Comprehensive Annual Financial Report

Fiscal Year Ended
June 30, 2018

Ontario, California
Comprehensive Annual Financial Report

Fiscal Year Ended
June 30, 2018

Prepared by Finance Staff of Chino Basin Desalter Authority
CHINO BASIN DESALTER AUTHORITY
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018

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January 10, 2019

To the Chairperson of the Chino Basin Desalter Authority Board, Members of the Board, and Joint Powers Authority members of the Chino Basin Desalter Authority:

The Annual Financial Report of the Chino Basin Desalter Authority (herein after referred to as the Authority) is hereby submitted for the fiscal year ended June 30, 2018. State and local ordinances and statutes require that the Authority annually issue a report on its financial condition and activities, and that an independent audit firm of certified public accountants audit this report.

In addition, generally accepted accounting principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements. The narrative section is called Management’s Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A, providing significant financial highlights. The Authority’s MD&A can be found immediately following the report of the independent audit firm.

Included within this letter are several sections that provide important information about the operations and economic conditions of the Authority. These sections are denoted as follows:

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</tr>
<tr>
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</tr>
</tbody>
</table>

Management Responsibility for Financial Information

The preparation of Fiscal Year 2017/18 Annual Financial Report was prepared by the CDA Finance Staff. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the Authority’s management. To the best of management’s knowledge and belief, the enclosed information is accurate in all material respects, and is reported in a manner designed to present fairly the financial condition and results of operations of the Authority. Disclosures are presented to enable the reader to gain an understanding of the Authority’s financial activities.
SECTION A

AUTHORITY HISTORY, LOCAL ECONOMIC CONDITION AND OUTLOOK

Entity Formation

The Chino Basin Desalter Authority (CDA) was formed in September 2001 as a Joint Exercise of Powers Authority (JPA) to manage and operate the Chino Desalter No. 1 and the Chino Desalter No. 2. The original JPA is comprised of the cities of Chino, Chino Hills, Ontario, Norco, Jurupa Community Services District (JCSD), Santa Ana River Water Company and Inland Empire Utilities Agency (IEUA). In August of 2008, Western Municipal Water District was added as an additional member of CDA.

There are eight Directors, one from each entity. As an ex-officio member of the JPA, IEUA participates in all discussions concerning issues before the Board of Directors. Per the JPA formation agreement, IEUA has appointed one of its Board of Directors to sit on the CDA Board as a non-voting member.

In February 2002 the CDA finalized the purchase of the Chino Desalter No. 1, and all related assets and liabilities, from the Santa Ana Watershed Project Authority (SAWPA). The purchase price was $64,489,532. To facilitate the purchase, the Authority issued variable rate revenue bonds in the amount of $100,000,000. Bond proceeds in excess of the acquisition price provided partial funding for the design and construction of the Chino Desalter No. 1 expansion, to 14,560 acre-feet per year, and the design and construction of Chino Desalter No. 2, to produce 11,200 acre-feet per year. On June 1, 2004, the Authority issued Adjustable Rate Desalter Revenue Refunding Bonds, Series 2004A-1 and 2 for a total of $110,500,000. The purpose of the issuance was twofold: 1) to refund all of the outstanding $100,000,000 2002 A Variable Rate Bonds; and 2) to provide additional funding to complete the Chino No. 1 Expansion and Chino No. 2 Desalter construction projects. The balance of the funding for the design and construction of the additional Desalter facility was provided by $48 million in Proposition 13 grant administered by the Santa Ana Watershed Project Authority, (SAWPA) through a contract with the State Water Resources Control Board. On April 1, 2008, the Authority issued Desalter Revenue Refunding Bonds, Series 2008A for a total of $89,440,000. The purpose of this issuance was to refinance the Adjustable Rate Desalter Refunding Bonds, Series 2004A-1 & 2.

Chino Desalter No. 1, located in the southern part of the city of Chino, started operating in September 2000. The original design of Chino Desalter No. 1 calls for 9,200 acre-feet of desalinated water. The objectives of the project include the production, cleanup, and the distribution of recovered water for potable consumption. Chino Desalter No. 1 meets the needs of additional residents in the west end of San Bernardino County and Riverside County. Chino Desalter No. 2, located in the City of Jurupa Valley, started operating in the summer of 2006, with a design capacity of 10,400 acre-feet.
To the Chairperson and Members of
The Board of Chino Basin Desalter Authority

AUTHORITY HISTORY, LOCAL ECONOMIC CONDITION AND OUTLOOK (continued):

Entity Formation (continued):

The admission of Western Municipal Water District (WMWD) as a CDA member ties in with the construction of Chino Basin Desalter Phase 3 Expansion Project. The expansion project, a Phase 3 approach to the desalination of groundwater basin, also supplements the effort of achieving hydraulic control of the Chino Basin. The project is expected to produce an additional 10,500 acre-feet of product water shared by the sponsor group. The sponsor group consists of WMWD, City of Ontario, and JCSD.

Economic Conditions and Outlook

The outlook for the Inland Empire (IE) region continues to be bright for the near future. Employment indicator shows IE being the fastest job growth region in Southern California. During the “Great Recession”, IE lost about 150,000 jobs and nonfarm employment fell by nearly 11.6 percent. Since bottoming out, however, the region has gained well over 350,000 jobs and nonfarm employment has increased 31 percent. Despite a projected labor shortage with low unemployment, the region is expected a steady growth in employment. Together with housing affordability advantage, the trend of significant population growth should continue in future years. This translates in higher water demand for IE and its surrounding areas.

Chino Basin Desalter Authority (CDA) continues to be an important participant in the region to provide sustainable water supply. CDA’s Phase 3 Expansion is designed to add over 10,000 acre feet of water to supply the region.

SECTION B

MAJOR INITIATIVES AND ACCOMPLISHMENTS FOR FY 2017/2018

Total delivery for FY2017/18 was 26,020 acre-feet (AF) of water, which was 1,420 acre-feet above the entitlement total of 24,600 AF. CDA has continued to follow its objective to just pump enough water to deliver at the entitlement level. The Concentrate Reduction Facility (CRF), a $50 million-dollar project of Phase 3 Expansion, was tested successfully during the second half of FY2018 but was subsequently taken offline for further evaluation.

Major Accomplishments

- Significant Phase 3 Expansion components completed or near completion at June 2018 include: 1) Well Equipping Wells II-10 & II-11; 3) Chino I Desalter Reliability Project; 4) Chino I & II Intertie Pipeline.

- Concentration Reduction Facility will produce new water in FY2019
January 10, 2019

To the Chairperson and Members of
The Board of Chino Basin Desalter Authority

Major Initiatives and Accomplishments (continued):

Major Accomplishments (continued):

➢ Received the GFOA (Governmental Finance Officers Association)’s Excellence in Financial Reporting award for Fiscal Year 2016/17 comprehensive annual financial report.

FUTURE INITIATIVES

Chino Desalter No. 1

➢ Construction of the Fern Avenue Gate

Chino Desalter No. 2

➢ Complete the Limonite/Freeway 15 Pipeline Relocation.

➢ Replace Pump with Vertical Turbine at Well II-2

Chino Desalter Phase 3 Expansion

➢ Complete Santa Ana River Crossing HDD Design Project for delivery of water to Western MWD.

South Archibald Plume Project

➢ Acquire property for well site in FY2019 with expected completion October 2020.
January 10, 2019

To the Chairperson and Members of
The Board of Chino Basin Desalter Authority

SECTION C
OTHER INFORMATION

Internal Controls

The Management of the Authority is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Authority are protected from loss, theft or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, 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 Controls

The Authority maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annually appropriated budget approved by the Authority's Board of Directors. The level of budgetary control (i.e., the level at which expenditures can’t legally exceed the appropriated amount) is the category level (i.e., Office and Administrative Expenses, etc.) within the Authority. The Authority maintains an encumbrance accounting system as an additional method of maintaining budgetary control. With the Board's approval, encumbered amounts at year-end will be carried forward to the next fiscal year.

Independent Audit

State statutes require an annual audit by independent certified public accountants. The Authority's Board of Directors appointed the firm of White Nelson Diehl Evans LLP., to perform the annual audit. As part of the audit, reviews were made to determine the adequacy of the internal control, and to ensure compliance with applicable laws and regulations related to all financial activities conducted by the Authority. Generally accepted auditing standards were used by the auditors in conducting the engagement. The auditor's report on the basic financial statements is included in the financial section of this report.
January 10, 2019

To the Chairperson and Members of
The Board of Chino Basin Desalter Authority

OTHER INFORMATION (continued):

Cash and Investment Management

The Authority has a comprehensive cash and investment program subject to California State Code and bond covenants. These regulations are incorporated into the Authority's Investment Policy, which identifies the types of investments that are authorized and indicates any restrictions. As required by the State of California Government Code, the Authority annually adopts an Investment Policy that is intended to minimize credit and market risks, while maintaining a competitive yield on its overall portfolio. The Authority’s cash management system is also designed to forecast revenues and expenditures accurately, and to invest idle funds to the fullest extent possible.

In order of priority, the Authority’s objectives when investing, reinvesting, purchasing, acquiring, selling, enhancing and managing public funds are as follows:

1. **Safety:** Safety of principal is the foremost objective of the investment program. Investments made by the Authority are undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required to prevent any potential loss on any individual security or depository from exceeding the income generated from the remainder of the portfolio.

2. **Liquidity:** The investment portfolio will remain sufficiently liquid to enable the Authority to meet all operating requirements that might be reasonably anticipated.

3. **Return on Investments:** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

All cash and investment transactions are conducted in accordance with the Authority's resolutions and Investment Policy. While management recognizes that investment risks may result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity, portfolio diversification is employed as a way to control these risks.

**Investment Summary**

The Authority has followed a conservative approach in conducting its investment activities. By following the established Investment Policy, Authority staff has successfully managed the investment portfolio to attain the Authority’s objectives. Please refer to Note # 2 to the basic statements for additional information regarding investments.
OTHER INFORMATION (continued):

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to CDA for its comprehensive annual financial report for the fiscal year ended June 30, 2017. This was the third year the Authority received the prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program’s requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

We acknowledge the thorough and professional manner in which our auditors, White Nelson Diehl Evans LLP, conducted the audit. Additionally, we would like to acknowledge the staffs from the member agencies of the Authority for their cooperation and contribution in providing the necessary information to complete this report.

Additionally, we would like to acknowledge the Board of Directors of CDA for their continued support of the Authority’s goal of sound accountable financial management, and for maintaining the highest standards of professionalism in the management of Chino Basin Desalter Authority’s finances. We truly appreciate the unfailing interest and support.

Respectfully submitted,

Michael C. Chung
CFO/Treasurer
CHINO BASIN DESALTER AUTHORITY
FY2017/18 ORGANIZATION CHART

BOARD MEMBERS
CDA BOARD OF DIRECTORS

GENERAL MANAGER/CEO
ADMINISTRATION

OPERATIONS MANAGER
EXECUTIVE ASSISTANT
CFO/TREASURER

CHINO DESALTER I *
CHINO DESALTER II *

PRINCIPAL ACCOUNTANT
FINANCE INTERN

* Desalters operated by CDA Member Agencies
CHINO BASIN DESALTER AUTHORITY

Principal Officials

June 30, 2018

BOARD OF DIRECTORS

Tom Haughey  City of Chino
Peter Rogers  City of Chino Hills
Betty Anderson  Jurupa Community Services District
Jim Bowman  City of Ontario
Greg Newton  City of Norco
J. Arnold Rodriquez  Santa Ana River Water Company
Jasmin Hall  Inland Empire Utilities Agency
Robert Stockton  Western Municipal Water District

OFFICERS OF THE AUTHORITY

Tom Haughey  Secretary
Michael Chung  Treasurer
Curtis Paxton  General Manager/CEO

LEGAL COUNSEL

Allison E. Burns  Deputy General Counsel
Certificate of Achievement for Excellence in Financial Reporting

Presented to

Chino Basin Desalter Authority California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill
Executive Director/CEO
INDEPENDENT AUDITORS’ REPORT

Board of Directors
Chino Basin Desalter Authority
Ontario, California

We have audited the accompanying financial statements of the Chino Basin Desalter Authority (the Authority) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, as listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Authority’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Chino Basin Desalter Authority as of June 30, 2018, and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, identified as Required Supplementary Information (RSI) in the accompanying table of contents, 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. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the Authority’s basic financial statements. The Introductory Section and Statistical Section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Introductory Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Irvine, California
December 12, 2018
MANAGEMENT’S DISCUSSION AND ANALYSIS

The intent of the management’s discussion and analysis is to provide highlights of the Authority's financial activities for the Fiscal Year ended June 30, 2018. Readers are encouraged to read this section in conjunction with the transmittal letter and the accompanying basic financial statements.

