Chino Basin Watermaster

Annual Financial Report

For the Fiscal Years Ended June 30, 2017 and 2016

Our Mission Statement

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

Pools	Name	Title	Current Term
Agricultural	Paul Hofer	Member	Ongoing [1]
Agricultural	Geoffrey Vanden Heuvel	Member	Ongoing [1]
Non-Agricultural	Robert Bowcock	Member	Ongoing [1]
Appropriative	James V. Curatalo, Jr.	Chair	January 2018 [1,2]
Appropriative	Robert DiPrimio	Vice-Chair	January 2019 [1,2]
Appropriative	Gino L. Filippi	Member	January 2018 [1,2]
Municipal	Steve Elie	Member	Ongoing [1]
Municipal	Bob G. Kuhn	Secretary/Treasurer	Ongoing [1]
Municipal	Donald D. Galleano	Member	Ongoing [1]

[1] The Watermaster Board serves at the direction of Judge Reichert and was re-appointed for a three year term effective January 2016 (Board approval on November 19, 2015).

[2] The Appropriative Pool's rotation sequence for Board membership effective January 2016 was approved by the Appropriative Pool on November 17, 2015.

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

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Annual Financial Report
For the Fiscal Years Ended June 30, 2017 and 2016

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Introductory Section

November 16, 2017

Board of Directors
Chino Basin Watermaster

Introduction

It is our pleasure to submit the Annual Financial Report for the Chino Basin Watermaster (Watermaster) for the fiscal years ended June 30, 2017 and 2016, 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. Under the Judgment, three Pool committees were formed: (1) Overlying (Agricultural) Pool which includes the State of California and all producers of water for overlying uses other than industrial or commercial purposes; (2) Overlying (Non-Agricultural) Pool which represents producers of water for overlying industrial or commercial purposes; and (3) Appropriative Pool which represents cities, special districts, other public or private entities and utilities. The three Pools act together to form the "Advisory Committee". Pursuant to the Judgment, the Chino Basin Municipal Water District (CBMWD) five member Board of Directors was initially appointed as "Watermaster". Pursuant to a recommendation of the Advisory Committee, the Honorable J. Michael Gunn appointed a nine-member board as Watermaster on September 28, 2000.

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

Investment Policy

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

Water Rates and Watermaster Revenues

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

Audit and Financial Reporting

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

Other References

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

Acknowledgements

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

Respectfully submitted,

P. Kavounas

Peter Kavounas, P.E.
General Manager

Joseph S. Joswiak

Joseph S. Joswiak, MBA
Chief Financial Officer

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Financial Section

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 years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Watermaster's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2017 and 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

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 pages 38 through 40 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 audits were 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 schedules of revenue, expenses and changes in net position on page 41 and 42, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining schedules 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 16, 2017, 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 43 and 44.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
November 16, 2017

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The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Chino Basin Watermaster (Watermaster) provides an introduction to the financial statements of the Watermaster for the fiscal years ended June 30, 2017 and 2016. We encourage readers to consider the information presented here with additional information that we have furnished in conjunction with the transmittal letter in the Introductory Section and with the accompanying basic financial statements and related notes, which follow this section.

Financial Highlights

- The Watermaster's net position decreased by 10.92% or $1,068,722. In fiscal year 2016, the Watermaster's net position increased by 26.96% or $2,077,544.
- The Watermaster's total revenues decreased by $7.79% or $1,011,194. In fiscal year 2016, the Watermaster's total revenues increased by $35.16% or $3,377,274.
- The Watermaster's total expenses increased by 19.58% or $2,135,072. In fiscal year 2016, the Watermaster's total expenses increased by 37.58% or $2,979,162.

Required Financial Statements

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

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

Financial Analysis of the Watermaster

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

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

Financial Analysis of the Watermaster, continued

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 16 through 37.

