" (LEAP).

Chino Groundwater Basin Recharge Master Plan Update

The Chino Basin Watermaster at the direction of the San Bernardino Municipal Court, with continuing jurisdiction over the Chino Basin groundwater adjudication, developed a Recharge Master Plan (RMP) intended to optimize facilities and water resources for recharge enhancement throughout the Chino Basin. Tasked with updating the RMP, Watermaster and its stakeholder agencies, including the District, investigated alternatives to improve recharge. The District was tasked, through Watermaster's collaborative process, with investigating and developing Storm Water Recharge Opportunities to augment existing storm water supplies resulting in additional conservation of water otherwise lost to the ocean.

The District's investigation and analysis of storm water facilities, operations, hydrology and recommended improvements identified as much up to 13,000 acre feet of additional storm water capture and recharge. Based on the value of recent State Water Project entitlement sales, and accounting for reliability, the augmented storm water has a potential value of approximately \$200,000,000. Further, because the storm water enhancement identified is from local precipitation, the water quality is high and the amount represents an annual firm yield.

The development of the recommended improvements would allow agencies importing water the flexibility to recharge additional recycled water thus further augmenting the basin water supply.

Education and Partnerships

Earth Day

The 19th annual Earth Day event was, once again, a great success. Thirty-six fifth grade classes (a total of 1,138 students) attended, representing Ontario-Montclair School District, Chino Valley Unified School District, Upland Unified School District, and Alta Loma School District. Twenty exhibitors specializing in environmental issues, along with approximately 60 student volunteers from Upland Christian High School, Montclair High School's Project Earth and the California Conservation Corps assisted with this year's activities.

Education Grants

The District awarded seven Education Grant scholarships this year to local students focusing on water related majors. One scholarship was awarded for \$5,000, another for \$2,500, three for \$1,000 and two for \$500.

Poster-Art Contest

There were 459 entries for the District's 2010 annual "Theme" Poster-Art Contest this year. Winners are chosen from the K – 6th grade and 7th – 12th grade categories. This year, 28 classes from 16 schools participated. The purpose of the contest is to promote water awareness and education within the community. Winning entries are posted at the District's administrative offices.

Recycled Water Conversion Incentive Program

In addition to converting its own demonstration garden and park to recycled water, the District's Board of Directors approved conversion projects for eight public schools and 13 public parks in FY 2008/2009. In FY 2009/2010 the District expended \$37,050 for the conversion of five schools within the Ontario-Montclair School District to recycled water for landscape use and \$26,022 for the conversion of six public parks within the City of Montclair.

Landscape Evaluation Audit Program

Prior to FY 2008/2009, the District jointly applied for a Department of Water Resources (DWR) grant to establish a large landscape audit program in conjunction with the Inland Empire Utilities Agency (IEUA). In addition to the grant funding, the Board of Directors have committed to providing appropriate staffing levels and support to firmly establish a Landscape Evaluation/Audit Program (LEAP) to serve organizations within the District to reduce water usage. During FY 2009/2010, the District performed 108 landscape audits for various customer classifications (Commercial, Industrial, Institutional, Multi-Family and Single Family). Final audit reports were presented to each program participant. This report consisted of water use history, a water budget, recommendations on improving irrigation system performance, information on rebates for equipment, and on-site problems found during the audit. The LEAP program has identified a potential water savings of approximately 1,500 acre feet per year if all participants follow the recommendations given. To date, approximately 400 acre feet of water has been saved due customer participation. The LEAP program continues to be a very important program and a tremendous help to the local water agencies. These agencies have seen approximately a 15 to 20% reduction in water use from these customers.

Garden in Every School

For the sixth year, the Board of Directors approved the District's continuing participation with IEUA in the Garden in Every School program. District staff has assisted in site selection, garden design, and the installation of water conserving irrigation systems in three of the selected schools, which are located within the District's boundaries.

Public Outreach

District staff participates in a number of community events and distributes materials that encourage water conservation. In addition, the District either conducts or participates in the following conservation programs

- Water Conservation Demonstration Garden available for both guided and unguided tours for schools and the public with an annual attendance of approximately 3,000 people.
- Remotely located Drought Tolerant Landscape and Water Conservation Projects.
- The 5th Annual Landscape & Water Conservation Fair, for families and local citizens, featuring various water conservation activities and plant vendors as well as a water fair exhibition sponsored by the District; Chino Basin Watermaster; the cities of Chino, Chino Hills, Ontario, and Upland; Cucamonga Valley Water District; Fontana Water Company; Inland Empire Utilities Agency; Monte Vista Water District; Metropolitan Water District; and San Antonio Water District.
- California Friendly Landscape Training Courses for both professionals and homeowners.
- Contribution of \$10,000 toward IEUA's 12-month multi-agency community outreach ad campaign through the Inland Valley Daily Bulletin to other further its "Education Mission".
- Multi-agency Water Education Water Awareness Committee (WEWAC) including the Los Angeles County Fair WEWAC exhibit.
- Summer Science Program for the Ontario Montclair School District presentations for advanced learners.
- Participated in judging for Landscape Awards Program sponsored by Cucamonga Valley Water District.
- Participated and co-sponsored, with Rancho Santa Ana Botanical Garden, a PBS video series that emphasized drought tolerant plants, water conservation landscapes, and the steps of installation of a drought tolerant landscape for the home gardener.
- A website at www.cbwcd.org that is routinely updated with current events, information about the purpose and function of the District, and Board meeting agendas and minutes.

Operation and Maintenance Programs

Basin and facility maintenance and improvements included:

Brooks Basin

- As a result of the completion of the Ramona Street Overpass Project, the District acquired ownership of the wrought iron fence and landscape, at no cost, from the City of Montclair on the East side of Brooks Basin.
- Cleaned slopes and floor of weeds and debris.
- Recycled water received from Inland Empire Utilities Agency (IEUA).
- Contracted tree trimming.

College Heights Basins

- Mulching of the landscape strip along Monte Vista Ave. and Arrow Route.
- Imported water deliveries to both east and west basins.

