



Chino Basin Watermaster

Annual Financial Report

For the Fiscal Years Ended June 30, 2013 and 2012

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, 2013**

<u>Name</u>	<u>Title</u>	<u>Current Term Ending or Ongoing</u>
Bob G. Kuhn	Chair	Ongoing
James Curatalo	Vice-Chair	January 2014
Peter Rogers	Secretary/Treasurer	January 2014
Robert Craig	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**

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Annual Financial Report

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Introductory Section



November 21, 2013

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, 2013 and 2012, 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, 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, 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 staff includes nine regular 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. 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 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 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 objectives 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, 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 Charles Z. Fedak & Company, CPAs 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.

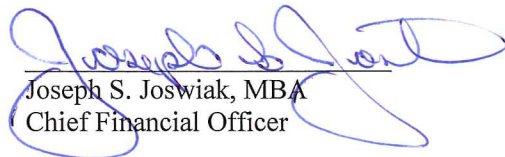
Acknowledgements

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

Financial Section



Charles Z. Fedak, CPA, MBA
Paul J. Kaymark, CPA
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Charles Z. Fedak & Company

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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 the Chino Basin Watermaster (Watermaster) as of and for the years ended June 30, 2013 and 2012, 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 opinions on these financial statements based on our audits. We conducted our audits 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, 2013 and 2012, and the respective changes in financial position, and, 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

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 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. 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 opinions 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 25 and 26, are 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 21, 2013, 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 27 and 28.

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

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

Cypress, California

November 21, 2013

Chino Basin Watermaster
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

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, 2013 and 2012. 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 position increased 7.13%, or \$443,818 to \$6,222,901 in fiscal year 2013 as the result of operations. In 2012, the Watermaster's net position decreased 25.44%, or \$1,971,906 to \$5,779,083 as the result of operations.
- The Watermaster's operating revenues decreased 54.56% , or \$11,072,197 in 2013 primarily due to a \$10,927,259 decrease in replenishment water revenues that was offset by a \$386,991 increase in administrative assessments. In 2012, the Watermaster's operating revenues increased 24.98%, or \$4,056,475 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.
- The Watermaster's operating expenses decreased 59.35%, or \$11,652,904 in 2013 primarily due to a \$1,337,093 decrease in optimum basin management plan costs and a \$10,573,716 decrease in groundwater replenishment costs. In 2012, the Watermaster's operating expenses increased 16.35%, or \$2,758,955 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.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position 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 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 Statement 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.

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 Position and the Statement of Revenues, Expenses and Changes in Net Position 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, 2013 and 2012

Financial Analysis of the Watermaster, continued

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 13 through 24.

Statement of Net Position

Condensed Statements of Net Position

	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>Percentage Change</u>
Assets:				
Current assets	\$ 6,933,444	6,294,709	638,735	10.15%
Capital assets, net	<u>10,339</u>	<u>15,377</u>	<u>(5,038)</u>	<u>-32.76%</u>
Total assets	<u>6,943,783</u>	<u>6,310,086</u>	<u>633,697</u>	<u>10.04%</u>
Liabilities:				
Current liabilities	635,182	339,880	295,302	86.88%
Non-current liabilities	<u>85,700</u>	<u>191,123</u>	<u>(105,423)</u>	<u>-55.16%</u>
Total liabilities	<u>720,882</u>	<u>531,003</u>	<u>189,879</u>	<u>35.76%</u>
Net position:				
Invested in capital assets	10,339	15,377	(5,038)	-32.76%
Unrestricted	<u>6,212,562</u>	<u>5,763,706</u>	<u>448,856</u>	<u>7.79%</u>
Total net position	<u>\$ 6,222,901</u>	<u>5,779,083</u>	<u>443,818</u>	<u>7.68%</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Watermaster, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$6,222,901 and \$5,779,083 as of June 30, 2013 and 2012, 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, 2013 and 2012

Statement of Net Position, continued

At the end of fiscal years 2013 and 2012, the Watermaster showed a positive balance in its unrestricted net position of \$6,212,562 and \$5,763,706, respectively, which may be utilized in future years. See note 7 for further discussion.

