



## **Chino Basin Watermaster**

**Annual Financial Report**

**For the Fiscal Year Ended June 30, 2015**

# Our Mission Statement

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

| <u>Pools</u>     | <u>Name</u>            | <u>Title</u>        | <u>Current Term</u>    |
|------------------|------------------------|---------------------|------------------------|
| Agricultural     | Paul Hofer             | Vice-Chair          | Ongoing <sup>1</sup>   |
| Agricultural     | Geoffrey Vanden Heuvel | Member              | Ongoing <sup>1</sup>   |
| Non-Agricultural | Robert Bowcock         | Member              | Ongoing <sup>1</sup>   |
| Appropriative    | J. Arnold Rodriguez    | Secretary/Treasurer | Ongoing <sup>1,2</sup> |
| Appropriative    | Jim Bowman             | Member              | Ongoing <sup>1,2</sup> |
| Appropriative    | Mark Kinsey            | Member              | Ongoing <sup>1,2</sup> |
| Municipal        | Steve Elie             | Chair               | Ongoing <sup>1</sup>   |
| Municipal        | Don Galleano           | Member              | Ongoing <sup>1</sup>   |
| Municipal        | Bob Kuhn               | Member              | Ongoing <sup>1</sup>   |

<sup>1</sup> *The Watermaster Board serves at the direction of Judge Reichert and is appointed for a five year term through February 2016. Reappointment for a subsequent five year term is under consideration.*

<sup>2</sup> *The Appropriative Pool's rotation sequence for Board membership effective January 2016 is under consideration.*

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

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# **Introductory Section**





November 19, 2015

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 year ended June 30, 2015, 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 Fedak & Brown LLP has conducted the audit of the Watermaster's financial statements. Their unmodified Independent Auditor's Report appears in the Financial Section.


### **Other References**


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

### **Acknowledgements**

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

Respectfully submitted,

  
Peter Kavounas, P.E.  
General Manager

  
Joseph S. Joswiak, MBA  
Chief Financial Officer

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# **Financial Section**





Charles Z. Fedak, CPA, MBA  
Christopher J. Brown, CPA, CGMA  
Jonathan P. Abadesco, CPA

## Fedak & Brown LLP

Certified Public Accountants

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### **Independent Auditor's Report**

Board of Directors  
Chino Basin Watermaster  
Rancho Cucamonga, California

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of Chino Basin Watermaster (Watermaster) as of and for the year ended June 30, 2015, 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 opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 opinion.

#### ***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, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Independent Auditor's Report, continued**

### ***Emphasis of matter***

As described in Note 1.C to the basic financial statements, the Watermaster adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*, for the year ended June 30, 2015. Our opinion is not modified with respect to this matter.

### ***Report on Summarized Comparative Information***

We have previously audited the Watermaster's June 30, 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 20, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 10, the required supplementary information on page 34 and 36 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 page 37, 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 on them.

## Independent Auditor's Report, continued

### Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated November 19, 2015, 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 38 and 39.

A handwritten signature in cursive script that reads "Fedak & Brown LLP".

**Fedak & Brown LLP**

Cypress, California

November 19, 2015

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**Chino Basin Watermaster**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2015**  
**With Comparative Amounts as of June 30, 2014**

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 year ended June 30, 2015 (with comparative information for fiscal year ended June 30, 2014). We encourage readers to consider the information presented here with additional information that we have furnished in conjunction with the transmittal letter in the Introductory Section and with the accompanying basic financial statements and related notes, which follow this section.

**Financial Highlights**

- In 2015, the Watermaster's net position increased by 13.88%, or \$939,237 to \$7,707,107, which is comprised of an increase from normal operations of \$1,679,432 and a decrease from prior period adjustment in the amount of \$740,195. Please see Note 6 to the basic financial statements for further discussion.
- In 2015, the Watermaster's total revenues decreased 28.98% or \$3,919,153 to \$9,606,663. Operating revenues decreased 29.06% or \$3,925,308 to \$9,583,293, primarily due to a decrease in groundwater sales as affected by the statewide drought. Non-operating revenue increased 35.75% or \$6,155 to \$23,370, primarily due to an increase in interest income.
- In 2015, The Watermaster's operating expenses decreased 38.61% or \$4,977,263, primarily due to a \$5,687,446 decrease in groundwater replenishment costs and water purchases, which was offset by a \$776,067 increase in optimum basin management plan spending and a \$65,884 decrease in personnel costs and other expenses.

**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 Year Ended June 30, 2015**  
**With Comparative Amounts as of June 30, 2014**

**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 14 through 33.

**Statement of Net Position**

|                                       | <u>2015</u>         | <u>2014</u>      | <u>Change</u>    |
|---------------------------------------|---------------------|------------------|------------------|
| <b>Assets:</b>                        |                     |                  |                  |
| Current assets                        | \$ 9,749,593        | 7,558,813        | 2,190,780        |
| Capital assets, net                   | 19,439              | 16,832           | 2,607            |
| Total assets                          | <u>9,769,032</u>    | <u>7,575,645</u> | <u>2,193,387</u> |
| <b>Deferred outflows of resources</b> | <u>137,056</u>      | <u>-</u>         | <u>137,056</u>   |
| <b>Liabilities:</b>                   |                     |                  |                  |
| Current liabilities                   | 992,325             | 547,116          | 445,209          |
| Non-current liabilities               | 1,005,093           | 260,659          | 744,434          |
| Total liabilities                     | <u>1,997,418</u>    | <u>807,775</u>   | <u>1,189,643</u> |
| <b>Deferred inflows of resources</b>  | <u>201,563</u>      | <u>-</u>         | <u>201,563</u>   |
| <b>Net position:</b>                  |                     |                  |                  |
| Invested in capital assets            | 19,439              | 16,832           | 2,607            |
| Unrestricted                          | 7,687,668           | 6,751,038        | 936,630          |
| <b>Total net position</b>             | <u>\$ 7,707,107</u> | <u>6,767,870</u> | <u>939,237</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 \$7,707,107 as of June 30, 2015.