Ely Basin No. 3 landscaping

- Mulched landscape areas.
- Gravel base materials placed at three driveway entrances.
- Passed recycled water inspection by City of Ontario.

Montclair Basin No. 1

- Imported water deliveries.
- Continuing development of comprehensive landscape plan for south side of basin. Montclair High School students volunteered, moved, and set rocks and cobble stones. Project will be completed in Fiscal Year 2010-2011.
- Landscape information signs installed on north side of basin.
- Contractor cleaned out Parshall Flume of mud and debris and performed surrounding weed abatement.

Montclair Basin No. 2

- Imported water deliveries.

Turner Basin/4th Street Property

- Mulched landscape areas.

Conversion of Existing Irrigation System for Park and Demonstration Garden to Recycled Water

- Cost of water reduced by 25%.

Facility Improvement Program: This project will be completed in five phases:

- Phase 1 – Park Renovation: The three-acre Wilderness Park underwent a total renovation to meet objectives in water conservation and education in Fiscal Year 2008-2009. In the current fiscal year, name signage was placed at each tree. Nine Ginkgo trees were added and two existing trees were moved to accommodate the new building and access road. Informational signage and information brochures will be completed in FY 2010/2011.
- Phase 2 – Maintenance/Multi-use Building and Road Construction: Architectural effort began in FY 2008/2009 and continued during the current fiscal year.
- Phase 3 – Administrative Building Renovation and Expansion: Architectural effort began in FY 2008/2009 and continued during the current fiscal year.
- Phase 4 – Demonstration Garden Renovation: Design and renovation will be accomplished in the future.
- Phase 5 – Parking Lot Renovation: Design and renovation will be accomplished in the future.

Internal Control Structure

District management is responsible for the establishment and maintenance of an internal financial control structure that ensures that the assets of the District are protected from loss, theft, or misuse. The internal financial control structure also ensures that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The District's internal financial 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.

Financial Planning

The District's financial plan includes the establishment of *Designated Funds* in accordance with California law and the District's policies. Designated funds are established by the Board of Directors to ensure the continued orderly replacement and/or maintenance of the District's water recharge facilities and to set aside funding for other important projects, educational activities, and an operating reserve. Additionally, the District periodically receives grants and donations from public agencies and the general public, some of which are earmarked for special projects; therefore, the District established *Restricted Funds* to account for these grants and donations individually.

The following is a list of the balances held by the District in its *Designated and Restricted Funds* on June 30, 2010:

Funds Designated for:

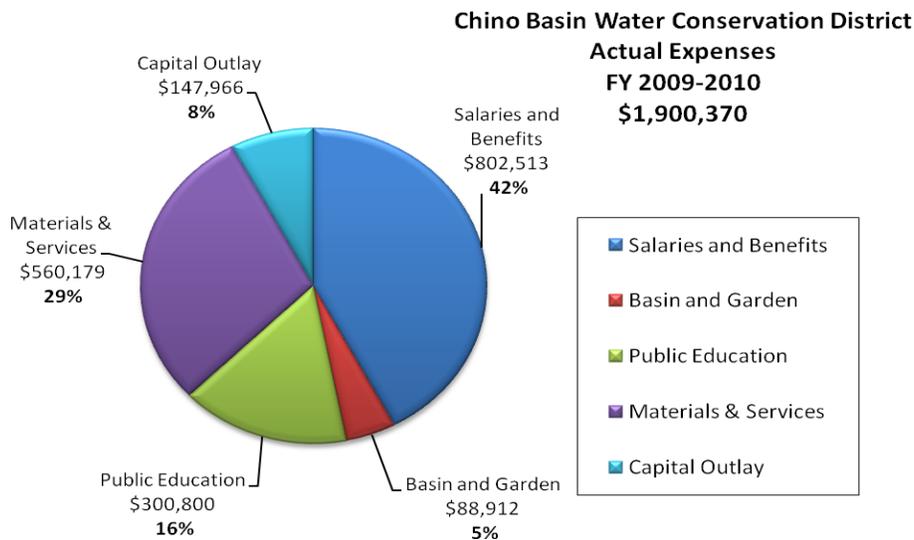
| | |
|---|-----------------------------------|
| Major Structural Failures | \$1,500,000 |
| Water Conservation Projects and Facilities Upgrades | \$11,778,000 |
| Recycled Water Conversion Allocation | \$3,993,975 |
| Operating Reserve | <u>\$2,508,921</u> |
| Total Designated Funds | <u><u>\$19,780,896</u></u> |

Investment Policy and Banking Procedures

The Board of Directors annually adopts an investment policy that conforms to state law. Additionally, the District’s “Portfolio Management Policy” (Investment Policy) utilizes prudent money management practices in establishing its guiding principles. The objectives of the Investment Policy are safety, liquidity, and yield. The District’s funds are primarily invested in the State Treasurer’s Local Agency Investment Fund (LAIF) and the Investment Trust of California (CalTRUST), a Joint Powers authority pooled investment program. In order to finance its daily activities, the District banks with Wells Fargo where it maintains its “General Checking” and “Petty Cash” accounts.

Budgetary Control

The District Board of Directors annually adopts a balanced operating and capital 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 District’s operations and capital projects. The Board of Directors monitors the budget through monthly Finance and Expenditures reports, Quarterly Investment Reports and Midyear and Year end Budget reports. For Fiscal Year 2009-2010, the District expenditures totaled \$1,900,370 (rounded to the nearest dollar). The following pie-chart reflects the expenses of the District for Fiscal Year 2009-2010.

