



Chino Basin Watermaster

Annual Financial Report

For the Fiscal Years Ended June 30, 2019 and 2018

Our Mission Statement

“To manage the Chino Groundwater Basin in the most beneficial manner and to equitably administer and enforce the provisions of the Chino Basin Watermaster Judgment”

<u>Pools</u>	<u>Name</u>	<u>Title</u>	<u>Current Term</u>
Agricultural	Paul Hofer	Member	Ongoing ¹
Agricultural	Jeff Pierson	Chair	Ongoing ¹
Non-Agricultural	Robert Bowcock	Member	Ongoing ¹
Appropriative	Darron Poulsen	Vice-Chair	January 2021 ^{1,2}
Appropriative	Gino L. Filippi	Member	January 2020 ^{1,2}
Appropriative	Eunice Ulloa	Member	January 2020 ^{1,2}
Municipal	Steve Elie	Member	Ongoing ¹
Municipal	Bob G. Kuhn	Secretary/Treasurer	Ongoing ¹
Municipal	Donald D. Galleano	Member	Ongoing ¹

¹ The Watermaster Board serves at the direction of Judge Reichert and was re-appointed for a five-year term, effective January 2019 through February 10, 2024 (Board approval on November 15, 2018).

² The Appropriative Pool’s rotation sequence for Board membership effective January 2019 was approved by the Appropriative Pool on November 8, 2018.

**Chino Basin Watermaster
Peter Kavounas PE, General Manager
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Chino Basin Watermaster

Annual Financial Report

For the Fiscal Years Ended June 30, 2019 and 2018

**Chino Basin Watermaster
Annual Financial Report
For the Fiscal Years Ended June 30, 2019 and 2018**

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Introductory Section



October 24, 2019

Board of Directors
Chino Basin Watermaster

Introduction

It is our pleasure to submit the Annual Financial Report for the Chino Basin Watermaster (Watermaster) for the fiscal years ended June 30, 2019 and 2018, following guidelines set forth by the Governmental Accounting Standards Board. The Watermaster is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance your understanding of the Watermaster's financial position and activities.

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

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

Watermaster Structure and Leadership

The Chino Basin Watermaster ("Watermaster") was established under a judgment entered in Superior Court of the State of California for the County of San Bernardino as a result of Case No. RCVRS 51010 (formerly Case No. SCV 164327) entitled "Chino Basin Municipal Water District v. City of Chino, et al.", signed by the Honorable Judge Howard B. Weiner on January 27, 1978. The effective date of this Judgment for accounting and operations was July 1, 1977. Under the Judgment, three Pool committees were formed: (1) Overlying (Agricultural) Pool which includes the State of California and all producers of water for overlying uses other than industrial or commercial purposes; (2) Overlying (Non-Agricultural) Pool which represents producers of water for overlying industrial or commercial purposes; and (3) Appropriative Pool which represents cities, special districts, other public or private entities and utilities. The three Pools act together to form the "Advisory Committee". Pursuant to the Judgment, the Chino Basin Municipal Water District (CBMWD) five member Board of Directors was initially appointed as "Watermaster". Pursuant to a recommendation of the Advisory Committee, the Honorable J. Michael Gunn appointed a nine-member board as Watermaster on February 19, 1998.

The General Manager administers the day-to-day operations of the Watermaster in accordance with policies and procedures established by the Board of Directors. The Watermaster staff includes ten regular, full-time employees. The Watermaster's three Pools, the Advisory Committee, and the Board of Directors meet each month.

Watermaster Mission and Services

Chino Basin Watermaster's mission is "To manage the Chino Groundwater Basin in the most beneficial manner and to equitably administer and enforce the provisions of the Chino Basin Watermaster Judgment", Case No. RCVRS 51010 (formerly Case No. SCV 164327). The Watermaster provides the Chino Groundwater Basin service area with services which primarily include: accounting for water appropriations and components of acre footage of stored water by agency, purchase of replenishment water, groundwater monitoring and implementation of special projects. The Watermaster is progressively and actively implementing the Basin's Optimum Basin Management Program which includes extensive monitoring, further developing recharge capabilities, storage and recovery projects, managing salt loads, developing new yield such as reclaimed and storm water recharge and continuing to work with other agencies and entities to enhance this significant natural resource.

Watermaster expenditures are allocated to the pools based on the prior year's production volume (or the same percentage used to set the annual assessments).

Economic Condition and Outlook

The Watermaster's office is located in the City of Rancho Cucamonga in San Bernardino County which has experienced tempered economic growth within the region. The economic outlook for the Southern California region is one of cautious growth as the region recovers from a prolonged financial down turn.

Internal Control Structure

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

Budgetary Control

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

Investment Policy

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

Water Rates and Watermaster Revenues

The Judgment prescribes Watermaster's authority and specifies classes of water production assessments to be used to fund certain activities. Those assessment categories are: Administration, Optimum Basin Management Program, Special Projects and Replenishment. Each class of assessment has a prescribed purpose and water production base. Assessment revenue is Watermaster's principal source of income.

Audit and Financial Reporting

State Law requires the Watermaster to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of Fedak & Brown LLP has conducted the audit of the Watermaster's financial statements. Their unmodified Independent Auditor's Report appears in the Financial Section.

Other References

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

Acknowledgements

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

Respectfully submitted,


Peter Kavounas, P.E.
General Manager


Joseph S. Joswiak, MBA
Chief Financial Officer

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Financial Section



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Independent Auditor's Report

Board of Directors
Chino Basin Watermaster
Rancho Cucamonga, California

Report on the Financial Statements

We have audited the accompanying financial statements of Chino Basin Watermaster (Watermaster) as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Watermaster'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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 auditor's 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 auditor considers internal control relevant to the entity'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 entity'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Watermaster, as of June 30, 2019 and 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Emphasis of a Matter

As discussed in note 1 to the financial statements, the Watermaster adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions for the years ended June 30, 2019 and 2018. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 11, the required supplementary information on pages 43 through 46 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 required supplementary information 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 our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Watermaster's basic financial statements. The introductory section on pages 1 through 3 and combining schedule of revenue, expenses and changes in net position on pages 47 and 48, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining schedule of revenue, expenses and changes in net position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules of revenue, expenses and changes in net position are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has 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.

Independent Auditor's Report, continued

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated October 24, 2019, on our consideration of the Watermaster's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Watermaster's internal control over financial reporting and compliance. This report can be found on pages 49 and 50.

A handwritten signature in dark ink that reads "Fedak & Brown LLP". The signature is written in a cursive, slightly slanted style.

Fedak & Brown LLP
Cypress, California
October 24, 2019

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Chino Basin Watermaster
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2019 and 2018

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Chino Basin Watermaster (Watermaster) provides an introduction to the financial statements of the Watermaster for the fiscal years ended June 30, 2019 and 2018. We encourage readers to consider the information presented here with additional information that we have furnished in conjunction with the transmittal letter in the Introductory Section and with the accompanying basic financial statements and related notes, which follow this section.

Financial Highlights

- The Watermaster's net position decreased by 16.51% or \$1,612,215, as a result of ongoing operations. In fiscal year 2018, the Watermaster's net position increased by 12.06% or \$1,051,508 as a result of ongoing operations and the effect of a prior period adjustment in the amount of \$296,749. Please see Note 10 to the basic financial statements for further discussion.
- The Watermaster's total revenues increased by 0.85% or \$84,827. In fiscal year 2018, the Watermaster's total revenues decreased by 16.67% or \$1,996,332.
 - Operating revenues decreased by 0.36% or \$35,823. In fiscal year 2018, operating revenues decreased by 17.48% or \$2,080,420.
 - Non-operating revenues increased by 77.97% or \$120,650. In fiscal year 2018, non-operating revenue increased by 119.01% or \$84,088.
- The Watermaster's total expenses increased by 26.59% or \$2,451,801. In fiscal year 2018, the Watermaster's total expenses decreased by 29.29% or \$3,819,813.
 - Operating expenses increased by 27.01% or \$2,466,699. In fiscal year 2018, operating expenses decreased by 28.90% or \$3,711,904.
 - Non-operating expenses decreased by 26.36% or \$20,655. In fiscal year 2018, non-operating expenses decreased by 58.85% or \$112,125.

Required Financial Statements

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

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

Chino Basin Watermaster
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2019 and 2018

Financial Analysis of the Watermaster

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

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

These two statements report the Watermaster's *net position* and changes in them. You can think of the Watermaster's net position – the difference between assets, deferred outflow of resources, and liabilities and deferred inflows of resources – as one way to measure the Watermaster's financial health, or *financial position*. Over time, *increases or decreases* in an organization's net position is one indicator of whether its *financial health* is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation, such as changes in federal and state water quality standards. Watermaster is funded on a year-by-year basis through a Court-mandated process.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 16 through 42.