**Chino Basin Watermaster**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2015**  
**With Comparative Amounts as of June 30, 2014**

**Statement of Net Position, continued**

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

At the end of fiscal years 2015, the Watermaster reflected a positive balance in its unrestricted net position of \$7,687,668 that may be utilized in future years. (See Note 11)

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

|  | <u>2015</u>         | <u>2014</u>       | <u>Change</u>      |
|--|---------------------|-------------------|--------------------|
| Revenues:  |                     |                   |                    |
| Operating revenues   | \$ 9,583,293        | 13,508,601        | (3,925,308)        |
| Non-operating revenues   | 23,370              | 17,215            | 6,155              |
| <b>Total revenues</b>  | <u>9,606,663</u>    | <u>13,525,816</u> | <u>(3,919,153)</u> |
| Expenses:  |                     |                   |                    |
| Operating expense  | 7,913,873           | 12,891,136        | (4,977,263)        |
| Depreciation   | 5,061               | 8,090             | (3,029)            |
| Non-operating expense  | 8,297               | 11,984            | (3,687)            |
| <b>Total expenses</b>  | <u>7,927,231</u>    | <u>12,911,210</u> | <u>(4,983,979)</u> |
| <b>Change in net position</b>                                      | <u>1,679,432</u>    | <u>614,606</u>    | <u>1,064,826</u>   |
| <b>Net position, beginning of period,<br/>as previously stated</b> | 6,767,870           | 6,153,264         | 614,606            |
| <b>Prior period adjustment (Note 6)</b>                            | <u>(740,195)</u>    | <u>-</u>          | <u>(740,195)</u>   |
| <b>Net position, beginning of period,<br/>as restated</b>          | <u>6,027,675</u>    | <u>6,153,264</u>  | <u>(125,589)</u>   |
| <b>Net position, end of year</b>                                   | <u>\$ 7,707,107</u> | <u>6,767,870</u>  | <u>939,237</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 \$1,679,432 from normal operations for the fiscal year ended June 30, 2015, and decreased by \$740,195 from prior period adjustment related to the implementation of GASB 68.

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

The Watermaster's operating revenues decreased 29.06% or \$3,925,308 in 2015, primarily due to a decrease in groundwater sales as affected by the statewide drought.

The Watermaster's operating expenses decreased 38.61% or \$4,977,263 in 2015 primarily due to a \$5,687,446 decrease in groundwater replenishment costs and water purchases, which was offset by a \$710,183 increase in personnel costs and other expenses.

**Chino Basin Watermaster**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2015**  
**With Comparative Amounts as of June 30, 2014**

**Capital Asset Administration**

At the end of fiscal year 2015, the Watermaster's investment in capital assets amounted to \$19,439 (net of accumulated depreciation). 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, 2015.

Changes in capital assets in 2015 were as follows:

|                          | <u>Balance</u><br><u>2014</u> | <u>Additions</u> | <u>Disposals/<br/>Transfers</u> | <u>Balance</u><br><u>2015</u> |
|--------------------------|-------------------------------|------------------|---------------------------------|-------------------------------|
| Capital assets:          |                               |                  |                                 |                               |
| Depreciable assets       | \$ 282,402                    | 7,668            | (24,926)                        | 265,144                       |
| Accumulated depreciation | <u>(265,570)</u>              | <u>(5,061)</u>   | <u>24,926</u>                   | <u>(245,705)</u>              |
| Total capital assets     | <u>\$ 16,832</u>              | <u>2,607</u>     | <u>-</u>                        | <u>19,439</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 present users, including funding sources, customers, stakeholders and other interested parties with a general overview of the Watermaster's finances and to demonstrate Watermaster's accountability with an overview of Watermaster's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Watermaster's Chief Financial Officer, Joseph Joswiak, at the Chino Basin Watermaster, 9641 San Bernardino Road, Rancho Cucamonga, CA 91730 or (909) 484-3888.

# **Basic Financial Statements**

**Chino Basin Watermaster**  
**Statement of Net Position**  
**June 30, 2015**

|  | <b>2015</b>         |
|--|---------------------|
| <b>Current assets:</b>                             |                     |
| Cash and cash equivalents (note 2)                 | \$ 9,649,337        |
| Accounts receivable                                | 53,185              |
| Accrued interest receivable                        | 7,408               |
| Prepaid expenses                                   | 39,663              |
| Total current assets                               | 9,749,593           |
| <b>Non-current assets:</b>                         |                     |
| Capital assets, net (note 3)                       | 19,439              |
| Total non-current assets                           | 19,439              |
| <b>Total assets</b>                                | <b>9,769,032</b>    |
| <b>Deferred outflows of resources:</b>             |                     |
| Deferred pension outflows (note 4 and 7)           | 137,056             |
| <b>Total deferred outflows of resources</b>        | <b>137,056</b>      |
| <b>Current liabilities:</b>                        |                     |
| Accounts payable and accrued expenses              | 876,153             |
| Accrued salaries and benefits                      | 32,426              |
| Long-term liabilities – due within one year:       |                     |
| Compensated absences (note 5)                      | 83,746              |
| Total current liabilities                          | 992,325             |
| <b>Non-current liabilities:</b>                    |                     |
| Long-term liabilities – due in more than one year: |                     |
| Compensated absences (note 5)                      | 155,527             |
| Other post employment benefits obligation (note 8) | 245,013             |
| Net pension liability (note 7)                     | 599,803             |
| Employee compensation plan (note 9)                | 4,750               |
| Total non-current liabilities                      | 1,005,093           |
| <b>Total liabilities</b>                           | <b>1,997,418</b>    |
| <b>Deferred inflows of resources:</b>              |                     |
| Deferred pension inflows (note 7)                  | 201,563             |
| <b>Total deferred inflows of resources</b>         | <b>201,563</b>      |
| <b>Net Position: (note 11)</b>                     |                     |
| Net investment in capital assets                   | 19,439              |
| Unrestricted                                       | 7,687,668           |
| <b>Total net position</b>                          | <b>\$ 7,707,107</b> |

