



Chino Basin Watermaster

Annual Financial Report

For the Fiscal Years Ended June 30, 2014 and 2013

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, 2014

<u>Name</u>	<u>Title</u>	<u>Current Term Ending or Ongoing</u>
Robert Craig	Chair	January 2015
Steve Elie	Vice-Chair	Ongoing
J. Arnold Rodriguez	Secretary/Treasurer	January 2016
Robert Bowcock	Member	Ongoing
Charles D. Field	Member	Ongoing
Paul Hofer	Member	Ongoing
Mark Kinsey	Member	Ongoing
Bob Kuhn	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**

Chino Basin Watermaster

Annual Financial Report

For the Fiscal Years Ended June 30, 2014 and 2013

**Chino Basin Watermaster
Annual Financial Report
For the Fiscal Years Ended June 30, 2014 and 2013**

Table of Contents

	<u>Page No.</u>
Table of Contents	i
Introductory Section	
Letter of Transmittal	1-3
Financial Section	
Independent Auditor’s Report	4-5
Management’s Discussion and Analysis	6-9
Basic Financial Statements:	
Statements of Net Position	10
Statements of Revenues, Expenses and Changes in Net Position	11
Statements of Cash Flows	12
Notes to the Basic Financial Statements	13-25
Required Supplementary Information	
Schedule of Funding Status	26
Supplemental Information Section	
Combining Schedule of Revenue, Expenses, and Changes in Net Position for the Fiscal Year Ended June 30, 2014	27
Combining Schedule of Revenue, Expenses, and Changes in Net Position for the Fiscal Year Ended June 30, 2013	28
Report on Compliance and Internal Controls	
Independent Auditor’s Report on Compliance on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on An Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29-30

Introductory Section



November 20, 2014

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, 2014 and 2013, 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 as the region recovers from a prolonged financial down turn.

Internal Control Structure

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

Budgetary Control

The 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 are safety, liquidity and yield. Watermaster funds are invested in the State Treasurer's Local Agency Investment Fund and an institutional checking account.

Water Rates and Watermaster Revenues

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

Audit and Financial Reporting

State Law requires the Watermaster to obtain an annual audit of its financial statements by an independent certified public accountant. The accounting firm of 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
Christopher J. Brown, CPA

Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

6081 Orange Avenue
Cypress, California 90630
(714) 527-1818
(562) 598-6565
FAX (714) 527-9154
EMAIL czfco@czfcpa.com
WEB www.czfcpa.com

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, 2014 and 2013, 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, 2014 and 2013, 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

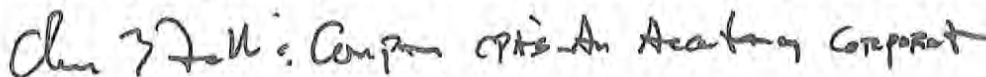
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Watermaster's basic financial statements. The introductory section on pages 1 through 3 and combining schedule of revenue, expenses and changes in net position on pages 27 and 28, are 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 20, 2014, 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 30 and 31.



Charles Z. Fedak & Company, CPAs - An Accountancy Corporation
Cypress, California
November 20, 2014

Chino Basin Watermaster
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

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, 2014 and 2013. 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 9.99%, or \$614,606 to \$6,767,870, in fiscal year 2014, as the result of operations. In 2013, the Watermaster's position increased 7.13%, or \$443,818 to \$6,153,264, as the result of operations and the effect of a prior period adjustment to recognize future pension benefit liabilities in the amount of \$69,637.
- The Watermaster's operating revenues increased 46.50% or \$4,288,026 in 2014, primarily due to a \$4,368,587 increase in replenishment water revenues. In 2013, the Watermaster's operating revenues decreased 54.56%, or \$11,072,197 primarily due to a \$10,927,259 decrease in replenishment water revenues that was offset by a \$386,991 increase in administrative assessments.
- The Watermaster's operating expenses increased 61.54% or \$4,910,829 in 2014, primarily due to a \$4,549,366 increase in groundwater replenishment costs. In 2013, the Watermaster's operating expenses decreased 59.35%, or \$11,652,904 primarily due to a \$1,337,093 decrease in optimum basin management plan costs and a \$10,573,716 decrease 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, 2014 and 2013

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 26.