Statement of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>Percentage Change</u>
Revenues:				
Operating revenues	\$ 9,220,575	20,292,772	(11,072,197)	-54.56%
Non-operating revenues	13,380	12,557	823	6.55%
Total revenues	9,233,955	20,305,329	(11,071,374)	-54.52%
Expenses:				
Operating expense	7,980,307	19,633,211	(11,652,904)	-59.35%
Depreciation	12,257	10,814	1,443	13.34%
Non-operating expense	797,573	2,633,210	(1,835,637)	-69.71%
Total expenses	8,790,137	22,277,235	(13,487,098)	-60.54%
Change in net position	443,818	(1,971,906)	2,415,724	-122.51%
Net position, beginning of year	5,779,083	7,750,989	(1,971,906)	-25.44%
Net position, end of year	\$ 6,222,901	5,779,083	443,818	7.68%

The statement of revenues, expenses and changes of net position shows how the Watermaster's net position changed during the fiscal years. In the case of the Watermaster, net position increased by \$443,818 for the fiscal year ended June 30, 2013, and decreased by \$1,971,906 for the fiscal years ended June 30, 2012.

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

The Watermaster's operating revenues decreased 54.56%, or \$11,072,197 in 2013, primarily due to a \$10,927,259 decrease in replenishment water revenues that was offset by a \$386,991 increase in administrative assessments.

In 2012, the Watermaster's operating revenues increased 24.98%, or \$4,056,475, 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.

The Watermaster's operating expenses decreased 59.35%, or \$11,652,904 in 2013, primarily due to a \$1,337,093 decrease in optimum basin management plan costs and a \$10,573,716 decrease in groundwater replenishment costs.

In 2012, the Watermaster's operating expenses increased 16.35%, or \$2,758,955 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.

Chino Basin Watermaster
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2013 and 2012

Capital Asset Administration

At the end of fiscal year 2013 and 2012, the Watermaster's investment in capital assets amounted to \$10,339 and \$15,377 (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, 2013.

Changes in capital assets in 2013 were as follows:

	<u>Balance</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance</u>
Capital assets:				
Depreciable assets	\$ 267,887	7,219	-	275,106
Accumulated depreciation	(252,510)	(12,257)	-	(264,767)
Total capital assets	<u>\$ 15,377</u>	<u>(5,038)</u>	<u>-</u>	<u>10,339</u>

Changes in capital assets in 2012 were as follows:

	<u>Balance</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance</u>
Capital assets:				
Depreciable assets	\$ 273,808	-	(5,921)	267,887
Accumulated depreciation	(247,617)	(10,814)	5,921	(252,510)
Total capital assets	<u>\$ 26,191</u>	<u>(10,814)</u>	<u>-</u>	<u>15,377</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 Position
June 30, 2013 and 2012**

	2013	2012
Current assets:		
Cash and cash equivalents (note 2)	\$ 6,773,004	6,080,768
Accrued interest receivable	4,348	5,867
Accounts receivable	110,679	169,174
Prepaid expenses	45,413	38,900
Total current assets	6,933,444	6,294,709
Non-current assets:		
Capital assets, net (note 3)	10,339	15,377
Total non-current assets	10,339	15,377
Total assets	6,943,783	6,310,086
Current Liabilities:		
Accounts payable and accrued expenses	540,056	286,110
Accrued salaries and benefits	48,980	15,917
Long-term liabilities – due within one year:		
Compensated absences (note 4)	46,146	36,755
Pension related debt (note 5)	-	1,098
Total current liabilities	635,182	339,880
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 4)	85,700	68,260
Pension related debt (note 5)	-	122,863
Total non-current liabilities	85,700	191,123
Total liabilities	720,882	531,003
Net Position: (note 7)		
Net investment in capital assets	10,339	15,377
Unrestricted	6,212,562	5,763,706
Total net position	\$ 6,222,901	5,779,083