CDA Financial Statements

The financial statement for the Fiscal Year 2017/18 reflects the seventeenth year of operation of Chino Desalter No.1 and the eleventh year of operation for the Chino Desalter No. 2. The Authority uses full accrual accounting, which recognizes transactions when they occur, regardless of when cash is exchanged.

FINANCIAL HIGHLIGHTS

Operation and maintenance assessments from member agencies totaled $19,382K, while total fixed project/capital assessments recorded were $6,541K. MWD’s local resource subsidy for the Fiscal Year's production was $2,654K, based on the total allowable yield of 26,020.3 acre-feet and an adjusted rate of $102 per acre-foot. Groundwater replenishment credit from Chino Basin Watermaster, and the corresponding expense to member agencies totaled $20,897K for Fiscal Year 2017/18.

Total operating expenses recorded for Fiscal Year ended June 30, 2018 were $43,402K. This total included Operation and Maintenance expenses of $14,482K, MWD’s subsidy passed back to member agencies of $2,654K, Groundwater Replenishment Expense of $20,897K, and General and Administrative expenses totaling $1,267K. The remainder of the operating expense balance of $4,102K was depreciation and amortization for all tangible and intangible assets.

In summary, the total operating and non-operating revenue of $50,193K was below total expenses of $50,303K producing income loss before contributions of $109K. In FY2017/18, the Authority recorded a total contribution from the Expansion Project Sponsors of $3,597K, which represented the total addition of construction in progress for FY2018. The final balance of net position at June 30, 2018, was $199,898K.
**FINANCIAL HIGHLIGHTS (continued):**

**Changes in Financial Conditions of the Authority**

<table>
<thead>
<tr>
<th></th>
<th>2017/18</th>
<th>2016/17</th>
<th>Increase/(Decrease) from 2016/17</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current unrestricted assets</td>
<td>$6,431,538</td>
<td>$21,583,761</td>
<td>$(15,152,223)</td>
<td>-70%</td>
</tr>
<tr>
<td>Current restricted assets</td>
<td>$12,806,126</td>
<td>$25,466,704</td>
<td>$(12,660,578)</td>
<td>-50%</td>
</tr>
<tr>
<td>Capital assets</td>
<td>$252,472,784</td>
<td>$250,885,177</td>
<td>1,587,607</td>
<td>1%</td>
</tr>
<tr>
<td>Other assets</td>
<td>$11,632,454</td>
<td>$14,021,328</td>
<td>$(2,388,874)</td>
<td>-17%</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$283,342,902</td>
<td>$311,956,970</td>
<td>$(28,614,068)</td>
<td>-9%</td>
</tr>
<tr>
<td>Total deferred outflow of resources</td>
<td>$4,321,309</td>
<td>$4,575,503</td>
<td>$(254,194)</td>
<td>-6%</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>$19,906,750</td>
<td>$50,293,654</td>
<td>$(30,386,904)</td>
<td>-60%</td>
</tr>
<tr>
<td>Noncurrent liabilities</td>
<td>$67,858,930</td>
<td>$70,632,012</td>
<td>$(2,773,082)</td>
<td>-4%</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>$87,765,680</td>
<td>$120,925,666</td>
<td>$(33,159,986)</td>
<td>-27%</td>
</tr>
<tr>
<td>Investment in capital assets</td>
<td>$182,941,063</td>
<td>$179,005,072</td>
<td>3,935,991</td>
<td>2%</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>$16,957,468</td>
<td>$16,601,735</td>
<td>355,733</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Total net position</strong></td>
<td>$199,898,531</td>
<td>$195,606,807</td>
<td>4,291,724</td>
<td>2%</td>
</tr>
<tr>
<td>Operating revenues</td>
<td>$42,932,595</td>
<td>$38,098,746</td>
<td>4,833,849</td>
<td>13%</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>$(43,402,594)</td>
<td>$(37,726,347)</td>
<td>$(5,676,247)</td>
<td>15%</td>
</tr>
<tr>
<td>Non-operating revenues</td>
<td>$7,260,832</td>
<td>$5,766,701</td>
<td>1,494,131</td>
<td>26%</td>
</tr>
<tr>
<td>Non-operating expenses</td>
<td>$(2,640,020)</td>
<td>$(3,436,468)</td>
<td>796,448</td>
<td>-23%</td>
</tr>
<tr>
<td>Prior year annual reconciliation</td>
<td>$(4,259,960)</td>
<td>$(4,208,831)</td>
<td>$(51,129)</td>
<td>1%</td>
</tr>
<tr>
<td>Distribution of reserves to member agencies</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Change in net position prior to capital contributions</td>
<td>$(109,147)</td>
<td>$(1,506,199)</td>
<td>1,397,052</td>
<td>-93%</td>
</tr>
<tr>
<td>Capital grants</td>
<td>95,862</td>
<td>200,318</td>
<td>$(104,456)</td>
<td>-52%</td>
</tr>
<tr>
<td>Contributed expansion costs from Sponsors agencies</td>
<td>3,597,129</td>
<td>10,577,487</td>
<td>$(6,980,358)</td>
<td>-66%</td>
</tr>
<tr>
<td>Contributed South Archibald Plume Project costs</td>
<td>707,880</td>
<td>336,278</td>
<td>371,602</td>
<td>111%</td>
</tr>
<tr>
<td><strong>Total capital contributions</strong></td>
<td>$4,400,871</td>
<td>11,114,083</td>
<td>$(6,713,212)</td>
<td>-60%</td>
</tr>
<tr>
<td>Change in net position</td>
<td>4,291,724</td>
<td>9,607,884</td>
<td>$(5,316,160)</td>
<td>-55%</td>
</tr>
<tr>
<td>Beginning net position</td>
<td>$195,606,807</td>
<td>$185,998,923</td>
<td>9,607,884</td>
<td>5%</td>
</tr>
<tr>
<td>Ending net position</td>
<td>$199,898,531</td>
<td>$195,606,807</td>
<td>4,291,724</td>
<td>2%</td>
</tr>
</tbody>
</table>

The following explanations denote some of the significant changes between Fiscal Years, as compared in the above table:
FINANCIAL HIGHLIGHTS (continued):

Changes in Financial Conditions of the Authority

- The decrease in total assets of $28.6M, or 9%, is a combination of changes in several areas: 1) current unrestricted assets decreased by $15.1M as a result of a decrease in accounts receivables totaling $13.3M mainly related to grant funding for the Expansion Project; 2) current restricted assets decreased by $12.6M due to payment to vendors from funds held for the Expansion Project and the South Archibald Plume Clean-up Project; 3) capital assets increase by $1.5M for jobs in progress primarily related to the Phase 3 Expansion Project; and 4) Other Assets, specifically long-term investments, decreased by $2.4M (Note 2), for maturity of investment of U.S. Government Sponsored Entities, with the corresponding increase in cash.

- Total deferred outflow of resources corresponds to the refunded 2008A Series Bonds and issuance of the 2016A Revenue Refunding Bonds. The debt service reserve fund was utilized for the extinguishment of the 2008A bonds and issuance of the 2016A bond.

- Total liabilities decreased by $33.2M, or 27%, and can be summarized in two parts: 1) current liabilities, which decreased by $30.4M mainly due to grant pass-through payables to the Expansion Project Sponsors and deposits held for the South Archibald Plume Clean-up; 2) noncurrent liabilities, which recorded a decrease of $2.8M primarily relates to the 2016A Series Revenue Refunding Bonds annual debt service payments.

- Changes in net position before capital contributions reflect an increase of $1.4M. The increase was a result of higher capital assessments compared to last year.

- Total change in net position was a positive $4.2M including the addition of $3.6M in jobs in progress mainly related to the Expansion Project.

Desalter Water Sales

Total product water delivered for Fiscal Year ended June 30, 2018 was 26,020 acre-feet, an increase of 5.5% over last Fiscal Year’s delivery. Despite the slight increase, management has decided to control water production at the contractual level of 24,600 AF. The objective is to avoid over pumping of the Chino Basin groundwater table. The distribution of water in acre-feet was as follows: City of Chino – 5,009, City of Chino Hills – 4,211, City of Norco – 1,004, City of Ontario – 5,928, Santa Ana River Water Co. – 1,200, and Jurupa Community Services District – 8,668. Refer to the Supplementary Statistical section of this report for history production data.
FINANCIAL HIGHLIGHTS (continued):

Revenues

Total revenues for the Fiscal Year ended June 30, 2018, amounted to $50,193K. The following table presents revenue by category.

Revenue by Category
For the Fiscal Year Ended June 30, 2018
(Excluding Prior Years Annual Reconciliation and)
(With Comparative Totals for the Fiscal Year Ended June 30, 2017)

<table>
<thead>
<tr>
<th>Revenue Category</th>
<th>2017/18</th>
<th>% OF TOTAL</th>
<th>2016/17</th>
<th>% OF TOTAL</th>
<th>Increase/&lt;Decrease&gt; from 2016/17</th>
<th>% OF CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations &amp; Maintenance Assessments</td>
<td>$19,381,903</td>
<td>38.6%</td>
<td>$17,044,204</td>
<td>39.8%</td>
<td>$2,337,699</td>
<td>13.7%</td>
</tr>
<tr>
<td>MWD Subsidies to Member Agencies</td>
<td>2,654,071</td>
<td>5.3%</td>
<td>2,687,287</td>
<td>6.2%</td>
<td>-33,216</td>
<td>(1.2%)</td>
</tr>
<tr>
<td>Groundwater Replenishment Credit</td>
<td>20,896,621</td>
<td>41.6%</td>
<td>18,367,255</td>
<td>42.9%</td>
<td>2,529,366</td>
<td>13.8%</td>
</tr>
<tr>
<td>Capital Assessments</td>
<td>6,540,625</td>
<td>13.0%</td>
<td>5,658,952</td>
<td>13.2%</td>
<td>881,673</td>
<td>15.6%</td>
</tr>
<tr>
<td>Interest Income</td>
<td>382,142</td>
<td>0.8%</td>
<td>107,749</td>
<td>0.3%</td>
<td>274,393</td>
<td>254.7%</td>
</tr>
<tr>
<td>Other Non-operating Revenues</td>
<td>338,065</td>
<td>0.7%</td>
<td>-1,033,024</td>
<td>-2.4%</td>
<td>1,371,089</td>
<td>(132.7%)</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>$50,193,427</strong></td>
<td>100.0%</td>
<td><strong>$42,832,423</strong></td>
<td>100.0%</td>
<td><strong>$7,361,004</strong></td>
<td>17.2%</td>
</tr>
</tbody>
</table>

Total O&M assessments to the member agencies was $19.3M, an increase of 13.7% or $2.3M, compared to last fiscal year as a result of cost primarily associated with anticipated deliveries of the Expansion Project. Capital assessments of $6.5M represent an increase of $.8M due to higher assessments for capital projects. Other Non-operating revenues relate primarily to the replenishment of reserves.
**Expenses**

Total expenses for the Fiscal Year ended June 30, 2018 was $50,302K. The following table presents expenses by category compared to prior Fiscal Year.