Statement of Net Position

Condensed Statements of Net Position

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>Percentage Change</u>
Assets:				
Current assets	\$ 7,558,813	6,933,444	625,369	9.02%
Capital assets, net	16,832	10,339	6,493	62.80%
Total assets	<u>7,575,645</u>	<u>6,943,783</u>	<u>631,862</u>	<u>9.10%</u>
Liabilities:				
Current liabilities	547,116	635,182	(88,066)	-13.86%
Non-current liabilities	260,659	155,337	105,322	67.80%
Total liabilities	<u>807,775</u>	<u>790,519</u>	<u>17,256</u>	<u>2.18%</u>
Net position:				
Invested in capital assets	16,832	10,339	6,493	62.80%
Unrestricted	6,751,038	6,142,925	608,113	9.90%
Total net position	<u>\$ 6,767,870</u>	<u>6,153,264</u>	<u>614,606</u>	<u>9.99%</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 exceeded liabilities by \$6,767,870 and \$6,153,264 as of June 30, 2014 and 2013, 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, 2014 and 2013

Statement of Net Position, continued

At the end of fiscal years 2014 and 2013, the Watermaster showed a positive balance in its unrestricted net position of \$6,751,038 and \$6,142,925, respectively, which may be utilized in future years. See note 8 for further discussion.

Statement of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>Change</u>	<u>Percentage Change</u>
Revenues:				
Operating revenues	\$ 13,508,601	9,220,575	4,288,026	46.50%
Non-operating revenues	17,215	13,380	3,835	28.66%
Total revenues	<u>13,525,816</u>	<u>9,233,955</u>	<u>4,291,861</u>	<u>46.48%</u>
Expenses:				
Operating expense	12,891,136	7,980,307	4,910,829	61.54%
Depreciation	8,090	12,257	(4,167)	-34.00%
Non-operating expense	11,984	797,573	(785,589)	-98.50%
Total expenses	<u>12,911,210</u>	<u>8,790,137</u>	<u>4,121,073</u>	<u>46.88%</u>
Change in net position	614,606	443,818	170,788	38.48%
Net position, beginning of year	6,153,264	5,779,083	374,181	6.47%
Prior period adjustment	-	(69,637)	69,637	-100.00%
Net position, end of year	<u>\$ 6,767,870</u>	<u>6,153,264</u>	<u>614,606</u>	<u>9.99%</u>

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 \$614,606 for the fiscal year ended June 30, 2014, and increased by \$443,818 less a prior period adjustment related to pension benefit obligations in the amount of \$69,637 for the fiscal years ended June 30, 2013.

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

The Watermaster's operating revenues increased 46.50% or \$4,288,026 in 2014, primarily due to a \$4,368,587 increase in replenishment water revenues.

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

The Watermaster's operating expenses increased 61.54% or \$4,910,829 in 2014 primarily due to a \$4,549,366 increase in groundwater replenishment costs.

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

Chino Basin Watermaster
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2014 and 2013

Capital Asset Administration

At the end of fiscal year 2014 and 2013, the Watermaster's investment in capital assets amounted to \$16,832 and \$10,339 (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, 2014.

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
Statements of Net Position
June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents (note 2)	\$ 7,514,925	6,773,004
Accrued interest receivable	4,702	4,348
Accounts receivable	-	110,679
Prepaid expenses	39,186	45,413
Total current assets	<u>7,558,813</u>	<u>6,933,444</u>
Non-current assets:		
Capital assets, net (note 3)	16,832	10,339
Total non-current assets	<u>16,832</u>	<u>10,339</u>
Total assets	<u>7,575,645</u>	<u>6,943,783</u>
Current Liabilities:		
Accounts payable and accrued expenses	461,265	540,056
Accrued salaries and benefits	25,428	48,980
Long-term liabilities – due within one year:		
Compensated absences (note 4)	60,423	46,146
Total current liabilities	<u>547,116</u>	<u>635,182</u>
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 4)	112,215	85,700
Other post employment benefits obligation (note 6)	148,444	69,637
Total non-current liabilities	<u>260,659</u>	<u>155,337</u>
Total liabilities	<u>807,775</u>	<u>790,519</u>
Net Position: (note 8)		
Net investment in capital assets	16,832	10,339
Unrestricted	6,751,038	6,142,925
Total net position	<u>\$ 6,767,870</u>	<u>6,153,264</u>