Statements of Net Position

	Condensed Statements of Net Position				
	2019	2018	Change	2017	Change
Assets:					
Current assets	\$ 10,340,912	11,736,601	(1,395,689)	11,758,298	(21,697)
Capital assets, net	68,106	43,558	24,548	13,997	29,561
Total assets	<u>10,409,018</u>	<u>11,780,159</u>	<u>(1,371,141)</u>	<u>11,772,295</u>	<u>7,864</u>
Deferred outflows of resources	<u>337,794</u>	<u>478,980</u>	<u>(141,186)</u>	<u>451,446</u>	<u>27,534</u>
Liabilities:					
Current liabilities	866,133	755,892	110,240	1,716,958	(961,065)
Non-current liabilities	1,715,597	1,693,678	21,919	1,731,968	(38,291)
Total liabilities	<u>2,581,729</u>	<u>2,449,570</u>	<u>132,159</u>	<u>3,448,926</u>	<u>(999,356)</u>
Deferred inflows of resources	<u>9,861</u>	<u>42,132</u>	<u>(32,271)</u>	<u>58,886</u>	<u>(16,754)</u>
Net position:					
Net investment in capital assets	68,106	43,558	24,548	13,997	29,561
Restricted	845	845	-	15,000	(14,155)
Unrestricted	8,086,271	9,723,034	(1,636,763)	8,686,932	1,036,102
Total net position	<u>\$ 8,155,222</u>	<u>9,767,437</u>	<u>(1,612,215)</u>	<u>8,715,929</u>	<u>1,051,508</u>

Chino Basin Watermaster
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2019 and 2018

Statements of Net Position, continued

As noted earlier, net position may serve over time as a useful indicator of an organization's financial position. In the case of the Watermaster, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$8,155,222 and \$9,767,437 as of June 30, 2019 and 2018, respectively.

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

At the end of fiscal years 2019 and 2018, the Watermaster reflected a positive balance in its unrestricted net position of \$8,086,271 and \$9,723,034, respectively that may be utilized in future years. (See Note 11)

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>2017</u>	<u>Change</u>
Revenues:					
Operating revenues	\$ 9,785,844	9,821,667	(35,823)	11,902,087	(2,080,420)
Non-operating revenues	<u>275,394</u>	<u>154,744</u>	<u>120,650</u>	<u>70,656</u>	<u>84,088</u>
Total revenues	<u>10,061,238</u>	<u>9,976,411</u>	<u>84,827</u>	<u>11,972,743</u>	<u>(1,996,332)</u>
Expenses:					
Operating expense	11,599,897	9,133,198	2,466,699	12,845,102	(3,711,904)
Depreciation	15,824	10,057	5,767	5,841	4,216
Non-operating expense	<u>57,732</u>	<u>78,397</u>	<u>(20,665)</u>	<u>190,522</u>	<u>(112,125)</u>
Total expenses	<u>11,673,453</u>	<u>9,221,652</u>	<u>2,451,801</u>	<u>13,041,465</u>	<u>(3,819,813)</u>
Change in net position	<u>(1,612,215)</u>	<u>754,759</u>	<u>(2,366,974)</u>	<u>(1,068,722)</u>	<u>1,823,481</u>
Net position, beginning of period, as previously stated	9,767,437	8,715,929	1,051,508	9,784,651	(1,068,722)
Prior period adjustment (note 10)	<u>-</u>	<u>296,749</u>	<u>(296,749)</u>	<u>-</u>	<u>296,749</u>
Net position, beginning of period, as restated	<u>9,767,437</u>	<u>9,012,678</u>	<u>754,759</u>	<u>9,784,651</u>	<u>(771,973)</u>
Net position, end of period	<u>\$ 8,155,222</u>	<u>9,767,437</u>	<u>(1,612,215)</u>	<u>8,715,929</u>	<u>1,051,508</u>

The statements of revenues, expenses and changes of net position show how the Watermaster's net position changed during the fiscal years.

In fiscal year 2019, Watermaster's net position decreased by 16.51% or \$1,612,215, which is primarily comprised of an increase in operating expenses of \$2,466,699 and an increase in investment earnings of \$120,650. In fiscal year 2018, the Watermaster's net position increased by increased by 12.06% or \$1,051,508 as a result of ongoing operations and the effect of a prior period adjustment in the amount of \$296,749. Please see Note 10 to the basic financial statements for further discussion.

Chino Basin Watermaster
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2019 and 2018

Statements of Revenues, Expenses and Changes in Net Position, continued

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

In fiscal year 2019, Watermaster's total revenues increased by 0.85% or \$84,827 due primarily to increases in non-operating revenue of \$120,650, which was offset by decreases in operating revenue of \$25,823. The change in non-operating revenue was strictly due to an increase in investment earnings of \$120,650. The change in operating revenue was primarily due to a decrease in administrative assessments of \$77,055, which was offset by an increase in replenishment water revenue of \$68,721.

In fiscal year 2018, Watermaster's total revenues decreased by 16.67% or \$1,996,332 due primarily to decreases in operating revenue of \$2,080,420, which was offset by increases in non-operating revenue of \$84,088. The change in operating revenue was primarily due to decreases in administrative assessments of \$1,429,767 and replenishment water revenue of \$686,344. The change in non-operating revenue was strictly due to an increase in investment earnings of \$84,088.

In fiscal year 2019, Watermaster's total expenses increased by 26.59% or \$2,451,801 due primarily to increases in operating expenses of \$2,466,699, which was offset by increases in non-operating expenses of \$20,665. The change in operating expenses was primarily due to increases in optimum basin management plan of \$2,133,351 and Watermaster administration of \$373,454. The change in non-operating expense was strictly due to a decrease in reverse distribution of \$20,665.

In fiscal year 2018, Watermaster's total expenses decreased by 29.29% or \$3,819,813, due primarily to \$3,711,904 decreases in operating expenses and \$112,125 decreases in non-operating expenses. The change in operating expenses was primarily due to an increase in groundwater replenishment and other water purchases of \$3,357,804. The change in non-operating expense was strictly due to a decrease in reverse distribution of \$112,125.

Capital Asset Administration

At the end of fiscal year 2019 and 2018, the Watermaster's investment in capital assets amounted to \$68,106 and \$43,558 (net of accumulated depreciation), respectively. This investment in capital assets includes leasehold improvements, office equipment, and vehicles. The capital assets of the Watermaster are more fully analyzed in Note 3 to the basic financial statements.

Changes in capital assets in 2019 were as follows:

	<u>Balance 2018</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance 2019</u>
Capital assets:				
Depreciable assets	\$ 274,700	40,373	-	315,073
Accumulated depreciation	<u>(231,142)</u>	<u>(15,825)</u>	<u>-</u>	<u>(246,967)</u>
Total capital assets	<u>\$ 43,558</u>	<u>24,548</u>	<u>-</u>	<u>68,106</u>

Changes in capital assets in 2018 were as follows:

	<u>Balance 2017</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance 2018</u>
Capital assets:				
Depreciable assets	\$ 270,604	39,618	(35,522)	274,700
Accumulated depreciation	<u>(256,607)</u>	<u>(10,057)</u>	<u>35,522</u>	<u>(231,142)</u>
Total capital assets	<u>\$ 13,997</u>	<u>29,561</u>	<u>-</u>	<u>43,558</u>

Chino Basin Watermaster
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2019 and 2018

Conditions Affecting Current Financial Position

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

Requests for Information

This financial report is designed to provide the Watermaster's present users, including funding sources, customers, stakeholders and other interested parties with a general overview of the Watermaster's finances and to demonstrate Watermaster's accountability with an overview of Watermaster's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Watermaster's Chief Financial Officer, Joseph S. Joswiak, at Chino Basin Watermaster, 9641 San Bernardino Road, Rancho Cucamonga, CA 91730 or (909) 484-3888.