### Expenses by Category

*For the Fiscal Year Ended June 30, 2018*

*(With Comparative Totals for the Fiscal Year Ended June 30, 2017)*

<table>
<thead>
<tr>
<th>Expense Category</th>
<th>2017/18 Amount</th>
<th>2017/18 % of Total</th>
<th>2016/17 Amount</th>
<th>2016/17 % of Total</th>
<th>Increase/&lt;Decrease&gt; from 2016/17 Amount</th>
<th>Increase/&lt;Decrease&gt; from 2016/17 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations &amp; Maintenance</td>
<td>$14,482,272</td>
<td>28.8%</td>
<td>$11,477,876</td>
<td>25.9%</td>
<td>$3,004,396</td>
<td>26.2%</td>
</tr>
<tr>
<td>MWD Subsidies to Member Agencies</td>
<td>2,654,071</td>
<td>5.3%</td>
<td>2,687,287</td>
<td>6.1%</td>
<td>(33,216)</td>
<td>(1.2%)</td>
</tr>
<tr>
<td>Groundwater Replenishment Credit</td>
<td>20,896,621</td>
<td>41.4%</td>
<td>18,367,255</td>
<td>41.3%</td>
<td>2,529,366</td>
<td>13.8%</td>
</tr>
<tr>
<td>Administration and General</td>
<td>1,267,361</td>
<td>2.5%</td>
<td>1,141,293</td>
<td>2.6%</td>
<td>126,068</td>
<td>11.1%</td>
</tr>
<tr>
<td>Depreciation and Amortization</td>
<td>4,102,269</td>
<td>8.2%</td>
<td>4,052,637</td>
<td>9.1%</td>
<td>49,632</td>
<td>1.2%</td>
</tr>
<tr>
<td>Interest on Long-Term Debt</td>
<td>2,544,158</td>
<td>5.1%</td>
<td>2,203,126</td>
<td>5.0%</td>
<td>341,032</td>
<td>15.5%</td>
</tr>
<tr>
<td>Annual reconciliation of costs</td>
<td>4,259,960</td>
<td>8.5%</td>
<td>4,208,831</td>
<td>9.5%</td>
<td>51,129</td>
<td>1.2%</td>
</tr>
<tr>
<td>Federal Grant Payment to Sponsors</td>
<td>95,862</td>
<td>0.2%</td>
<td>200,318</td>
<td>0.5%</td>
<td>(104,456)</td>
<td>(52.2%)</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>$50,302,574</td>
<td>100.0%</td>
<td>$44,338,623</td>
<td>100.0%</td>
<td>$5,963,951</td>
<td>13.5%</td>
</tr>
</tbody>
</table>

While there was an increase of 5.5% in water production compared to last fiscal year, Operations & Maintenance expenses registered an increase of 26.2%. Additional operations staff was hired to assist with operations and new chemicals were purchased for testing of the CRF. Interest on long-term debt reflected an increase of 5%, or $0.3M based on scheduled debt service payments of the 2016A Revenue Refunding Bonds. Annual reconciliation of costs for FY1718 remained similar to
FINANCIAL HIGHLIGHTS (continued):

Expenses (continued):

last year as expenses associated with new Phase 3 Expansion water were not incurred due to the water not being produced. This resulted in overassessments to the affected CDA members.

Capital Assets and Construction in Progress (CIP)

Net of accumulated depreciation of $51.3M, the Authority had total capital assets of $252.4M in FY2017/18. The total capital assets included $151.1M of construction in progress (CIP). During the fiscal year, the Phase 3 Expansion Project added $3.6M of the CIP total. Significant projects included the Concentrate Reduction Facility project with a budget of close to $47M; Chino I & II Raw Water Intertie Pipeline; Well Equipping of Wells II-10 and II-11; and the Product Water Pipeline. Please see Note #6 & #7 to the basic financial statements for additional information regarding capital assets.

Debt Management

The outstanding principal balance of the Desalter Revenue Refunding Bonds Series 2016A at June 30, 2018, was $62,240,000. The next principal payment of $2,465,000 will be due on June 1, 2019. Total bond interest paid and accrued for Fiscal Year 2017/18 amounted to $2,544,158. Refer to Note #8 to the basic financial statements for additional information regarding debt management.

Contacting the Authority’s Financial Management

This financial report is designed to provide the members of the Chino Basin Desalter Joint Exercise of Powers Authority, its citizens, customers, investors and creditors with a general overview of the Authority’s finances and to demonstrate the Authority’s accountability for the revenues it receives. If you have questions about this report or need additional financial information, please contact the Authority's Treasurer, 2151 Haven Avenue, Suite 202, Ontario, CA 91761.
**CHINO BASIN DESALTER AUTHORITY**
**BASIC FINANCIAL STATEMENTS**
**OVERVIEW**

**Financial Statements**

The following Basic Financial Statements, along with the Notes to the Basic Financial Statements, present an overview of the Authority’s financial position at June 30, 2017, and the results of operations and the cash flows of its proprietary fund types for the year then ended.

The Basic Financial Statements consist of:

1) **Statement of Net Position** – the statement denotes the increase of net position of the Authority.

2) **Statement of Revenues, Expenses and Changes in Net Position** – the statement shows all revenue and expense sources recorded for the period, and their effects on the net position of the Authority.

3) **Statement of Cash Flows** – the statement reflects the Authority’s financial activities and their effect on cash. It also denotes the cash position of the Authority at the end of the fiscal period.

4) **Notes to the Basic Financial Statements.**
CHINO BASIN DESALTER AUTHORITY  
Statement of Net Position  
June 30, 2018

<table>
<thead>
<tr>
<th></th>
<th>Totals</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash &amp; investments (Note 2)</td>
<td>$3,572,738</td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>2,757,589</td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>95,077</td>
<td></td>
</tr>
<tr>
<td>Deposits</td>
<td>6,134</td>
<td></td>
</tr>
<tr>
<td>Total unrestricted assets</td>
<td>6,431,538</td>
<td></td>
</tr>
<tr>
<td>Restricted current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash &amp; investments held for expansion project (Note 2 &amp; 3)</td>
<td>3,647,796</td>
<td></td>
</tr>
<tr>
<td>Cash &amp; investments held for south archibald plume project (Note 2 &amp; 3)</td>
<td>8,193,760</td>
<td></td>
</tr>
<tr>
<td>Assets held for defined contribution plan (Note 11)</td>
<td>637,926</td>
<td></td>
</tr>
<tr>
<td>Cash held in escrow accounts (Note 3)</td>
<td>326,644</td>
<td></td>
</tr>
<tr>
<td>Total restricted assets</td>
<td>12,806,126</td>
<td></td>
</tr>
<tr>
<td>Total current assets</td>
<td>19,237,664</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Noncurrent assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long term investments (Note 2)</td>
<td>11,521,429</td>
<td></td>
</tr>
<tr>
<td>Total long term investments</td>
<td>11,521,429</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital assets (Note 6)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital assets not being depreciated</td>
<td>1,476,144</td>
<td></td>
</tr>
<tr>
<td>Jobs in progress</td>
<td>151,137,657</td>
<td></td>
</tr>
<tr>
<td>Capital assets being depreciated, net of accumulated depreciation</td>
<td>85,349,473</td>
<td></td>
</tr>
<tr>
<td>Intangible assets, net of accumulated amortization</td>
<td>14,509,510</td>
<td></td>
</tr>
<tr>
<td>Total capital assets</td>
<td>252,472,784</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepaid bond insurance</td>
<td>111,025</td>
<td></td>
</tr>
<tr>
<td>Total other assets</td>
<td>111,025</td>
<td></td>
</tr>
<tr>
<td>Total noncurrent assets</td>
<td>264,105,238</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>$283,342,902</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred outflow of resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred amount on debt refunding</td>
<td>4,321,309</td>
<td></td>
</tr>
<tr>
<td>Total deferred outflow of resources</td>
<td>$4,321,309</td>
<td></td>
</tr>
</tbody>
</table>

_The accompanying notes are an integral part of the basic financial statements_
### LIABILITIES

Current liabilities

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$2,930,026</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>67,487</td>
</tr>
<tr>
<td>Compensated absences - current payable (Note 8)</td>
<td>13,423</td>
</tr>
<tr>
<td>MWD contribution due to member agencies</td>
<td>2,654,096</td>
</tr>
<tr>
<td>Long-term debt, due within one year (Note 8)</td>
<td>2,465,000</td>
</tr>
<tr>
<td>Interest payable</td>
<td>203,209</td>
</tr>
<tr>
<td>Phase 3 Expansion Sponsor Deposit/Grant Payable</td>
<td>3,158,164</td>
</tr>
<tr>
<td>South Archibald Plume deposit</td>
<td>8,088,701</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>19,580,106</strong></td>
</tr>
</tbody>
</table>

Restricted current liabilities

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retention held in escrow (Note 3)</td>
<td>326,644</td>
</tr>
<tr>
<td><strong>Total restricted current liabilities</strong></td>
<td><strong>326,644</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>19,906,750</strong></td>
</tr>
</tbody>
</table>

Noncurrent liabilities

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract payable, due in more than one year</td>
<td>80,000</td>
</tr>
<tr>
<td>Long-term debt, due in more than one year (Note 8)</td>
<td>67,066,720</td>
</tr>
<tr>
<td>Liability for defined contribution plan (Note 11)</td>
<td>637,926</td>
</tr>
<tr>
<td>Compensated absences payable (Note 8)</td>
<td>74,284</td>
</tr>
<tr>
<td><strong>Total noncurrent liabilities</strong></td>
<td><strong>67,858,930</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>87,765,680</strong></td>
</tr>
</tbody>
</table>

### NET POSITION

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net investment in capital assets</td>
<td>182,941,063</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>16,957,468</td>
</tr>
<tr>
<td><strong>Total net position</strong></td>
<td><strong>$199,898,531</strong></td>
</tr>
</tbody>
</table>

*The accompanying notes are an integral part of the basic financial statements*
## CHINO BASIN DESALTER AUTHORITY

Statement of Revenues, Expenses and Changes in Fund Net Position

Year Ended June 30, 2018

<table>
<thead>
<tr>
<th>Totals</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OPERATING REVENUES</strong></td>
<td></td>
</tr>
<tr>
<td>Operations and maintenance assessments</td>
<td>$19,381,903</td>
</tr>
<tr>
<td>MWD contribution revenue</td>
<td>2,654,071</td>
</tr>
<tr>
<td>Groundwater replenishment credit</td>
<td>20,896,621</td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>42,932,595</td>
</tr>
<tr>
<td><strong>OPERATING EXPENSES</strong></td>
<td></td>
</tr>
<tr>
<td>Operations and maintenance</td>
<td>14,482,272</td>
</tr>
<tr>
<td>MWD contributions to member agencies</td>
<td>2,654,071</td>
</tr>
<tr>
<td>Groundwater replenishment expense</td>
<td>20,896,621</td>
</tr>
<tr>
<td>Administration and general</td>
<td>1,267,361</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>4,102,269</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>43,402,594</td>
</tr>
<tr>
<td>Operating loss</td>
<td>(469,999)</td>
</tr>
<tr>
<td><strong>NONOPERATING REVENUES (EXPENSES)</strong></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>382,142</td>
</tr>
<tr>
<td>Fixed project/capital assessments</td>
<td>6,540,625</td>
</tr>
<tr>
<td>Other nonoperating revenue (expenses)</td>
<td>338,065</td>
</tr>
<tr>
<td>Interest on long-term debt</td>
<td>(2,544,158)</td>
</tr>
<tr>
<td>Annual reconciliation of costs</td>
<td>(4,259,960)</td>
</tr>
<tr>
<td>Payments of federal grants to Phase 3 Expansion Project Sponsors (note 1)</td>
<td>(95,862)</td>
</tr>
<tr>
<td>Total nonoperating revenues (expenses)</td>
<td>360,852</td>
</tr>
<tr>
<td>Loss before contributions</td>
<td>(109,147)</td>
</tr>
<tr>
<td><strong>CAPITAL CONTRIBUTIONS</strong></td>
<td></td>
</tr>
<tr>
<td>Capital grants (note 1)</td>
<td>95,862</td>
</tr>
<tr>
<td>Contributed expansion costs from Sponsors agencies</td>
<td>3,597,129</td>
</tr>
<tr>
<td>Contributed Capital for South Archibald Plume Project</td>
<td>707,880</td>
</tr>
<tr>
<td>Total Capital Contributions</td>
<td>4,400,871</td>
</tr>
<tr>
<td>Change in net position</td>
<td>4,291,724</td>
</tr>
<tr>
<td>Total net position - beginning</td>
<td>195,606,807</td>
</tr>
<tr>
<td>Total net position - ending</td>
<td>$199,898,531</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the basic financial statements
CHINO BASIN DESALTER AUTHORITY  
Statement of Cash Flows  
Year Ended June 30, 2018

| Totals |  
|--------|---|
| 2018   |   |

### CASH FLOWS FROM OPERATING ACTIVITIES
- Cash received from customers: 22,069,190
- Cash payments to suppliers for goods and services: (12,939,706)
- Cash payments for contract labor: (2,789,996)
- Cash payments to others: (2,687,287)