See accompanying notes to the basic financial statements

Chino Basin Watermaster
Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Administrative assessments	\$ 6,552,770	6,612,519
Replenishment water revenue	6,802,795	2,434,208
Other revenue	153,036	173,848
Total operating revenue	<u>13,508,601</u>	<u>9,220,575</u>
Operating expenses:		
Groundwater replenishment and other water purchases	6,838,642	2,289,276
Optimum basin management plan	3,974,099	4,045,572
Watermaster administration	1,560,148	1,153,480
Pool, advisory, and board administration	518,247	491,979
Total operating expense	<u>12,891,136</u>	<u>7,980,307</u>
Operating loss before depreciation	617,465	1,240,268
Depreciation expense	(8,090)	(12,257)
Operating income	<u>609,375</u>	<u>1,228,011</u>
Non-operating revenue (expense):		
Reserve distribution	(11,984)	(788,647)
Investment earnings	17,215	13,380
Interest expense	-	(8,926)
Total non-operating revenues	<u>5,231</u>	<u>(784,193)</u>
Change in net position	614,606	443,818
Net position at beginning of year	6,153,264	5,779,083
Prior period adjustment (note 7)	-	(69,637)
Net position at end of year	<u>\$ 6,767,870</u>	<u>6,153,264</u>

See accompanying notes to the basic financial statements

Chino Basin Watermaster
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from stakeholders	\$ 13,619,280	9,279,070
Cash paid to employees for salaries and wages	(827,133)	(771,419)
Cash paid to vendors and suppliers for materials and services	<u>(12,067,087)</u>	<u>(7,697,425)</u>
Net cash provided by operating activities	<u>725,060</u>	<u>810,226</u>
Cash flows from investing activities:		
Principal payments on pension related debt	-	(123,961)
Interest paid on pension related debt	-	(8,928)
Investment earnings received	<u>16,861</u>	<u>14,899</u>
Net cash provided by (used in) investing activities	<u>16,861</u>	<u>(117,990)</u>
Net increase in cash	741,921	692,236
Cash and cash equivalent at the beginning of year	<u>6,773,004</u>	<u>6,080,768</u>
Cash and cash equivalent at the end of year	<u>\$ 7,514,925</u>	<u>6,773,004</u>
Reconciliation of operating income to net cash used in operating activities:		
Operating income	<u>\$ 609,375</u>	<u>1,228,011</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	8,090	12,257
Reserve distribution	(11,984)	(788,647)
Other, net	(14,583)	(7,217)
Changes in assets and liabilities		
(Increase) decrease in assets:		
Accounts receivable	110,679	58,495
Prepaid expenses	6,227	(6,513)
Increase (decrease) in liabilities:		
Accounts payable and accrued expense	(78,791)	253,946
Accrued salaries and benefits	(23,552)	33,063
Compensated absences	40,792	26,831
Other post employment benefits obligation	<u>78,807</u>	<u>-</u>
Total adjustments	<u>115,685</u>	<u>(417,785)</u>
Net cash provided by operating activities	<u>\$ 725,060</u>	<u>810,226</u>
Non-cash investing, capital and financing transactions:		
Change in fair-market value of investments	<u>\$ (357)</u>	<u>4,896</u>
See accompanying notes to the basic financial statements		

**Chino Basin Watermaster
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013**

(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 2013-2014 expenses are based on the 2012-2013 production volume.

Production volume	Fiscal Year 2014	
	Acre Feet	Percentage
Appropriative Pool	96,434	71.102%
Agricultural Pool	34,458	25.406%
Non-agricultural Pool	4,736	3.492%
Total production volume	135,628	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, 2014 and 2013

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

B. Basis of Accounting and Measurement Focus

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

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

C. Financial Reporting

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

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, 2014.