Basic Financial Statements

**Chino Basin Watermaster
Statements of Net Position
June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents (note 2)	\$ 9,855,150	11,572,318
Cash and cash equivalents - restricted (note 2)	845	845
Accounts receivable	66,992	62,287
Accrued interest receivable	67,991	57,429
Prepaid expenses and other current assets	<u>349,934</u>	<u>43,722</u>
Total current assets	<u>10,340,912</u>	<u>11,736,601</u>
Non-current assets:		
Capital assets, net (note 3)	<u>68,106</u>	<u>43,558</u>
Total non-current assets	<u>68,106</u>	<u>43,558</u>
Total assets	<u>10,409,018</u>	<u>11,780,159</u>
Deferred outflows of resources:		
Deferred outflows of resources (notes 4 and 9)	<u>337,794</u>	<u>478,980</u>
Total deferred outflows of resources	<u>337,794</u>	<u>478,980</u>
Current liabilities:		
Accounts payable and accrued expenses	705,637	611,457
Accrued salaries and benefits	44,957	40,674
Long-term liabilities – due within one year:		
Compensated absences (note 5)	<u>115,539</u>	<u>103,761</u>
Total current liabilities	<u>866,133</u>	<u>755,892</u>
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 5)	214,572	192,700
Net OPEB liability (note 6)	214,783	208,799
Net pension liability (note 9)	1,188,162	1,210,470
Employee compensation plan (note 8)	<u>98,080</u>	<u>81,709</u>
Total non-current liabilities	<u>1,715,597</u>	<u>1,693,678</u>
Total liabilities	<u>2,581,729</u>	<u>2,449,570</u>
Deferred inflows of resources:		
Deferred inflows of resources (notes 4, 6, 9)	<u>9,861</u>	<u>42,132</u>
Total deferred inflows of resources	<u>9,861</u>	<u>42,132</u>
Net Position: (note 11)		
Net investment in capital assets	68,106	43,558
Restricted	845	845
Unrestricted	<u>8,086,271</u>	<u>9,723,034</u>
Total net position	<u>\$ 8,155,222</u>	<u>9,767,437</u>

See accompanying notes to the basic financial statements

Chino Basin Watermaster
Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2019 and 2018

	2019	2018
Operating revenues:		
Administrative assessments	\$ 8,690,772	8,767,827
Replenishment water revenue	927,239	858,518
Other revenue	167,833	195,322
Total operating revenue	9,785,844	9,821,667
Operating expenses:		
Groundwater replenishment and other water purchases	619,110	763,169
Optimum basin management plan	7,779,223	5,645,872
Watermaster administration	2,427,427	2,053,973
Pool, advisory, and board administration	774,137	670,184
Total operating expense	11,599,897	9,133,198
Operating income before depreciation	(1,814,053)	688,469
Depreciation expense	(15,824)	(10,057)
Operating income	(1,829,877)	678,412
Non-operating revenue (expense):		
Reserve distribution	(57,732)	(78,397)
Investment earnings	275,394	154,744
Total non-operating revenue, net	217,662	76,347
Change in net position	(1,612,215)	754,759
Net position, beginning of period, as previously stated	9,767,437	8,715,929
Prior period adjustment (note 10)	-	296,749
Net position, beginning of period, as restated	9,767,437	9,012,678
Net position at end of period	\$ 8,155,222	9,767,437

See accompanying notes to the basic financial statements

Chino Basin Watermaster
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received from stakeholders	\$ 9,781,139	9,977,365
Cash paid to employees for salaries and wages	(1,244,207)	(1,109,913)
Cash paid to vendors and suppliers for materials and services	<u>(10,420,828)</u>	<u>(8,778,330)</u>
Net cash (used in) provided by operating activities	<u>(1,883,896)</u>	<u>89,122</u>
Cash flows from non-capital financing activities:		
Payments for non-operating expenses	<u>(57,732)</u>	<u>(78,397)</u>
Net cash used in non-capital financing activities	<u>(57,732)</u>	<u>(78,397)</u>
Cash flows from capital financing activities:		
Acquisition of capital assets	<u>(40,372)</u>	<u>(39,618)</u>
Net cash used in capital financing activities	<u>(40,372)</u>	<u>(39,618)</u>
Cash flows from investing activities:		
Investment earnings received	<u>264,832</u>	<u>126,710</u>
Net cash provided by investing activities	<u>264,832</u>	<u>126,710</u>
Net increase in cash and cash equivalents	(1,717,168)	97,817
Cash and cash equivalents at the beginning of year	<u>11,573,163</u>	<u>11,475,346</u>
Cash and cash equivalents at the end of year	<u>\$ 9,855,995</u>	<u>11,573,163</u>
 Reconciliation of cash and cash equivalents to statements of net position:		
Cash and cash equivalents	\$ 9,855,150	11,572,318
Cash and cash equivalents - restricted	<u>845</u>	<u>845</u>
Total cash and cash equivalents	<u>\$ 9,855,995</u>	<u>11,573,163</u>

Continued on next page

See accompanying notes to the basic financial statements

Chino Basin Watermaster
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2019 and 2018

	2019	2018
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ (1,829,877)	678,412
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	15,824	10,057
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable	(4,705)	155,698
Prepaid expenses and other current assets	(306,212)	(8,150)
Deferred outflows of resources	141,186	(27,534)
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable and accrued expense	94,180	(980,650)
Accrued salaries and benefits	4,283	7,787
Compensated absences	33,649	33,708
Other post employment benefits obligation	-	296,749
Net OPEB liability	5,984	(259,373)
Net pension liability	(22,308)	166,608
Employee compensation plan	16,371	32,564
Deferred inflows of resources	(32,271)	(16,754)
Total adjustments	(54,019)	(589,290)
Net cash provided by operating activities	\$ (1,883,896)	89,122

See accompanying notes to the basic financial statements

**Chino Basin Watermaster
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2019 and 2018**

(1) Reporting Entity and Summary of Significant Accounting Policies

A. Organization and Operations of the Reporting Entity

The Chino Basin Watermaster (“Watermaster”) was established under a judgment entered in Superior Court of the State of California for the County of San Bernardino as a result of Case No. RCV 51010 (formerly Case No. SCV 164327) entitled “Chino Basin Municipal Water District v. City of Chino, et al.”, signed by the Honorable Judge Howard B. Weiner on January 27, 1978. The effective date of this Judgment for accounting and operations was July 1, 1977.

Pursuant to the Judgment, the Chino Basin Municipal Water District (CBMWD) five member Board of Directors was initially appointed as “Watermaster”. Their term of appointment as Watermaster was for five years, and the Court, by subsequent orders, provided for successive terms, or for a successor Watermaster. Pursuant to a recommendation of the Advisory Committee, the Honorable J. Michael Gunn appointed a nine-member board as Watermaster on September 28, 2000.

Under the Judgment, three Pool committees were formed: (1) Overlying (Agricultural) Pool which includes the State of California and all producers of water for overlying uses other than industrial or commercial purposes; (2) Overlying (Non-Agricultural) Pool which represents producers of water for overlying industrial or commercial purposes; and (3) Appropriative Pool which represents cities, districts, other public or private entities and utilities. The three Pool committees act together to form the “Advisory Committee.”

The Watermaster provides the Chino Groundwater Basin service area with services which primarily include: accounting for water appropriations and components of acre-footage of stored water by agency, purchase of replenishment water, groundwater monitoring and implementation of special projects.

Watermaster expenditures are allocated to the pools based on the prior year’s production volume (or the same percentage used to set the annual assessments). Allocations for fiscal year 2018-2019 expenses are based on the 2017-2018 production volume.

<u>Production volume</u>	<u>Fiscal Year 2019</u>		<u>Fiscal Year 2018</u>	
	<u>Acre Feet</u>	<u>Percentage</u>	<u>Acre Feet</u>	<u>Percentage</u>
Appropriative Pool	76,860	70.246%	82,269	72.597%
Agricultural Pool	28,461	26.012%	26,862	23.704%
Non-agricultural Pool	4,094	3.742%	4,192	3.699%
Total production volume	<u>109,415</u>	<u>100.000%</u>	<u>113,323</u>	<u>100.000%</u>

The Agricultural Pool members ratified an agreement with the Appropriative Pool at their meeting of June 16, 1988, wherein the Appropriative Pool assumes Agricultural Pool administrative expenses and special project cost allocations in exchange for an accelerated transfer of un-pumped agricultural water to the Appropriative Pool. In addition the Agricultural Pool transferred all pool administrative reserves at June 30, 1988, to the Appropriative Pool effective July 1, 1988.

In July of 2000, the principal parties in the Basin signed an agreement, known as the Peace Agreement, which among other things formalized the commitment of the Basin parties to implement an Optimum Basin Management Program. The Peace Agreement was signed by all of the parties, and the Court has approved the agreement and ordered the Watermaster to proceed in accordance with the terms of the agreement. The Court has approved revisions to the Chino Basin Watermaster Rules and Regulations.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

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

B. Basis of Accounting and Measurement Focus

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

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

C. Financial Reporting

The Watermaster's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Watermaster solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the Watermaster's proprietary fund.