**Chino Basin Watermaster**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2015**

|  | <b>2015</b>         |
|--|---------------------|
| <b>Operating revenues:</b>                                       |                     |
| Administrative assessments                                       | \$ 7,524,506        |
| Replenishment water revenue                                      | 1,903,179           |
| Other revenue  | 155,608             |
| Total operating revenue  | 9,583,293           |
| <b>Operating expenses:</b>                                       |                     |
| Groundwater replenishment and other water purchases              | 1,151,196           |
| Optimum basin management plan                                    | 4,750,166           |
| Watermaster administration                                       | 1,310,849           |
| Pool, advisory, and board administration                         | 701,662             |
| Total operating expense  | 7,913,873           |
| Operating income before depreciation                             | 1,669,420           |
| Depreciation expense   | (5,061)             |
| <b>Operating income</b>  | <b>1,664,359</b>    |
| <b>Non-operating revenue (expense):</b>                          |                     |
| Reserve distribution   | (8,297)             |
| Investment earnings  | 23,370              |
| Total non-operating revenues                                     | 15,073              |
| <b>Change in net position</b>                                    | <b>1,679,432</b>    |
| <b>Net position at beginning of period, as restated (Note 6)</b> | <b>6,027,675</b>    |
| <b>Net position at end of period</b>                             | <b>\$ 7,707,107</b> |

See accompanying notes to the basic financial statements

**Chino Basin Watermaster  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2015**

|  | <b>2015</b>  |
|--|--------------|
| <b>Cash flows from operating activities:</b>   |              |
| Cash received from stakeholders  | \$ 9,530,108 |
| Cash paid to employees for salaries and wages  | (1,038,775)  |
| Cash paid to vendors and suppliers for materials and services  | (6,369,917)  |
| Net cash provided by operating activities  | 2,121,416    |
| <b>Cash flows from capital financing activities:</b>   |              |
| Acquisition of capital assets  | (7,668)      |
| Net cash used in capital financing activities  | (7,668)      |
| <b>Cash flows from investing activities:</b>   |              |
| Investment earnings received   | 20,664       |
| Net cash provided by investing activities  | 20,664       |
| <b>Net increase in cash and cash equivalents</b>   | 2,134,412    |
| <b>Cash and cash equivalents at the beginning of year</b>  | 7,514,925    |
| <b>Cash and cash equivalents at the end of year</b>  | \$ 9,649,337 |
| <b>Reconciliation of operating income to net cash used in operating activities:</b>                      |              |
| Operating income   | \$ 1,664,359 |
| <b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>           |              |
| Depreciation   | 5,061        |
| Reserve distribution   | (8,297)      |
| <b>Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:</b> |              |
| (Increase) in assets:  |              |
| Accounts receivable  | (53,185)     |
| Prepaid expenses   | (477)        |
| (Increase) in deferred outflows of resources   | (57,704)     |
| Increase (decrease) in liabilities:  |              |
| Accounts payable and accrued expense   | 414,888      |
| Accrued salaries and benefits  | 6,998        |
| Compensated absences   | 66,635       |
| Other post employment benefits obligation  | 96,569       |
| Net pension liability  | (219,744)    |
| Employee compensation plan   | 4,750        |
| Increase in deferred inflows of resources  | 201,563      |
| <b>Total adjustments</b>   | 457,057      |
| <b>Net cash provided by operating activities</b>   | \$ 2,121,416 |



**Chino Basin Watermaster  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2015**

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

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

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

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

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

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

Watermaster expenditures are allocated to the pools based on the prior year’s production volume (or the same percentage used to set the annual assessments). Allocations for fiscal year 2014-2015 expenses are based on the 2013-2014 production volume.

| <b>Production volume</b> | <b>Fiscal Year 2015</b> |                   |
|--------------------------|-------------------------|-------------------|
|                          | <b>Acre Feet</b>        | <b>Percentage</b> |
| Appropriative Pool       | 100,165                 | 72.399%           |
| Agricultural Pool        | 33,639                  | 24.314%           |
| Non-agricultural Pool    | 4,547                   | 3.287%            |
| Total production volume  | 138,351                 | 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 Year Ended June 30, 2015**

**(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. Standards applicable to governmental entities that use proprietary fund accounting include:

*Government Accounting Standards Board Statement No. 68*

For the fiscal year ended June 30, 2015, the Watermaster implemented Government Accounting Standards Board Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions*. The requirements of this statement are effective for the financial statement periods beginning after June 15, 2014.

GASB 68 improves 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.

GASB 68 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.

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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

**C. Financial Reporting, continued**

*Government Accounting Standards Board Statement No. 71*

For the fiscal year ended June 30, 2015, the Watermaster implemented Government Accounting Standards Board Statement No. 71 (GASB 71), *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The requirements of this statement are effective for the financial statement periods beginning after June 15, 2014. The provisions of this Statement are applied simultaneously with the provisions of GASB Statement No. 68.

GASB 71 improves accounting and financial reporting by addressing the issue in GASB 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation by employers and non-employer contributing entities. The issue relates to amounts associated with contributions, if any, made by a 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.

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

**1. Use of Estimates**

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

**2. Cash and Cash Equivalents**

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

**3. Investments**

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, 2015.

**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. 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.

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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

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

**6. Capital Assets, continued**

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  |

**7. Deferred Outflows of Resources**

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

**8. 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.

**9. Deferred Inflows of Resources**

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

**10. Pensions**

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

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

- Valuation Date: June 30, 2013
- Measurement Date: June 30, 2014
- Measurement Period: July 1, 2013 to June 30, 2014

**11. 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.

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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

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

**12. 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.

**13. Net Position**

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

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

**(2) Cash and Investments**

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

|                           | <b>2015</b>                |
|---------------------------|----------------------------|
| Cash and cash equivalents | \$ <u><u>9,649,337</u></u> |

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

|                                      | <b>2015</b>                |
|--------------------------------------|----------------------------|
| Cash on hand                         | \$ 500                     |
| Deposits with financial institutions | 479,819                    |
| Investments                          | <u>9,169,018</u>           |
| Total cash and investments           | \$ <u><u>9,649,337</u></u> |

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

|  | <b>2015</b> |
|--|-------------|
| Deposits held with the California Local Agency Investment Fund | 239 days    |

**Chino Basin Watermaster  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2015**

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

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

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

| <b>Authorized<br/>Investment Type</b>           | <b>Maximum<br/>Maturity</b> | <b>Maximum<br/>Percentage<br/>of Portfolio</b> | <b>Maximum<br/>Investment<br/>in One Issuer</b> |
|---|-----------------------------|--|---|
| 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  |

***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, 2015, 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).

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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

*Investment in State Investment Pool, continued*

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.