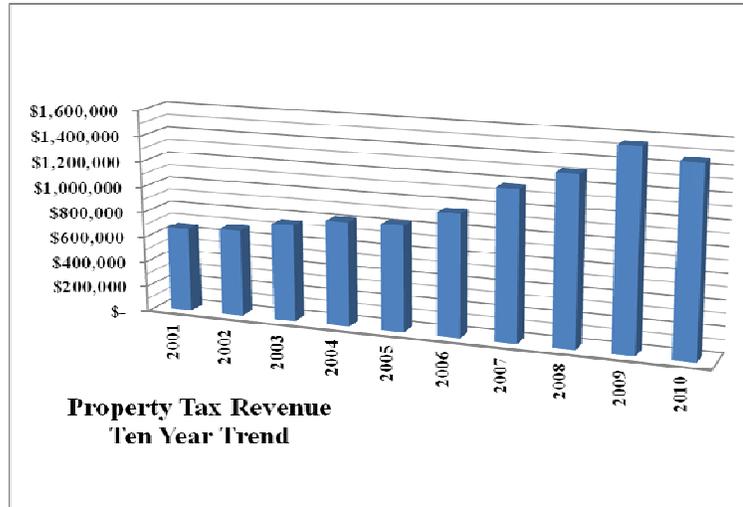


Economic Condition and Outlook

The District’s primary revenue source is derived from Proposition 13 taxes with a secondary source of revenue from interest earned from investments. Any increase or decrease in the District’s revenue is tied to an increase or decrease in these two resources.

During Fiscal Year 2009-2010, property tax revenue decreased slightly by \$87,531 while interest income decreased by \$297,166. Due to current and projected economic conditions, unemployment and home foreclosures, Proposition 13 taxes are expected to continue their decline. The following charts reflect the District's Proposition 13 property tax and local cities' Redevelopment Agency revenue for the last ten fiscal years.

| Property Tax Revenue by Fiscal Year | |
|-------------------------------------|----------------------|
| Fiscal Year Ending | Property Tax Revenue |
| 2001 | \$ 662,707.90 |
| 2002 | \$ 685,030.44 |
| 2003 | \$ 761,914.69 |
| 2004 | \$ 822,399.67 |
| 2005 | \$ 832,245.42 |
| 2006 | \$ 957,248.98 |
| 2007 | \$ 1,177,188.16 |
| 2008 | \$ 1,318,796.82 |
| 2009 | \$ 1,549,464.53 |
| 2010 | \$ 1,461,934.00 |



Throughout the fiscal year the District's two investment accounts included the following activity.

LAIF

- Interest rates declined from 1.51% to .56%
- Fair market value increased by \$3,655

CalTRUST

- Interest rates declined from .77% to .64%
- CalTrust capital gain was \$29,242

Audit and Financial Reporting

State Law requires the District 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 District's financial statements. Their unqualified Independent Auditor's Report appears in the Financial Section.

Risk Management

The District is a member of the Association of California Water Agencies Joint Power Insurance Authority (Authority). The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

Other References

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

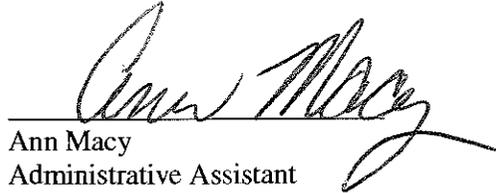
Acknowledgements

Preparation of this report was accomplished by the combined efforts of District staff. We appreciate the dedicated efforts and professionalism that our staff members bring to the District. We would also like to thank the members of the Board of Directors for their continued support in the planning and implementation of the Chino Basin Water Conservation District's fiscal policies.

Respectfully submitted,



Eunice Ulloa
General Manager/Board Secretary



Ann Macy
Administrative Assistant

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Financial Section

Independent Auditor's Report

The Honorable Board of Directors of the
Chino Basin Water Conservation District
Montclair, California

We have audited the accompanying financial statements of the Chino Basin Water Conservation District (District) as of and for the year ended June 30, 2010, which collectively comprise the *District's* basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 governmental activities of the Chino Basin Water Conservation District as of June 30, 2010, thereof 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 September 20, 2010, on our consideration of the District'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 audit.

Management's discussion and analysis and the budgetary comparison information are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied 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 or express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

September 20, 2010
Cypress, California

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Chino Basin Water Conservation District
Management's Discussion and Analysis
For the Year Ended June 30, 2010

As management of the Chino Basin Water Conservation District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities and performance of the District for the fiscal year ended June 30, 2010. Please read it in conjunction with additional information that we have furnished in our letter of transmittal and the accompanying basic financial statements, which follow this section.

Financial Highlights

- The District's net assets decreased 0.5% or \$133,536 to \$22,914,153 in 2010 as a result of the years' operations and increased 1.03% or \$235,667 to \$23,047,689 in 2009.
- The District's property tax revenues decreased by 5.7% or \$87,531 in 2010 and increased by 17.49% or \$230,668 in 2009.
- Total expenses for the District's programs were less than the 2010 revised budget by \$114,296 or 5.7% primarily due to reduced capital expenditures.

Using This Financial Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all of the District'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 District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Activities. This statement measures the success of the District's operations over the past year and can be used to determine the District's profitability and credit worthiness.

Government-wide Financial Statements

Statement of Net Assets and Statement of Activities

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting 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 District's *net assets* and changes in them. Think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors; however, such as changes in the District's property tax base and the types of grants the District applies for to assess the *overall health* of the District.

Chino Basin Water Conservation District
Management's Discussion and Analysis
For the Year Ended June 30, 2010

Governmental Funds Financial Statements

Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Condensed Statements of Net Assets

| | 2010 | 2009 | Change |
|----------------------------------|----------------------|-------------------|------------------|
| Assets: | | | |
| Current assets | \$ 19,747,737 | 20,077,128 | (329,391) |
| Non-current assets | 108,149 | - | 108,149 |
| Capital assets, net | 3,117,994 | 3,048,296 | 69,698 |
| Total assets | 22,973,880 | 23,125,424 | (151,544) |
| Liabilities: | | | |
| Current liabilities | 59,727 | 77,735 | (18,008) |
| Total liabilities | 59,727 | 77,735 | (18,008) |
| Net assets: | | | |
| Net investment in capital assets | 3,117,994 | 3,048,296 | 69,698 |
| Unrestricted | 19,796,159 | 19,999,393 | (203,234) |
| Total net assets | \$ 22,914,153 | 23,047,689 | (133,536) |

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets of the District exceeded liabilities by \$22,914,153 as of June 30, 2010.