Chino Basin Watermaster
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(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, 2014 and 2013

(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 Position as follows:

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 7,514,925	6,773,004

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

	<u>2014</u>	<u>2013</u>
Cash on hand	\$ 500	500
Deposits with financial institutions	416,030	315,970
Investments	7,098,395	6,456,534
Total cash and investments	\$ 7,514,925	6,773,004

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

	<u>2014</u>	<u>2013</u>
Deposits held with the California Local Agency Investment Fund	232 days	278 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, 2014 and 2013

(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, 2014 and 2013, 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.

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.

Chino Basin Watermaster
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(2) Cash and Investments, continued

Concentration of Credit Risk

The Watermaster's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represented 5% or more of total Watermaster's investments at June 30, 2014 and 2013, respectively.

(3) Capital Assets

Changes in capital assets for 2014 were as follows:

	<u>Balance</u> <u>2013</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance</u> <u>2014</u>
Depreciable assets:				
Computer equipment	\$ 124,809	-	-	124,809
Furniture and fixtures	36,370	14,583	(7,287)	43,666
Leasehold improvements	23,443	-	-	23,443
Vehicles and equipment	90,484	-	-	90,484
Total depreciable assets	<u>275,106</u>	<u>14,583</u>	<u>(7,287)</u>	<u>282,402</u>
Accumulated depreciation:				
Computer equipment	(114,471)	(6,006)	-	(120,477)
Furniture and fixtures	(36,371)	(2,083)	7,287	(31,167)
Leasehold improvements	(23,443)	-	-	(23,443)
Vehicles and equipment	(90,482)	(1)	-	(90,483)
Total accumulated depreciation:	<u>(264,767)</u>	<u>(8,090)</u>	<u>7,287</u>	<u>(265,570)</u>
Total capital assets, net	<u>\$ 10,339</u>			<u>16,832</u>

Changes in capital assets for 2013 were as follows:

	<u>Balance</u> <u>2012</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance</u> <u>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, 2014 and 2013

(4) Compensated Absences

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

<u>Balance</u> <u>2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2014</u>	<u>Current</u>	<u>Long Term</u>
\$ 131,846	110,798	(70,006)	172,638	60,423	112,215

<u>Balance</u> <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2013</u>	<u>Current</u>	<u>Long Term</u>
\$ 105,015	98,375	(71,544)	131,846	46,146	85,700

(5) 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

All regular and introductory employees hired before January 1, 2013 are 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.

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.

Chino Basin Watermaster
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(5) 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 2014, 2013 and 2012, 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 2014, 2013 and 2012, 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:

Three Year Trend Information:

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	APC Percentage of Payroll
2012	\$ 184,073	100%	-	14.298%
2013	154,432	100%	-	14.978%
2014	150,977	100%	-	14.660%

(6) Other Post-Employment Benefits Payable

The Watermaster provides other post-employment benefits (OPEB) to qualified employees who retire from the Watermaster and meet the Watermaster's vesting requirements. During the fiscal year ended June 30, 2013, the Watermaster implemented GASB Statement No. 45, which changed the accounting and financial reporting used by local government employers for post-employment benefits. Previously, the costs of such benefits were generally recognized as expenses of local government employers on a pay-as-you-go basis. The new reporting requirements for these benefit programs as they pertain to the Watermaster are set forth below.

Background

The CalPERS Health Benefits Program is governed by the Public Employees' Medical and Hospital Care Act (PEMHCA) of the California Public Employees' Retirement Law. The program was established in 1962 to purchase health care for employees of the State of California. In 1976, legislation was passed to allow other public employers, such as cities, counties, and school districts to join the program.

Contracting Public Agencies must offer all eligible active and retired employees an opportunity to enroll in a CalPERS health plan of their choice. All employers are required by statute to contribute towards the cost of the health plan premium. Premiums and health plan benefits are approved annually by the CalPERS Board of Administration.