Net cash provided by operating activities: 3,652,201

### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES
- Acquisition and construction of capital assets: (5,689,875)
- Fixed project/capital assessments: 6,540,625
- Sponsors' deposit in Phase 3 Expansion Project: (8,611,257)
- Plume Party deposit: 1,627,587
- Annual reconciliation of project costs: (3,941,872)
- Principal paid on capital debt: (2,305,000)
- Interest paid on capital debt: (2,553,762)
- Bond administration fees: (13,918)
- Release of escrow funds: (1,438,193)

Net cash used by capital and related financing activities: (16,385,665)

### CASH FLOWS FROM INVESTING ACTIVITIES
- Interest on investments: 371,312

Net cash provided by investing activities: 371,312

Net decrease in cash and cash investments: (12,362,152)

**Cash and cash investments - beginning**: 39,297,875

**Cash and cash investments - ending**: $26,935,723

*The accompanying notes are an integral part of the basic financial statements*
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED FOR (USED BY) OPERATING ACTIVITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating loss</td>
<td>(469,999)</td>
</tr>
<tr>
<td>Adjustments to reconcile operating income to net cash</td>
<td></td>
</tr>
<tr>
<td>provided (used) by operating activities</td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>4,102,269</td>
</tr>
<tr>
<td>(Increase) decrease in operating assets</td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>51,695</td>
</tr>
<tr>
<td>Prepaid items</td>
<td>21,881</td>
</tr>
<tr>
<td>Increase (decrease) in operating liabilities</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>878,780</td>
</tr>
<tr>
<td>MWD rebates due to member agencies</td>
<td>(33,216)</td>
</tr>
<tr>
<td>Retention liabilities</td>
<td>(47,364)</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>(851,845)</td>
</tr>
</tbody>
</table>

Net cash provided by operating activities                  | 3,652,201|

RECONCILIATION OF CASH & CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; cash investments at end of year</td>
<td>$26,935,723</td>
</tr>
<tr>
<td>Total cash and cash investments</td>
<td>$26,935,723</td>
</tr>
<tr>
<td>Cash &amp; investments</td>
<td>$3,572,738</td>
</tr>
<tr>
<td>Restricted current assets held for expansion project</td>
<td>3,647,796</td>
</tr>
<tr>
<td>Restricted current assets held for south archibald plume project</td>
<td>8,193,760</td>
</tr>
<tr>
<td>Long-term investment held with trustee/fiscal agent</td>
<td>11,521,429</td>
</tr>
</tbody>
</table>

Total cash, investments and restricted assets               | $26,935,723|

NONCASH CAPITAL, FINANCING, AND INVESTING ACTIVITIES

2018

Change in Fair Value of Long Term Investments               | (134,342)|

The accompanying notes are an integral part of the basic financial statements
CHINO BASIN DESALTER AUTHORITY

Index of Notes to the Basic Financial Statements

Fiscal Year Ended June 30, 2018

<table>
<thead>
<tr>
<th>Note</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
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NOTES TO THE BASIC FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2018

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

Description of the Reporting Entity

The Chino Basin Desalter Authority (hereafter referred to as the CDA), a Joint Exercise of Powers Authority, was formed in September of 2001. The membership of the CDA consists of the cities of Chino, Chino Hills, Ontario, and Norco, Jurupa Community Services District, Santa Ana River Water Company, Western Municipal Water District, and Inland Empire Utilities Agency (IEUA). As defined by generally accepted accounting principles and the Governmental Accounting Standards Board, CDA, for financial reporting purpose, is considered to be the primary government. The CDA has no legally separate component units that require blended or discrete presentation.

Subject to the limitation imposed by the Constitution of California, and pursuant to its charter, all powers of the CDA are vested in an eight-member Board of Directors, seven of which have voting rights and one, IEUA, serving as an ex officio member without voting rights. Each Board member is appointed by the respective JPA member agency. Voting, using the weighted approach, is counted based upon the take or pay amount of product water each member is contractually committed to purchase. For the purposes of transacting businesses of the Board, five of the seven voting members need to be present. The principal office of the CDA is established by resolution of the Board. The CDA has appointed a Secretary and a Treasurer, and hired a General Manager/CEO.

The accounting policies of the CDA conform to generally accepted accounting principles as they relate to governmental units. The CDA applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Fund Accounting

The CDA's resources are allocated to, and accounted for, in one fund classified as an Enterprise Fund.

Propriety Fund Types

Enterprise Fund

The Enterprise Fund is accounted for on a cost of services or "capital maintenance" measurement focus. This means that assets, deferred outflows or resources, and liabilities (whether current or non-current) are included in the statement of net position. The reported fund equity (net total position) is segregated into net investment in capital assets and restricted and unrestricted net position. The Enterprise Fund type operating statement presents increases (revenues) and decreases (expenses) in net total position.
(1) Reporting Entity and Summary of Significant Accounting Policies (continued):

Propriety Fund Types (continued):

Enterprise Fund (continued):

Enterprise Funds are used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation and amortization) of providing goods or services to the general public on a continuing basis, be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Basis of Accounting

Basis of accounting refers to the timing when revenues and expenses are recognized in the accounts, and reported in the financial statements, regardless of the measurement focus applied. The CDA prepares its financial statements on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Use of Restricted and Unrestricted Funds

Restricted funds are generally imposed by external constraints, either regulatory and/or by agreements. By nature of the constraints, restricted funds are earmarked for specific use. Unlike restricted funds, unrestricted funds become discretionary funds for the Authority to use when it becomes available.

Budgetary Policy and Control

The CDA’s Board approves each fiscal year’s budget submitted by the Treasurer prior to the beginning of the new fiscal year. All amendments to the budget, or transfers of operating budget appropriations to or from reserve accounts over $50,000, require Board approval. Because the CDA is not required to present budget comparisons, budgetary data is not presented in the accompanying basic financial statements.

The Authority maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the Board. All appropriations which are not obligated, encumbered or expended at the end of the fiscal year, shall lapse, except for multi-year capital expenditures.
(1) Reporting Entity and Summary of Significant Accounting Policies (continued):

New Accounting Pronouncements

Current Year Standards

- GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pension, effective for periods beginning after June 15, 2017, and did no impact the Authority.

- GASB 82 – Pension Issues, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017, and did not impact the Authority.

- GASB 85 – Omnibus 2017, effective for periods beginning after June 15, 2017, and did not impact the Authority.

- GASB 86 – Certain Debt Extinguishment Issues, effective for periods beginning after June 15, 2017, and did not impact the Authority.
Pending Accounting Standards

GASB has issued the following statements which may impact the Authority’s financial reporting requirements in the future:

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

**Cash and Investments**

Investments in short-term highly liquid debt instruments that have a remaining maturity at the time of purchase of one year or less are reported at cost or amortized cost. All other investments are reported at fair value.

For financial presentation purposes, cash and cash equivalents are shown within cash, short-term investments and restricted assets. Additionally, guidelines provided by GASB No. 40 regarding risk disclosures on deposits and cash equivalents and investments have been followed. The Authority defines cash and cash equivalents as demand account balances, cash on hand, repurchase agreements, money market mutual funds, and all cash deposited in LAIF. Together, these balances represent cash and investments, with maturities less than 90 days.

**Capital Assets**

Property, plant and equipment are capitalized at cost. The cost of a capital investment includes purchase, rehabilitation or construction costs, as well as ancillary expenses necessary to make productive use of the assets. Current capitalization thresholds are reflected in the following table.

<table>
<thead>
<tr>
<th>Type of Expenditure</th>
<th>Total Cost</th>
<th>Estimated Life</th>
<th>Increases Estimated Life</th>
<th>Enhances Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office Equipment</td>
<td>≥ $5,000</td>
<td>&gt; 1 Year</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Computer Equipment</td>
<td>≥ $5,000</td>
<td>&gt; 1 Year</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Other Equipment</td>
<td>≥ $5,000</td>
<td>&gt; 1 Year</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Maintenance &amp; Repair Expenditures</td>
<td>≥ $5,000</td>
<td>&gt; 1 Year</td>
<td>YES</td>
<td>-----</td>
</tr>
<tr>
<td>Maintenance &amp; Repair Expenditures</td>
<td>≥ $5,000</td>
<td>≥ 3 Years</td>
<td>-----</td>
<td>YES</td>
</tr>
<tr>
<td>Capital Projects</td>
<td>≥ $5,000</td>
<td>≥ 3 Years</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Single Year Capital Projects</td>
<td>≥ $5,000</td>
<td>≥ 3 Years</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Multi Year Capital Projects</td>
<td>≥ $15,000</td>
<td>≥ 3 Years</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Depreciation is computed using the straight-line method over the estimated useful lives (5 - 50 years) of the assets. One month of depreciation is recorded in the month of acquisition if the asset is acquired by the 15th of the month or earlier. Otherwise, depreciation and amortization begin on the following month.

Estimated useful lives are:

- Furniture, machinery and equipment: 5 - 10 years
- Improvements: 15 years
- Buildings and plants: 5 - 50 years
- Intangible Assets: 30 - 50 years

The Authority capitalizes interest on tax exempt debt issued to finance construction projects, net of interest earned on the unspent proceeds. No interest was capitalized for fiscal year ended June 30, 2018.
(1) Reporting Entity and Summary of Significant Accounting Policies (continued):

Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority recognized deferred outflows of resources in the amount of $4,321,309 associated with the extinguishment of the 2008A Series Bonds and issuance of the 2016A Revenue Refunding Bonds.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Authority has no deferred inflows of resources.

Prepaid Costs

Prepaid bond insurance costs on debt issuances are to be amortized over the life of the debt. For the 2016A Desalter Revenue Refunding bonds, the remaining amortization period is 17 years at the end of June 30, 2018.

Operating and Non-Operating Revenues and Expenses

Operating revenues and expenses relate to transactions generated as a direct result of the core business in which the Authority is engaged. These transactions can be repetitive in nature within the normal business cycle. Non-operating revenues and expenses are transactions incurred infrequently, during the course of the Authority’s business. These types of transaction are generally not directly related to the general business of the Authority.

Capital Contributions

Transactions recorded in this category are generally capital in nature. Construction in progress funded by the Expansion Project Sponsors and Federal grants receipts are prime examples. Since receipts from federal grants are pass-through in nature, the offsetting value is recorded in the non-operating revenues/(expenses) category under the caption of payments of federal grants to Expansion Project Sponsors.
(2) Cash and Investments

Cash and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Statement of Net Position

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted current cash &amp; investments</td>
<td>$3,572,738</td>
</tr>
<tr>
<td>Restricted current assets held for expansion project</td>
<td>3,647,796</td>
</tr>
<tr>
<td>Restricted current assets held for South Archibald Plume Project</td>
<td>8,193,760</td>
</tr>
<tr>
<td>Restricted Cash held in escrow</td>
<td>326,644</td>
</tr>
<tr>
<td>Long-term investment</td>
<td>11,521,429</td>
</tr>
<tr>
<td><strong>Total cash and investments</strong></td>
<td><strong>$27,262,367</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits with financial institutions</td>
<td>$1,068,532</td>
</tr>
<tr>
<td>Restricted Cash held in escrow</td>
<td>326,644</td>
</tr>
<tr>
<td>Investments</td>
<td>25,867,191</td>
</tr>
<tr>
<td><strong>Total cash and investments</strong></td>
<td><strong>$27,262,367</strong></td>
</tr>
</tbody>
</table>

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

The table below identifies the investment types that are authorized for the Authority by the California Government Code and the Authority’s Investment Policy. The table also addresses the interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of the debt agreements of the Authority.

