



## **Chino Basin Watermaster**

**Annual Financial Report**

**For the Fiscal Years Ended June 30, 2012 and 2011**

## Our Mission Statement

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

**Chino Basin Watermaster  
Board of Directors as of June 30, 2012**

<u>Name</u>	<u>Title</u>	<u>Current Term Ending or Ongoing</u>
Bob G. Kuhn	Chair	Ongoing
James Curatalo	Vice-Chair	Ongoing
Paula Lantz	Secretary/Treasurer	January 2013
Bill Kruger	Member	Ongoing
Steve Elie	Member	Ongoing
Robert Bowcock	Member	Ongoing
Charles D. Field	Member	Ongoing
Paul Hofer	Member	Ongoing
Geoffrey Vanden Heuvel	Member	Ongoing

**Chino Basin Watermaster  
Peter Kavounas PE, General Manager  
9641 San Bernardino Road  
Rancho Cucamonga, California 91730  
(909) 484-3888 – [www.cbwm.org](http://www.cbwm.org)**

**Chino Basin Watermaster**

**Annual Financial Report**

**For the Fiscal Years Ended June 30, 2012 and 2011**

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Annual Financial Report  
For the Fiscal Years Ended June 30, 2012 and 2011**

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# **Introductory Section**





December 20, 2012

Board of Directors  
Chino Basin Watermaster

### **Introduction**

It is our pleasure to submit the Annual Financial Report for the Chino Basin Watermaster (Watermaster) for the fiscal years ended June 30, 2012 and 2011, following guidelines set forth by the Governmental Accounting Standards Board. Watermaster staff prepared this financial report. The Watermaster is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance your understanding of the Watermaster's financial position and activities.

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

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

### **Watermaster Structure and Leadership**

The Chino Basin Watermaster ("Watermaster") was established under a judgment entered in Superior Court of the State of California for the County of San Bernardino as a result of Case No. RCV 51010 (formerly Case No. SCV 164327) entitled "Chino Basin Municipal Water District v. City of Chino, et al.", signed by the Honorable Judge Howard B. Wiener on January 27, 1978. The effective date of this Judgment for accounting and operations was July 1, 1977. Pursuant to the Judgment, the Chino Basin Municipal Water District (CBMWD) five member Board of Directors was initially appointed as "Watermaster". Their term of appointment as Watermaster was for five years, and the Court, by subsequent orders, provides for successive terms or for a successor Watermaster. Pursuant to a recommendation of the Advisory Committee, the Honorable J. Michael Gunn appointed a nine-member board as Watermaster on September 28, 2000. Under the Judgment, three Pool committees were formed: (1) Overlying (Agricultural) Pool which includes the State of California and all producers of water for overlying uses other than industrial or commercial purposes; (2) Overlying (Non-Agricultural) Pool which represents producers of water for overlying industrial or commercial purposes; and (3) Appropriative Pool which represents cities, special districts, other public or private entities and utilities. The three Pools act together to form the "Advisory Committee".

The 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 employs nine regular and one part-time employee. The Watermaster's three Pools, the Advisory Committee and the Board of Directors meet each month.

### **Watermaster Mission and Services**

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

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

### **Economic Condition and Outlook**

The Watermaster's office is located in the City of Rancho Cucamonga in San Bernardino County which has experienced tempered economic growth within the region. The economic outlook for the Southern California region is one of cautious growth due a prolonged real estate correction, the financial down turn that may impact customers and suppliers.

### **Internal Control Structure**

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

### **Budgetary Control**

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

### **Investment Policy**

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



### **Water Rates and Watermaster Revenues**

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

### **Audit and Financial Reporting**

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

### **Other References**

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

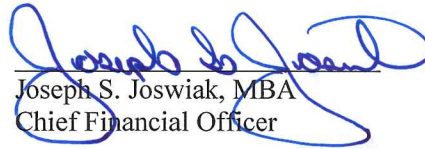
### **Acknowledgements**

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

Respectfully submitted,



Peter Kavounas, P.E.  
General Manager

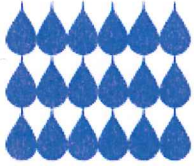


Joseph S. Joswiak, MBA  
Chief Financial Officer

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# **Financial Section**





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

# Charles Z. Fedak & Company

Certified Public Accountants  
An Accountancy Corporation

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## Independent Auditor's Report

Board of Directors  
Chino Basin Watermaster  
Rancho Cucamonga, California

We have audited the accompanying financial statements of the Chino Basin Watermaster (Watermaster) as of and for the year ended June 30, 2012 and 2011, which collectively comprise the Watermaster's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Watermaster's management. Our responsibility is to express an opinion on these financial statements based on our 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; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Chino Basin Watermaster as of June 30, 2012 and 2011, and the respective changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 20, 2012, on our consideration of the Watermaster's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits. That report can be found on page 28.