**Concentration of Credit Risk**

The Watermaster's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represented 5% or more of total Watermaster's investment at June 30, 2015.

**(3) Capital Assets**

Changes in capital assets for 2015 were as follows:

|                                 | <b>Balance<br/>2014</b> | <b>Additions</b> | <b>Disposals/<br/>Transfers</b> | <b>Balance<br/>2015</b> |
|---------------------------------|-------------------------|------------------|---------------------------------|-------------------------|
| Depreciable assets:             |                         |                  |                                 |                         |
| Computer equipment              | \$ 124,809              | 7,668            | (24,926)                        | 107,551                 |
| Furniture and fixtures          | 43,666                  | -                | -                               | 43,666                  |
| Leasehold improvements          | 23,443                  | -                | -                               | 23,443                  |
| Vehicles and equipment          | 90,484                  | -                | -                               | 90,484                  |
| Total depreciable assets        | <u>282,402</u>          | <u>7,668</u>     | <u>(24,926)</u>                 | <u>265,144</u>          |
| Accumulated depreciation:       |                         |                  |                                 |                         |
| Computer equipment              | (120,477)               | (2,978)          | 24,926                          | (98,529)                |
| Furniture and fixtures          | (31,167)                | (2,083)          | -                               | (33,250)                |
| Leasehold improvements          | (23,443)                | -                | -                               | (23,443)                |
| Vehicles and equipment          | (90,483)                | -                | -                               | (90,483)                |
| Total accumulated depreciation: | <u>(265,570)</u>        | <u>(5,061)</u>   | <u>24,926</u>                   | <u>(245,705)</u>        |
| Total capital assets, net       | <u>\$ 16,832</u>        |                  |                                 | <u>19,439</u>           |

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

**(4) Deferred Outflows of Resources**

Changes in deferred outflows of resources for 2015, were as follows:

|   | <u>Balance<br/>2014</u> | <u>Additions</u> | <u>Transfers</u> | <u>Amortization</u> | <u>Balance<br/>2015</u> |
|---|-------------------------|------------------|------------------|---------------------|-------------------------|
| Deferred outflows of resources:             |                         |                  |                  |                     |                         |
| Pension contributions, 2014                 | 79,352                  | -                | (79,352)         | -                   | -                       |
| Pension contributions, 2015                 | -                       | 133,410          | -                | -                   | 133,410                 |
| Adjustment due to differences in proportion |                         | 4,949            |                  | (1,303)             | 3,646                   |
| Total deferred outflows of resources        | <u>\$ 79,352</u>        | <u>138,359</u>   | <u>(79,352)</u>  | <u>(1,303)</u>      | <u>137,056</u>          |

**(5) Compensated Absences**

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

| <u>Balance<br/>2014</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance<br/>2015</u> | <u>Due Within<br/>One Year</u> | <u>Due in more<br/>than one year</u> |
|-------------------------|------------------|------------------|-------------------------|--------------------------------|--------------------------------------|
| \$ 172,638              | 142,448          | (75,813)         | 239,273                 | 83,746                         | 155,527                              |

**(6) Prior Period Adjustment**

In fiscal year 2015, the Watermaster implemented GASB pronouncements 68 and 71 to recognize its proportionate share of the net pension liability.

As a result of the implementation, the Watermaster recognized the pension liability and recorded a net prior period adjustment of \$740,195 to decrease the governmental activities' beginning net position. The adjustment was made to reflect the prior period costs related to the implementation of GASB 68 and 71.

The restatement of beginning net position is summarized as follows:

The adjustment to net position is as follows:

|  |                     |
|--|---------------------|
| Net position at July 1, 2014, as previously stated       | \$ 6,767,870        |
| Effect of adjustment to record net pension liability     | (819,547)           |
| Effect of adjustment to record deferred pension outflows | <u>79,352</u>       |
| Total adjustments  | <u>(740,195)</u>    |
| Net position at July 1, 2014, as restated                | <u>\$ 6,027,675</u> |

**(7) Defined Benefit Pension Plan**

***Plan Description***

All qualified permanent and probationary employees are eligible to participate in the Watermaster's separate Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan is established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website or may be obtained from their executive office: 400 P Street, Sacramento, CA, 95814.



**Chino Basin Watermaster  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**(7) Defined Benefit Pension Plan, continued**

***Benefits provided***

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

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

The Plans' provision and benefits in effect at June 30, 2015 are summarized as follows:

|   | <b>Miscellaneous Plan</b>   |                                |
|---|-----------------------------|--------------------------------|
|   | <b>Classic</b>              | <b>PEPRA</b>                   |
|   | Prior to<br>January 1, 2013 | On or after<br>January 1, 2013 |
| Hire date   |                             |                                |
| Benefit formula                                   | 2.5% @ 55                   | 2.0% @ 62                      |
| Benefit vesting schedule                          | 5 years of service          | 5 years of service             |
| Benefit payments                                  | monthly for life            | monthly for life               |
| Retirement age                                    | 50 - 55                     | 52 - 67                        |
| Monthly benefits, as a % of eligible compensation | 2.0% to 2.5%                | 1.0% to 2.5%                   |
| Required employee contribution rates              | 8.00%                       | 6.25%                          |
| Required employer contribution rates              | 15.701%                     | 6.25%                          |

***Contributions***

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

As of the fiscal year ended June 30, 2015, the contributions recognized as part of pension expense for the Plan was as follows:

|   | <b>Miscellaneous Plan</b> |
|---|---------------------------|
| Contributions – employer                    | \$ 133,410                |
| Contributions – employee (paid by employer) | 72,579                    |
| Total employer paid contributions           | \$ 205,989                |