<table>
<thead>
<tr>
<th>Authorized Investment Type</th>
<th>Maximum Maturity</th>
<th>Maximum Percentage of Portfolio</th>
<th>Maximum Investment One Issuer</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury Obligations</td>
<td>5 years</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>U.S. Agency Securities</td>
<td>5 years</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>State Municipal Securities</td>
<td>5 years</td>
<td>15%</td>
<td>None</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>270 days</td>
<td>None</td>
<td>10%</td>
</tr>
<tr>
<td>Negotiable Certificates of Deposit</td>
<td>5 years</td>
<td>30%</td>
<td>None</td>
</tr>
<tr>
<td>Repurchase Agreements</td>
<td>90 days</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Medium Term Notes</td>
<td>5 Years</td>
<td>15%</td>
<td>None</td>
</tr>
<tr>
<td>Money Market Mutual Funds</td>
<td>N/A</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>State Investment Pool</td>
<td>N/A</td>
<td>None</td>
<td>None</td>
</tr>
</tbody>
</table>
(2) Cash and Investments (continued):

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or Authority’s Investment Policy.

The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address quality of risk, interest rate risk, credit risk, and concentration of credit risk.

<table>
<thead>
<tr>
<th>Authorized Investment Type</th>
<th>Minimum Rating</th>
<th>Maximum Maturity</th>
<th>Maximum Percentage Allowed</th>
<th>Maximum Investment One Issuer</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury Obligations</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>U.S. Agency Securities</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Money Market Funds</td>
<td>AA-m / Aa2</td>
<td>N/A</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Certificates of Deposits</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Investment Agreements</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>A-1 / Prime-1</td>
<td>270 days</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Banker’s Acceptances</td>
<td>A-1 / Prime-1</td>
<td>1 Year</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Repurchase agreements</td>
<td>A</td>
<td>30 days</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>LAIF</td>
<td>None</td>
<td>N/A</td>
<td>None</td>
<td>None</td>
</tr>
</tbody>
</table>

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk related to changes in market interest rates that 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 Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Authority’s investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority’s investment by maturity:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Value</th>
<th>12 or Less</th>
<th>13 to 24</th>
<th>25 to 59</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negotiable Certificates of Deposit</td>
<td>$4,619,129</td>
<td>$935,311</td>
<td>$1,274,564</td>
<td>$2,409,254</td>
</tr>
<tr>
<td>Repurchase Agreement(^1)</td>
<td>11,399,403</td>
<td>11,399,403</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>State Investment Pool</td>
<td>2,591,451</td>
<td>2,591,451</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Medium Term Notes</td>
<td>2,984,880</td>
<td>2,984,880</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>U.S. Gov’t Sponsored Entities</td>
<td>3,917,420</td>
<td>-</td>
<td>-</td>
<td>3,917,420</td>
</tr>
<tr>
<td>Money Mkt Mutual Funds</td>
<td>354,908</td>
<td>354,908</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$25,867,191</strong></td>
<td><strong>$18,265,953</strong></td>
<td><strong>$1,274,564</strong></td>
<td><strong>$6,326,674</strong></td>
</tr>
</tbody>
</table>

\(^1\) Repurchase Agreement is uninsured and unregistered, with the collateral for the repurchase agreement held in the name of Citizens Business Bank but not in the name of the Authority.
(2) Cash and Investments (continued):
Investments with Fair Values Highly sensitive to Interest Rate Fluctuations

The Agency’s Investment Policy states that purchases of investments will be restricted to securities with a final state maturity not to exceed five years. The Agency manages its exposure to interest rate risk by purchasing a combination of short term and long-term investments. Investment maturities are spread out evenly to provide the cash flow and liquidity need for operations. The Agency has elected to use the segmented time distribution method of disclosure for interest rate risk.

Disclosures Relating to Credit Risk
Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the Authority’s Investment Policy, and the actual Standard and Poor’s rating as of fiscal year ended June 30, 2018:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Value</th>
<th>Rating</th>
<th>AA+</th>
<th>AAA</th>
<th>Unrated</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Investment Pool</td>
<td>$2,591,451</td>
<td>N/A</td>
<td>$ -</td>
<td>$ -</td>
<td>$2,591,451</td>
</tr>
<tr>
<td>Repurchase Agreement</td>
<td>11,399,403</td>
<td>N/A</td>
<td>-</td>
<td>-</td>
<td>11,399,403</td>
</tr>
<tr>
<td>Medium Term Notes</td>
<td>2,984,880</td>
<td>AAA</td>
<td>-</td>
<td>2,984,880</td>
<td>-</td>
</tr>
<tr>
<td>Negotiable Certificates of Deposit</td>
<td>4,619,129</td>
<td>N/A</td>
<td>-</td>
<td>-</td>
<td>4,619,129</td>
</tr>
<tr>
<td>US Gov't Sponsored Entities</td>
<td>3,917,420</td>
<td>A+</td>
<td>3,917,420</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Money Mkt Mutual Funds</td>
<td>354,908</td>
<td>A+</td>
<td>354,908</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>$25,867,191</td>
<td></td>
<td>$4,272,328</td>
<td>$2,984,880</td>
<td>$18,609,983</td>
</tr>
</tbody>
</table>

Concentration of Credit Risk
The Investment Policy of the Authority contains several limitations on the amount that can be invested in any one issuer and type of investment as well as that stipulated by the California Government Code. Investments in any one issuer (excluding investment pool) that represent 5% or more of the total Authority investments are as follows:

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Investment Type</th>
<th>Reported Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citizens Business Bank</td>
<td>Repurchase Agreement</td>
<td>$11,399,403</td>
<td>44.1%</td>
</tr>
<tr>
<td>FHLMC</td>
<td>U.S. Gov't Sponsored Entity</td>
<td>3,917,420</td>
<td>15.1%</td>
</tr>
<tr>
<td>Exxon Mobil Corp</td>
<td>Medium Term Note</td>
<td>2,984,880</td>
<td>11.5%</td>
</tr>
</tbody>
</table>
(2) Cash and Investments (continued):

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority’s Investment Policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by 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. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The Authority’s deposits are insured by FDIC or collateralized as required by California Law.

The investment in the Repurchase Agreement is uninsured with the collateral for the repurchase agreement held in the name of Citizens Business Bank but not in the name of the Authority.

For investments identified herein as held by fiscal agent, the trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

**Investment in State Investment Pool**

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Authority’s investment in this pool is reported in the accompanying financial statements at amounts based upon the Authority’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 basis.
(2) Cash and Investments (continued):

**Fair Value Measurements**

The Authority categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs.

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Not subject to fair value measurement</th>
<th>Quoted Prices Level 1</th>
<th>Observable Inputs Level 2</th>
<th>Unobservable Inputs Level 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negotiable Certificate of Deposit</td>
<td>$ -</td>
<td>$ -</td>
<td>$4,619,129</td>
<td>$ -</td>
</tr>
<tr>
<td>Repurchase Agreement(^1)</td>
<td>11,399,403</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>State Investment Pool(^1)</td>
<td>2,591,451</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Medium Term Notes</td>
<td>-</td>
<td>-</td>
<td>2,984,880</td>
<td>-</td>
</tr>
<tr>
<td>Money Mkt Mutual Funds(^1)</td>
<td>354,908</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>U.S. Gov’t Sponsored Entities</td>
<td>-</td>
<td>-</td>
<td>3,917,420</td>
<td>-</td>
</tr>
<tr>
<td>Total Leveled Investments</td>
<td>$14,345,762</td>
<td>$-</td>
<td>$11,521,429</td>
<td>$-</td>
</tr>
<tr>
<td>Total</td>
<td>$25,867,191</td>
<td>$-</td>
<td>$11,521,429</td>
<td>$-</td>
</tr>
</tbody>
</table>

\(^1\) Not subject to fair value measurement.
(3) **Restricted Assets**

These include: (a) proceeds from bonds which are restricted to making payments for debt service; (b) deposits held in lieu of retentions which required funds to be separately set aside for retention; (c) deposits held for expansion project costs; (d) deposits held for south Archibald plume project.

(4) **Risk Management**

The Authority 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. These risks are covered by commercial insurance purchased from independent third parties, and covers loss related to general liability, and errors and omissions claims of up to $10M per occurrence. The Authority also maintains insurance coverage for loss related to automobile liability and property damage claims categories of up to $10 million. Property damage has a $1 billion per occurrence shared coverage limited to insurable value.

**Claim Liabilities**

Claim liabilities of the Authority are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claim liabilities include an amount for claims that have been incurred but not reported (IBNRs); a negative amount reflects a current year change in the estimated unpaid claims balance at the beginning of the year. Claim liabilities are calculated considering effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. As of June 30, 2018 the Authority has no recorded liability for claims and judgments. Moreover, no recorded losses have been incurred during the last three year.

(5) **Contingencies**

Amounts received or receivable from grant agencies are subject to audit and adjustment by the grantor Authority. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Authority expects such amounts, if any, to be immaterial.

The annual reconciliation of actual O&M costs against budget for FY 2017/18 costs could result in an unrecorded liability or receivable, depending upon the calculations. As of this time, the amount has not yet been determined.
**Changes in Capital Assets**

### Capital Assets

The following is a summary of capital assets, accumulated depreciation and amortization, jobs in progress and intangible assets at June 30, 2018 with changes therein:

<table>
<thead>
<tr>
<th></th>
<th>Balance at 06/30/17</th>
<th>Additions</th>
<th>Transfers &amp; Retirements</th>
<th>Balance at 06/30/18</th>
<th>Accumulated Depreciation at 06/30/18</th>
<th>Net Book Value at 06/30/18</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital Assets, not</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Being depreciated:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$1,476,144</td>
<td>$ -</td>
<td>$ -</td>
<td>$1,476,144</td>
<td>$ -</td>
<td>$1,476,144</td>
</tr>
<tr>
<td>Jobs in progress</td>
<td>146,138,968</td>
<td>4,998,689</td>
<td>-</td>
<td>151,137,657</td>
<td>-</td>
<td>151,137,657</td>
</tr>
<tr>
<td><strong>Total capital assets, not</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Being depreciated:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treatment plants</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>pump stations and pipelines</td>
<td>107,914,721</td>
<td>112,822</td>
<td>-</td>
<td>108,027,543</td>
<td>(33,537,964)</td>
<td>74,489,579</td>
</tr>
<tr>
<td>Land Improvement/ Easements</td>
<td>14,869,711</td>
<td>369,561</td>
<td>-</td>
<td>15,239,272</td>
<td>(6,116,916)</td>
<td>9,122,356</td>
</tr>
<tr>
<td>Equipment</td>
<td>3,370,567</td>
<td>208,804</td>
<td>-</td>
<td>3,579,371</td>
<td>(1,841,833)</td>
<td>1,737,538</td>
</tr>
<tr>
<td><strong>Total capital assets,</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>being depreciated</strong></td>
<td>126,154,999</td>
<td>691,187</td>
<td>-</td>
<td>126,846,186</td>
<td>(41,496,714)</td>
<td>85,349,473</td>
</tr>
<tr>
<td><strong>Capital assets,</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>being amortized:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Computer software</td>
<td>157,845</td>
<td>-</td>
<td>-</td>
<td>157,845</td>
<td>(92,631)</td>
<td>65,214</td>
</tr>
<tr>
<td>Supplementary Treatment capacity</td>
<td>24,216,851</td>
<td>-</td>
<td>-</td>
<td>24,216,851</td>
<td>(9,772,555)</td>
<td>14,444,296</td>
</tr>
<tr>
<td><strong>Total capital assets,</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>being amortized</strong></td>
<td>24,374,696</td>
<td>-</td>
<td>-</td>
<td>24,374,696</td>
<td>(9,865,186)</td>
<td>14,509,510</td>
</tr>
<tr>
<td><strong>Total capital assets</strong></td>
<td><strong>$298,144,807</strong></td>
<td><strong>$5,689,876</strong></td>
<td>-</td>
<td><strong>$303,834,683</strong></td>
<td>(51,361,899)</td>
<td><strong>$252,472,784</strong></td>
</tr>
</tbody>
</table>
(6) Changes in Capital Assets (continued):