See accompanying notes to the basic financial statements

Chino Basin Watermaster
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Administrative assessments	\$ 6,612,519	6,225,528
Replenishment water revenue	2,434,208	13,361,467
Other revenue	<u>173,848</u>	<u>705,777</u>
Total operating revenue	<u>9,220,575</u>	<u>20,292,772</u>
Operating expenses:		
Groundwater replenishment and other water purchases	2,289,276	12,862,992
Optimum basin management plan	4,045,572	5,382,665
Watermaster administration	1,153,480	784,832
Pool, advisory, and board administration	<u>491,979</u>	<u>602,722</u>
Total operating expense	<u>7,980,307</u>	<u>19,633,211</u>
Operating loss before depreciation	1,240,268	659,561
Depreciation expense	<u>(12,257)</u>	<u>(10,814)</u>
Operating income	<u>1,228,011</u>	<u>648,747</u>
Non-operating revenue (expense):		
Reserve distribution	(788,647)	(2,623,938)
Investment earnings	13,380	12,557
Interest expense	<u>(8,926)</u>	<u>(9,272)</u>
Total non-operating revenues	<u>(784,193)</u>	<u>(2,620,653)</u>
Change in net position	443,818	(1,971,906)
Net position at beginning of year	<u>5,779,083</u>	<u>7,750,989</u>
Net position at end of year	<u>\$ 6,222,901</u>	<u>5,779,083</u>

See accompanying notes to the basic financial statements

Chino Basin Watermaster
Statement of Cash Flows
For the Fiscal Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from stakeholders	\$ 9,279,070	23,874,226
Cash paid to employees for salaries and wages	(771,419)	(1,049,676)
Cash paid to vendors and suppliers for materials and services	<u>(7,697,425)</u>	<u>(23,935,175)</u>
Net cash provided by (used in) operating activities	<u>810,226</u>	<u>(1,110,625)</u>
Cash flows from investing activities:		
Principal payments on pension related debt	(123,961)	(438)
Interest paid on pension related debt	(8,928)	(9,272)
Investment earnings received	<u>14,899</u>	<u>13,480</u>
Net cash provided by (used in) investing activities	<u>(117,990)</u>	<u>3,770</u>
Net increase (decrease) in cash	692,236	(1,106,855)
Cash and cash equivalent at the beginning of year	<u>6,080,768</u>	<u>7,187,623</u>
Cash and cash equivalent at the end of year	<u>\$ 6,773,004</u>	<u>6,080,768</u>
Reconciliation of operating income to net cash used in operating activities:		
Operating income	<u>\$ 1,228,011</u>	<u>648,747</u>
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	12,257	10,814
Reserve distribution	(788,647)	(2,623,938)
Other, net	(7,217)	7,938
Changes in assets and liabilities		
(Increase) decrease in assets:		
Accounts receivable	58,495	3,581,454
Prepaid expenses	(6,513)	83,216
Increase (decrease) in liabilities:		
Accounts payable and accrued expense	253,946	(2,778,497)
Accrued salaries and benefits	33,063	(5,951)
Compensated absences	<u>26,831</u>	<u>(34,408)</u>
Total adjustments	<u>(417,785)</u>	<u>(1,759,372)</u>
Net cash provided by (used in) operating activities	<u>\$ 810,226</u>	<u>(1,110,625)</u>
Non-cash investing, capital and financing transactions:		
Change in fair-market value of investments	<u>\$ 4,896</u>	<u>6,791</u>
See accompanying notes to the basic financial statements		

Chino Basin Watermaster
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(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 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 2012-2013 expenses are based on the 2011-2012 production volume.

Production volume	Fiscal Year 2013	
	Acre Feet	Percentage
Appropriative Pool	79,343	67.177%
Agricultural Pool	34,353	29.085%
Non-agricultural Pool	4,415	3.738%
Total production volume	118,111	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, 2013 and 2012

(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. Accounting Pronouncements

The financial statements of the Watermaster are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting, including:

Governmental Accounting Standards Board Statement No. 60 – Accounting and Financial Reporting for Service Concession Arrangements. This standard addresses 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.

Governmental Accounting Standards Board 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*.

Governmental Accounting Standards Board 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.

Chino Basin Watermaster
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

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

C. Accounting Pronouncements, continued

Governmental Accounting Standards Board Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This statement 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.

Governmental Accounting Standards Board 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.

Net Position

The Watermaster follows the financial reporting requirements of the GASB and reports net position under the following classifications:

Net Investment in Capital Assets – Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of any debt, or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – Restricted consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.

Unrestricted – Unrestricted consists of any remaining balance of the Watermaster’s net position that do not meet the definition of “restricted”, or “net investment in capital assets”.

D. Assets, Liabilities 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

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, 2013.

Chino Basin Watermaster
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

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

D. Assets, Liabilities and Net Position, continued

5. 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.

6. Compensated Absences

The Watermaster's policy is to permit eligible employees to accumulate earned vacation up to a total of 320 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.