The CalPERS Health Benefits Program offers a choice of health plans to provide basic coverage to active employees and Supplement to Medicare and Managed Medicare coverage for retired members. Eligible enrollees can choose between a variety of Health Maintenance Organizations, Preferred Provider Organizations and employee association plans.

Plan Description – Eligibility

The Watermaster's Retiree Health Plan is a single-employer defined benefit healthcare plan administered by the California Public Employees Retirement System (CalPERS). The Plan provides medical insurance benefits to eligible retirees and their dependents.

In accordance with Public Employee Retirement Law (Article 2), the Public Employees Retirement System Board of Administration has the responsibility to approve health benefit plans and may contract with carriers offering health benefit plans.

Chino Basin Watermaster
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(6) Other Post-Employment Benefits Payable, continued

Plan Description – Eligibility, continued

The Board of Administration is responsible for adopting all rules and regulations, including scope and content of basic health plans. The California Government Code also defines certain rules for contract agencies to purchase health insurance benefits.

Membership in the OPEB plan consisted of the following members as of June 30:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Active plan members	9	7	-
Active employees' dependents	4	4	-
Retirees and dependents receiving benefits	1	1	-
Retirees and dependents not receiving benefits	-	-	-
Total plan membership	<u>14</u>	<u>12</u>	<u>-</u>

Funding Policy

There is no requirement imposed by CalPERS, to contribute any amount beyond the pay-as-you-go contributions. The cost of monthly insurance premiums is shared between the retiree and the Watermaster. The cost sharing varies depending upon: the dependent status and plan selected. A minimum employer monthly contribution requirement is established and may be amended by the CalPERS Board of Administration and applicable laws.

The Watermaster is required to contribute the *Annual Required Contribution (ARC) of the Employer*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 1.4% of the annual covered payroll.

Annual Cost

For the years ended June 30, 2014 and 2013, the Watermaster's ARC cost is \$79,930 and \$71,017, respectively. The Watermaster's net OPEB payable obligation amounted to \$148,444 and \$69,637 for the years ended June 30, 2014 and 2013, respectively. The Watermaster contributed \$1,123 and \$1,380 in adjusted contributions for current retiree OPEB premiums for the years ended June 30, 2014 and 2013, respectively.

Chino Basin Watermaster
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(6) Other Post-Employment Benefits Payable, continued

Annual Cost, continued

The balance at June 30, consists of the following:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual OPEB expense:			
Annual required contribution (ARC)	\$ 79,930	71,017	-
Interest on net OPEB obligation	-	-	-
Adjustment to annual required contribution	-	-	-
Total annual OPEB expense	<u>79,930</u>	<u>71,017</u>	<u>-</u>
Change in net OPEB payable obligation:			
Age adjusted contributions made	<u>(1,123)</u>	<u>(1,380)</u>	<u>-</u>
Total change in net OPEB payable obligation	78,807	69,637	-
OPEB payable – beginning of year	<u>69,637</u>	<u>-</u>	<u>-</u>
OPEB payable – end of year	<u>\$ 148,444</u>	<u>69,637</u>	<u>-</u>

The Watermaster's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2014 and the two preceding years were as follows:

Three-Year History of Net OPEB Obligation

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Age Adjusted Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation Payable</u>
2014	\$ 79,930	1,123	1.40%	148,444
2013	71,017	1,380	1.94%	69,637
2012	-	-	-	-

(7) Prior Period Adjustment

In 2014, the Watermaster determined that healthcare benefits offered by the Watermaster to employees were subject to the provisions of GASB 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. As a result, the Watermaster has recorded a prior period adjustment to net position in the amount of \$69,637 at June 30, 2013.