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

### Independent Auditor's Report, continued

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

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Watermaster's basic financial statements as a whole. The introductory section on pages 1 through 3 and the supplemental information on pages 26 through 27 are presented for purposes of additional analysis and are not required parts of the basic financial statements. The supplemental information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

**Charles Z. Fedak & Company, CPA's - An Accountancy Corporation**  
Cypress, California  
December 20, 2012

**Chino Basin Watermaster**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

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, 2012 and 2011. The two year presentation is provided for comparative purposes. We encourage readers to consider the information presented here in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

**Financial Highlights**

- The Watermaster's net assets decreased 25.44% or \$1,971,906 to \$5,779,083 in fiscal year 2012 as the result of operations. In 2011, the Watermaster's net assets decreased 7.11% or \$602,977 to \$7,750,989 as the result of operations.
- The Watermaster's operating revenues increased 24.98% or \$4,056,475 in 2012 primarily due to a 38.93% or \$3,744,339 increase in replenishment water revenues that was offset by a \$282,641 decrease in administrative assessments. In 2011, the Watermaster's operating revenues increased 11.29% or \$1,647,301 primarily due to a \$2,543,323 increase in replenishment water revenues that was offset by a \$895,834 decrease in administrative assessments
- The Watermaster's operating expenses increased 16.35% or \$2,758,955 in 2012 primarily due to a \$487,196 decrease in optimum basin management plan costs that was offset by a \$1,871,747 increase in groundwater replenishment costs. In 2011, the Watermaster's operating expenses decreased 1.59% or \$272,346 primarily due to a \$1,431,931 decrease in optimum basin management plan costs that was offset by a \$1,096,924 increase in groundwater replenishment costs.

**Required Financial Statements**

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

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

**Financial Analysis of the Watermaster**

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

**Chino Basin Watermaster**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**Financial Analysis of the Watermaster, continued**

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

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

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 13 through 25.

**Statement of Net Assets**

<b>Condensed Statements of Net Assets</b>				
	<u>2012</u>	<u>As Restated 2011</u>	<u>Change</u>	<u>Percentage Change</u>
<b>Assets:</b>				
Current assets	\$ 6,294,709	11,075,096	(4,780,387)	-43.16%
Capital assets, net	15,377	26,190	(10,813)	-41.29%
<b>Total assets</b>	<u>\$ 6,310,086</u>	<u>11,101,286</u>	<u>(4,791,200)</u>	<u>-43.16%</u>
<b>Liabilities:</b>				
Current liabilities	\$ 339,880	3,135,711	(2,795,831)	-89.16%
Non-current liabilities	191,123	214,586	(23,463)	-10.93%
<b>Total liabilities</b>	<u>531,003</u>	<u>3,350,297</u>	<u>(2,819,294)</u>	<u>-84.15%</u>
<b>Net assets:</b>				
Invested in capital assets	15,377	26,190	(10,813)	-41.29%
Unrestricted	5,763,706	7,724,799	(1,961,093)	-25.39%
<b>Total net assets</b>	<u>5,779,083</u>	<u>7,750,989</u>	<u>(1,971,906)</u>	<u>-25.44%</u>
<b>Total liabilities and net assets</b>	<u>\$ 6,310,086</u>	<u>11,101,286</u>	<u>(4,791,200)</u>	<u>-43.16%</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Watermaster, assets of the Watermaster exceeded liabilities by \$5,779,083 and \$7,750,989 as of June 30, 2012 and 2011, respectively.

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



**Chino Basin Watermaster**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**Statement of Net Assets, continued**

At the end of fiscal years 2012 and 2011, the Watermaster showed a positive balance in its unrestricted net assets of \$5,763,706 and \$7,724,799, respectively, which may be utilized in future years. See note 7 for further discussion.