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

**(7) Defined Benefit Pension Plan, continued**

***Contributions, continued***

As of the fiscal year ended June 30, 2015, the Watermaster reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

|                    | <b>Proportionate Share<br/>of Pension Liability</b> |
|--------------------|---|
| Miscellaneous Plan | \$ 599,803  |

The Watermaster's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2014, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, rolled forward to June 30, 2014, using standard update procedures. The Watermaster's proportion of the net pension liability was based on a projection of the Watermaster's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Watermaster's proportionate share of the pension liability for the Plan as of June 30, 2013 and 2014 was as follows:

|   | <b>Miscellaneous Plan</b> |
|---|---------------------------|
| Proportion – June 30, 2013 (Valuation Date)   | 0.01017%                  |
| Proportion – June 30, 2014 (Measurement Date) | 0.00964%                  |
| Change – Increase (Decrease)                  | 0.00053%                  |

As a result of the implementation of the GASB 68 pronouncement at June 30, 2015, the Watermaster recognized pension expense of \$57,525 at June 30, 2015.

As of the fiscal year ended June 30, 2015, the Watermaster reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| <b>Description</b>   | <b>Deferred Outflows<br/>of Resources</b> | <b>Deferred Inflows<br/>of Resources</b> |
|--|---|--|
| Pension contributions subsequent to measurement date                         | \$ 133,410                                | -  |
| Net differences between projected and actual earnings<br>on plan investments | -   | (201,563)                                |
| Adjustments due to differences in proportion                                 | 3,646                                     | -  |
| Total  | \$ 137,056                                | (201,563)                                |

As of June 30 2015, employer pension contributions reported as deferred outflows of resources related to contributions subsequent to the measurement date of \$133,410 will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016.

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

**(7) Defined Benefit Pension Plan, continued**

*Contributions, continued*

As of the fiscal year ended June 30, 2015, the Watermaster reported deferred outflows of resources and deferred inflows of resources for June 30, 2014 related to pensions as part of its adjustment to the beginning net position as of July 1, 2014 (Note 6) from the following sources:

| <u>Description</u>   | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|--|---|--|
| Pension contributions between the valuation and measurement date | \$ 79,352                                 | -  |

Employer pension contributions reported as deferred outflows of resources related to contributions between the valuation date and measurement date of \$79,352 were recognized as an adjustment to the beginning net position as of July 1, 2014.

As a result of the implementation of the GASB 68 at June 30, 2015, the Watermaster recognized other amounts reported by the Plan actuarial as deferred outflows of resources and deferred inflows of resources related to the pension liability. Pension related amounts will be recognized as pension expense as follows.

| <u>Fiscal Year<br/>Ending June 30:</u> | <u>Deferred<br/>Outflows/(Inflows)<br/>of Resources</u> |
|--|---|
| 2016                                   | \$ (49,087)   |
| 2017                                   | (49,087)  |
| 2018                                   | (49,350)  |
| 2019                                   | (50,393)  |
| 2020                                   | -   |
| Thereafter                             | -   |

The total pension liability in the June 30, 2013 actuarial valuation report was determined using the following actuarial assumptions:

|                           |   |
|---------------------------|---|
| Actuarial cost method     | Entry Age Normal in accordance with the requirements of GASB Statement No. 68   |
| Actuarial assumptions:    |   |
| Discount rate             | 7.50%   |
| Inflation                 | 2.75%   |
| Salary increases          | Varies by Entry Age and Service   |
| Investment Rate of Return | 7.50 % Net of Pension Plan Investment and Administrative Expenses; includes inflation                                     |
| Mortality Rate Table*     | Derived using CalPERS' Membership Data for all Funds  |
| Post Retirement Benefit   | Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter |

\* The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report. Further details of the Experience Study can be found on the CalPERS website.

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

**(7) Defined Benefit Pension Plan, continued**

***Discount Rate***

The Discount rate used to measure the total pension liability was 7.50% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% will be applied to all plans in the Public Employees' Retirement Fund (PERF). The stress test results are presented in a detailed report which can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS confirmed the materiality threshold for the difference in the calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the Discount rate will require CalPERS Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the fiscal year ended 2017-2018. CalPERS will continue to check the materiality of the difference in the calculation until such time as it has changed its methodology.

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

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

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

**(7) Defined Benefit Pension Plan, continued**

*Discount Rate, continued*

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

| <u>Asset Class</u>            | <u>New Strategic Allocation</u> | <u>Real Return Years 1–10*</u> | <u>Real Return Year 11+**</u> |
|-------------------------------|---------------------------------|--------------------------------|-------------------------------|
| Global Equity                 | 47.0%                           | 5.25%                          | 5.71%                         |
| Global Fixed Income           | 19.0                            | 0.99                           | 2.43                          |
| Inflation Sensitive           | 6.0                             | 0.45                           | 3.36                          |
| Private Equity                | 12.0                            | 6.83                           | 6.95                          |
| Real Estate                   | 11.0                            | 4.50                           | 5.13                          |
| Infrastructure and Forestland | 3.0                             | 4.50                           | 5.09                          |
| Liquidity                     | 2.0                             | (0.55)                         | (1.05)                        |
| Total                         | <u>100.0%</u>                   |                                |                               |

\* An expected inflation of 2.5% used for this period

\*\* An expected inflation of 3.0% used for this period

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

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

|  | <u>Discount Rate – 1%</u><br><u>(6.50%)</u> | <u>Current Discount</u><br><u>Rate (7.50%)</u> | <u>Discount Rate + 1%</u><br><u>(8.50%)</u> |
|--|---|--|---|
| Plan's Net Pension Liability/(Asset)    \$ | <u>1,068,664</u>                            | <u>599,803</u>                                 | <u>210,693</u>                              |

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan’s fiduciary net position is available in separately issued CalPERS financial reports. See pages 35 through 36 for the Required Supplementary Schedules.