The adjustment to net position is as follows:

Net position at June 30, 2013, as previously stated	\$ 5,779,083
Effect of adjustment to record OPEB expense	(69,637)
Change in net position at June 30, 2013, as previously stated	<u>443,818</u>
Net position at June 30, 2013, as restated	<u>\$ 6,153,264</u>

Chino Basin Watermaster
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

(8) Net Position

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

	2014	2013
Net investment in capital assets:		
Capital assets, net	\$ 16,832	10,339
Total net investment in capital assets	16,832	10,339
Unrestricted net position:		
Non-spendable net position:		
Prepaid expenses and deposits	39,186	45,413
Total non-spendable net position	39,186	45,413
Spendable net position are designated as follows:		
Undesignated net position reserve	6,711,852	6,097,512
Total spendable net position	6,711,852	6,097,512
Total unrestricted net position	6,751,038	6,142,925
Total net position	\$ 6,767,870	6,153,264

(9) 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, 2014:

- 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, 2014 and 2013

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2014, that has effective dates that may impact future financial presentations.

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.

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.

Chino Basin Watermaster
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2014 and 2013

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

Governmental Accounting Standards Board Statement No. 71

In November 2013, the GASB issued Statement No. 71 – *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB No. 68*. The objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual-basis financial statements of employers and non-employer contributing entities. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2014, that has effective dates that may impact future financial presentations.

(11) 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.

(12) Subsequent Events

Events occurring after June 30, 2014, have been evaluated for possible adjustment to the financial statements or disclosure as of November 20, 2014, which is the date the financial statements were available to be issued.

Required Supplementary Information

**Chino Basin Watermaster
Schedule of Funding Status
For the Year Ended June 30, 2014**

Funded Status and Funding Progress of the Plan

Required Supplemental Information – Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2014	\$ -	381,010	381,010	-	858,882	44.36%
6/30/2013	-	354,220	354,220	-	707,444	50.07%
6/30/2012	-	-	-	-	-	-

The most recent valuation (dated June 30, 2014) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$381,010. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2014 was \$858,882. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 44.36 %.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actual assumptions and methods:

Valuation date	June 30, 2014
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll
Remaining amortization period	20 years as of the valuation date
Actuarial assumptions:	15 year smooth market
Discount rate	5.00% (net of administrative expenses)
Projected salary increase	3.00%
Inflation - discount rate	5.00%
Individual salary growth	3.00%

Supplemental Information Section

Chino Basin Watermaster
Combining Schedule of Revenue, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2014