A major portion of the District's net assets (13.6%) reflects its investment in capital assets (net of accumulated depreciation); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to apply and promote water conservation techniques within its service area; consequently, these assets are *not* available for future spending. At the end of fiscal year 2010, the District shows a positive balance in its unrestricted net assets of \$19,796,159. See note 6 for the amount of spendable net assets that may be utilized in future years.

Chino Basin Water Conservation District
Management's Discussion and Analysis
For the Year Ended June 30, 2010

Condensed Statements of Activities

| | <u>2010</u> | <u>2009</u> | <u>Change</u> |
|--|----------------------|-------------------|------------------|
| Expenses: | | | |
| Water conservation: | | | |
| Salaries and benefits | \$ 802,513 | 871,146 | (68,633) |
| Basin and garden maintenance | 88,912 | 260,807 | (171,895) |
| Public education | 300,800 | 114,773 | 186,027 |
| Materials and services | 560,179 | 521,106 | 39,073 |
| Depreciation | 78,268 | 79,855 | (1,587) |
| Total expenses | <u>1,830,672</u> | <u>1,847,687</u> | <u>(17,015)</u> |
| Program revenues: | | | |
| Charges for services – landscape evaluation audits | 7,200 | - | 7,200 |
| Charges for services – rent – basin space | 3,692 | 5,607 | (1,915) |
| Operating grants and contributions | 63,349 | 41,729 | 21,620 |
| Total program revenues | <u>74,241</u> | <u>47,336</u> | <u>26,905</u> |
| Net program expense | <u>1,756,431</u> | <u>1,800,351</u> | <u>(43,920)</u> |
| General revenues: | | | |
| Property taxes and assessments | 1,461,934 | 1,549,465 | (87,531) |
| Investment earnings | 160,178 | 486,553 | (326,375) |
| Other | 783 | - | 783 |
| Total general revenues | <u>1,622,895</u> | <u>2,036,018</u> | <u>(413,123)</u> |
| Change in net assets | <u>(133,536)</u> | <u>235,667</u> | <u>(369,203)</u> |
| Net assets – beginning of period | <u>23,047,689</u> | <u>22,812,022</u> | <u>235,667</u> |
| Net assets – end of period | <u>\$ 22,914,153</u> | <u>23,047,689</u> | <u>(133,536)</u> |

The statement of activities shows how the government's net assets changes during the fiscal year. In the case of the District, net assets decreased by \$133,536 during the fiscal year ended June 30, 2010.

Contributing to the decrease in net assets in 2010 from 2009 levels is a 67% or \$326,375 decrease in interest earnings related to lower interest rates and a 5.7% or \$87,531 decrease in property tax revenues.

Governmental Funds Financial Analysis

The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unrestricted fund balance* may serve as a useful measure of the government's net resources for spending at the end of the fiscal year.

As of June 30, 2010, the District's General Fund reported a fund balance of \$19,713,008. An amount of \$19,672,747 constitutes the District's *unreserved fund balance*, which is available for spending or designation at the District's discretion. The amount of \$19,672,747 has been designated for water conservation projects at June 30, 2010. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to pay contract requirements of \$15,263 and compensated absences of \$24,998. See note 6 in the notes to the basic financial statements for further information.

Chino Basin Water Conservation District
Management's Discussion and Analysis
For the Year Ended June 30, 2010

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget was an increase of \$214,064, which is primarily due to the anticipated decrease in expenditures. The final budgeted expenditures for the General Fund at year-end were \$114,296 less than actual incurred. This variance is principally due to amounts budgeted for capital outlay expenditures that were not purchased 2010. Actual revenues were higher than the anticipated budget amount by \$65,513 and were primarily due to an unanticipated gain on investments of \$32,978 and revenues from property taxes of \$32,238.

Capital Asset Administration

Changes in capital assets for the year were as follows:

| | <u>Balance 2009</u> | <u>Additions</u> | <u>Deletions/ Transfers</u> | <u>Balance 2010</u> |
|-------------------------------|-------------------------|------------------|---------------------------------|-------------------------|
| Non-depreciable assets: | | | | |
| Land | \$ 1,486,121 | - | - | 1,486,121 |
| Construction-in-process | 130,213 | 147,966 | - | 278,179 |
| Total non-depreciable assets | <u>1,616,334</u> | <u>147,966</u> | <u>-</u> | <u>1,764,300</u> |
| Depreciable assets: | | | | |
| Buildings and improvements | 2,539,809 | - | - | 2,539,809 |
| Equipment and furniture | 19,219 | - | - | 19,219 |
| Vehicles | 117,593 | - | - | 117,593 |
| Total depreciable assets | <u>2,676,621</u> | <u>-</u> | <u>-</u> | <u>2,676,621</u> |
| Accumulated depreciation | <u>(1,244,659)</u> | <u>(78,268)</u> | <u>-</u> | <u>(1,322,927)</u> |
| Total depreciable assets, net | <u>1,431,962</u> | <u>(78,268)</u> | <u>-</u> | <u>1,353,694</u> |
| Total capital assets, net | <u>\$ 3,048,296</u> | | | <u>3,117,994</u> |

At the end of fiscal year 2010, the District's investment in capital assets amounted to \$3,117,994 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment and furniture, vehicles and construction-in-process. Major capital assets additions during the year include preliminary design and plans for the addition to the District's main building in the amount of \$93,172 and additions and improvements to the District's maintenance building and road in the amount of \$34,165.

Requests for Information

The District's basic financial statements are designed to present users with a general overview of the District's finances and to demonstrate the Districts' accountability. If you have any questions about the report or need additional information, please contact the Eunice Ulloa, General Manager, Chino Basin Water Conservation District, P.O. Box 2400, Montclair, California, 91763-0900.