**(8) 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.

**Chino Basin Watermaster  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**(8) Other Post-Employment Benefits Payable, continued**

***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. 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:

|  | <b>2015</b> | <b>2014</b> | <b>2013</b> |
|--|-------------|-------------|-------------|
| Active plan members                            | 9           | 9           | 7           |
| Active employees' dependents                   | 4           | 4           | 4           |
| Retirees and dependents receiving benefits     | 1           | 1           | 1           |
| Retirees and dependents not receiving benefits | -           | -           | -           |
| Total plan membership                          | 14          | 14          | 12          |

***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 10.21% of the annual covered payroll.

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

**(8) Other Post-Employment Benefits Payable, continued**

**Annual Cost**

For the year ended June 30, 2015, the Watermaster's ARC cost is \$98,033. The Watermaster's net OPEB payable obligation amounted to \$245,013 for the year ended June 30, 2015. The Watermaster contributed \$1,464 to adjust the annual required contribution for current retiree OPEB premiums for the year ended June 30, 2015.

The balance at June 30, consists of the following:

|   | <u>2015</u>       | <u>2014</u>    | <u>2013</u>    |
|---|-------------------|----------------|----------------|
| Annual OPEB expense:                        |                   |                |                |
| Annual required contribution (ARC)          | \$ 97,383         | 79,930         | 71,017         |
| Interest on net OPEB obligation             | 7,422             | -              | -              |
| Adjustment to annual required contribution  | <u>(6,772)</u>    | <u>-</u>       | <u>-</u>       |
| Total annual OPEB expense                   | 98,033            | 79,930         | 71,017         |
| Change in net OPEB payable obligation:      |                   |                |                |
| Age adjusted contributions made             | <u>(1,464)</u>    | <u>(1,123)</u> | <u>(1,380)</u> |
| Total change in net OPEB payable obligation | 96,569            | 78,807         | 69,637         |
| OPEB payable – beginning of year            | <u>148,444</u>    | <u>69,637</u>  | <u>-</u>       |
| OPEB payable – end of year                  | <u>\$ 245,013</u> | <u>148,444</u> | <u>69,637</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 2015 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> |
|--------------------------|-------------------------|----------------------------------|---|------------------------------------|
| 2015                     | \$ 98,033               | 1,464                            | 1.49%   | 245,013                            |
| 2014                     | 79,930                  | 1,123                            | 1.40%   | 148,444                            |
| 2013                     | 71,017                  | 1,380                            | 1.94%   | 69,637                             |

**(9) Nonqualified Employee Compensation Plan**

Effective June 1, 2015, the Watermaster established a Nonqualified Deferred Compensation Plan (Plan). The purpose of this Plan is to provide deferred compensation for selected public employees to participate in the Plan. The Plan is intended to be an unfunded deferred compensation plan that complies with the requirements of Section 457(f) and 409A of the Internal Revenue Code of 1986. Each Plan Participant shall be entitled to elect to forego all or any portion, as either a dollar amount or a percentage, of the Participant's salary and/or bonus that may become payable by the Employer for a Plan year after all applicable deductions and withholdings. Such election shall be evidenced by a Deferral Agreement. The Watermaster recognized the employer contribution of \$4,750 at June 30, 2015 as a long term debt and is expected to be paid within the remaining employment term.

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

**(9) Nonqualified Employee Compensation Plan, continued**

On June 30, 2015, Watermaster made an employer contribution of \$4,750 to the Plan for the benefit of its eligible employee for the 12 consecutive month period from July 1, 2014 to June 30, 2015. For each of Watermaster's regular payroll periods beginning on and after July 1, 2015 during the remainder of the Employment Term (from June 30, 2014 up to the expiration date of June 30, 2017), the Watermaster agrees to make an employer contribution to the Plan for the benefit of the eligible employee equal to 8% of the corresponding salary including any incentive compensation paid during that payroll period; provided that the eligible employee is still employed with Watermaster on the payday of that payroll period.

**(10) Deferred Compensation Savings Plan**

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

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the Watermaster is in compliance with this legislation. Therefore, these assets are not the legal property of the Watermaster, and are not subject to claims of the Watermaster's general creditors. Market value of all plan assets held in trust at June 30, 2015 was \$877,881.

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

**(11) Net Position**

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

|   | <b>2015</b>  |
|---|--------------|
| Net investment in capital assets:                 |              |
| Capital assets, net                               | \$ 19,439    |
| Total net investment in capital assets            | 19,439       |
| Unrestricted net position:                        |              |
| Non-spendable net position:                       |              |
| Prepaid expenses and deposits                     | 39,663       |
| Total non-spendable net position                  | 39,663       |
| Spendable net position are designated as follows: |              |
| Undesignated net position reserve                 | 7,648,005    |
| Total spendable net position                      | 7,648,005    |
| Total unrestricted net position                   | 7,687,668    |
| Total net position                                | \$ 7,707,107 |



**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

**(12) Risk Management**

The Watermaster is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Watermaster is insured for a variety of potential exposures. The following is a summary of the insurance policies carried by the Watermaster as of June 30, 2015:

- 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.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2015, that has effective dates that may impact future financial presentations.

***Governmental Accounting Standards Board Statement No. 72***

In February 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application*. The objective of this Statement is to enhance comparability of financial statements among governments by measurement of certain assets and liabilities at their fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015. The impact of the implementation of this Statement to the Watermaster's financial statements has not been assessed at this time.

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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

***Governmental Accounting Standards Board Statement No. 73***

In June 2015, the GASB issued Statement No. 73 – *Accounting and Financial Reporting for Pensions*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the Scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans as pensions that are within their respective scopes.

The requirements of this statement that address accounting and financial reporting by employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after December 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement No. 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. 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. 74***

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No.50, *Pension Disclosures*.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2016. 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. 75***

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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

***Governmental Accounting Standards Board Statement No. 75, continued***

This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2017. 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. 76***

In June 2015, the GASB issued Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within the source of authoritative GAAP.

This Statement replaces the requirements of Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2015, and should be applied retroactively.

***Governmental Accounting Standards Board Statement No. 77***

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from governmental programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. This Statement is effective for financial statements for periods beginning after December 15, 2015. It is believed that the implementation of this Statement will not have a material effect to the Watermaster's financial statements.

**Chino Basin Watermaster**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

**(14) Commitments and Contingencies**

*Grant Awards*

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

*Litigation*

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

**(15) Subsequent Events**

Events occurring after June 30, 2015, have been evaluated for possible adjustment to the financial statements or disclosure as of November 19, 2015, which is the date the financial statements were available to be issued.