Statements of Net Position

Condensed Statements of Net Position

	2017	2016	Change
Assets:			
Current assets	$ 11,758,298	12,033,692	(275,394)
Capital assets, net	13,997	14,378	(381)
Total assets	11,772,295	12,048,070	(275,775)
Deferred outflows of resources	451,446	301,831	149,615
Liabilities:			
Current liabilities	1,716,958	1,126,336	590,622
Non-current liabilities	1,731,968	1,317,462	414,506
Total liabilities	3,448,926	2,443,798	1,005,128
Deferred inflows of resources	58,886	121,452	(62,566)
Net position:			
Net investment in capital assets	13,997	14,378	(381)
Restricted	15,000	-	15,000
Unrestricted	8,686,932	9,770,273	(1,083,341)
Total net position	$ 8,715,929	9,784,651	(1,068,722)

As noted earlier, net position may serve over time as a useful indicator of an organization's financial position. In the case of the Watermaster, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $8,715,929 and $9,784,651 as of June 30, 2017 and 2016, respectively.

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

Statements of Net Position, continued

At the end of fiscal years 2017 and 2016, the Watermaster reflected a positive balance in its unrestricted net position of $8,686,932 and $9,770,273, respectively that may be utilized in future years. (See Note 8)

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

		2017	2016	Change
Revenues:				
Operating revenues	$	11,902,087	12,952,155	(1,050,068)
Non-operating revenues		70,656	31,782	38,874
Total revenues		11,972,743	12,983,937	(1,011,194)
Expenses:				
Operating expense		12,845,102	10,465,108	2,379,994
Depreciation		5,841	5,061	780
Non-operating expense		190,522	436,224	(245,702)
Total expenses		13,041,465	10,906,393	2,135,072
Change in net position		(1,068,722)	2,077,544	(3,146,266)
Net position, beginning of period		9,784,651	7,707,107	2,077,544
Net position, end of period	$	8,715,929	9,784,651	(1,068,722)

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

In fiscal year 2017, Watermaster's net position decreased by 10.92% or $1,068,722 as a result of ongoing operations. In fiscal year 2016, the Watermaster's net position increased by 26.96% or $2,077,544 as a result of ongoing operations.

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

In fiscal year 2017, Watermaster's total revenues decreased by $7.79% or $1,011,194 due primarily to a decrease in replenishment water revenue of $2,065,830, which was offset by an increase in administrative assessments of $1,013,480. In fiscal year 2016, the Watermaster's total revenues increased by $35.16% or $3,377,274 due primarily to increases in administrative assessments, and replenishment water revenue of $1,659,608 and $1,707,513, respectively.

In fiscal year 2017, Watermaster's total expenses increased by 19.58% or $2,135,072, primarily due to a $1,580,973 increase in groundwater replenishment costs and other water purchases, and a $466,810 increase in optimum basin management plan expenditures. In fiscal year 2016, Watermaster's total expenses increased by 37.58% or $2,979,162, primarily due to a $1,388,804 increase in groundwater replenishment costs and other water purchases, a $905,596 increase in optimum basin management plan expenditures and a $338,512 increase in administration.

Capital Asset Administration

At the end of fiscal year 2017 and 2016, the Watermaster's investment in capital assets amounted to $13,997 and $14,378 (net of accumulated depreciation), respectively. This investment in capital assets includes leasehold improvements, office equipment, and vehicles. The capital assets of the Watermaster are more fully analyzed in Note 3 to the basic financial statements.

Changes in capital assets in 2017 were as follows:

		Balance 2016	Additions	Disposals/ Transfers	Balance 2017
Capital assets:					
Depreciable assets	$	265,144	5,460	-	270,604
Accumulated depreciation		(250,766)	(5,841)	-	(256,607)
Total capital assets	$	14,378	(381)	-	13,997

Changes in capital assets in 2016 were as follows:

		Balance 2015	Additions	Disposals/ Transfers	Balance 2016
Capital assets:					
Depreciable assets	$	265,144	-	-	265,144
Accumulated depreciation		(245,705)	(5,061)	-	(250,766)
Total capital assets	$	19,439	(5,061)	-	14,378

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
Statements of Net Position
June 30, 2017 and 2016

		2017	2016
Current assets:			
Cash and cash equivalents (note 2)	$	11,460,346	5,850,508
Cash and cash equivalents - restricted (note 2)		15,000	-
Accounts receivable		217,985	6,154,975
Accrued interest receivable		29,395	9,612
Prepaid expenses and other current assets		35,572	18,597
Total current assets		11,758,298	12,033,692
Non-current assets:			
Capital assets, net (note 3)		13,997	14,378
Total non-current assets		13,997	14,378
Total assets		11,772,295	12,048,070
Deferred outflows of resources:			
Deferred pension outflows (note 8)		451,446	301,831
Total deferred outflows of resources	$	451,446	301,831