Basic Financial Statements

Chino Basin Water Conservation District
Statement of Net Assets
June 30, 2010
(With Comparative Amounts for June 30, 2009)

| | 2010 | 2009 |
|--|----------------------|-------------------|
| Current assets: | | |
| Cash and cash equivalents (note 2) | \$ 19,626,327 | 19,934,788 |
| Accrued interest receivable | 20,864 | 52,866 |
| Property taxes receivable | 85,283 | 73,994 |
| Prepaid expenditures and other (note 3) | 15,263 | 15,480 |
| Total current assets | 19,747,737 | 20,077,128 |
| Non-current assets: | | |
| Note receivable – property tax from state (note 4) | 108,149 | - |
| Capital assets, net (note 5) | 3,117,994 | 3,048,296 |
| Total assets | 22,973,880 | 23,125,424 |
| Current liabilities: | | |
| Accounts payable and accrued expenses | 23,517 | 41,861 |
| Accrued wages | 11,212 | 8,286 |
| Compensated absences (note 6) | 24,998 | 27,588 |
| Total liabilities | 59,727 | 77,735 |
| Net assets: | | |
| Net investment in capital assets | 3,117,994 | 3,048,296 |
| Unrestricted (note 7) | 19,796,159 | 19,999,393 |
| Total net assets | \$ 22,914,153 | 23,047,689 |

See accompanying notes to the basic financial statements

Chino Basin Water Conservation District
Statement of Activities
For the Year Ended June 30, 2010
(With Comparative Amounts For the Year Ended June 30, 2009)

| | 2010 | 2009 |
|--|------------------|------------------|
| Expenses: | | |
| Water conservation: | | |
| Salaries and benefits | \$ 802,513 | 871,146 |
| Basin and garden maintenance | 88,912 | 260,807 |
| Public education | 300,800 | 114,773 |
| Materials and services | 560,179 | 521,106 |
| Depreciation | 78,268 | 79,855 |
| Total expenses | 1,830,672 | 1,847,687 |
| Program revenues: | | |
| Charges for services – landscape evaluation audits | 7,200 | - |
| Charges for services – rent – basin space | 3,692 | 5,607 |
| Operating grants and contributions | 63,349 | 41,729 |
| Total program revenues | 74,241 | 47,336 |
| Net program expense | 1,756,431 | 1,800,351 |
| General revenues: | | |
| Property taxes | 1,461,934 | 1,549,465 |
| Investment earnings | 160,178 | 486,553 |
| Other | 783 | - |
| Total general revenues | 1,622,895 | 2,036,018 |
| Change in net assets | (133,536) | 235,667 |
| Net assets – beginning of period | 23,047,689 | 22,812,022 |
| Net assets – end of period | \$ 22,914,153 | 23,047,689 |

See accompanying notes to the basic financial statements

Chino Basin Water Conservation District
Reconciliation of the Balance Sheet of Governmental
Type Funds to the Statement of Net Assets
June 30, 2010

| | General Fund | Reclassifications & Eliminations | Statement of Net Assets |
|--|-------------------------|---|------------------------------------|
| Current assets: | | | |
| Cash and cash equivalents | \$ 19,626,327 | - | 19,626,327 |
| Accrued interest receivable | 20,864 | - | 20,864 |
| Property taxes receivable | 85,283 | - | 85,283 |
| Prepaid expenditures | 15,263 | - | 15,263 |
| Total current assets | 19,747,737 | - | 19,747,737 |
| Non-current assets: | | | |
| Note receivable – property tax from state | - | 108,149 | 108,149 |
| Capital assets, net | - | 3,117,994 | 3,117,994 |
| Total non-current assets | - | 3,226,143 | 3,226,143 |
| Total assets | 19,747,737 | 3,226,143 | 22,973,880 |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | 23,517 | - | 23,517 |
| Accrued wages | 11,212 | - | 11,212 |
| Compensated absences | - | 24,998 | 24,998 |
| Total liabilities | 34,729 | 24,998 | 59,727 |
| Fund balance: | | | |
| Reserved for prepaid expenditures | 15,263 | (15,263) | - |
| Reserved for compensated absences | 24,998 | (24,998) | - |
| Unreserved: | | | |
| Designated for water conservation projects | 19,672,747 | (19,672,747) | - |
| Total fund balance | 19,713,008 | (19,713,008) | - |
| Total liabilities and fund balance | \$ 19,747,737 | | |
| Net assets: | | | |
| Net investment in capital assets | | 3,117,994 | 3,117,994 |
| Unrestricted | | 19,796,159 | 19,796,159 |
| Total net assets | | 22,914,153 | 22,914,153 |

Reconciliation:

Fund balance of governmental funds \$ 19,713,008

Amounts reported for governmental activities in the statement of net assets are different because:

Long-term notes receivable due to the District are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.

However, the statements of net assets includes those assets among the assets of the District as a whole. 108,149

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. However, the statement of net assets includes those capital assets among the assets of the District as a whole. 3,117,994

Long-term liabilities applicable to the District are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities both current and long-term, are reported in the statement of net assets as follows:

Compensated absences (24,998)

Net assets of governmental activities \$ 22,914,153

Chino Basin Water Conservation District
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Type Funds to the Statement of Activities
For the Year Ended June 30, 2010

| | General Fund | Reclassifications & Eliminations | Statement of Activities |
|--|-------------------------|---|------------------------------------|
| Expenditures/Expenses: | | | |
| Water conservation: | | | |
| Salaries and benefits | \$ 805,103 | (2,590) | 802,513 |
| Basin and garden maintenance | 88,912 | - | 88,912 |
| Public education | 300,800 | - | 300,800 |
| Materials and services | 560,179 | - | 560,179 |
| Capital outlay | 147,966 | (147,966) | - |
| Depreciation | - | 78,268 | 78,268 |
| Total expenditures/expenses | 1,902,960 | (72,288) | 1,830,672 |
| Program revenues: | | | |
| Charges for services – landscape evaluation audits | 7,200 | - | 7,200 |
| Charges for services – rent – basin space | 3,692 | - | 3,692 |
| Operating grants and contributions | 63,349 | - | 63,349 |
| Total program revenues | 74,241 | - | 74,241 |
| Net program expense | | | 1,756,431 |
| General revenues: | | | |
| Property taxes | 1,353,785 | 108,149 | 1,461,934 |
| Investment earnings | 160,178 | - | 160,178 |
| Other | 783 | - | 783 |
| Total general revenues | 1,514,746 | 108,149 | 1,622,895 |
| Total revenues | 1,588,987 | 108,149 | |
| Deficiency of revenues under expenditures | (313,973) | 313,973 | - |
| Change in net assets | - | (133,536) | (133,536) |
| Fund balance/Net assets – beginning of period | 20,026,981 | - | 23,047,689 |
| Fund balance/Net assets – end of period | \$ 19,713,008 | 180,437 | 22,914,153 |