## **Required Supplementary Information**



**Chino Basin Watermaster**  
**Schedule of Funding Status – Other Post-Employment Benefits Obligation**  
**For the Year Ended June 30, 2015**

***Funded Status and Funding Progress of the Plan***

**Required Supplemental Information – Schedule of Funding Progress**

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(b) | Unfunded<br>Actuarial<br>Accrued<br>Liability (UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>((b-a)/c) |
|--------------------------------|--|--|---|--------------------------|---------------------------|---|
| 6/30/2015                      | \$ -                                   | 524,713                                  | 524,713   | -                        | 954,193                   | 54.99%  |
| 6/30/2014                      | -                                      | 381,010                                  | 381,010   | -                        | 858,882                   | 44.36%  |
| 6/30/2013                      | -                                      | 354,220                                  | 354,220   | -                        | 707,444                   | 50.07%  |

The most recent valuation (dated June 30, 2015) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of \$524,713. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2015 was \$954,193. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 54.99%.

***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      |
| Assumed retirement age        | 60 years of age                        |
| 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%                                  |

**Chino Basin Watermaster  
Schedule of the Watermaster's Proportionate Share of the Net Pension Liability  
As of June 30, 2015  
Last Ten Years\***

|   | <b>6/30/2014 (a)</b> |
|---|----------------------|
| Watermaster's proportion of the net pension liability (asset)   | 0.00964%             |
| Watermaster's proportionate share of the net pension liability (asset) \$   | 599,803              |
| Watermaster's covered-employee payroll (b) \$   | 726,672              |
| Watermaster's proportionate share of the net pension liability (asset)<br>as a percentage of its covered-employee payroll | 82.54%               |
| Plan's fiduciary net position as a percentage of the<br>total pension liability   | 81.15%               |

**Notes:**

- (a) Historical information is required only for measurement periods for which GASB 68 is applicable.
  - (b) Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll related ratios.
- \* Fiscal Year 2015 was the first year of implementation, therefore only one year is shown.



**Chino Basin Watermaster  
Schedule of Pension Plan Contributions  
As of June 30, 2015  
Last Ten Years\***

| <b><u>Schedule of Pension Plan Contributions (a):</u></b>                | <b><u>Fiscal Year<br/>2013-2014</u></b> |
|--|---|
| Actuarially determined contribution (b)                                  | \$ 112,177                              |
| Contributions in relation to the actuarially determined contribution (b) | (112,177)                               |
| Contribution deficiency (excess)   | \$ -                                    |
| Watermaster's covered payroll (c), (d)                                   | \$ 726,672                              |
| Contribution's as a percentage of covered-employee payroll (c)           | 15.44%                                  |

**Notes:**

- (a) Historical information is required only for measurement periods for which GASB 68 is applicable.
  - (b) Employers are assumed to make contributions equal to the actuarially determined contributions (which is the actuarially determined contribution). However, some employer's may choose to make additional contributions towards their side fund or unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions. CalPERS has determined that employer obligations referred to as "side funds" do not conform to the circumstances described in paragraph 120 of GASB 68, therefore are not considered separately financed specific liabilities.
  - (c) Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.
  - (d) Payroll from prior year (\$705,507) was assumed to increase by the 3.00 percent payroll growth assumption.
- \* Fiscal Year 2015 was the first year of implementation, therefore only one year is shown.

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## **Supplemental Information Section**



**Chino Basin Watermaster**  
**Combining Schedule of Revenue, Expenses, and Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2015**