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

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

	<u>2012</u>	<u>As Restated 2011</u>	<u>Change</u>	<u>Percentage Change</u>
Revenues:				
Operating revenues	20,292,772	16,236,297	4,056,475	24.98%
Non-operating revenues	12,557	65,086	(52,529)	-80.71%
<b>Total revenues</b>	<b>20,305,329</b>	<b>16,301,383</b>	<b>4,003,946</b>	<b>24.56%</b>
Expenses:				
Operating expense	19,633,211	16,874,256	2,758,955	16.35%
Depreciation	10,814	20,699	(9,885)	-47.76%
Non-operating expense	2,633,210	9,292	2,623,918	28238.46%
<b>Total expenses</b>	<b>22,277,235</b>	<b>16,904,247</b>	<b>5,372,988</b>	<b>31.78%</b>
<b>Change in net assets</b>	<b>(1,971,906)</b>	<b>(602,864)</b>	<b>(1,369,042)</b>	<b>227.09%</b>
<b>Net assets, beginning of year</b>	<b>7,750,989</b>	<b>8,353,853</b>	<b>(602,864)</b>	<b>-7.22%</b>
<b>Net assets, end of year</b>	<b>5,779,083</b>	<b>7,750,989</b>	<b>(1,971,906)</b>	<b>-25.44%</b>

The statement of revenues, expenses and changes of net assets shows how the Watermaster's net assets changed during the fiscal years. In the case of the Watermaster, net assets decreased by \$1,971,906 and \$602,864 for the fiscal years ended June 30, 2012 and 2011, respectively.

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

The Watermaster's operating revenues increased 24.98% or \$4,056,475 in 2012 primarily due to a 38.93% or \$3,744,339 increase in replenishment water revenues that was offset by a \$282,641 decrease in administrative assessments.

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

The Watermaster's operating expenses increased 16.35% or \$2,758,955 in 2012 primarily due to a \$487,196 decrease in optimum basin management plan costs that was offset by a \$1,871,747 increase in groundwater replenishment costs.

In 2011, the Watermaster's operating expenses decreased 1.59% or \$272,346 primarily due to a \$1,431,931 decrease in optimum basin management plan costs that was offset by a \$1,096,924 increase in groundwater replenishment costs.

**Chino Basin Watermaster**  
**Management's Discussion and Analysis**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**Capital Asset Administration**

At the end of fiscal year 2012 and 2011, the Watermaster's investment in capital assets amounted to \$15,377 and 26,190 (net of accumulated depreciation), respectively. This investment in capital assets includes leasehold improvements, office equipment, and vehicles. There were no major capital assets additions during the year ended June 30, 2012.

Changes in capital assets in 2012 were as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance 2012</u>
Capital assets:				
Depreciable assets	273,808	-	(5,690)	268,118
Accumulated depreciation	<u>(247,618)</u>	<u>(10,813)</u>	<u>5,690</u>	<u>(252,741)</u>
Total capital assets	<u>26,190</u>	<u>(10,813)</u>	<u>-</u>	<u>15,377</u>

Changes in capital assets in 2011 were as follows:

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

**Conditions Affecting Current Financial Position**

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

**Requests for Information**

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

# **Basic Financial Statements**

**Chino Basin Watermaster**  
**Statement of Net Assets**  
**June 30, 2012 and 2011**

<i>Assets</i>		<b>As Restated</b>
Current assets:		
Cash and cash equivalents (note 2)	\$ 6,080,768	7,187,623
Accrued interest receivable	5,867	14,729
Accounts receivable	169,174	3,750,628
Prepaid expenses	38,900	122,116
Total current assets	6,294,709	11,075,096
Non-current:		
Capital assets, net (note 3)	15,377	26,190
Total non-current assets	15,377	26,190
Total assets	\$ 6,310,086	11,101,286
<i>Liabilities</i>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 286,110	3,064,607
Accrued salaries and benefits	15,917	21,868
Long-term liabilities – due within one year:		
Compensated absences (note 4)	36,755	48,798
Pension related debt (note 5)	1,098	438
Total current liabilities	339,880	3,135,711
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 4)	68,260	90,625
Pension related debt (note 5)	122,863	123,961
Total non-current liabilities	191,123	214,586
Total liabilities	531,003	3,350,297
Net assets: (note 7)		
Investment in capital assets, net of related debt	15,377	26,190
Unrestricted	5,763,706	7,724,799
Total net assets	5,779,083	7,750,989
Total liabilities and net assets	\$ 6,310,086	11,101,286