Reconciliation:

Net changes in fund balance of governmental fund \$ (313,973)

Amounts reported for governmental activities in the statement of activities are different because:

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenses in governmental funds as follows:

Net change in compensated absences for the current period 2,590

Some revenues reported in the statement of activities are not available as current financial resources and therefore are not reported as revenues in governmental funds as follows:

Note receivable – property tax from the state 108,149

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital outlay 147,966
 Depreciation expense (78,268)

Change in net assets of governmental activities \$ (133,536)

See accompanying notes to the basic financial statements

Chino Basin Water Conservation District
Notes to the Basic Financial Statements
June 30, 2010

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Chino Basin Water Conservation District (District) was established in 1949 to protect the Chino Groundwater Basin in order to guarantee that current and future water needs will be met. The District's service area includes the cities of Chino, Chino Hills, Montclair, Ontario, Rancho Cucamonga and Upland. The District leads these cities in water conservation education, concentrating on water-efficient landscaping and water conserving behavior at both the residential and institutional levels. The District also owns and manages several percolation basins to assist in recharging the Chino Groundwater Basin. Administration and operation of the District is guided by a duly elected and/or appointed seven member Board of Directors.

B. Basis of Accounting and Measurement Focus

The *basic financial statements* of the District are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Financial reporting is based upon all GASB pronouncements, as well as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principals Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements.

Government-wide Financial Statements

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the District are to be reported in three categories, if applicable: 1) charges for services, 2) operating grants and contributions, and, 3) capital grants and contributions. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grant and contributions include revenues restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Governmental Fund Financial Statements

These statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. Incorporated into these statements is a schedule to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-wide Financial Statements. The District has presented its General Fund, as its major fund, in this statement to meet the qualifications of GASB Statement No. 34.

Chino Basin Water Conservation District
Notes to the Basic Financial Statements, continued
June 30, 2010

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

B. Basis of Accounting and Measurement Focus, continued

Governmental funds are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60-days after year-end) are recognized when due. The primary sources susceptible to accrual for the district are property tax, interest earnings, investment revenue and operating and capital grant revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, exceptions to this rule include principal and interest on debt, which are recognized when due.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

The District reports the following major governmental fund:

General Fund – is a government's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund when necessary.

C. Assets, Liabilities and Net Assets

1. Use of Estimates

The preparation of 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 District equity during the reporting period. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

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

3. Investments and Investment Policy

The District has adopted an investment policy directing the Treasurer to deposit funds in financial institutions. Investments are to be made in the following areas:

- Securities of the U.S. government or its agencies
- Certificates-of-deposit
- CalTRUST
- State of California Local Area Investment Fund (LAIF)

CalTRUST is a joint Powers Agency Authority created by local public agencies and is governed by a Board of Trustees made up of experienced local agency Treasures and investment officers. Investments in securities of the U.S. government or its agencies are carried at fair value based on quoted market prices.

Chino Basin Water Conservation District
Notes to the Basic Financial Statements, continued
June 30, 2010

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

C. Assets, Liabilities and Net Assets, continued

3. Investments and Investment Policy, continued

LAIF is regulated by California Government Code (Code) Section 16429 and is under the management of the State of California Treasurer's Office with oversight provided by the Local Agency Investment Advisory Board.

LAIF is carried at fair value based on the value of each participating dollar as provided by LAIF. The fair value of the District's position in the LAIF is the same as the value of its pooled share. Investments in securities of the U.S. government or its agencies are carried at fair value based on quoted market prices. Bank balances are secured by the pledging of a pool of eligible securities to collateralize the District's deposits with the bank in accordance with the Code.

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

4. Prepaid Expenses

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

5. Capital Assets

Capital assets are recorded in the government-wide financial statements. Included in capital assets are land, buildings and improvements, equipment and furniture, vehicles and construction-in-process. District policy has set the capitalization threshold for reporting capital assets at \$5,000. Donated assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and as assets in the government-wide financial statements to the extent the District's capitalization threshold is met. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Buildings and building improvements – 20 to 75 years
- Equipment and furniture – 3 to 20 years
- Vehicles – 5 years

6. Compensated Absences

It is the District's policy to allow vacation pay of between ten (10) and twenty (20) working days per year of employment. Vacation time may be accumulated from year to year. Employees are allowed to accumulate and carry forward a maximum of two hundred (200) hours. Sick leave is granted at a rate of ten days per calendar year and may be used for sickness, injury or disability. Sick leave is accumulated beyond the year in which it is earned up to a maximum of twenty-two (22) days.

Chino Basin Water Conservation District
Notes to the Basic Financial Statements, continued
June 30, 2010

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

C. Assets, Liabilities and Net Assets, continued

7. Net Assets

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

- **Net Investment in Capital Assets** – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt outstanding 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 *net investment in capital assets*.

8. Property Taxes

The County of San Bernardino Assessor’s Office assesses all real and personal property within the County each year. The County of San Bernardino Tax Collector’s Offices bills and collects the District’s share of property taxes and assessments. The County of San Bernardino Treasurer’s Office remits current and delinquent property tax collections to the District throughout the year. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

Property tax revenue at year-end is related to property taxes collected by the County of San Bernardino, which have not been transferred to the District as of June 30.