|   | Watermaster<br>Administration | Optimum<br>Basin<br>Management | Pool Administration and Special Projects |                      |                          | Groundwater Operations       |                 | LAIF<br>Value Adj. | Grand<br>Totals  | Budget<br>2014-2015 |
|---|-------------------------------|--------------------------------|--|----------------------|--------------------------|------------------------------|-----------------|--------------------|------------------|---------------------|
|   |                               |                                | Appropriative<br>Pool                    | Agricultural<br>Pool | Non-Agricultural<br>Pool | Groundwater<br>Replenishment | SB 222<br>Funds |                    |                  |                     |
| <b>Administrative revenues:</b>                   |                               |                                |  |                      |                          |                              |                 |                    |                  |                     |
| Administrative assessments                        | \$ -                          | -                              | 7,280,399                                | -                    | 244,107                  | -                            | -               | -                  | 7,524,506        | 7,524,250           |
| Interest revenue                                  | -                             | -                              | 17,644                                   | 1,236                | 362                      | -                            | -               | -                  | 19,243           | 25,800              |
| Mutual agency project revenue                     | 155,607                       | -                              | -  | -                    | -                        | -                            | -               | -                  | 155,607          | 155,331             |
| <b>Total revenues</b>                             | <b>155,607</b>                | <b>-</b>                       | <b>7,298,043</b>                         | <b>1,236</b>         | <b>244,469</b>           | <b>-</b>                     | <b>-</b>        | <b>-</b>           | <b>7,699,356</b> | <b>7,705,381</b>    |
| <b>Administrative &amp; project expenditures:</b> |                               |                                |  |                      |                          |                              |                 |                    |                  |                     |
| Watermaster administration                        | 1,143,627                     | -                              | -  | -                    | -                        | -                            | -               | -                  | 1,143,627        | 1,172,518           |
| Watermaster board-advisory committee              | 163,809                       | -                              | -  | -                    | -                        | -                            | -               | -                  | 163,809          | 169,826             |
| Ag Pool misc. expense - Ag Fund                   | -                             | -                              | -  | -                    | -                        | -                            | -               | -                  | -                | 400                 |
| Pool administration                               | -                             | -                              | 199,977                                  | 303,796              | 109,893                  | -                            | -               | -                  | 613,666          | 616,185             |
| Optimum basin management administration           | -                             | 1,709,145                      | -  | -                    | -                        | -                            | -               | -                  | 1,709,145        | 1,717,696           |
| OBMP project costs                                | -                             | 2,625,043                      | -  | -                    | -                        | -                            | -               | -                  | 2,625,043        | 3,044,075           |
| Debt service                                      | -                             | 415,978                        | -  | -                    | -                        | -                            | -               | -                  | 415,978          | 431,740             |
| Basin recharge improvements                       | -                             | -                              | -  | -                    | -                        | -                            | -               | -                  | -                | 1,748,077           |
| Mutual agency project costs                       | -                             | -                              | -  | -                    | -                        | -                            | -               | -                  | -                | 10,000              |
| <b>Total administrative/OBMP expenses</b>         | <b>1,307,436</b>              | <b>4,750,166</b>               | <b>199,977</b>                           | <b>303,796</b>       | <b>109,893</b>           | <b>-</b>                     | <b>-</b>        | <b>-</b>           | <b>6,671,268</b> | <b>8,910,517</b>    |
| <b>Net administrative/OBMP expenses:</b>          | <b>(1,151,829)</b>            | <b>(4,750,166)</b>             |  |                      |                          |                              |                 |                    |                  |                     |
| Allocate net admin expenses to pools              | \$ 1,151,829                  |                                | 833,917                                  | 280,057              | 37,855                   |                              |                 |                    | -                | -                   |
| Allocate net OBMP expenses to pools               |                               | 4,334,188                      | 3,137,925                                | 1,053,818            | 142,445                  |                              |                 |                    | -                | -                   |
| Allocate debt service to app pool                 |                               | 415,978                        | 415,978                                  |                      |                          |                              |                 |                    | -                | -                   |
| Agricultural expense transfer*                    |                               |                                | 1,637,671                                | (1,637,671)          |                          |                              |                 |                    | -                | -                   |
| <b>Total expenses</b>                             |                               |                                | <b>6,225,468</b>                         | <b>-</b>             | <b>290,193</b>           |                              |                 | <b>-</b>           | <b>6,671,268</b> | <b>8,910,517</b>    |
| <b>Net administrative income</b>                  |                               |                                | <b>1,072,575</b>                         | <b>1,236</b>         | <b>(45,724)</b>          |                              |                 | <b>-</b>           | <b>1,028,088</b> | <b>(1,205,136)</b>  |
| <b>Other income/(expense)</b>                     |                               |                                |  |                      |                          |                              |                 |                    |                  |                     |
| Replenishment water assessments                   |                               |                                | -  | -                    | -                        | 751,983                      | -               | -                  | 751,983          | -                   |
| Non-Ag stored water purchases                     |                               |                                | -  | -                    | -                        | -                            | -               | -                  | -                | -                   |
| Exhibit "G" Non-Ag pool water                     |                               |                                | 1,151,196                                | -                    | -                        | -                            | -               | -                  | 1,151,196        | -                   |
| Interest revenue                                  |                               |                                | -  | -                    | -                        | 2,801                        | -               | -                  | 2,801            | -                   |
| MWD water purchases                               |                               |                                | -  | -                    | -                        | -                            | -               | -                  | -                | -                   |
| Non-Ag stored water purchases                     |                               |                                | -  | -                    | -                        | -                            | -               | -                  | -                | -                   |
| Exhibit "G" Non-Ag pool water                     |                               |                                | (1,151,196)                              | -                    | -                        | -                            | -               | -                  | (1,151,196)      | -                   |
| MWD water purchases                               |                               |                                | -  | -                    | -                        | -                            | -               | -                  | -                | -                   |
| Groundwater replenishment                         |                               |                                | -  | -                    | -                        | -                            | -               | -                  | -                | -                   |
| LAIF - fair market value adjustment               |                               |                                | -  | -                    | -                        | -                            | -               | 1,326              | 1,326            | -                   |
| Other post-employment benefits (OPEB)             |                               |                                | (93,395)                                 | -                    | (3,174)                  | -                            | -               | -                  | (96,569)         | -                   |
| Refund - excess reserves                          |                               |                                | (6,456)                                  | -                    | (1,841)                  | -                            | -               | -                  | (8,297)          | -                   |
| Refund - recharge debt                            |                               |                                | -  | -                    | -                        | -                            | -               | -                  | -                | -                   |
| <b>Net other income</b>                           |                               |                                | <b>(99,851)</b>                          | <b>-</b>             | <b>(5,015)</b>           | <b>754,784</b>               | <b>-</b>        | <b>1,326</b>       | <b>651,244</b>   | <b>-</b>            |
| <b>Net transfers to/(from) reserves</b>           |                               |                                | <b>972,724</b>                           | <b>1,236</b>         | <b>(50,739)</b>          | <b>754,784</b>               | <b>-</b>        | <b>1,326</b>       | <b>1,679,332</b> | <b>(1,205,136)</b>  |
| Net Assets July 1, 2014, as previously stated     |                               |                                | 5,373,896                                | 479,894              | 120,514                  | 633,295                      | 158,251         | 2,120              | 6,767,970        |                     |
| Prior period adjustment                           |                               |                                | -  | -                    | -                        | -                            | -               | -                  | (740,195)        |                     |
| Net Assets, July 1, 2014, as restated             |                               |                                | 5,373,896                                | 479,894              | 120,514                  | 633,295                      | 158,251         | 2,120              | 6,027,775        |                     |
| Net Assets, End of Period                         |                               |                                | 6,346,620                                | 481,130              | 69,775                   | 1,388,079                    | 158,251         | 3,446              | 7,707,107        | 8,447,302           |
| <b>2013/2014 assessable production</b>            |                               |                                | 100,165,551                              | 33,638,883           | 4,546,972                |                              |                 |                    | 138,351,406      |                     |
| <b>2013/2014 production percentages</b>           |                               |                                | 72.399%                                  | 24.314%              | 3.287%                   |                              |                 |                    | 100.000%         |                     |

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

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# **Report on Internal Controls and Compliance**







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

Board of Directors  
Chino Basin Watermaster  
Rancho Cucamonga, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Chino Basin Watermaster (Watermaster) as of and for the year ended June 30, 2015, 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 19, 2015.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

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

**Purpose of this Report**

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

*Fedak & Brown LLP*

**Fedak & Brown LLP**  
Cypress, California  
November 19, 2015