Changes in Accumulated Depreciation and Amortization

The following is a summary of property, plant and equipment accumulated depreciation and amortization at June 30, 2018:

<table>
<thead>
<tr>
<th>Capital assets, accumulated depreciation/amortization:</th>
<th>Balance at 06/30/17</th>
<th>Transfers &amp; Retirements</th>
<th>Balance at 06/30/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treatment plants, pump stations and pipelines</td>
<td>($31,047,456)</td>
<td>($2,490,508)</td>
<td>$-</td>
</tr>
<tr>
<td>Land Improvement/ Easements</td>
<td>(5,543,007)</td>
<td>(573,909)</td>
<td>-</td>
</tr>
<tr>
<td>Equipment</td>
<td>(1,529,725)</td>
<td>(312,108)</td>
<td>-</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(38,120,188)</td>
<td>(3,376,525)</td>
<td>-</td>
</tr>
<tr>
<td>Computer software</td>
<td>(82,066)</td>
<td>(10,565)</td>
<td>-</td>
</tr>
<tr>
<td>Supplementary treatment capacity</td>
<td>(9,057,376)</td>
<td>(715,179)</td>
<td>-</td>
</tr>
<tr>
<td>Accumulated amortization</td>
<td>(9,139,442)</td>
<td>(725,744)</td>
<td>-</td>
</tr>
<tr>
<td>Total accumulated depreciation/amortization</td>
<td>($47,259,630)</td>
<td>($4,102,269)</td>
<td>$-</td>
</tr>
</tbody>
</table>

Depreciation and amortization of tangible and intangible assets has been computed on a straight-line basis over various estimated useful lives ranging from five to fifty years. One month depreciation and amortization is recorded in the month of acquisition if the asset is acquired by the 15th of the month or earlier. Otherwise, depreciation and amortization begins on the following month. For the fiscal year ended June 30, 2018, depreciation and amortization expense was $4,102,269.

Jobs in Progress

At the fiscal year ended June 30, 2018, the Authority had several jobs in progress that would expand or enhance the desalter operations and provide for ancillary facilities that support Authority activities.

The jobs in progress at June 30, 2018, were as follows:

<table>
<thead>
<tr>
<th>Job Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chino Desalter No. 1 &amp; 2</td>
<td>$5,517,715</td>
</tr>
<tr>
<td>Chino Desalter Phase 3 Expansion</td>
<td>144,546,913</td>
</tr>
<tr>
<td>South Archibald Plume Cleanup</td>
<td>1,073,029</td>
</tr>
<tr>
<td>Total Jobs in Process</td>
<td>$151,137,657</td>
</tr>
</tbody>
</table>
(7) Construction Commitments

The Authority is committed to several major construction contracts mostly relating to the Phase 3 Expansion project. It is estimated that an additional $2.92 million will be spent to complete the major projects that were in progress at June 30, 2018.

The major projects include:

- **Concentration Reduction Facility** – the project provides the design and construction of brine reduction facility to reduce the total brine waste disposal, increasing recovery of extracted groundwater. This project has an estimated current outstanding obligation of $0.05 million.

- **Equipping Wells II-10 and II-11** – Project provides for the installation of mechanical and electrical equipment and controls to allow the wells to produce and deliver groundwater to the Chino II Desalter. Estimated outstanding obligation is $0.03 million.

- **Construction of the Santa Ana River Dual Product Water Pipelines using Horizontal Directional Drilling (HDD)** – This project includes the HDD portion of the product water pipeline to be installed across the Santa Ana River, and the connection to the CDA’s Product Water Pipeline on the north and south sides of the river. The construction portion of this project is estimated to cost $2.2 million.

- **Project and Construction Management** – the CDA entered into contracts with third parties to manage the Expansion Phase 3 Project and the South Archibald Plume Project. Estimate outstanding obligation for the Expansion project is $.01 million and $.6 million.

- **Chino I Desalter Reliability Project** – the primary purpose of project is to increase the reverse osmosis (RO) capacity which will require the construction of an additional RO Train, the extension of the Chino I Desalter building, and related improvements. Estimated outstanding obligation is $0.03 million.
(8) Long-Term Debt & Contract Payable

Summary of long-term debt activity for the fiscal year ended June 30, 2018 was as follows:

2016A Desalter Revenue Refunding Bonds

On July 14, 2016, the Authority issued Revenue Refunding Bonds, Series 2016A, in the amount of $67,105,000. The Bonds will bear a fixed interest rate between 2.00% to 5.00% annually and payable semi-annually through the year 2035.

Summary of changes in Long-Term debt for the fiscal year ended June 30, 2018:

<table>
<thead>
<tr>
<th>Bonds Payable</th>
<th>Beginning Balance</th>
<th>Additions</th>
<th>Reductions</th>
<th>Ending Balance</th>
<th>Due within One year</th>
<th>Due after One year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016A Bonds</td>
<td>$64,545,000</td>
<td>$ -</td>
<td>$2,305,000</td>
<td>$62,240,000</td>
<td>$2,465,000</td>
<td>$59,775,000</td>
</tr>
<tr>
<td>Net Premium (discount)</td>
<td>7,720,644</td>
<td>-</td>
<td>428,924</td>
<td>7,291,720</td>
<td>-</td>
<td>7,291,720</td>
</tr>
<tr>
<td></td>
<td>$69,960,644</td>
<td>$ -</td>
<td>$2,733,924</td>
<td>$69,531,720</td>
<td>$2,465,000</td>
<td>$67,066,720</td>
</tr>
</tbody>
</table>

For financial presentation purposes, the balance of the deferred bond premium was combined into the long-term bond debt liability, with an aggregate balance at June 2018 of $67,066,720.

Aggregate Long-Term Debt

As of June 30, 2018, the aggregate debt service requirements on bonded indebtedness to maturity are summarized as follows:

<table>
<thead>
<tr>
<th>Year Ending June 30</th>
<th>Principal Payments</th>
<th>Interest payments</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>2,465,000</td>
<td>2,438,513</td>
<td>4,903,513</td>
</tr>
<tr>
<td>2020</td>
<td>2,645,000</td>
<td>2,315,263</td>
<td>4,960,263</td>
</tr>
<tr>
<td>2021</td>
<td>2,780,000</td>
<td>2,183,013</td>
<td>4,963,013</td>
</tr>
<tr>
<td>2022</td>
<td>2,910,000</td>
<td>2,044,013</td>
<td>4,954,013</td>
</tr>
<tr>
<td>2023</td>
<td>3,065,000</td>
<td>1,898,513</td>
<td>4,963,513</td>
</tr>
<tr>
<td>2024 – 2027</td>
<td>17,670,000</td>
<td>7,110,613</td>
<td>24,780,613</td>
</tr>
<tr>
<td>2028 – 2032</td>
<td>21,220,000</td>
<td>3,570,572</td>
<td>24,790,572</td>
</tr>
<tr>
<td>2033 – 2035</td>
<td>9,485,000</td>
<td>429,000</td>
<td>9,914,000</td>
</tr>
<tr>
<td>Subtotal</td>
<td>62,240,000</td>
<td>21,989,500</td>
<td>84,229,500</td>
</tr>
<tr>
<td>Plus: Net premium/(discount)</td>
<td>7,291,720</td>
<td>-</td>
<td>7,291,720</td>
</tr>
<tr>
<td>Total debt service payable</td>
<td>$69,531,720</td>
<td>$21,989,500</td>
<td>$91,521,220</td>
</tr>
</tbody>
</table>
(8) Long-Term Debt & Contract Payable (continued):

**Contract Payable**

In April 2012 the Authority entered into an end-user Direct-Osmosis-High Salinity (DO-HS) cost sharing agreement with IDE Technologies LTD. IDE Technologies LTD contributed $80,000 to assist CDA in installing DO-HS Technology to its Chino Desalter I facility. CDA will reimburse IDE technologies LTD through IDE Americas the contribution plus interest from net cost savings realized as a result of the implementation of DO-HS Technology. The $80,000 is included in Contract Payable, due in more than one year.

**Compensated Absences**

<table>
<thead>
<tr>
<th></th>
<th>Beginning Balance</th>
<th>Additions</th>
<th>Deletions</th>
<th>Ending Balance</th>
<th>Due within One year</th>
<th>Due after One year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$82,511</td>
<td>$19,586</td>
<td>$14,390</td>
<td>$87,707</td>
<td>$13,423</td>
<td>$74,284</td>
</tr>
</tbody>
</table>

(9) Arbitrage Rebate Obligation

Arbitrage rebate refers to the required payment, to the U.S. Treasury, of excess earnings received on tax exempt bond proceeds that are invested at a higher yield than the yield of the tax exempt bond issue. Federal law requires that arbitrage liability, and cumulative excess arbitrage earnings, be calculated and remitted to the U.S. Treasury at the end of the fifth bond year, and every fifth year thereafter.

The 2016A Desalter Revenue Refunding Bonds are subject to arbitrage limitations. As of June 30, 2018, no rebate liability is due for the period ending June 30, 2018.

(10) Groundwater Replenishment Expense/Credits

As a result of CDA’s extraction of groundwater from the Chino Basin, a replenishment cost of water is associated with such pumping. This replenishment cost is assessed by the Chino Basin Watermaster (CBW). CDA is given a credit under agreement with CBW and its members for the replenishment cost of its annual production of water. The credit for groundwater replenishment is reflected as revenue and expense in the accompanying financial statements. The replenishment cost for FY2017/18 production was estimated at $20,896,621.

(11) Defined Contribution Pension Plans

In March 2011, the Authority’s Board of Directors adopted a resolution to establish a deferred compensation plan and appointed a plan administrator, ICMA-RC Services, LLC. All future changes to the plan must be approved by the Authority’s Board of Directors. The deferred compensation plan is a defined contribution plan and is qualified under the IRC Section 401(a). The resolution stipulated that qualified employees are required to contribute 4% of their earnings, and the Authority contributes 20% of the employee’s earning to the plan, with the exception of the General Manager’s position, which has a defined monthly pension amount as stipulated in an employment contract. The total value of the 401 (a) plan is $637,926 June 30, 2018.
(12) Operating Lease

On April 2011, the Chino Basin Desalter Authority entered into a 36 month lease agreement with ARI Haven, LLC to lease a 2,115 square foot office space. On March 7, 2014, the Authority entered into the first amendment to extend the lease term through July 2017. Commencing on August 2017, the office space will be leased on a month to month basis.

Total operating lease costs were $42,754 for the year ended June 30, 2018. The future minimum lease payments for the office space are as follows:

<table>
<thead>
<tr>
<th>Year Ended June 30</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 (month to month basis)</td>
<td>$44,100</td>
</tr>
<tr>
<td>Total</td>
<td>$44,100</td>
</tr>
</tbody>
</table>

(13) Subsequent Events

Other events occurring after June 30, 2018, have been evaluated for possible adjustments to the financial statements or disclosures as of December 12, 2018, which is the date these financial statements were available to be issued.
This part of the Chino Basin Desalter Authority’s Comprehensive Annual Financial Report presents detailed information as a context of understanding what the information in the financial statement, footnote disclosures, and required supplementary information says about the Authority’s overall financial health.

**Contents**

**Financial Trends**
These schedules contain trend information to help the reader understand how CDA’s financial performance and well-being have changed over time.

**Revenue Capacity**
These schedules contain information to help the reader assess CDA’s major revenue sources.

**Debt Capacity**
These schedules present information to help the reader assess the affordability of CDA’s current level of outstanding debts and the Authority’s ability to issue additional debt in the future.