See accompanying notes to the basic financial statements

**Chino Basin Watermaster**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>As Restated 2011</u>
Operating revenues:		
Administrative assessments	\$ 6,225,528	6,508,169
Replenishment water revenue	13,361,467	9,617,128
Other revenue	<u>705,777</u>	<u>111,000</u>
Total operating revenue	<u>20,292,772</u>	<u>16,236,297</u>
Operating expenses:		
Groundwater replenishment and other water purchases	12,862,992	10,991,245
Optimum basin management plan	5,382,665	4,895,469
Watermaster administration	784,832	535,379
Pool, advisory, and board administration	<u>602,722</u>	<u>452,163</u>
Total operating expense	<u>19,633,211</u>	<u>16,874,256</u>
Operating loss before depreciation	659,561	(637,959)
Depreciation expense	<u>(10,814)</u>	<u>(20,699)</u>
Operating income (loss)	<u>648,747</u>	<u>(658,658)</u>
Non-operating revenues(expense):		
Reserve distribution	(2,623,938)	-
Investment earnings	12,557	65,086
Interest expense	<u>(9,272)</u>	<u>(9,292)</u>
Total non-operating revenues	<u>(2,620,653)</u>	<u>55,794</u>
Change in net assets	(1,971,906)	(602,864)
Net assets at beginning of year	<u>7,750,989</u>	<u>8,353,853</u>
Net assets at end of year	<u>\$ 5,779,083</u>	<u>7,750,989</u>

See accompanying notes to the basic financial statements

**Chino Basin Watermaster**  
**Statement of Cash Flows**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

	2012	As Restated 2011
Cash flows from operating activities:		
Cash received from stakeholders	\$ 23,874,226	12,486,469
Cash paid to employees for salaries and wages	(1,049,676)	(892,464)
Cash paid to vendors and suppliers for materials and services	(23,935,175)	(15,046,026)
Net cash used in operating activities	(1,110,625)	(3,452,021)
Cash flows from investing activities:		
Principal payments on pension related debt	(438)	(113)
Interest paid on pension related debt	(9,272)	(9,292)
Investment earnings received	13,480	71,015
Net cash provided by investing activities	3,770	61,610
Net decrease in cash	(1,106,855)	(3,390,411)
Cash and cash equivalent at the beginning of year	7,187,623	10,578,034
Cash and cash equivalent at the end of year	\$ 6,080,768	7,187,623
Reconciliation of operating income (loss) to net cash used in operating activities:		
Operating income (loss)	\$ 648,747	(658,658)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	10,814	20,699
Reserve distribution	(2,623,938)	-
Other, net	7,938	-
Changes in assets and liabilities		
(Increase) decrease in assets:		
Accounts receivable	3,581,454	(3,749,828)
Prepaid expenses	83,216	(106,823)
Increase (decrease) in liabilities:		
Accounts payable and accrued expense	(2,778,497)	1,094,334
Accrued salaries and benefits	(5,951)	3,078
Compensated absences	(34,408)	(54,823)
Total adjustments	(1,759,372)	(2,793,363)
Net cash used in operating activities	\$ (1,110,625)	(3,452,021)
Non-cash investing, capital and financing transactions:		
Change in fair-market value of investments	\$ 6,791	13,450

See accompanying notes to the basic financial statements

**Chino Basin Watermaster  
Notes to the Financial Statements  
For the Fiscal Years Ended June 30, 2012 and 2011**

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

**A. Organization and Operations of the Reporting Entity**

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

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

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

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

Watermaster expenditures are allocated to the pools based on the prior year’s production volume (or the same percentage used to set the annual assessments). Allocations for fiscal year 2011-2012 expenses are based on the 2010-2011 production volume.

	<b>Fiscal Year 2012</b>	
<b>Production volume</b>	<b>Acre Feet</b>	<b>Percentage</b>
Appropriative Pool	78,410	68.982%
Agricultural Pool	31,342	27.574%
Non-agricultural Pool	3,915	3.444%
Total production volume	113,667	100.000%

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

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

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

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

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

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

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

**C. Financial Reporting**

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

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

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

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

**1. Use of Estimates**

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

**2. Cash and Cash Equivalents**

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



**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

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

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

**3. Investments**

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

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

The Watermaster extends credit to customers in the normal course of operations. Management has determined that all amounts are considered collectable. As a result, the Watermaster has not recorded an allowance for doubtful accounts at June 30, 2012.