7. 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.

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.

10. 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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt is included in this component of net position
- **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.

Chino Basin Watermaster
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

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

D. Assets, Liabilities and Net Position, continued

10. Net Position, continued

- **Unrestricted Component of Net Position** – This component of net position is 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 Statements of Net Assets as follows:

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 6,773,004	6,080,768
Total cash and cash equivalents	<u>\$ 6,773,004</u>	<u>6,080,768</u>

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

	<u>2013</u>	<u>2012</u>
Cash on hand	\$ 500	500
Deposits with financial institutions	315,970	613,634
Investments	<u>6,456,534</u>	<u>5,466,634</u>
Total cash and investments	<u>\$ 6,773,004</u>	<u>6,080,768</u>

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

	<u>2013</u>	<u>2012</u>
Deposits held with the California Local Agency Investment Fund	278 days	268 days

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

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

<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-deposits (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
Investment Trust of California (CalTRUST)	N/A	None	None

Chino Basin Watermaster
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(2) Cash and Investments, continued

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, 2013 and 2012, 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.

Investment Trust of California (CalTRUST)

The Watermaster is a voluntary participant in the Investment Trust of California (CalTRUST) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. It is a Joint Powers Authority created by the CSAC Finance Corporation and the League of California Cities and governed by a Board of Trustees made up of local agency treasurers and investment offices. Investments in CalTRUST are subject to interest rate risk and credit risk and are highly liquid as deposits and withdrawals can be made at anytime without penalty. CalTRUST establishes a \$250,000 minimum investment in one or more accounts and no maximum investment amount.

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.

Chino Basin Watermaster
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(2) Cash and Investments, continued

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, 2013 and 2012, respectively.

(3) Capital Assets

Changes in capital assets for 2013 were as follows:

	<u>Balance 2012</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance 2013</u>
Depreciable assets:				
Computer equipment	\$ 117,590	7,219	-	124,809
Furniture and fixtures	36,370	-	-	36,370
Leasehold improvements	23,443	-	-	23,443
Vehicles and equipment	90,484	-	-	90,484
Total depreciable assets	<u>267,887</u>	<u>7,219</u>	<u>-</u>	<u>275,106</u>
Accumulated depreciation:				
Computer equipment	(104,558)	(9,913)	-	(114,471)
Furniture and fixtures	(36,371)	-	-	(36,371)
Leasehold improvements	(21,101)	(2,342)	-	(23,443)
Vehicles and equipment	(90,480)	(2)	-	(90,482)
Total accumulated depreciation:	<u>(252,510)</u>	<u>(12,257)</u>	<u>-</u>	<u>(264,767)</u>
Total capital assets, net	<u>\$ 15,377</u>			<u>10,339</u>

Chino Basin Watermaster
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(3) Capital Assets, continued

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	-	(5,921)	36,370
Leasehold improvements	23,443	-	-	23,443
Vehicles and equipment	90,484	-	-	90,484
Total depreciable assets	<u>273,808</u>	<u>-</u>	<u>(5,921)</u>	<u>267,887</u>
Accumulated depreciation:				
Computer equipment	(96,088)	(8,470)	-	(104,558)
Furniture and fixtures	(42,292)	-	5,921	(36,371)
Leasehold improvements	(18,757)	(2,344)	-	(21,101)
Vehicles and equipment	(90,480)	-	-	(90,480)
Total accumulated depreciation:	<u>(247,617)</u>	<u>(10,814)</u>	<u>5,921</u>	<u>(252,510)</u>
Total capital assets, net	<u>\$ 26,191</u>			<u>15,377</u>

There were no capital assets additions during the fiscal year.

(4) Compensated Absences

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

<u>Balance 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2013</u>	<u>Current</u>	<u>Long Term</u>
\$ 105,015	98,375	(71,544)	131,846	46,146	85,700
<u>Balance 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2012</u>	<u>Current</u>	<u>Long Term</u>
\$ 139,423	101,582	(135,990)	105,015	36,755	68,260

(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.

Chino Basin Watermaster
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(5) Pension Related Debt – CalPERS Side-Fund, continued

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. During fiscal year 2013, Watermaster paid off the remaining Side-Fund balance.