(2) Cash and Investments

Cash and cash equivalents as of June 30, consist of the following:

| | 2010 |
|---|---------------|
| Cash on hand | \$ 990 |
| Deposits held with financial institutions | 6,958 |
| Deposits held with Cal Trust | 7,349,911 |
| Deposits held with California Local Agency Investment Fund (LAIF) | 12,268,468 |
| | \$ 19,626,327 |

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

| | 2010 |
|---|-------------|
| Deposits held with California Local Agency Investment Fund (LAIF) | 203 days |
| Deposits held with Cal Trust - Short Term Fund | 190 days |

Chino Basin Water Conservation District
Notes to the Basic Financial Statements, continued
June 30, 2010

(2) Cash and Investments, continued

Authorized Deposits and Investments

Under provisions of the District's investment policy, and in accordance with Section 53601 of the California Government Code, the District may invest in certain types of investments as listed in Note 1(C)(3) to the financial statements.

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 District'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. The District had deposits with a bank balance of \$95,262 as of June 30, 2010. Of the bank balances, up to \$250,000 is federally insured per institution and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District'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 District's investment policy contain 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).

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity an investment has the greater its fair value has sensitivity to changes in market interest rates. The District's investment policy follows the California Government Code as it relates to limits on investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

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; however, LAIF is not rated.

Concentration of Credit Risk

The District's investment policy contains various limitations on the amounts that can be invested in any one governmental agency or non-governmental issuer as stipulated by the California Government Code. The District's deposit portfolio with a government-sponsored agency, LAIF, is 63% of the District's total depository and investment portfolio. There were no investments in any one non-governmental issuer that represent 5.0% or more of the District's total investments.

Chino Basin Water Conservation District
Notes to the Basic Financial Statements, continued
June 30, 2010

(3) Prepaid Expenses

The District entered into an advance dues deposit agreement with the Association of California Water Agencies to enable the Association to fund the purchase of its administrative facility. Interest of 7% to 9% per annum, together with 2% to 5% of the initial advance deposit of \$20,000, will be applied to the annual dues. The balance of the deposit at June 30, 2010 is \$11,046 in addition to an advance deposit of \$1,507 for a total of \$12,553. Other prepaid items in the amount of \$2,710 comprise the total of \$15,263.

(4) Note Receivable – Property Tax from State

Under the provisions of the State of California Proposition 1A and as part of the 2010 fiscal year State of California budget package passed by the California State Legislature on July 28, 2009, the State of California borrowed 8.0% of the amount of property tax revenue apportioned to cities, counties and special districts. The State of California is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California State Legislature may consider only one additional borrowing within a ten-year period. The amount of the borrowing pertaining to the District was \$108,149. The borrowing by the State of California was recognized as a note receivable in the accompanying financial statements.

(5) Capital Assets

Major capital assets additions during the year include preliminary design and plans for the addition to the District's main building in the amount of \$93,172 and additions and improvements to the District's maintenance building and road in the amount of \$34,165.

Changes in capital assets for the year were as follows:

| | <u>Balance 2009</u> | <u>Additions</u> | <u>Deletions/ Transfers</u> | <u>Balance 2010</u> |
|--------------------------------|-------------------------|------------------|---------------------------------|-------------------------|
| Non-depreciable assets: | | | | |
| Land | \$ 1,486,121 | - | - | 1,486,121 |
| Construction-in-process | 130,213 | 147,966 | - | 278,179 |
| Total non-depreciable assets | <u>1,616,334</u> | <u>147,966</u> | <u>-</u> | <u>1,764,300</u> |
| Depreciable assets: | | | | |
| Buildings and improvements | 2,539,809 | - | - | 2,539,809 |
| Equipment and furniture | 19,220 | - | - | 19,220 |
| Vehicles | 117,593 | - | - | 117,593 |
| Total depreciable assets | <u>2,676,622</u> | <u>-</u> | <u>-</u> | <u>2,676,622</u> |
| Accumulated depreciation: | | | | |
| Buildings and improvements | (1,151,158) | (61,001) | - | (1,212,159) |
| Office equipment and furniture | (15,734) | (3,486) | - | (19,220) |
| Vehicles and implements | (77,768) | (13,781) | - | (91,549) |
| Total accumulated depreciation | <u>(1,244,660)</u> | <u>(78,268)</u> | <u>-</u> | <u>(1,322,928)</u> |
| Total depreciable assets, net | <u>1,431,962</u> | <u>(78,268)</u> | <u>-</u> | <u>1,353,694</u> |
| Total capital assets, net | <u>\$ 3,048,296</u> | | | <u>3,117,994</u> |

Chino Basin Water Conservation District
Notes to the Basic Financial Statements, continued
June 30, 2010

(6) Compensated Absences

Compensated absences comprise unpaid vacation leave, sick leave and compensating time off which is accrued as earned. The District's liability for compensated absences is determined annually.

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

| <u>Balance</u> <u>2009</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>2010</u> | <u>Due Within</u> <u>One Year</u> |
|-------------------------------|------------------|------------------|-------------------------------|--------------------------------------|
| \$ 27,587 | 21,934 | (24,523) | 24,998 | 24,998 |
| <u>Balance</u> <u>2008</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>2009</u> | <u>Due Within</u> <u>One Year</u> |
| \$ 17,086 | 23,651 | (13,150) | 27,587 | 27,587 |

(7) Unrestricted Net Assets

Unrestricted net assets are comprised of the following:

| | <u>2010</u> |
|---|----------------------|
| Non-spendable net assets: | |
| Prepaid expenditures and other | \$ 15,263 |
| Total non-spendable net assets | <u>15,263</u> |
| Spendable net assets designated for the following purposes: | |
| Major structural failures | 1,500,000 |
| Water conservation projects and facilities upgrades | 11,778,000 |
| Recycled water conservation contribution program | 3,993,975 |
| Operating reserve | <u>2,508,921</u> |
| Total spendable net assets - designated | <u>19,780,896</u> |
| Total unrestricted net assets | <u>\$ 19,796,159</u> |

(8) Defined Contribution Plan

Plan Description

The District 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 District. Copies of CalPERS annual financial report may be obtained from their executive Office: 400 P Street, Sacramento, CA, 95814.