**5. Prepaid Expenses**

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

**6. Compensated Absences**

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

**7. Water Production Assessments**

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

**8. Capital Assets**

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

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

**9. Budgetary Policies**

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

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

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

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

**10. Net Assets**

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

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

**(2) Cash and Investments**

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

Cash and cash equivalents	\$ 6,080,768	7,187,623
Total cash and cash equivalents	\$ 6,080,768	7,187,623

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

Cash on hand	\$ 500	500
Deposits with financial institutions	613,634	141,907
Investments	5,466,634	7,045,216
Total cash and investments	\$ 6,080,768	7,187,623

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

Deposits held with the California Local Agency Investment Fund	268 days	237 days
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***Investments Authorized by the California Government Code and the Watermaster's Investment Policy***

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

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

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

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

***Custodial Credit Risk***

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

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the Watermaster's bank balances, up to \$250,000 at June 30, 2012 and 2011, 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).

***Investment in State Investment Pool***

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

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

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

***Interest Rate Risk***

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

***Credit Risk***

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

***Concentration of Credit Risk***

The Watermaster's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Watermaster's investments at June 30, 2012 and 2011, respectively.

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**(3) Capital Assets**

Changes in capital assets for 2012 were as follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance 2012</u>
Depreciable assets:				
Computer equipment	\$ 117,590	-	-	117,590
Furniture and fixtures	42,291	-	(5,690)	36,601
Leasehold improvements	23,443	-	-	23,443
Vehicles and equipment	90,484	-	-	90,484
Total depreciable assets	<u>273,808</u>	<u>-</u>	<u>(5,690)</u>	<u>268,118</u>
Accumulated depreciation:				
Computer equipment	(96,089)	(8,469)	-	(104,558)
Furniture and fixtures	(42,292)	-	5,690	(36,602)
Leasehold improvements	(18,757)	(2,344)	-	(21,101)
Vehicles and equipment	(90,480)	-	-	(90,480)
Total accumulated depreciation:	<u>(247,618)</u>	<u>(10,813)</u>	<u>5,690</u>	<u>(252,741)</u>
Total capital assets, net	<u>\$ 26,190</u>			<u>15,377</u>

There were no capital assets additions during the fiscal year.

Changes in capital assets for 2011 were as follows:

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

There were no capital assets additions during the fiscal year.

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**(4) Compensated Absences**

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

<u>Balance</u> <u>2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2012</u>	<u>Current</u>	<u>Long Term</u>
\$ 139,423	101,582	(135,990)	105,015	36,755	68,260

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

**(5) Pension Related Debt – CalPERS Side-Fund**

As of June 30, 2003, CalPERS implemented risk-pooling for the Watermaster’s agent multiple-employer public employee defined benefit pension plan. As a result, the Watermaster’s defined benefit pension plan with CalPERS converted from an agent multiple-employer plan to a cost sharing multiple-employer plan. This change in the type of the plan created the CalPERS Side-Fund, which CalPERS financed at a 7.75% interest rate (for fiscal year 2013 and beyond CalPERS reduced the rate to 7.50%). CalPERS actuarially calculated the amount needed to bring the Watermaster into the cost sharing multiple-employer plan on an equal basis with other governmental agencies that all had less than 100 active and retired employees combined.

The reason that CalPERS switched these governmental agencies into the cost sharing multiple-employer plan was to smooth the annual costs related to the pension benefit over a longer period of time resulting in a lower cost of service to the governmental agencies.

A portion of the Watermaster’s annual required contribution to CalPERS are actuarially determined and shared by all governmental agencies within the cost sharing risk pool. Also, the Watermaster is required to make systematic payments to pay-down the CalPERS Side-Fund, as well. The responsibility for paying-down the Watermaster’s CalPERS Side-Fund is specific to the Watermaster and is not shared by all governmental agencies within the cost sharing risk pool. Therefore, the CalPERS Side-Fund falls under the definition of pension-related debt, as described in GASB Statement No. 27. The following long-term debt has been recorded on the Watermaster’s financial statements as the Watermaster is making systematic payments to CalPERS each payroll period. The annualized repayment schedule is as follows:

Future long-term debt service requirements to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,487	8,835	10,322
2014	1,920	8,712	10,632
2015	2,395	8,555	10,950
2016	2,914	8,365	11,279
2017	3,484	8,133	11,617
2018-2022	27,984	35,545	63,529
2023-2027	52,308	21,340	73,648
2028-2030	30,371	2,274	32,645
Total	122,863	101,759	224,622
Less current	(1,487)		
Total non-current	\$ 121,376		

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**(6) Defined Benefit Pension Plan**

***Plan Description***

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

***Funding Policy***

The Watermaster participates in the 2.5% at 55 Risk Pool. Participants are required to contribute 8% of their annual covered salary. The Watermaster makes the contributions required of the employees on their behalf and for their account. Benefit provisions and all other requirements are established by state statute and the Watermaster contract with employee bargaining groups.