(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

As a part of an employee benefit, Watermaster pays the employer's contribution to CalPERS. With the adoption of Public Employees' Pension Reform Act of 2013 (PEPRA), Watermaster may pay a portion of the employee contribution to CalPERS or the employee could be responsible for the entire employee portion to CalPERS.

All regular and introductory employees hired after January 1, 2013 will be enrolled in the 2% at 62 Risk Pool and Watermaster does not pay the employee's contribution to PERS and the payment is the responsibility of the employee.

All regular and introductory employees hired before January 1, 2013 will be enrolled in the 2.5% at 55 Risk Pool and Watermaster pays a portion of the employee contribution to PERS.

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.

Chino Basin Watermaster
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(6) Defined Benefit Pension Plan, continued

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 2013, 2012 and 2011, 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 2013, 2012 and 2011, 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>Net Pension Obligation</u>	<u>APC Percentage of Payroll</u>
2010-2011	163,231	100%	-	14.298%
2011-2012	184,073	100%	-	14.978%
2012-2013	154,432	100%	-	14.660%

(7) Net Position

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

	<u>2013</u>	<u>2012</u>
Net investment in capital assets:		
Capital assets, net	\$ 10,339	15,377
Total net investment in capital assets	<u>10,339</u>	<u>15,377</u>
Unrestricted net position:		
Non-spendable net position:		
Prepaid expenses and deposits	45,413	38,900
Total non-spendable net position	<u>45,413</u>	<u>38,900</u>
Spendable net position are designated as follows:		
Undesignated net position reserve	6,167,149	5,724,806
Total spendable net position	<u>6,167,149</u>	<u>5,724,806</u>
Total unrestricted net position	<u>6,212,562</u>	<u>5,763,706</u>
Total net position	<u>\$ 6,222,901</u>	<u>5,779,083</u>

Chino Basin Watermaster
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012

(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, 2013:

- 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.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2013, that has effective dates that may impact future financial presentations.

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, 2013 and 2012

(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.

Governmental Accounting Standards Board Statement No. 69

In January 2013, the GASB issued Statement No. 69 – Government Combinations and Disposals of Government Operations. The objective of this Statement is to provide new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2013. 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. 70

In April 2013, the GASB issued Statement No. 70 – Accounting and Financial Reporting for Non-exchange Guarantees. Provisions of this Statement require that governments that extend non-exchange financial guarantees to recognize a liability when qualitative factors and historic data, if any, indicate that it is more likely than not that the government will be required to make a payments on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate, but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

(10) Commitments and Contingencies

Grant Awards

Grant funds received by the Watermaster are subject to audit by the grantor agencies. Such an 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, 2013, have been evaluated for possible adjustment to the financial statements or disclosure as of November 21, 2013, which is the date the financial statements were available to be issued.

Supplemental Information Section

Chino Basin Watermaster
Combining Schedule of Revenue, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2013