Chino Basin Water Conservation District
Notes to the Basic Financial Statements, continued
June 30, 2010

(8) Defined Contribution Plan, continued

Funding Policy

The contribution rate for plan members in the CalPERS 2.0 % at 60 Risk Pool Retirement Plan is 7% of their annual covered salary. The District makes these contributions required of District employees on their behalf and for their account. Also, the District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rate are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2010, 2009 and 2008 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 2010, 2009 and 2008, the District's annual contributions for the CalPERS plan were equal to the District's required and actual contributions for each fiscal year as follows:

| <u>Fiscal Year</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> | <u>APC Percentage of Payroll</u> |
|--------------------|----------------------------------|--------------------------------------|-------------------------------|----------------------------------|
| 2008 | \$ 60,035 | 100% | - | 8.456% |
| 2009 | 83,518 | 100% | - | 7.971% |
| 2010 | 78,382 | 100% | - | 7.526% |

(9) Risk Management

Joint Powers Insurance Authority

The District is a participating member of the Association of California Water Agencies/Joint Powers Insurance Authority (ACWA/JPIA). ACWA/JPIA is a self-insured association of independent water agencies. Association members have pooled funds to be self-insured for liabilities up to \$1,000,000 per occurrence. The ACWA/JPIA also purchases excess insurance to cover each member for liabilities to \$59 million per occurrence. The accounts and records of ACWA/JPIA are audited by an independent certified public accounting firm and can be obtained at ACWA/JPIA's main office located at 5620 Birdcage St., #200, Citrus Heights, CA 95610.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2010, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 54

In February 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This statement is not effective for this District until the fiscal year ended June 30, 2011. This statement is not expected to have a significant impact on the presentation of the District's financial statements.

Chino Basin Water Conservation District
Notes to the Basic Financial Statements, continued
June 30, 2010

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

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 December 15, 2011. The impact of the implementation of this Statement to the District'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 December 15, 2011. The impact of the implementation of this Statement to the District's financial statements has not been assessed at this time.

(11) Contingencies

Grant Awards

Grant funds received by the District 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 District believes that such disallowances, if any, would not be significant.

Litigation

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

Required Supplementary Information

Chino Basin Water Conservation District
Budgetary Comparison Schedule – General Fund
For the Year Ended June 30, 2010

| | <u>Adopted Original Budget</u> | <u>Board Approved Changes</u> | <u>Revised Budget</u> | <u>Actual Budgetary Basis</u> | <u>Variance Positive (Negative)</u> |
|--|--|---------------------------------------|---------------------------|---------------------------------------|---|
| Expenditures/Expenses: | | | | | |
| Water conservation: | | | | | |
| Salaries and benefits | \$ 1,043,650 | (239,625) | 804,025 | 805,103 | (1,078) |
| Basin and garden maintenance | 209,350 | (111,995) | 97,355 | 88,912 | 8,443 |
| Public education | 281,325 | 38,314 | 319,639 | 300,800 | 18,839 |
| Materials and services | 516,990 | 51,413 | 568,403 | 560,179 | 8,224 |
| Capital outlay | 260,778 | (32,944) | 227,834 | 147,966 | 79,868 |
| Total expenditures/expenses | <u>2,312,093</u> | <u>(294,837)</u> | <u>2,017,256</u> | <u>1,902,960</u> | <u>114,296</u> |
| Program revenues: | | | | | |
| Charges for services – landscape evaluation audits | - | - | - | 7,200 | 7,200 |
| Charges for services – rent – basin space | 5,500 | - | 5,500 | 3,692 | (1,808) |
| Operating grants and contributions | 4,500 | 58,849 | 63,349 | 63,349 | - |
| Total program revenues | <u>10,000</u> | <u>58,849</u> | <u>68,849</u> | <u>74,241</u> | <u>5,392</u> |
| General revenues: | | | | | |
| Property taxes | 1,321,547 | - | 1,321,547 | 1,353,785 | 32,238 |
| Investment earnings | 272,700 | (145,500) | 127,200 | 160,178 | 32,978 |
| Other | - | 5,878 | 5,878 | 783 | (5,095) |
| Total general revenues | <u>1,594,247</u> | <u>(139,622)</u> | <u>1,454,625</u> | <u>1,514,746</u> | <u>60,121</u> |
| Total revenues | <u>1,604,247</u> | <u>(80,773)</u> | <u>1,523,474</u> | <u>1,588,987</u> | <u>65,513</u> |
| Deficiency of revenues under expenditures | <u>(707,846)</u> | <u>214,064</u> | <u>(493,782)</u> | <u>(313,973)</u> | <u>(48,783)</u> |
| Fund balance – beginning of period | <u>19,590,521</u> | | <u>18,107,495</u> | <u>20,026,981</u> | |
| Fund balance – end of period | <u>\$ 18,882,675</u> | | <u>17,613,713</u> | <u>19,713,008</u> | |

Notes to Required Supplementary Information

(1) Budgets and Budgetary Data

The District follows specific procedures in establishing the budgetary data reflected in the financial statements. Each April, the District's General Manager prepares and submits an operating budget to the Board of Directors for the General Fund no later than June of each year. The basis used to prepare the budget does not differ substantially from the modified accrual basis of accounting. The adopted budget becomes operative on July 1. The Board of Directors must approve all supplemental appropriations to the budget and transfers between major accounts. The District's annual budget is adopted for the General Fund at the detailed expenditure-type level.

The District presents a comparison of the annual budget to actual results for the General Fund at the functional expenditure-type major object level for financial reporting purposes. The budgeted expenditure amounts represent the adopted budget adjusted for Board approved supplemental appropriations. The budgeted revenue amounts represent the adopted budget as originally approved. The Board approved supplemental appropriations of revenues and expenditures of \$214,064 during the year ended June 30, 2010.

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Report on Internal Controls and Compliance

**Independent Auditor's Report on Internal Controls 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 Water Conservation District
Montclair, California

We have audited the basic financial statements of the Chino Basin Water Conservation District (District) as of and for the year ended June 30, 2010, and have issued our report thereon dated September 20, 2010. 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 District'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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 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.

September 20, 2010
Cypress, California