Also, the Watermaster is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (APC) percentage of payroll for fiscal years 2012, 2011 and 2010 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by CalPERS. For Fiscal years 2012, 2011 and 2010, the Watermaster's annual contributions for the CalPERS plan were equal to the Agencies required and actual contributions for each fiscal year as follows:

***Three Year Trend Information:***

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>APC Percentage of Payroll</u>
2009-2010	165,298	100%	11.417%
2010-2011	163,231	100%	14.298%
2011-2012	184,073	100%	14.978%

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

**(7) Net Assets**

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

	<b>2012</b>	<b>2011</b>
Net investment in capital assets:		
Capital assets, net	\$ 15,377	26,190
Total net investment in capital assets	15,377	26,190
Unrestricted net assets:		
Non-spendable net assets:		
Prepaid expenses and deposits	38,900	122,116
Total non-spendable net assets	38,900	122,116
Spendable net assets are designated as follows:		
Undesignated net assets reserve	5,724,806	7,602,683
Total spendable net assets	5,724,806	7,602,683
Total unrestricted net assets	5,763,706	7,724,799
Total net assets	\$ 5,779,083	7,750,989

**(8) 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, 2012:

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



**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2012, that have effective dates that may impact future financial presentations.

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

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This standard address how to account for and report service concession arrangements, a type of public-private or public-public partnership that state and local governments are increasingly entering into. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the Watermaster's financial statements has not been assessed at this time.

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

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity, Omnibus*. This standard is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis for State and Local Governments*. This statement is effective for financial statements for periods beginning after June 15, 2012. The impact of the implementation of this Statement to the Watermaster's financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 62***

In December 2010, The GASB issued Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

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

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

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard is designed to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the Watermaster's financial statements has not been assessed at this time.

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

In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. This standard is designed to improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or swap counterparty's credit support provider, is replaced. This statement is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the Watermaster's financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 65***

In March 2012, the GASB issued Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The impact of the implementation of this Statement to the Watermaster's financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 66***

In March 2012, the GASB issued Statement No. 66 – *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The impact of the implementation of this Statement to the Watermaster's financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 68***

In June 2012, the GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Years Ended June 30, 2012 and 2011**

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

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The impact of the implementation of this Statement to the Watermaster's financial statements has not been assessed at this time.

**(10) Adjustment to Net Assets – Pension Related Debt**

During a review of the Watermaster's employee pension plan administered by CalPERS, the Watermaster determined that a Side Fund obligation specific to the Agency was not recorded in the Watermaster's accounts in compliance with the provisions of *Governmental Accounting Standards Board Statement No. 27*. As a result, previously recorded net assets of \$7,875,388 and \$8,478,365 have been adjusted to \$7,750,989 and \$8,353,853 as of June 30, 2011 and 2010, respectively. The effect of this adjustment is summarized in the table below:

The adjustments to net assets are as follows:

Net assets at July 1, 2009, as previously stated	\$ <u>10,995,966</u>
Effect of adjustment to reduce pension related debt	(124,512)
Change in net assets at June 30, 2010, as previously stated	<u>(2,517,601)</u>
Net assets at June 30, 2010, as restated	8,353,853
Effect of adjustment to reduce pension related debt	113
Change in net assets at June 30, 2011, as previously stated	<u>(602,977)</u>
Net assets at June 30, 2011, as restated	\$ <u><u>7,750,989</u></u>

**(11) 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.

**(11) Subsequent Events**

Events occurring after June 30, 2012 have been evaluated for possible adjustment to the financial statements or disclosure as of December 20, 2012, which is the date the financial statements were available to be issued.