	Watermaster Administration	Optimum Basin Management	Pool Administration and Special Projects		Groundwater Replenishment	Groundwater Operations SB 222 Funds	Education Funds	Grand Totals	Budget 2013-2014
			Appropriative Pool	Agricultural Pool					
Administrative revenues:									
Administrative assessments	-	-	6,301,470	-	-	-	-	6,552,770	6,602,605
Interest revenue	-	-	14,151	1,163	439	-	-	15,753	20,700
Mutual agency project revenue	153,036	-	-	-	-	-	-	153,036	154,581
Total revenues	153,036	-	6,315,621	1,163	251,739	-	-	6,721,559	6,786,886
Administrative & project expenditures:									
Watermaster administration	1,367,563	-	-	-	-	-	-	1,367,563	848,399
Watermaster board-advisory committee	198,765	-	-	-	-	-	-	198,765	209,657
Ag Pool misc. expense - Ag Fund	-	-	-	186	-	-	-	186	400
Pool administration	-	-	140,183	198,238	102,745	-	-	441,166	453,649
Optimum basin management administration	-	1,287,989	-	-	-	-	-	1,287,989	1,541,798
OBMP project costs	-	2,093,198	-	-	-	-	-	2,093,198	3,628,076
Debt service	-	311,245	-	-	-	-	-	311,245	456,093
Basin recharge improvements	-	271,667	-	-	-	-	-	271,667	655,544
Education funds use	-	-	-	-	-	-	-	-	-
Mutual agency project costs	-	10,000	-	-	-	-	-	10,000	10,000
Total administrative/OBMP expenses	1,566,328	3,974,059	140,183	198,238	102,745	-	-	5,981,779	7,803,616
Net administrative/OBMP expenses:	(1,413,292)	(3,974,059)							
Allocate net admin expenses to pools	1,413,292	-	1,004,874	359,064	49,354	-	-	-	-
Allocate net OBMP expenses to pools	-	3,662,854	2,604,348	930,594	127,912	-	-	-	-
Allocate debt service to app pool	-	311,245	-	-	-	-	-	-	-
Agricultural expense transfer*	1,487,896	(1,487,896)							
Total expenses:	5,548,546	186	767,075	977	280,011	(28,272)	-	5,981,779	7,803,616
Net administrative income	767,075	-	-	-	-	-	-	739,780	(1,016,730)
Other income/(expense)									
Replenishment water assessments	-	-	421,362	-	24,865	-	-	446,227	-
Non-Ag stored water purchases	-	-	3,873,239	-	-	-	-	3,873,239	-
Exhibit "G" Non-Ag pool water	-	-	2,483,330	-	-	1,106	-	2,483,330	-
Interest revenue	-	-	-	-	-	-	-	1,106	-
MWD water purchases	-	-	-	-	-	-	-	-	-
Non-Ag stored water purchases	-	-	(3,873,239)	-	-	-	-	(3,873,239)	-
Exhibit "G" Non-Ag pool water	-	-	(2,483,330)	-	-	-	-	(2,483,330)	-
MWD water purchases	-	-	-	-	-	-	-	-	-
Groundwater replenishment	-	-	-	-	(482,073)	-	-	(482,073)	-
L-AIF - fair market value adjustment	-	-	-	-	-	-	357	357	-
Other post-employment benefits (OPEB)	-	-	(76,055)	-	(2,732)	-	-	(78,807)	-
Refund - excess reserves	-	-	(9,493)	-	(2,491)	-	-	(11,984)	-
Refund - recharge debt	-	-	-	-	-	-	-	-	-
Net other income	335,814	-	19,622	-	(480,967)	-	357	(125,175)	-
Net transfers to/(from) reserves	1,102,889	977	(8,650)	-	(480,967)	-	357	614,606	(1,016,730)
Net Position July 1, 2013	4,692,889	478,917	154,044	145,394	158,252	158,252	1,763	6,153,264	6,153,264
Net Position, End of Period	5,795,778	479,894	145,394	145,394	158,252	158,252	2,120	6,767,870	6,767,870
2012/2013 assessable production	96,433,754	34,458,009	4,736,325	4,736,325	135,628,088	135,628,088	100.000%	100.000%	100.000%
2012/2013 production percentages	71.102%	25.406%	3.492%	3.492%	3.492%	3.492%	3.492%	3.492%	3.492%