The Watermaster has adopted the following GASB pronouncements in the current year:

Governmental Accounting Standards Board Statement No. 83

In November 2016, the GASB issued Statement No. 83 – *Certain Asset Retirement Obligations*. This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually, and (6) requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 88

In April 2018, the GASB issued Statement No. 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

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

C. Financial Reporting

Governmental Accounting Standards Board Statement No. 88, continued

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

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

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

1. Use of Estimates

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

2. Cash and Cash Equivalents

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

3. Investments

The Watermaster has adopted an investment policy directing the General Manager to invest and reinvest funds subject to the provisions of Watermaster's Investment Policy and the ongoing review and control of Watermaster and the Watermaster Advisory Committee in accordance with California Government Code section 53600.

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

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

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

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

4. Fair Value Measurements

The Watermaster categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

- **Level 1** – Valuation is based on quoted prices in active markets for identical assets.
- **Level 2** – Valuation is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- **Level 3** – Valuation is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

5. Accounts Receivable and Allowance for Uncollectible Accounts

The Watermaster extends credit to customers in the normal course of operations. Management has determined that all amounts are considered collectable. As a result, the Watermaster has not recorded an allowance for doubtful accounts at June 30, 2019 and 2018.

6. Prepaid Expenses

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

7. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. Donated assets are recorded at estimated fair market value at the date of donation. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

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

8. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of resources that is applicable to future periods.

9. Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of resources that is applicable to future periods.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

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

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

10. Compensated Absences

The Watermaster's policy is to permit eligible employees to accumulate earned vacation up to a total of 320 hours. Employees may receive pay in lieu of using vacation for up to one-half of their annual vacation accrual if: (1) within the prior twelve months, the employee has used vacation in an amount equal to at least half of their annual vacation accrual rate; and (2) the employee has a minimum remaining accrued vacation balance of at least 40 hours. Eligible employees accrue and accumulate sick leave based on Watermaster policy. Twice a year, employees may buy-back accrued sick leave at 50% of their current pay provided that at least 480 hours of accrued sick leave remain after the cash-out. Upon termination of employment, employees are paid all unused vacation, and unused sick time is paid out based on Watermaster policy.

11. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Watermaster's California Public Employees' Retirement System (CalPERS) plans (Plans) and addition to/deduction from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation Date: June 30, 2017 and 2016
- Measurement Date: June 30, 2018 and 2017
- Measurement Period: July 1, 2017 to June 30, 2018 and July 1, 2016 to June 30, 2017

12. Postemployment Benefits Other than Pensions (OPEB)

For purposes of measuring the net OPEB Liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Watermaster's Retiree Health Plan and additions to/deductions from the Watermaster's fiduciary net position have been determined on the same basis as they are reported by the Watermaster. For this purpose, the Watermaster recognizes benefit payments when due and payable in accordance with benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

13. Water Production Assessments

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

14. Budgetary Policies

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

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

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

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position, continued

15. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- Net Investment in Capital Assets Component of Net Position – This component of net position consists of capital assets, net of accumulated depreciation and is reduced by any outstanding debt outstanding against the acquisition, construction or improvement of those assets.
- Restricted Component of Net Position – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Component of Net Position – This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted component of net position.

(2) Cash and Investments

Cash and investments as of June 30 are classified in the Statement of Net Position as follows:

	2019	2018
Cash and cash equivalents	\$ 9,855,150	11,572,318
Cash and cash equivalents - restricted	845	845
	\$ 9,855,995	11,573,163

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

	2019	2018
Cash on hand	\$ 500	500
Deposits held in trust with County of San Bernardino	845	845
Deposits with financial institutions	383,936	668,805
Investments	9,470,714	10,903,013
Total cash and investments	\$ 9,855,995	11,573,163

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

	2019	2018
Deposits held with the California Local Agency Investment Fund	173 days	194 days

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(2) Cash and Investments, continued

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

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
Federal Agency and bank obligations	5 years	None	None
Certificates of Deposits and Time Deposits	5 years	30%	None
Commercial Paper	270 days	10%	10%
Money Market Mutual Funds	90 days	20%	10%
State and Local Bonds, Notes and Warrants	5 years	10%	None
California Local Agency Investment Fund (LAIF)	N/A	None	None
Investment Trust of California (CalTRUST)	N/A	20%	None

Investment in State Investment Pool

The Watermaster is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of Watermaster's investment in this pool is reported in the accompanying financial statements at amounts based upon Watermaster's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Watermaster's deposit and withdrawal restrictions and limitations are as follows:

- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transactions processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of \$5,000, in increments of \$1,000 dollars.
- Withdrawals of \$10,000,000 or more require 24 hours advance.
- Prior to funds transfer, an authorized person must call LAIF for verbal authorization.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits, or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the Watermaster's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits:

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit).

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(2) Cash and Investments, continued

Custodial Credit Risk, continued

The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the Watermaster's bank balances, up to \$250,000 at June 30, 2019, were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the Watermaster's name.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the Watermaster's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Watermaster manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide for cash flow requirements and liquidity needed for operations.

Credit Risk

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

Credit ratings of investments as of June 30, 2019 were as follows:

Investment Type	Total	Minimum Legal Rating	Not Rated
California Local Agency Investment Fund	\$ 9,470,714	N/A	9,470,714

Credit ratings of investments as of June 30, 2018 were as follows:

Investment Type	Total	Minimum Legal Rating	Not Rated
California Local Agency Investment Fund	\$ 10,903,013	N/A	10,903,013

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(2) Cash and Investments, continued

Concentration of Credit Risk

The Watermaster's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represented 5% or more of total Watermaster's investment at June 30, 2019 and 2018.

(3) Capital Assets

Changes in capital assets for 2019 were as follows:

	<u>Balance 2018</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance 2019</u>
Depreciable assets:				
Computer equipment	\$ 107,551	-	-	107,551
Furniture and fixtures	49,126	40,373	-	89,499
Leasehold improvements	23,443	-	-	23,443
Vehicles and equipment	94,580	-	-	94,580
Total depreciable assets	<u>274,700</u>	<u>40,373</u>	<u>-</u>	<u>315,073</u>
Accumulated depreciation:				
Computer equipment	(106,018)	(1,534)	-	(107,552)
Furniture and fixtures	(41,059)	(8,631)	-	(49,690)
Leasehold improvements	(23,443)	-	-	(23,443)
Vehicles and equipment	(60,622)	(5,660)	-	(66,282)
Total accumulated depreciation	<u>(231,142)</u>	<u>(15,825)</u>	<u>-</u>	<u>(246,967)</u>
Total capital assets, net	<u>\$ 43,558</u>			<u>68,106</u>

Changes in capital assets for 2018 were as follows:

	<u>Balance 2017</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance 2018</u>
Depreciable assets:				
Computer equipment	\$ 107,551	-	-	107,551
Furniture and fixtures	49,126	-	-	49,126
Leasehold improvements	23,443	-	-	23,443
Vehicles and equipment	90,484	39,618	(35,522)	94,580
Total depreciable assets	<u>270,604</u>	<u>39,618</u>	<u>(35,522)</u>	<u>274,700</u>
Accumulated depreciation:				
Computer equipment	(104,484)	(1,534)	-	(106,018)
Furniture and fixtures	(38,196)	(2,863)	-	(41,059)
Leasehold improvements	(23,443)	-	-	(23,443)
Vehicles and equipment	(90,484)	(5,660)	35,522	(60,622)
Total accumulated depreciation	<u>(256,607)</u>	<u>(10,057)</u>	<u>35,522</u>	<u>(231,142)</u>
Total capital assets, net	<u>\$ 13,997</u>			<u>43,558</u>

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(4) Deferred Outflows and Inflows of Resources

Changes in deferred outflows and inflows of resources for 2019 were as follows:

	<u>Balance 2018</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance 2019</u>
Deferred outflows of resources				
Deferred pension outflows	\$ 466,761	155,871	(284,838)	337,794
Deferred OPEB outflows	12,219	-	(12,219)	-
Total deferred outflows of resources	<u>\$ 478,980</u>	<u>155,871</u>	<u>(297,057)</u>	<u>337,794</u>
	<u>Balance 2018</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance 2019</u>
Deferred inflows of resources				
Deferred pension inflows	\$ 42,132	-	(37,159)	4,973
Deferred OPEB inflows	-	5,363	(475)	4,888
Total deferred inflows of resources	<u>\$ 42,132</u>	<u>5,363</u>	<u>(37,634)</u>	<u>9,861</u>

Changes in deferred outflows and inflows of resources for 2018 were as follows:

	<u>Balance 2017</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance 2018</u>
Deferred outflows of resources				
Deferred pension outflows	\$ 451,446	259,385	(244,070)	466,761
Deferred OPEB outflows	-	14,256	(2,037)	12,219
Total deferred outflows of resources	<u>\$ 451,446</u>	<u>273,641</u>	<u>(246,107)</u>	<u>478,980</u>
	<u>Balance 2017</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance 2018</u>
Deferred inflows of resources				
Deferred pension inflows	\$ 58,886	40,821	(57,575)	42,132
Total deferred inflows of resources	<u>\$ 58,886</u>	<u>40,821</u>	<u>(57,575)</u>	<u>42,132</u>

(5) Compensated Absences

The changes to compensated absences for 2019 were as follows:

	<u>Balance 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2019</u>	<u>Due Within One Year</u>	<u>Due in more than one year</u>
\$	<u>296,461</u>	<u>162,312</u>	<u>(128,663)</u>	<u>330,110</u>	<u>115,539</u>	<u>214,572</u>

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(5) Compensated Absences, continued

The changes to compensated absences for 2018 were as follows:

<u>Balance</u> <u>2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2018</u>	<u>Current</u>	<u>Long Term</u>
\$ 262,753	151,308	(117,600)	296,461	103,761	192,700

(6) Other Post-Employment Benefits Payable

Plan Description

The Watermaster's defined benefit Other Post-Employment Benefit (OPEB) Plan (Plan) provides OPEB for all permanent and vested full-time employees. The Plan is a single-employer defined benefit OPEB plan administered by the Watermaster. The Watermaster's Board has the authority to establish and amend the benefit terms and financing requirements of the Plan. Watermaster participates in a CalPERS Health Program, a community-rated program for its medical coverage. Watermaster does not have an OPEB trust established and no assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided

The Plan provides a contribution equal to 50% of the retiree only costs for eligible retirees and surviving spouses in receipt of a pension benefit from CalPERS. An employee is eligible for this employer contribution provided they are vested in their CalPERS pension benefit and commence payment of their pension benefit within 120 days of retirement from the Watermaster.

Vesting requires at least 5 years of CalPERS total service. The surviving spouse of an eligible retiree who elected spouse coverage under CalPERS is eligible for the employer contribution upon death of the retiree. Board members during or prior to 1994 are also eligible for a Watermaster contribution at retirement.

Employee Covered by Benefit Terms

At June 30, 2019 and 2018, the following employees were covered by the benefit terms:

	<u>2019</u>	<u>2018</u>
Active employees	9	9
Inactive employees or beneficiaries currently receiving benefit payments	<u>5</u>	<u>5</u>
Total plan membership	<u>14</u>	<u>14</u>

Total OPEB Liability

The Watermaster's total OPEB liability of \$214,783 was measured as of December 31, 2018, and was determined by an actuarial valuation as of that date.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(6) Other Post-Employment Benefits Payable, continued

Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2019 actuarial valuation, which was measured at December 31, 2018, was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	December 31, 2017
Measurement Date	December 31, 2018
Actuarial cost method	Entry Age Normal cost method in accordance with the requirements of GASB Statement No. 75
Inflation	2.75% per annum
Salary increases	3.0% per annum, in aggregate
Discount rate	3.80%; the discount rate is based on the resulting rate using the average of 3-20 year municipal bond rate indices: S&P Municipal Bond 20 Year High Grade Rate Index, Bond Byer 20-Bond GO Index, Fidelity GO AA 20 Year Bond Index
Healthcare cost trend rates	6.0% and 6.5% for HMO and PPO, respectively as of June 30, 2019, decreasing 0.5% per year to an ultimate rate of 5.0% for both HMO and PPO as of June 30, 2022 and later years.

Changes in the Net OPEB Liability

Changes in the net OPEB Liability as of June 30, 2019 (measured at December 31, 2018) were as follows:

	<u>Increase (Decrease)</u>		
	<u>Total OPEB Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net OPEB Liability/(Asset) (c) = (a) - (b)</u>
Balance at July 1, 2018	\$ 208,799	-	208,799
Changes during the year:			
Service cost	18,418	-	18,418
Interest	7,571	-	7,571
Changes in assumptions	(17,582)	-	(17,582)
Contributions - employer	-	2,423	(2,423)
Benefit payments	(2,423)	(2,423)	-
Net changes	5,984	-	5,984
Balance at June 30, 2019	\$ <u>214,783</u>	<u>-</u>	<u>214,783</u>

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(6) Other Post-Employment Benefits Payable, continued

Changes in the Net OPEB Liability, continued

Changes in the net OPEB Liability as of June 30, 2018 (measured at December 31, 2017) were as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)
Balance at July 1, 2017	\$ 173,730	-	173,730
Changes during the year:			
Service cost	16,048	-	16,048
Interest	7,073	-	7,073
Changes in assumptions	14,256	-	14,256
Contributions - employer	-	2,308	(2,308)
Benefit payments	(2,308)	(2,308)	-
Net changes	35,069	-	35,069
Balance at June 30, 2018	\$ 208,799	-	208,799

Sensitivity of the net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Watermaster as of June 30, 2019, as well as what the Watermaster's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.80%) or 1-percentage-point higher (4.80%) than the current discount rate:

	Discount Rate - 1% 2.80%	Current Discount Rate 3.80%	Discount Rate + 1% 4.80%
Net OPEB Liability	\$ 256,653	214,783	181,827

The following presents the net OPEB liability of the Watermaster as of June 30, 2018, as well as what the Watermaster's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.35%) or 1-percentage-point higher (4.35%) than the current discount rate:

	Discount Rate - 1% 2.35%	Current Discount Rate 3.35%	Discount Rate + 1% 4.35%
Net OPEB Liability	\$ 251,250	208,799	175,561

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(6) Other Post-Employment Benefits Payable, continued

Sensitivity of the net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the Watermaster as of June 30, 2019, as well as what the Watermaster's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current	1% Increase
		Healthcare Cost Trend	
	5% HMO/ 5.50% PPO decreasing to <u>4% HMO/PPO</u>	Rates (6% HMO 6.50% PPO decreasing to <u>5% HMO/PPO</u>)	7% HMO/ 7.50% PPO decreasing to <u>6% HMO/PPO</u>
Net OPEB Liability	\$ <u>174,054</u>	<u>214,783</u>	<u>268,910</u>

The following presents the net OPEB liability of the Watermaster as of June 30, 2018, as well as what the Watermaster's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current	1% Increase
		Healthcare Cost Trend	
	5% HMO/ 5.50% PPO decreasing to <u>4% HMO/PPO</u>	Rates (6% HMO 6.50% PPO decreasing to <u>5% HMO/PPO</u>)	7% HMO/ 7.50% PPO decreasing to <u>6% HMO/PPO</u>
Net OPEB Liability	\$ <u>169,024</u>	<u>208,799</u>	<u>261,776</u>

OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB

For the fiscal year ended June 30, 2019, the Watermaster recognized OPEB expense of \$25,514.

At June 30, 2019, the Watermaster reported deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Inflows of Resources
Changes in assumptions	\$ <u>(4,888)</u>
Total	\$ <u>(4,888)</u>

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(6) Other Post-Employment Benefits Payable, continued

OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB, continued

For the fiscal year ended June 30, 2018, the Watermaster recognized OPEB expense of \$25,158.

At June 30, 2018, the Watermaster reported deferred outflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources
Changes in assumptions	\$ 12,219
Total	\$ 12,219

The changes in assumptions are amortized over a seven-year period. Amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30	Deferred Outflows of Resources
2019	(475)
2020	(475)
2021	(475)
2022	(475)
2023	(478)
Thereafter	(2,510)

Payable to the OPEB Plan

At June 30, 2019, the Watermaster had no outstanding amount of contributions required to the OPEB plan.

(7) Deferred Compensation Savings Plan

For the benefit of its employees, the Watermaster participates in a 457 Deferred Compensation Program (Program). The purpose of this Program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the Watermaster is in compliance with this legislation. Therefore, these assets are not the legal property of the Watermaster, and are not subject to claims of the Watermaster's general creditors. Market value of all plan assets held in trust at June 30, 2019 and 2018 was \$1,440,213 and \$1,242,494, respectively.

The Watermaster has implemented GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. Since the Watermaster has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statement of net position.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(8) Nonqualified Employee Compensation Plan

Effective June 1, 2015, the Watermaster established a Nonqualified Deferred Compensation Plan (Plan). The purpose of this Plan is to provide deferred compensation for selected public employees to participate in the Plan. The Plan is intended to be an unfunded deferred compensation plan that complies with the requirements of Section 457(f) and 409A of the Internal Revenue Code of 1986. Each Plan Participant shall be entitled to elect to forego all or any portion, as either a dollar amount or a percentage, of the Participant's salary and/or bonus that may become payable by the Employer for a Plan year after all applicable deductions and withholdings. Such election shall be evidenced by a Deferral Agreement.