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## **Supplemental Information Section**



**Chino Basin Watermaster**  
**Combining Schedule of Revenue, Expenses, and Changes in Net Assets**  
**For the Fiscal Year Ended June 30, 2012**

	Watermaster Administration	Optimum Basin Management		Pool Administration and Special Projects		Groundwater Replenishment	Groundwater Operations SB 222 Funds	Education Funds	Grand Totals	Budget 2011-2012
		Appropriative Pool	Agricultural Pool	Non-Agricultural Pool						
<b>Administrative revenues:</b>										
Administrative assessments	\$ -	5,919,372	-	-	306,156	-	-	-	6,225,528	6,225,975
Interest revenue	-	16,365	1,786	-	572	-	-	-	18,723	150,010
Mutual agency project revenue	705,777	-	-	-	-	-	-	-	705,777	705,777
Total revenues	705,777	5,935,737	1,786	-	306,728	-	-	-	6,950,028	7,081,762
<b>Administrative &amp; project expenditures:</b>										
Watermaster administration	701,102	-	-	-	-	-	-	-	701,102	529,607
Watermaster board-advisory committee	173,179	-	-	-	-	-	-	-	173,179	190,297
Ag Pool misc. expense - Ag Fund	-	-	99	-	-	-	-	-	99	-
Pool administration	-	165,285	174,082	184,246	-	-	-	-	523,613	551,095
Optimum basin management administration	-	1,284,879	-	-	-	-	-	-	1,284,879	1,327,469
OBMP project costs	-	3,909,650	-	-	-	-	-	-	3,909,650	4,276,930
Debt service	-	178,135	-	-	-	-	-	-	178,135	450,964
Education funds use	-	-	-	-	-	-	-	375	375	375
Mutual agency project costs	-	-	-	-	-	-	-	-	10,000	10,000
Total administrative/OBMP expenses	874,281	165,285	174,082	184,246	-	-	-	375	6,781,032	7,336,737
Net administrative/OBMP expenses:	(168,504)									
Allocate net admin expenses to pools	168,504	116,238	46,463	5,803	-	-	-	-	-	-
Allocate net OBMP expenses to pools	-	3,590,218	1,435,076	179,235	-	-	-	-	-	-
Allocate debt service to app pool	-	178,135	-	-	-	-	-	-	-	-
Agricultural expense transfer*	-	1,655,621	(1,655,621)	-	-	-	-	-	-	-
Total expenses	-	5,705,497	99	369,284	-	-	-	375	6,781,032	7,336,737
Net administrative income	-	230,240	1,687	(62,556)	-	-	-	(375)	168,996	(254,975)
<b>Other income/(expense)</b>										
Replenishment water assessments	-	-	-	-	-	714,284	-	-	714,284	-
Non-Ag stored water purchases	-	2,377,250	-	-	-	(6,168)	-	-	2,377,250	-
Interest revenue	-	-	-	-	-	10,269,933	-	-	(6,168)	-
MWD water purchases	-	(1,874,191)	-	-	-	(10,963,654)	-	-	10,269,933	-
Non-Ag stored water purchases	-	-	-	-	-	(25,146)	-	-	(1,874,191)	-
MWD water purchases	-	-	-	-	-	(8,953)	-	-	(10,963,654)	-
Groundwater replenishment	-	(8,953)	-	(319)	-	(2,039,658)	-	-	(25,146)	-
Interest expense - CalPERS	-	(1,957,901)	-	(81,757)	-	-	-	-	(9,272)	-
Refund - excess reserves	-	(584,280)	-	-	-	-	-	-	(2,039,658)	-
Refund - rechange debt	-	(2,048,075)	-	(82,076)	-	-	-	-	(584,280)	-
Net other income	-	(1,817,835)	1,687	(144,632)	-	(10,751)	-	(375)	(2,140,902)	-
Net transfers to/(from) reserves	-	6,802,453	475,807	278,474	-	35,374	-	630	(1,971,906)	(254,975)
Net Assets July 1, 2011	-	4,984,618	477,494	133,842	-	24,623	-	255	7,750,989	5,779,083
Net Assets, End of Period	-	78,410,414	31,342,082	3,914,499	-	158,251	-	113,666,995	5,779,083	5,779,083
2010/2011 assessable production	-	68,983%	27.574%	3.444%	-	113,666,995	-	100.000%	5,779,083	5,779,083
2010/2011 production percentages	-				-		-			