* Fund balance transfer as agreed to in the Pease Agreement

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 Replenishment	Groundwater Operations SB 222 Funds	Education Funds	Grand Totals	Budget 2012-2013
		Pool	Appropriative Pool	Pool	Non-Agricultural Pool					
Administrative revenues:										
Administrative assessments	-	-	6,329,126	-	283,393	-	-	-	6,612,519	6,612,663
Interest revenue	-	-	16,315	1,424	491	-	-	-	18,230	39,600
Mutual agency project revenue	173,848	-	-	-	-	-	-	-	173,848	152,938
Total revenues:	<u>173,848</u>	<u>-</u>	<u>6,345,441</u>	<u>1,424</u>	<u>283,884</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,804,597</u>	<u>6,805,201</u>
Administrative & project expenditures:										
Watermaster administration	1,084,995	-	-	-	-	-	-	-	1,084,995	659,071
Watermaster board-advocacy committee	152,376	-	-	-	-	-	-	-	152,376	165,279
Ag Pool misc. expense - Ag Fund	-	-	-	-	-	-	-	-	-	400
Pool administration	-	-	131,231	209,010	79,847	-	-	-	420,088	625,359
Optimum basin management administration	-	1,083,430	-	-	-	-	-	-	1,083,430	1,195,253
OBMP project costs	-	2,535,391	-	-	-	-	-	-	2,535,391	3,808,911
Debt service	-	315,751	-	-	-	-	-	-	315,751	501,055
Basin recharge improvements	-	101,000	-	-	-	-	-	-	101,000	272,829
Education funds use	-	-	-	-	-	-	-	257	257	257
Mutual agency project costs	-	10,000	-	-	-	-	-	-	10,000	10,000
Total administrative/OBMP expenses	<u>1,237,371</u>	<u>4,045,572</u>	<u>131,231</u>	<u>209,010</u>	<u>79,847</u>	<u>-</u>	<u>-</u>	<u>257</u>	<u>5,703,288</u>	<u>7,238,414</u>
Net administrative/OBMP expenses:	<u>(1,063,523)</u>	<u>(4,045,572)</u>								
Allocate net admin expenses to pools			714,436	309,333	39,754	-	-	-	-	-
Allocate net OBMP expenses to pools			2,505,559	1,084,844	139,418	-	-	-	-	-
Allocate debt service to app pool			315,751	-	-	-	-	-	-	-
Agricultural expense transfer*			<u>1,603,187</u>	<u>(1,603,187)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	<u>5,270,164</u>	<u>-</u>	<u>259,019</u>	<u>1,424</u>	<u>24,865</u>	<u>-</u>	<u>-</u>	<u>257</u>	<u>5,703,288</u>	<u>7,238,414</u>
Net administrative income	<u>1,075,277</u>	<u>-</u>	<u>1,424</u>	<u>24,865</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(257)</u>	<u>1,101,309</u>	<u>(433,213)</u>
Other income/(expense)										
Replenishment water assessments			625,202	-	22,789	-	-	-	647,991	-
Non-Ag stored water purchases			1,786,217	-	-	(4,848)	-	-	1,786,217	-
Interest revenue			-	-	-	-	-	-	(4,848)	-
MWD water purchases			(2,289,276)	-	-	-	-	-	(2,289,276)	-
Non-Ag stored water purchases			-	-	-	-	-	-	-	-
MWD water purchases			-	-	-	-	-	-	-	-
Groundwater replenishment			(8,594)	-	(334)	-	-	-	(8,928)	-
Interest expense - CalPERS			(67,034)	-	(2,603)	-	-	-	(69,637)	-
Other post-employment benefits (OPEB)			(764,137)	-	(24,510)	-	-	-	(788,647)	-
Refund - excess reserves			-	-	-	-	-	-	-	-
Refund - recharge debt			(717,623)	-	(4,658)	(4,848)	-	-	(727,128)	-
Net other income	<u>357,655</u>	<u>-</u>	<u>1,424</u>	<u>20,207</u>	<u>20,207</u>	<u>(4,848)</u>	<u>-</u>	<u>(257)</u>	<u>374,181</u>	<u>(433,213)</u>
Net transfers to/(from) reserves	<u>4,984,619</u>	<u>-</u>	<u>477,493</u>	<u>478,917</u>	<u>154,044</u>	<u>24,627</u>	<u>158,250</u>	<u>257</u>	<u>5,779,083</u>	<u>6,153,264</u>
Net Position July 1, 2012	<u>5,342,278</u>	<u>-</u>	<u>478,917</u>	<u>478,917</u>	<u>154,044</u>	<u>19,779</u>	<u>158,250</u>	<u>-</u>	<u>6,153,264</u>	<u>6,153,264</u>
Net Position, End of Period	<u>79,342,533</u>	<u>-</u>	<u>34,353,325</u>	<u>4,414,887</u>	<u>4,414,887</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>118,110,745</u>	<u>-</u>
2010/2011 assessable production	<u>67,176%</u>	<u>-</u>	<u>29,086%</u>	<u>3,738%</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,000%</u>	<u>-</u>
2010/2011 production percentages										

* Fund balance transfer as agreed to in the Peace Agreement

Report on Internal Controls and Compliance



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

Charles Z. Fedak & Company

Certified Public Accountants
An Accountancy Corporation

6081 Orange Avenue
Cypress, California 90630
(714) 527-1818
(562) 598-6565
FAX (714) 527-9154
EMAIL czfco@czfcpa.com
WEB www.czfcpa.com

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, 2014 and 2013, 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 20, 2014

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.

Ch Z Fedak & Company CPAs - An Accountancy Corporation

Charles Z. Fedak & Company, CPAs - An Accountancy Corporation
Cypress, California
November 20, 2014