**Operating Indicators**
These schedules contain service and infrastructure data to help the reader understand the operations of CDA.

**Demographic and Economic Information**
These schedules provide demographic and economic indicators to help the reader understand the environment within which the Authority’s financial activities take place.
### CHINO BASIN DESALTER AUTHORITY

#### Historical Operating Results

**Statement of Revenues, Expenses and Changes in Fund Net Position**

**Fiscal Years Ended June 30, 2009, through 2018**

(In Thousand Dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations and maintenance assessments</td>
<td>$19,382</td>
<td>$17,044</td>
<td>$16,618</td>
<td>$14,113</td>
<td>$14,086</td>
<td>$13,731</td>
<td>$14,351</td>
<td>$13,608</td>
<td>$12,363</td>
<td>$12,363</td>
</tr>
<tr>
<td>Rebate credits - MWD</td>
<td>2,654</td>
<td>2,687</td>
<td>2,415</td>
<td>2,784</td>
<td>4,549</td>
<td>2,479</td>
<td>1,854</td>
<td>2,400</td>
<td>2,400</td>
<td>6,243</td>
</tr>
<tr>
<td>Groundwater replenishment credit</td>
<td>20,897</td>
<td>18,367</td>
<td>20,049</td>
<td>19,022</td>
<td>17,546</td>
<td>14,492</td>
<td>15,439</td>
<td>14,696</td>
<td>15,428</td>
<td>11,015</td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>42,933</td>
<td>38,098</td>
<td>39,082</td>
<td>35,919</td>
<td>36,181</td>
<td>30,702</td>
<td>31,644</td>
<td>30,704</td>
<td>31,225</td>
<td>29,621</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating Expenses</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations and maintenance</td>
<td>14,483</td>
<td>11,478</td>
<td>11,355</td>
<td>11,908</td>
<td>10,194</td>
<td>10,476</td>
<td>12,590</td>
<td>11,199</td>
<td>10,760</td>
<td>10,760</td>
</tr>
<tr>
<td>MWD credits to member agencies</td>
<td>2,654</td>
<td>2,687</td>
<td>2,415</td>
<td>2,784</td>
<td>4,549</td>
<td>2,479</td>
<td>1,854</td>
<td>2,400</td>
<td>2,400</td>
<td>6,243</td>
</tr>
<tr>
<td>Groundwater replenishment expense</td>
<td>20,897</td>
<td>18,367</td>
<td>20,049</td>
<td>19,022</td>
<td>17,546</td>
<td>14,492</td>
<td>15,439</td>
<td>14,696</td>
<td>15,428</td>
<td>11,015</td>
</tr>
<tr>
<td>Administration and general</td>
<td>1,267</td>
<td>1,141</td>
<td>1,021</td>
<td>917</td>
<td>959</td>
<td>1,609</td>
<td>1,322</td>
<td>549</td>
<td>677</td>
<td>520</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>4,102</td>
<td>4,053</td>
<td>3,984</td>
<td>3,984</td>
<td>3,963</td>
<td>3,956</td>
<td>4,166</td>
<td>4,390</td>
<td>4,380</td>
<td>4,364</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>43,403</td>
<td>37,726</td>
<td>38,824</td>
<td>38,594</td>
<td>38,334</td>
<td>32,730</td>
<td>33,257</td>
<td>34,625</td>
<td>34,084</td>
<td>32,902</td>
</tr>
</tbody>
</table>

| Operating income (loss)                  | (470)  | 372    | 258    | (2,675)| (2,153)| (2,028)| (1,613)| (3,921)| (2,859)| (3,281)|

<table>
<thead>
<tr>
<th>Nonoperating Revenues (Expenses)</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>382</td>
<td>108</td>
<td>324</td>
<td>303</td>
<td>309</td>
<td>375</td>
<td>393</td>
<td>413</td>
<td>462</td>
<td>749</td>
</tr>
<tr>
<td>Fixed project/capital assessments</td>
<td>6,541</td>
<td>5,659</td>
<td>10,823</td>
<td>6,562</td>
<td>7,038</td>
<td>7,082</td>
<td>6,877</td>
<td>6,521</td>
<td>6,080</td>
<td>6,781</td>
</tr>
<tr>
<td>Other nonoperating revenues (expenses)</td>
<td>338</td>
<td>(1,033)</td>
<td>387</td>
<td>144</td>
<td>215</td>
<td>66</td>
<td>5</td>
<td>82</td>
<td>573</td>
<td>363</td>
</tr>
<tr>
<td>Interest on long-term debt</td>
<td>(2,544)</td>
<td>(2,203)</td>
<td>(3,723)</td>
<td>(3,807)</td>
<td>(3,878)</td>
<td>(3,939)</td>
<td>(3,996)</td>
<td>(4,051)</td>
<td>(4,099)</td>
<td>(4,144)</td>
</tr>
<tr>
<td>Annual reconciliation of costs</td>
<td>(4,260)</td>
<td>(4,209)</td>
<td>(1,301)</td>
<td>(1,773)</td>
<td>(1,763)</td>
<td>(2,570)</td>
<td>(503)</td>
<td>(1,468)</td>
<td>(1,004)</td>
<td>(1,217)</td>
</tr>
<tr>
<td>Distribution of reserves to members agencies</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(864)</td>
<td>(786)</td>
<td>(1,280)</td>
<td>-</td>
<td>-</td>
<td>(10,000)</td>
<td>-</td>
</tr>
<tr>
<td>Payments of federal grants to Sponsors</td>
<td>(96)</td>
<td>(200)</td>
<td>(4,768)</td>
<td>(3,229)</td>
<td>(1,113)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total nonoperating revenues (expenses)</td>
<td>361</td>
<td>(1,878)</td>
<td>1,742</td>
<td>(2,664)</td>
<td>2</td>
<td>(266)</td>
<td>2,776</td>
<td>1,497</td>
<td>(7,988)</td>
<td>2,532</td>
</tr>
</tbody>
</table>

| Income (loss) before contributions       | (109)  | (1,506)| 2,000  | (5,339)| (2,151)| (2,294)| 1,163  | (2,424)| (10,847)| (749)  |

<table>
<thead>
<tr>
<th>Capital Contributions</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital grants</td>
<td>96</td>
<td>200</td>
<td>4,769</td>
<td>3,229</td>
<td>1,113</td>
<td>585</td>
<td>412</td>
<td>22</td>
<td>12</td>
<td>-</td>
</tr>
<tr>
<td>Contributed expansion costs from sponsors</td>
<td>3,597</td>
<td>10,578</td>
<td>19,615</td>
<td>58,158</td>
<td>21,011</td>
<td>6,395</td>
<td>22,490</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior year adjustment</td>
<td>708</td>
<td>336</td>
<td>28</td>
<td>-</td>
<td>-</td>
<td>(222)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Total Capital Contributions</td>
<td>4,401</td>
<td>11,114</td>
<td>24,412</td>
<td>61,387</td>
<td>22,124</td>
<td>6,980</td>
<td>22,680</td>
<td>22</td>
<td>12</td>
<td>-</td>
</tr>
</tbody>
</table>

| Change in net position                  | 4,292  | 9,608  | 26,412 | 56,048 | 19,973 | 4,686  | 23,843 | (2,402)| (10,835)| (749)  |

| Total net position - beginning          | 195,606| 185,998| 159,587| 103,539| 83,566 | 78,880 | 55,037 | 57,439 | 68,274 | 69,023 |
| Total net position - ending             | $199,898| $195,606| $185,999| $159,587| $103,539| $83,566| $78,880| $55,037| $57,439| $68,274|

Source: Chino Basin Desalter Authority's Financial Statements
CHINO BASIN DESALTER AUTHORITY  
Net Position by Component  
Last Ten Fiscal Years  
(in million dollars)  

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Investment in Capital Assets (a)</td>
<td>183</td>
<td>179</td>
<td>169.9</td>
<td>151</td>
<td>94.1</td>
<td>74.4</td>
<td>68.5</td>
<td>46.4</td>
<td>48.2</td>
<td>49.3</td>
</tr>
<tr>
<td>Reserved for Membranes Repl</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.3</td>
<td>1.2</td>
<td>1.0</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>17.0</td>
<td>16.6</td>
<td>16.1</td>
<td>8.5</td>
<td>9.4</td>
<td>9.2</td>
<td>10.6</td>
<td>8.3</td>
<td>8.0</td>
<td>18.0</td>
</tr>
<tr>
<td>Total Net Position</td>
<td>200.0</td>
<td>195.6</td>
<td>186.0</td>
<td>159.5</td>
<td>103.5</td>
<td>83.6</td>
<td>79.1</td>
<td>55.0</td>
<td>57.4</td>
<td>68.3</td>
</tr>
</tbody>
</table>

Note (a) - The debt service amount has been incorporated into the calculation of investment in net capital assets.

Source: Chino Basin Desalter Authority's Financial Statements
Description - This indicator measures the ability of the Authority's annual operating revenues to cover annual operating costs. A ratio of one or higher indicates the entity operated within its means.

Operating Revenue/Operating Expenses

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total Operating Revenues</th>
<th>Total Operating Expenses (a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>29,621</td>
<td>28,538</td>
</tr>
<tr>
<td>2010</td>
<td>31,225</td>
<td>30,235</td>
</tr>
<tr>
<td>2011</td>
<td>31,644</td>
<td>29,091</td>
</tr>
<tr>
<td>2012</td>
<td>30,704</td>
<td>28,774</td>
</tr>
<tr>
<td>2013</td>
<td>31,644</td>
<td>30,702</td>
</tr>
<tr>
<td>2014</td>
<td>34,420</td>
<td>28,774</td>
</tr>
<tr>
<td>2015</td>
<td>34,618</td>
<td>30,702</td>
</tr>
<tr>
<td>2016</td>
<td>39,082</td>
<td>34,841</td>
</tr>
<tr>
<td>2017</td>
<td>38,098</td>
<td>33,674</td>
</tr>
<tr>
<td>2018</td>
<td>42,933</td>
<td>39,300</td>
</tr>
</tbody>
</table>

(a) excluding depreciation and amortization expenses

Source: Chino Basin Desalter Authority's Financial Statements
CHINO BASIN DESALTER AUTHORITY
Revenues by Source
Last Ten Fiscal Years
(in million dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>O&amp;M Assessments</td>
<td>19.4</td>
<td>17.0</td>
<td>16.6</td>
<td>14.1</td>
<td>14.1</td>
<td>14.4</td>
<td>14.4</td>
<td>13.6</td>
<td>13.4</td>
<td>12.4</td>
</tr>
<tr>
<td>MWD Contributions</td>
<td>2.7</td>
<td>2.7</td>
<td>2.4</td>
<td>2.8</td>
<td>4.5</td>
<td>2.5</td>
<td>1.9</td>
<td>2.4</td>
<td>2.4</td>
<td>6.2</td>
</tr>
<tr>
<td>Total Operating Revenue</td>
<td>22.1</td>
<td>19.7</td>
<td>19.0</td>
<td>16.9</td>
<td>18.6</td>
<td>16.9</td>
<td>16.3</td>
<td>16.0</td>
<td>15.8</td>
<td>18.6</td>
</tr>
<tr>
<td>Fixed Project Assessments</td>
<td>6.5</td>
<td>5.6</td>
<td>10.8</td>
<td>6.6</td>
<td>7.0</td>
<td>7.1</td>
<td>6.9</td>
<td>6.5</td>
<td>6.1</td>
<td>6.8</td>
</tr>
<tr>
<td>Other Nonoperating Revenue</td>
<td>0.4</td>
<td>0.1</td>
<td>0.7</td>
<td>0.4</td>
<td>0.5</td>
<td>0.4</td>
<td>0.4</td>
<td>0.5</td>
<td>1.0</td>
<td>1.1</td>
</tr>
<tr>
<td>Total Nonoperating Revenue</td>
<td>6.9</td>
<td>5.7</td>
<td>11.5</td>
<td>7.0</td>
<td>7.5</td>
<td>7.5</td>
<td>7.3</td>
<td>7.0</td>
<td>7.1</td>
<td>7.9</td>
</tr>
<tr>
<td>Total Combined Revenues</td>
<td>29.0</td>
<td>25.4</td>
<td>30.5</td>
<td>23.9</td>
<td>26.1</td>
<td>24.4</td>
<td>23.6</td>
<td>23.0</td>
<td>22.9</td>
<td>26.5</td>
</tr>
</tbody>
</table>