On June 30, 2019, 2018, 2017, 2016 and 2015, Watermaster made an employer contribution of \$16,370, \$32,564, \$25,399, \$18,996 and \$4,750 to the Plan for the benefit of its eligible employee for the 12 consecutive month period from July 1, 2018 to June 30, 2019, July 1, 2017 to June 30, 2018, July 1, 2016 to June 30, 2017, from July 1, 2015 to June 30, 2016 and from July 1, 2014 to June 30, 2015, respectively.

For each of Watermaster's regular payroll periods beginning on and after July 1, 2015 during the remainder of the Employment Term (from June 30, 2014 up to the expiration date of June 30, 2017), the Watermaster agrees to make an employer contribution to the Plan for the benefit of the eligible employee equal to 8% of the corresponding salary including any incentive compensation paid during that payroll period; provided that the eligible employee is still employed with Watermaster on the payday of that payroll period.

On June 22, 2017, Watermaster agreed to make an employer contribution to the Plan for the benefit of another eligible employee equal to 4% of the corresponding salary for the payroll period effective following July 1, 2017; and shall continue to be provided on each paycheck date thereafter until the Board takes further action.

The balance of Watermaster's Employee Compensation Plan as of June 30, 2019 and 2018 amounted to \$98,080 and \$81,709, respectively.

(9) Defined Benefit Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Watermaster's Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and Watermaster's resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: The Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(9) Defined Benefit Pension Plan, continued

Benefits provided, continued

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the Watermaster's CalPERS 2.5% at 55 Risk Pool Retirement Plan to new employee entrants effective December 31, 2013. All employees hired after January 1, 2013 are eligible for the Watermaster's CalPERS 2.0% at 62 Retirement Plan under PEPRA.

The provision and benefits for the Plan's miscellaneous pool in effect at June 30, 2018, are summarized as follows:

	Miscellaneous Plan	
	Classic	PEPRA
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.5% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8.000%	6.25%
Required employer contribution rates	10.110%	6.533%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates, for all public employers, be determined on an annual basis by the actuary and shall be effective on July 1 following notice of the change in rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Watermaster is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the fiscal years ended June 30, 2019 and 2018, the contributions recognized as part of pension expense for the Plan was as follows:

	Miscellaneous Plan	
	2019	2018
Contributions – employer	\$ 173,396	151,517

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(9) Defined Benefit Pension Plan, continued

Net Pension Liability

As of June 30, 2019 and 2018, the Watermaster reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

		<u>2019</u>	<u>2018</u>
Miscellaneous Plan	\$	<u>1,188,162</u>	<u>1,210,470</u>

The Watermaster's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2018 (the measurement date), and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 (the valuation date), rolled forward to June 30, 2018, using standard update procedures.

The Watermaster's proportion of the net pension liability was based on a projection of the Watermaster's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The Watermaster's proportionate share of the pension liability for the Plan's miscellaneous risk pool as of the measurement dates June 30, 2018 and 2017 was as follows:

	<u>Miscellaneous Plan</u>
Proportion – June 30, 2016	0.01206%
Increase in proportion	<u>0.00014%</u>
Proportion – June 30, 2017	0.01220%
Increase in proportion	<u>0.00013%</u>
Proportion – June 30, 2018	<u>0.01233%</u>

The Watermaster's proportionate share of the pension liability for the Plan's miscellaneous risk pool as of the measurement dates June 30, 2017 and 2016 was as follows:

	<u>Miscellaneous Plan</u>
Proportion – June 30, 2015	0.01182%
Increase in proportion	<u>0.00024%</u>
Proportion – June 30, 2016	0.01206%
Increase in proportion	<u>0.00014%</u>
Proportion – June 30, 2017	<u>0.01220%</u>

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(9) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources

For the fiscal years ended June 30, 2019 and 2018, the Watermaster recognized pension expense of \$242,896 and \$286,056, respectively.

As of June 30, 2019 and 2018, the Watermaster reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>2019</u>		<u>2018</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to the measurement date	\$ 173,396	-	151,517	-
Differences between actual and expected experience	30,077	-	-	(20,416)
Changes in assumptions	102,267	-	175,581	-
Net differences between projected and actual earnings on plan investments	5,875	-	42,987	-
Differences between actual contribution and proportionate share of contribution	-	(4,973)	-	(21,716)
Net adjustment due to differences in proportions of net pension liability	<u>26,179</u>	<u>-</u>	<u>96,676</u>	<u>-</u>
Total	<u>\$ 337,794</u>	<u>(4,973)</u>	<u>466,761</u>	<u>(42,132)</u>

As of June 30, 2019 and 2018, employer pension contributions reported as deferred outflows of resources related to contributions subsequent to the measurement date of \$173,396 and \$151,517, respectively, and will be recognized as a reduction of the net pension liability in the fiscal years ended June 30, 2020 and 2019.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(9) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

At June 30, 2019, other amounts reported as deferred outflows and inflows of resources related to the pensions, which will be recognized as pension expense as follows:

Fiscal Year		Deferred Net
Ending		Outflows/(Inflows)
June 30,		of Resources
2020	\$	123,662
2021		79,996
2022		(33,544)
2023		(10,687)

Actuarial assumptions

The total pension liabilities were determined by actuarial valuations as of June 30, 2017, which were rolled forward to June 30, 2018, using the following actuarial assumptions:

Valuation Date	June 30, 2017 and 2016
Measurement Date	June 30, 2018 and 2017
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68

Actuarial assumptions:

Discount rate	7.15%
Inflation rate	2.50% and 2.75%
Salary increases	Varies by Entry Age and Service
Mortality Rate Table*	Derived using CalPERS' Membership Data for all Funds
Period Upon Which Actuarial Experience Survey Assumptions Were Based	1997-2011
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

* The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of Scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(9) Defined Benefit Pension Plan, continued

Discount Rate

The discount rate used to measure the total pension liability was 7.15% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, the amortization and smoothing periods recently adopted by CalPERS were utilized. The crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments.

Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1–10</u>	<u>Real Return Year 11+</u>
Global Equity	50.0%	4.80%	5.98%
Global Fixed Income	28.0%	1.00%	2.62%
Inflation Sensitive	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
Total	<u>100.0%</u>		

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(9) Defined Benefit Pension Plan, continued

Sensitivity of the Proportionate Share of Net Pension Liability to Changes in the Discount Rate

The following table presents the Watermaster's proportionate share of the net position liability for the Plan, calculated using the discount rate, as well as what the Watermaster's proportional share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

As of June 30, 2019, the Watermaster's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, is as follows:

	Discount Rate - 1% 6.15%	Current Discount Rate 7.15%	Discount Rate + 1% 8.15%
Watermaster's Net Pension Liability	\$ <u>1,851,236</u>	<u>1,188,162</u>	<u>640,805</u>

As of June 30, 2018, the Watermaster's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, is as follows:

	Discount Rate - 1% 6.65%	Current Discount Rate 7.65%	Discount Rate + 1% 8.65%
Watermaster's Net Pension Liability	\$ <u>1,879,064</u>	<u>1,188,162</u>	<u>647,485</u>

Payable to the Pension Plan

At June 30, 2019 and 2018, the Watermaster reported no payables for the outstanding amount of contribution to the pension plan.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 39 through 40 for the Required Supplementary Schedules.

(10) Prior Period Adjustment

In fiscal year 2018, the Watermaster implemented GASB Statement No. 75, to recognize its net OPEB liability. As a result of the implementation, the Watermaster recognized net OPEB liability and remove the net OPEB obligation associated with GASB 45 as of June 30, 2017 in the amount of \$173,730 and \$468,172, respectively. The Watermaster recorded a prior period adjustment to reclassify prior year's employer OPEB Contribution from expense to deferred outflows of resources of \$2,307 at June 30, 2017.