	Watermaster Administration	Optimum Basin Management	Pool Administration and Special Projects	Groundwater Operations	Education Funds	Grand Totals	Budget 2012-2013
			Appropriative Pool	Agricultural Pool	Non-Agricultural Pool	Groundwater Replenishment	SB 222 Funds
Administrative revenues:							
Administrative assessments	\$ -	-	6,329,126	-	283,393	-	-
Interest revenue	-	-	16,315	1,424	491	-	-
Mutual agency project revenue	173,848	-	-	-	-	-	-
Total revenues	173,848	-	6,345,441	1,424	283,884	-	6,805,201
Administrative & project expenditures:							
Watermaster administration	1,084,995	-	-	-	-	-	659,071
Watermaster board-advisory committee	152,376	-	-	-	-	-	165,279
Ag Pool misc. expense - Ag Fund	-	-	-	-	-	-	400
Pool administration	-	-	131,231	209,010	79,847	-	625,359
Optimum basin management administration	-	1,083,430	-	-	-	-	1,195,253
OBMP project costs	-	2,535,391	-	-	-	-	3,808,911
Debt service	-	315,751	-	-	-	-	501,055
Basin recharge improvements	-	101,000	-	-	-	-	272,829
Education funds use	-	-	-	-	-	-	257
Mutual agency project costs	-	-	-	-	-	-	10,000
Total administrative/OBMP expenses	1,237,371	4,045,572	131,231	209,010	79,847	-	5,703,288
Net administrative/OBMP expenses:	(1,063,523)	(4,045,572)					7,238,414
Allocate net admin expenses to pools	\$ 1,063,523		714,436	309,333	39,754	-	-
Allocate net OBMP expenses to pools		3,729,821	2,505,559	1,084,844	139,418	-	-
Allocate debt service to app pool		315,751	315,751	-	-	-	-
Agricultural expense transfer*			1,603,187	(1,603,187)			
Total expenses			5,270,164	-	259,019	257	7,238,414
Net administrative income			1,075,277	1,424	24,865	(257)	(433,213)
Other income/(expense)							
Replenishment water assessments			625,202	-	22,789	-	647,991
Non-Ag stored water purchases			1,786,217	-	-	-	1,786,217
Interest revenue			-	-	-	(4,849)	(4,849)
MWD water purchases			-	-	-	-	-
Non-Ag stored water purchases			(2,289,276)	-	-	-	(2,289,276)
MWD water purchases			-	-	-	-	-
Groundwater replenishment			-	-	-	-	-
Interest expense - CalPERS			(8,594)	-	(334)	-	(8,928)
Refund - excess reserves			(764,137)	-	(24,510)	-	(788,647)
Refund - recharge debt			-	-	-	-	-
Net other income			(650,588)	-	(2,055)	(4,849)	(657,492)
Net transfers to/(from) reserves			424,689	1,424	22,810	(4,849)	443,817
Net Assets July 1, 2012			4,984,619	477,493	133,837	24,627	5,779,084
Net Assets, End of Period			5,409,308	478,917	156,647	19,778	6,222,901
2010/2011 assessable production			79,342,533	34,353,325	4,414,887		118,110,745
2010/2011 production percentages			67.176%	29.086%	3.738%		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, 2012

	Watermaster Administration	Optimum Basin Management	Pool Administration and Special Projects		Groundwater Operations		Education Funds	Grand Totals	Budget 2011-2012
			Appropriative Pool	Agricultural Pool	Non-Agricultural Pool	Groundwater Replenishment			
Administrative revenues:									
Administrative assessments	\$ -	-	5,919,372	-	-	-	-	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
Administrative & project expenditures:									
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	10,000
Total administrative/OBMP expenses	874,281	5,382,664	165,285	174,082	184,246	-	375	6,781,032	7,336,737
Net administrative/OBMP expenses:	(168,504)	(5,382,664)						-	-
Allocate net admin expenses to pools	168,504		116,238	46,463	5,803			-	-
Allocate net OBMP expenses to pools		5,204,529	3,590,218	1,435,076	179,235			-	-
Allocate debt service to app pool		178,135	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)
Other income/(expense)									
Replenishment water assessments			-	-	-	714,284	-	714,284	-
Non-Ag stored water purchases			2,377,250	-	-	-	-	2,377,250	-
Interest revenue			-	-	-	(6,168)	-	(6,168)	-
MWD water purchases			-	-	-	10,269,933	-	10,269,933	-
Non-Ag stored water purchases			(1,874,191)	-	-	(10,963,654)	-	(1,874,191)	-
MWD water purchases			-	-	-	(25,146)	-	(25,146)	-
Groundwater replenishment			(8,953)	-	(319)	-	-	(9,272)	-
Interest expense - CalPERS			(1,957,901)	-	(81,757)	-	-	(2,039,658)	-
Refund - excess reserves			(584,280)	-	-	-	-	(584,280)	-
Refund - recharge debt			(2,048,075)	-	(82,076)	(10,751)	-	(2,140,902)	-
Net other income			(1,817,835)	1,687	(144,632)	(10,751)	(375)	(1,971,906)	(254,975)
Net transfers to/(from) reserves			6,802,453	475,807	278,474	35,374	630	7,750,989	
Net Assets July 1, 2011			4,984,618	477,494	133,842	24,623	255	5,779,083	5,779,083
Net Assets, End of Period			78,410,414	31,342,082	3,914,499			113,666,995	
2010/2011 assessable production			68,983%	27.574%	3.444%			100.000%	
2010/2011 production percentages									

* 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, 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 June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprises the Watermaster's basic financial statements, and have issued our report thereon dated November 21, 2013.

Internal Control Over Financial Reporting

In planning and performing our audits 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.

Charles Z. Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs - An Accountancy Corporation
Cypress, California
November 21, 2013