Revenue by Fiscal Year

Source: Chino Basin Desalter Authority's Financial Statements
## CHINO BASIN DESALTER AUTHORITY

Operating Indicators
FY2017 Staffing Allocations
As of June 30, 2018

<table>
<thead>
<tr>
<th>Total Staffing Positions</th>
<th>Full Time Equivalent</th>
<th>Part-time</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>3</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Operations</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total CDA Staff</strong></td>
<td><strong>3</strong></td>
<td><strong>2</strong></td>
<td><strong>5</strong></td>
</tr>
<tr>
<td>Chino 1 - Contracted Staff</td>
<td>7</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Chino 2 - Contracted Staff</td>
<td>13</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total Contracted Staff</strong></td>
<td><strong>20</strong></td>
<td>0</td>
<td><strong>20</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>23</strong></td>
<td><strong>2</strong></td>
<td><strong>25</strong></td>
</tr>
</tbody>
</table>

Note: Chino 1 operations is under contract with Inland Empire Utilities Agency
Chino 2 operations is under contract with Jurupa Community Service District

Sources:  Chino Basin Desalter Authority's Budget for FY2018
## CHINO BASIN DESALTER AUTHORITY
### Debt Service Payment Schedule
#### Fiscal Years 2017-2035

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Interest</th>
<th>Principal</th>
<th>Total Payment</th>
<th>Principal Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning balance of the 2016A Bond</td>
<td>67,105,000</td>
<td></td>
<td></td>
<td>67,105,000</td>
</tr>
<tr>
<td>2017</td>
<td>2,293,814</td>
<td>2,560,000</td>
<td>4,853,814</td>
<td>64,545,000</td>
</tr>
<tr>
<td>2018</td>
<td>2,553,763</td>
<td>2,305,000</td>
<td>4,858,763</td>
<td>62,240,000</td>
</tr>
<tr>
<td>2019</td>
<td>2,438,513</td>
<td>2,465,000</td>
<td>4,903,513</td>
<td>59,775,000</td>
</tr>
<tr>
<td>2020</td>
<td>2,315,263</td>
<td>2,645,000</td>
<td>4,960,263</td>
<td>57,130,000</td>
</tr>
<tr>
<td>2021</td>
<td>2,183,012</td>
<td>2,780,000</td>
<td>4,963,012</td>
<td>54,350,000</td>
</tr>
<tr>
<td>2022</td>
<td>2,044,013</td>
<td>2,910,000</td>
<td>4,954,013</td>
<td>51,440,000</td>
</tr>
<tr>
<td>2023</td>
<td>1,898,512</td>
<td>3,065,000</td>
<td>4,963,512</td>
<td>48,375,000</td>
</tr>
<tr>
<td>2024</td>
<td>1,745,263</td>
<td>3,215,000</td>
<td>4,960,263</td>
<td>45,160,000</td>
</tr>
<tr>
<td>2025</td>
<td>1,584,512</td>
<td>3,370,000</td>
<td>4,954,512</td>
<td>41,790,000</td>
</tr>
<tr>
<td>2026</td>
<td>1,416,013</td>
<td>3,540,000</td>
<td>4,956,013</td>
<td>38,250,000</td>
</tr>
<tr>
<td>2027</td>
<td>1,274,412</td>
<td>3,680,000</td>
<td>4,954,412</td>
<td>34,570,000</td>
</tr>
<tr>
<td>2028</td>
<td>1,090,413</td>
<td>3,865,000</td>
<td>4,955,413</td>
<td>30,705,000</td>
</tr>
<tr>
<td>2029</td>
<td>935,812</td>
<td>4,015,000</td>
<td>4,950,812</td>
<td>26,690,000</td>
</tr>
<tr>
<td>2030</td>
<td>855,513</td>
<td>4,105,000</td>
<td>4,960,513</td>
<td>22,585,000</td>
</tr>
<tr>
<td>2031</td>
<td>763,150</td>
<td>4,195,000</td>
<td>4,958,150</td>
<td>18,390,000</td>
</tr>
<tr>
<td>2032</td>
<td>595,350</td>
<td>4,365,000</td>
<td>4,960,350</td>
<td>14,025,000</td>
</tr>
<tr>
<td>2033</td>
<td>420,750</td>
<td>4,540,000</td>
<td>4,960,750</td>
<td>9,485,000</td>
</tr>
<tr>
<td>2034</td>
<td>284,550</td>
<td>4,670,000</td>
<td>4,954,550</td>
<td>4,815,000</td>
</tr>
<tr>
<td>2035</td>
<td>144,450</td>
<td>4,815,000</td>
<td>4,959,450</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: 2016A Bonds Debt Service Schedule
## CHINO BASIN DESALTER AUTHORITY

### Ratio of Outstanding Debt by Type

#### Last Ten Fiscal Years

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Revenue Bonds</th>
<th>Other Non-Current Liabilities</th>
<th>Total</th>
<th>Total Assets</th>
<th>Total Debt Per Total Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>69,531,720</td>
<td>80,000</td>
<td>69,611,720</td>
<td>283,342,902</td>
<td>25%</td>
</tr>
<tr>
<td>2017</td>
<td>72,265,644</td>
<td>80,000</td>
<td>72,345,644</td>
<td>311,956,970</td>
<td>23%</td>
</tr>
<tr>
<td>2016</td>
<td>76,066,072</td>
<td>80,000</td>
<td>76,146,072</td>
<td>284,150,138</td>
<td>27%</td>
</tr>
<tr>
<td>2015</td>
<td>78,353,234</td>
<td>80,000</td>
<td>78,433,234</td>
<td>277,009,764</td>
<td>28%</td>
</tr>
<tr>
<td>2014</td>
<td>80,505,396</td>
<td>80,000</td>
<td>80,585,396</td>
<td>275,352,005</td>
<td>29%</td>
</tr>
<tr>
<td>2013</td>
<td>82,552,558</td>
<td>80,000</td>
<td>82,632,558</td>
<td>186,862,890</td>
<td>44%</td>
</tr>
<tr>
<td>2012</td>
<td>84,484,719</td>
<td>80,000</td>
<td>84,564,719</td>
<td>175,903,130</td>
<td>48%</td>
</tr>
<tr>
<td>2011</td>
<td>86,650,170</td>
<td>80,000</td>
<td>86,730,170</td>
<td>145,307,722</td>
<td>60%</td>
</tr>
<tr>
<td>2010</td>
<td>88,391,219</td>
<td>-</td>
<td>88,391,219</td>
<td>148,523,949</td>
<td>60%</td>
</tr>
<tr>
<td>2009</td>
<td>90,047,268</td>
<td>-</td>
<td>90,047,268</td>
<td>165,029,232</td>
<td>55%</td>
</tr>
</tbody>
</table>

Source: Chino Basin Desalter Authority's Financial Data
The following table displays Fiscal Year 2017/18 water production deliveries to Authority's member agencies:

<table>
<thead>
<tr>
<th>CDA Members</th>
<th>Total Acre-Feet</th>
<th>Percentage of Acre-Feet</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of Chino</td>
<td>5,009</td>
<td>19.3%</td>
</tr>
<tr>
<td>City of Chino Hills</td>
<td>4,212</td>
<td>16.2%</td>
</tr>
<tr>
<td>City of Norco</td>
<td>8,668</td>
<td>33.3%</td>
</tr>
<tr>
<td>City of Ontario</td>
<td>1,004</td>
<td>3.9%</td>
</tr>
<tr>
<td>Santa Ana River Water Company</td>
<td>1,200</td>
<td>4.6%</td>
</tr>
<tr>
<td>Jurupa Community Services District</td>
<td>5,928</td>
<td>22.8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>26,020</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

*AF (Acre-Feet) is a unit of measurement equal to 325,900 gallons of water which meets the needs of two average families in and around the home for one year.*

Source: Chino Basin Desalter Authority's Production Report
CHINO BASIN DESALTER AUTHORITY
Actual Desalter Water Sales
For the Past Five Fiscal Years
(In Acre-Feet)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>City of Chino</th>
<th>City of Chino Hills</th>
<th>Jurupa Community Services District</th>
<th>City of Norco</th>
<th>City of Ontario</th>
<th>Santa Ana River Water Company</th>
<th>Total Acre-Feet</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013/14</td>
<td>5,156.2</td>
<td>4,349.0</td>
<td>8,644.1</td>
<td>1,011.5</td>
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<td>4,201.0</td>
<td>8,184.0</td>
<td>1,012.0</td>
<td>5,000.0</td>
<td>1,200.0</td>
<td>24,597.0</td>
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<tr>
<td>2016/17</td>
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<td>4,207.7</td>
<td>8,222.8</td>
<td>1,003.0</td>
<td>5,012.6</td>
<td>1,200.0</td>
<td>24,654.5</td>
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<td>4,211.5</td>
<td>8,668.0</td>
<td>1,004.1</td>
<td>5,927.8</td>
<td>1,200.0</td>
<td>26,020.3</td>
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Desalter Water Sales
For the Past Five Fiscal Years
(In Acre-Feet)

Source: Chino Basin Desalter Authority's Production Report
CHINO BASIN DESALTER AUTHORITY  
Current Well Capacity of Chino I and Chino II Desalters  
(Gallons Per Minute [gpm])  

June 30, 2018

<table>
<thead>
<tr>
<th>Chino I Wells</th>
<th>Design Capacity in gpm</th>
<th>Operating Potential in gpm</th>
<th>Chino II Wells</th>
<th>Design Capacity in gpm</th>
<th>Operating Potential in gpm</th>
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</thead>
<tbody>
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<td>I-1</td>
<td>600</td>
<td>317</td>
<td>II-1</td>
<td>2,000</td>
<td>1,570</td>
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<tr>
<td>I-2</td>
<td>300</td>
<td>-</td>
<td>II-2</td>
<td>2,000</td>
<td>1,697</td>
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<td>II-3</td>
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<td>159</td>
<td>II-4</td>
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<td>600</td>
<td>II-6</td>
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<td>II-9a</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>17,350</strong></td>
<td><strong>10,895</strong></td>
<td><strong>14,700</strong></td>
<td><strong>12,262</strong></td>
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</table>

Source: Chino Basin Desalter Authority's Production Report through June 6, 2018
<table>
<thead>
<tr>
<th>CDA Members</th>
<th>Population</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Municipal Water District*</td>
<td>950,000</td>
<td>63%</td>
</tr>
<tr>
<td>City of Ontario</td>
<td>175,841</td>
<td>12%</td>
</tr>
<tr>
<td>Jurupa Community Services District</td>
<td>169,239</td>
<td>11%</td>
</tr>
<tr>
<td>City of Chino</td>
<td>89,797</td>
<td>6%</td>
</tr>
<tr>
<td>City of Chino Hills</td>
<td>80,374</td>
<td>5%</td>
</tr>
<tr>
<td>City of Norco</td>
<td>26,761</td>
<td>2%</td>
</tr>
<tr>
<td>Santa Ana River Water Company*</td>
<td>8,600</td>
<td>1%</td>
</tr>
<tr>
<td></td>
<td>1,500,612</td>
<td>100%</td>
</tr>
</tbody>
</table>

*Estimated

Sources: County of Riverside Economic Development Agency  
County of San Bernardino Development Agency  
Western MWD Website; ESRI Site Map
• A joint project with:

The City of Chino

The City of Chino Hills

The City of Norco

The City of Ontario

Jurupa Community Services District

Santa Ana River Water Company

Inland Empire Utilities Agency

Western Municipal Water District

Chino Basin Desalter Authority
Contact us at finance@chinodesalter.org

www.chinodesalter.org