Previously recorded net position of \$8,715,929 has been restated to \$9,012,678 as of June 30, 2017. In addition, the effect of the implementation of GASB 75 is recorded as an adjustment to the beginning net position at July 1, 2017.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(10) Prior Period Adjustment, continued

The effect of the above changes is summarized as follows:

Net position at June 30, 2017, as previously stated		\$ <u>8,715,929</u>
Net OPEB Liability - GASB 75 Implementation:		
Effect of adjustment to record net OPEB liability	\$ (173,730)	
Effect of adjustment to remove net OPEB liability associated with GASB 45	468,172	
Effect of adjustment to record deferred OPEB outflows	<u>2,307</u>	
Total adjustment to net position		<u>296,749</u>
Net position – beginning, as restated at July 1, 2017		\$ <u><u>9,012,678</u></u>

(11) Net Position

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

	<u>2019</u>	<u>2018</u>
Net investment in capital assets:		
Capital assets, net	\$ <u>68,106</u>	<u>43,558</u>
Total net investment in capital assets	<u>68,106</u>	<u>43,558</u>
Restricted with other governments:		
Restricted - cash and cash equivalents	<u>845</u>	<u>845</u>
Total restricted with other governments	<u>845</u>	<u>845</u>
Unrestricted net position:		
Non-spendable net position:		
Prepaid expenses and deposits	<u>349,934</u>	<u>43,722</u>
Total non-spendable net position	<u>349,934</u>	<u>43,722</u>
Spendable net position are designated as follows:		
Undesignated net position reserve	<u>7,736,337</u>	<u>9,679,312</u>
Total spendable net position	<u>7,736,337</u>	<u>9,679,312</u>
Total unrestricted net position	<u>8,086,271</u>	<u>9,723,034</u>
Total net position	\$ <u><u>8,155,222</u></u>	<u><u>9,767,437</u></u>

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(12) Risk Management

The Watermaster is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Watermaster is insured for a variety of potential exposures. The following is a summary of the insurance policies carried by the Watermaster as of June 30, 2019:

- Commercial General Liability: \$2,000,000 General Aggregate Limit (Other than Products/Completed Operations); \$2,000,000 Products/Completed Operations Aggregate Limit (Any One Person or Organization); \$1,000,000 Personal and Advertising Injury Limit; \$1,000,000 Each Occurrence Limit; \$300,000 Rented To You Limit; \$15,000 Medical Expenses Limit (Any One Person).
- Commercial Excess Liability: Limits of Liability are \$10,000 Retained Limit, \$8,000,000 Each Occurrence, \$8,000,000 General Aggregate Limit, \$8,000,000 Products/Completed Operations to Aggregate.
- Automobile: \$1,000,000 Combined Bodily Injury and Property Damage Single Limit (Each Accident); \$1,000,000 Uninsured Motorists Single Limit. \$1,000 deductible for Comprehensive and \$1,000 deductible for Collision.
- Property: \$525,000 with liability limits varying by property type with a \$1,000 deductible.
- Crime coverage: \$50,000 per claim with a \$1,000 deductible.
- Director & Officers Liability: \$1,000,000 Liability Coverage; Employment Practices Liability: \$1,000,000 Liability Coverage. Director and Officer/Crisis Management: \$25,000 to \$100,000 with liability limits varying by type of coverage.
- Workers' compensation: Total annual premium is \$6,246.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2019, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

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

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 89

In June 2018, the GASB issued Statement No. 89 – *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

Governmental Accounting Standards Board Statement No. 90

In August 2018, the GASB issued Statement No. 90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

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

Governmental Accounting Standards Board Statement No. 90, continued

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

Governmental Accounting Standards Board Statement No. 91

In May 2019, the GASB issued Statement No. 91 – *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(14) Commitments and Contingencies

Grant Awards

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

Litigation

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

(15) Subsequent Events

Events occurring after June 30, 2019, have been evaluated for possible adjustment to the financial statements or disclosure as of October 24, 2019 which is the date the financial statements were available to be issued.

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Required Supplementary Information

Chino Basin Watermaster
Schedules of Changes in the Watermaster's Net OPEB Liability and Related Ratios
For the Years Ended June 30, 2019 and 2018
Last Ten Years*

Defined Benefit OPEB Plan

	<u>2019</u>	<u>2018</u>
Total OPEB Liability		
Service cost	\$ 18,418	16,048
Interest	7,571	7,073
Change in assumptions	(17,582)	14,256
Benefit payments	<u>(2,423)</u>	<u>(2,308)</u>
Net change in total OPEB liability	5,984	35,069
Total OPEB liability - beginning of year	<u>208,799</u>	<u>173,730</u>
Total OPEB liability - end of year (a)	\$ <u>214,783</u>	<u>208,799</u>
 Plan Fiduciary Net Position		
Contributions - employer	\$ 2,423	2,308
Administrative expense	<u>(2,423)</u>	<u>(2,308)</u>
Net change in plan fiduciary net position	-	-
Plan Fiduciary Net Position - beginning of year	<u>-</u>	<u>-</u>
Plan Fiduciary Net Position - end of year (b)	<u>-</u>	<u>-</u>
Net OPEB Liability - ending (a) - (b)	\$ <u><u>214,783</u></u>	<u><u>208,799</u></u>
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	0.00%	0.00%
Covered - employee payroll	N/A	N/A
Net OPEB Liability as a percentage of covered- employee payroll	N/A	115.30%

Note:

The Watermaster adopted GASB 75 for the fiscal year ended June 30, 2018.

Benefit changes – None noted.

* The Watermaster has presented information for those years for which information is available until a full 10-year trend is compiled.

**Chino Basin Watermaster
Schedules of Watermaster's OPEB Contributions
For the Years Ended June 30, 2019 and 2018
Last Ten Years***

Defined Benefit OPEB Plan

	2019	2018
Actuarially Determined Contribution	\$ 358,358	402,609
Contributions in relation to the Actuarially Determined Contribution	-	-
Contribution Deficiency (Excess)	\$	-
Watermaster's Covered-Employee Payroll	1,031,755	N/A
Contribution's as a percentage of Covered-Employee Payroll	34.73%	13.46%

Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of December 31, 2018, six months prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Valuation Date	December 31, 2017
Measurement Date	December 31, 2018
Actuarial cost method	Entry Age Normal cost method in accordance with the requirements of GASB Statement No. 75
Actuarial assumptions:	
Discount rate	3.80% per annum
Inflation	2.75% per annum
Salary increases	3.0% per annum, in aggregate
Funding Practice	Pay-as-you-go
Participation Rates	50% of eligible active employees are assumed to elect medical coverage at retirement. Future retirees are assumed to elect similar plans as current retirees. Actual plan coverage is used for current retirees.
Healthcare cost trend rates	Medical costs are adjusted in future years by the following trends:
2018	Actual
2019	PPO: 6.5%; HMO: 6.0%
2020	PPO: 6.0%; HMO: 5.5%
2021	PPO: 5.5%; HMO: 5.0%
2022+	PPO: 5.0%; HMO: 5.0%

* The Watermaster has presented information for those years for which information is available until a full 10-year trend is completed.

Chino Basin Watermaster
Schedules of the Watermaster's Proportionate Share of the Net Pension Liability
As of June 30, 2019 and 2018
Last Ten Years*

Description	2019	2018	2017	2016
Watermaster's Proportion of the Net Pension Liability	0.01233%	0.01220%	0.01206%	0.01182%
Watermaster's Proportionate Share of the Net Pension Liability	\$ 1,188,162	\$ 1,210,470	\$ 1,043,862	\$ 811,437
Watermaster's Covered-Employee Payroll	\$ 1,031,755	\$ 860,266	\$ 979,741	\$ 888,483
Watermaster's proportionate share of the net pension liability as a Percentage of its Covered-Employee Payroll	115.16%	140.71%	106.54%	91.33%
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	75.76%	73.43%	75.36%	78.02%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 141,457	\$ 126,549	\$ 118,862	\$ 99,615

Notes to the Schedule of the Watermaster's Proportionate Share of Net Pension Liability:

Changes in Benefit Terms – The Watermaster can make changes to their plan provisions, and such changes occur on an ongoing basis. A summary of the plan provisions that were used for the Watermaster's plan can be found in the plan's annual valuation report.

Changes of Assumptions – In fiscal year 2018, the financial reporting discount rate was lowered from 7.65% to 7.15% - in fiscal year 2019, the discount rate remained at 7.15%. In December 2016, the CalPERS Board approved lowering the funding discount rate used from 7.50% to 7.00%, which is to be phased-in over a three-year period (7.50% to 7.375%, 7.375% to 7.25%, and 7.25% to 7.00%) beginning with the June 30, 2016, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

* The Watermaster has presented information for those years for which information is available until a full 10-year trend is compiled.