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

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

	Watermaster Administration	Optimum Basin Management	Pool Administration and Special Projects		Groundwater Operations		Education Funds	Grand Totals	Budget 2010-2011
			Appropriative Pool	Agricultural Pool	Non-Agricultural Pool	Groundwater Replenishment			
<b>Administrative revenues:</b>									
Administrative assessments	\$ -	-	6,165,079	-	343,090	-	-	6,508,169	-
Interest revenue	(272)	-	33,547	2,324	1,327	-	4	36,930	6,508,070
Mutual agency project revenue	111,000	-	-	-	-	-	-	111,000	175,010
Grant income	-	-	-	-	-	-	-	-	148,410
Other	-	-	-	-	-	-	-	-	-
<b>Total revenues</b>	<b>110,728</b>	<b>-</b>	<b>6,198,626</b>	<b>2,324</b>	<b>344,417</b>	<b>-</b>	<b>4</b>	<b>6,656,099</b>	<b>6,831,490</b>
<b>Administrative &amp; project expenditures:</b>									
Watermaster administration	564,995	-	-	-	-	-	-	564,995	512,546
Watermaster board-advisory committee	68,732	-	-	-	-	-	-	68,732	73,073
Pool administration	-	-	51,778	186,152	145,903	-	-	383,833	474,856
Optimum basin management administration	-	1,626,892	-	-	-	-	-	1,626,892	1,350,390
OBMP project costs	-	2,901,787	-	-	-	-	-	2,901,787	3,772,619
Debt service	-	366,790	-	-	-	-	-	366,790	700,964
Education funds use	-	-	-	-	-	-	375	375	375
Mutual agency project costs	-	-	-	-	-	-	-	-	10,000
<b>Total administrative/OBMP expenses</b>	<b>633,727</b>	<b>4,895,469</b>	<b>51,778</b>	<b>186,152</b>	<b>145,903</b>	<b>-</b>	<b>375</b>	<b>5,913,404</b>	<b>6,894,823</b>
<b>Net administrative/OBMP expenses:</b>	<b>(522,999)</b>	<b>(4,895,469)</b>							
Allocate net admin expenses to pools	\$ 522,999	4,528,679	359,641	145,507	17,851	-	-	-	-
Allocate net OBMP expenses to pools	-	366,790	3,114,151	1,259,958	154,570	-	-	-	-
Allocate debt service to app pool	-	-	-	-	-	-	-	-	-
<b>Agricultural expense transfer*</b>	<b>1,591,617</b>	<b>(1,591,617)</b>							
<b>Total expenses</b>	<b>5,483,977</b>	<b>-</b>	<b>318,324</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>375</b>	<b>5,913,404</b>	<b>6,894,823</b>
<b>Net administrative income</b>	<b>714,649</b>	<b>26,093</b>					<b>(371)</b>	<b>742,695</b>	<b>(63,333)</b>
<b>Other income/(expense)</b>									
Replenishment water assessments	-	-	3,622,004	-	-	-	-	3,622,004	-
Non-Ag stored water purchases	2,244,496	-	-	-	-	-	-	2,244,496	-
Interest revenue	-	-	28,158	-	-	-	-	28,158	-
MWD water purchases	(2,255,436)	-	3,750,628	-	-	-	-	3,750,628	-
Non-Ag stored water purchases	-	-	(3,750,628)	-	-	-	-	(2,255,436)	-
MWD water purchases	-	-	(4,984,780)	-	-	-	-	(3,750,628)	-
Groundwater replenishment	-	-	(1,334,618)	-	-	-	-	(4,984,780)	-
<b>Net other income</b>	<b>(10,940)</b>	<b>-</b>	<b>(1,334,618)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,345,558)</b>	<b>-</b>
<b>Net transfers to/(from) reserves</b>	<b>703,709</b>	<b>26,093</b>	<b>(1,334,618)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(371)</b>	<b>(602,863)</b>	<b>(63,333)</b>
<b>Net Assets July 1, 2010</b>	<b>6,098,744</b>	<b>252,381</b>	<b>1,369,992</b>	<b>473,483</b>	<b>252,381</b>	<b>158,251</b>	<b>1,001</b>	<b>8,353,852</b>	<b>7,750,989</b>
<b>Net Assets, End of Period</b>	<b>6,802,453</b>	<b>278,474</b>	<b>35,374</b>	<b>475,807</b>	<b>278,474</b>	<b>158,251</b>	<b>630</b>	<b>7,750,989</b>	<b>7,750,989</b>
<b>2009/2010 assessable production</b>	<b>78,733,238</b>	<b>31,854,766</b>	<b>3,907,911</b>	<b>27,822%</b>	<b>3,413%</b>			<b>114,495,915</b>	<b>100.000%</b>
<b>2009/2010 production percentages</b>	<b>68.765%</b>	<b>27.822%</b>	<b>3.413%</b>						

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



# **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 the basic financial statements of the Chino Basin Watermaster (Watermaster) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

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

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

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

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

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

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

Charles Z. Fedak & Company, CPA's - An Accountancy Corporation  
Cypress, California  
December 20, 2012