**Chino Basin Watermaster
Schedules of Pension Plan Contributions
As of June 30, 2019 and 2018
Last Ten Years***

<u>Description</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially Determined Contribution	\$ 155,931	\$ 151,169	\$ 132,932	\$ 110,292
Contributions in Relation to the Actuarially Determined Contribution	<u>(151,517)</u>	<u>(114,507)</u>	<u>(133,410)</u>	<u>(133,410)</u>
Contribution Deficiency (Excess)	\$ <u>4,414</u>	\$ <u>36,662</u>	\$ <u>(478)</u>	\$ <u>(23,118)</u>
Covered Payroll	\$ <u>1,031,755</u>	\$ <u>860,266</u>	\$ <u>979,741</u>	\$ <u>888,483</u>
Contribution's as a percentage of Covered-Employee Payroll	<u>14.69%</u>	<u>13.31%</u>	<u>13.62%</u>	<u>15.02%</u>

Note to the Schedule of Pension Plan Contributions:

* The Watermaster has presented information for those years for which information is available until a full 10-year trend is compiled.

Supplemental Information Section

Chino Basin Watermaster
Combining Schedule of Revenue, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2019

Watermaster Administration	Optimum Basin Management	Pool Administration and Special Projects			Groundwater Replenishment	LAIF Value Adj.	GASB 75 Beginning Net Position	Grand Totals	Amended Budget 2018-2019
		Appropriative Pool	Agricultural Pool	Non-Ag Pool					
Administrative Revenues:									
Administrative Assessments		8,298,615		392,157			8,690,772	8,695,545	
Interest Revenue		213,712	12,036	2,107			227,855	63,968	
Mutual Agency Project Revenue	167,712						167,712	167,712	
Miscellaneous Income	237						237	-	
Total Revenues	167,950	-	8,512,327	12,036	394,264	-	-	9,086,577	8,927,225
Administrative & Project Expenditures:									
Watermaster Administration	2,043,156						2,043,156	1,654,141	
Watermaster Board-Advisory Committee	197,612						197,612	209,519	
Ag Pool Misc. Expense - Ag Fund							-	400	
Pool Administration		135,480	397,651	142,771			675,901	690,643	
Optimum Basin Mgmt Administration	1,902,174						1,902,174	2,038,267	
OBMP Project Costs	4,227,588						4,227,588	5,412,869	
Debt Service	516,021						516,021	580,585	
Basin Recharge Improvements	1,434,159						1,434,159	3,068,941	
Total Administrative/OBMP Expenses	2,240,768	8,079,941	135,480	397,651	142,771	-	-	10,996,610	13,655,365
Net Administrative/OBMP Expenses	(2,072,818)	(8,079,941)							
Allocate Net Admin Expenses To Pools	<u>2,072,818</u>		1,456,073	539,172	77,573		-	-	
Allocate Net OBMP Expenses To Pools		6,129,761	4,305,915.21	1,594,445	229,400.62		-	-	
Allocate Debt Service to App Pool		516,021	516,021				-	-	
Allocate Basin Recharge to App Pool		<u>1,434,159</u>	1,434,159				-	-	
Agricultural Expense Transfer*			2,531,268	(2,531,268)			-	-	
Total Expenses			10,378,916	-	449,745	-	-	10,996,610	13,655,365
Net Administrative Income			(1,866,589)	12,036	(55,481)	-	-	(1,910,034)	(4,728,140)
Other Income/(Expense)									
Replenishment Water Assessments					796,239		796,239	-	
Desalter Replenishment Obligation					-		-	-	
Non-Ag Stored Water Purchases							-	-	
Exhibit "G" Non-Ag Pool Water		131,000					131,000	-	
RTS Charges from IEUA					(29,084)		(29,084)	-	
Interest Revenue					10,776		10,776	-	
MWD Water Purchases							-	-	
Non-Ag Stored Water Purchases							-	-	
Exhibit "G" Non-Ag Pool Water		(131,000)					(131,000)	-	
MWD Water Purchases					(459,025)		(459,025)	-	
Groundwater Replenishment					-		-	-	
LAIF - Fair Market Value Adjustment						36,645	36,645	-	
Other Post-Employment Benefits (OPEB)							-	-	
Refund-Excess Reserves							-	-	
Refund-Recharge Debt		(57,732)					(57,732)	-	
Funding To/(From) Reserves							-	-	
Net Other Income/(Expense)			(57,732)	-	-	318,906	36,645	-	297,819
Net Transfers To/(From) Reserves	(1,612,214)		(1,924,321)	12,036	(55,481)	318,906	36,645	-	(1,612,214)
Net Assets, July 1, 2018			9,661,977	493,108	80,791	(4,534)	(20,461)	(443,445)	9,767,436
Net Assets, End of Period			7,737,656	505,144	25,310	314,372	16,184	(443,445)	8,155,222
17/18 Assessable Production			76,859,928	28,460,605	4,094,766			109,415,299	
17/18 Production Percentages			70.246%	26.012%	3.742%			100.000%	

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

Chino Basin Watermaster
Combining Schedule of Revenue, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2018

	Watermaster Administration	Optimum Basin Management	Pool Administration and Special Projects			Groundwater Replenishment	LAIF Value Adj.	GASB 68 Beginning Net Position	Grand Totals	Amended Budget 2017-2018
			Appropriative Pool	Agricultural Pool	Non-Ag Pool					
Administrative Revenues:										
Administrative Assessments			8,407,584		360,243				8,767,827	11,607,166
Interest Revenue			152,265	6,931	1,757				160,953	39,906
Mutual Agency Project Revenue	193,622								193,622	191,626
Miscellaneous Income	89								89	-
Total Revenues	193,711	-	8,559,849	6,931	362,000	-	-	-	9,122,491	11,838,698
Administrative & Project Expenditures:										
Watermaster Administration	1,983,263								1,983,263	1,587,994
Watermaster Board-Advisory Committee	172,281								172,281	197,454
Ag Pool Misc. Expense - Ag Fund				57					57	400
Pool Administration			113,185	371,750	93,678				578,613	621,405
Optimum Basin Mgmt Administration		1,118,624							1,118,624	1,191,142
OBMP Project Costs		3,211,873							3,211,873	5,544,630
Debt Service		457,644							457,644	515,375
Basin Recharge Improvements		857,731							857,731	6,692,293
Total Administrative/OBMP Expenses	2,155,545	5,645,872	113,185	371,750	93,678	-	-	-	8,380,086	16,350,693
Net Administrative/OBMP Expenses	(1,961,834)	(5,645,872)								
Allocate Net Admin Expenses To Pools	<u>1,961,834</u>		1,424,230	465,040	72,564				-	
Allocate Net OBMP Expenses To Pools		4,330,497	3,143,805	1,026,516	160,176				-	
Allocate Debt Service to App Pool		457,644	457,644						-	
Allocate Basin Recharge to App Pool		<u>857,731</u>	857,731						-	
Agricultural Expense Transfer*			1,863,306	(1,863,306)					-	
Total Expenses			7,859,901	57	326,417	-	-	-	8,380,086	16,350,693
Net Administrative Income			699,948	6,874	35,583	-	-	-	742,405	(4,511,995)
Other Income/(Expense)										
Replenishment Water Assessments						858,518			858,518	-
Interest Revenue						2,259			2,259	-
MWD Water Purchases									-	-
Groundwater Replenishment						(763,169)			(763,169)	-
LAIF - Fair Market Value Adjustment							(8,556)		(8,556)	-
Gain on Sale of Assets			1,637		63				1,700	-
Other Post-Employment Benefits (OPEB)			-		-			296,749	296,749	-
Refund-Recharge Debt			(78,397)						(78,397)	-
Funding To/(From) Reserves									-	(392,216)
Net Other Income/(Expense)			(76,760)	-	63	97,607	(8,556)	296,749	309,103	(392,216)
Net Transfers To/(From) Reserves		754,759	623,188	6,874	35,646	97,607	(8,556)	296,749	1,051,508	(4,119,779)
Net Assets, July 1, 2017			9,038,790	486,234	45,146	(102,141)	(11,905)	(740,195)	8,715,929	
Net Assets, End of Period			9,661,978	493,108	80,792	(4,534)	(20,461)	(443,446)	9,767,437	9,767,437
16/17 Assessable Production			82,269.159	26,862.554	4,191.579				113,323.292	
16/17 Production Percentages			72.597%	23.704%	3.699%				100.000%	

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

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Report on Internal Controls and Compliance



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

Board of Directors
Chino Basin Watermaster
Rancho Cucamonga, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Chino Basin Watermaster (Watermaster) as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprises the Watermaster's basic financial statements, and have issued our report thereon dated October 24, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Watermaster's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Watermaster's internal control. Accordingly, we do not express an opinion on the effectiveness of the Watermaster's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

**Independent Auditor's Report on Internal Controls Over Financial Reporting
And on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*, (continued)**

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Watermaster's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Watermaster's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
October 24, 2019