Continued on next page

See accompanying notes to the basic financial statements

Chino Basin Watermaster
Statements of Net Position, continued
June 30, 2017 and 2016

		2017	2016
Current liabilities:			
Accounts payable and accrued expenses	$	1,592,107	1,011,079
Accrued salaries and benefits		32,887	41,913
Long-term liabilities – due within one year:			
Compensated absences (note 4)		91,964	73,344
Total current liabilities		1,716,958	1,126,336
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 4)		170,789	136,209
Other post employment benefits obligation (note 5)		468,172	346,070
Net pension liability (note 8)		1,043,862	811,437
Employee compensation plan (note 6)		49,145	23,746
Total non-current liabilities		1,731,968	1,317,462
Total liabilities		3,448,926	2,443,798
Deferred inflows of resources:			
Deferred pension inflows (note 8)		58,886	121,452
Total deferred inflows of resources		58,886	121,452
Net Position: (note 9)			
Net investment in capital assets		13,997	14,378
Restricted		15,000	-
Unrestricted		8,686,932	9,770,273
Total net position	$	8,715,929	9,784,651

See accompanying notes to the basic financial statements

Chino Basin Watermaster

Statements of Revenues, Expenses, and Changes in Net Position

For the Fiscal Years Ended June 30, 2017 and 2016

		2017	2016
Operating revenues:			
Administrative assessments	$	10,197,594	9,184,114
Replenishment water revenue		1,544,862	3,610,692
Other revenue		159,631	157,349
Total operating revenue		11,902,087	12,952,155
Operating expenses:			
Groundwater replenishment and other water purchases		4,120,973	2,540,000
Optimum basin management plan		6,122,572	5,655,762
Watermaster administration		1,901,508	1,649,361
Pool, advisory, and board administration		700,049	619,985
Total operating expense		12,845,102	10,465,108
Operating (loss) income before depreciation		(943,015)	2,487,047
Depreciation expense		(5,841)	(5,061)
Operating (loss) income		(948,856)	2,481,986
Non-operating revenue (expense):			
Reserve distribution		(190,522)	(436,224)
Investment earnings		70,656	31,782
Total non-operating expenses, net		(119,866)	(404,442)
Change in net position		(1,068,722)	2,077,544
Net position at beginning of period		9,784,651	7,707,107
Net position at end of period	$	8,715,929	9,784,651

See accompanying notes to the basic financial statements

Chino Basin Watermaster
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2017 and 2016

		2017	2016
Cash flows from operating activities:			
Cash received from stakeholders	$	17,839,077	6,850,365
Cash paid to employees for salaries and wages		(1,058,863)	(1,039,636)
Cash paid to vendors and suppliers for materials and services		(11,010,267)	(9,202,912)
Net cash provided by (used in) operating activities		5,769,947	(3,392,183)
Cash flows from non-capital financing activities:			
Payments for non-operating expenses		(190,522)	(436,224)
Net cash used in non-capital financing activities		(190,522)	(436,224)
Cash flows from capital financing activities:			
Acquisition of capital assets		(5,460)	-
Net cash used in capital financing activities		(5,460)	-
Cash flows from investing activities:			
Investment earnings received		50,873	29,578
Net cash provided by investing activities		50,873	29,578
Net increase (decrease) in cash and cash equivalents		5,624,838	(3,798,829)
Cash and cash equivalents at the beginning of year		5,850,508	9,649,337
Cash and cash equivalents at the end of year	$	11,475,346	5,850,508

Reconciliation of cash and cash equivalents to statements of net position:

Cash and cash equivalents	$	11,460,346	5,850,508
Cash and cash equivalents - restricted		15,000	-
Total cash and cash equivalents	$	11,475,346	5,850,508

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See accompanying notes to the basic financial statements

Chino Basin Watermaster
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2017 and 2016

		2017	2016
Reconciliation of operating (loss) income to net cash provided by (used in) operating activities:			
Operating (loss) income	$	(948,856)	2,481,986
Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities:			
Depreciation		5,841	5,061
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:			
(Increase) decrease in assets and deferred outflows of resources:			
Accounts receivable		5,936,990	(6,101,790)
Prepaid expenses and other current assets		(16,975)	21,066
Deferred outflows of resources		(149,615)	(164,775)
Increase (decrease) in liabilities and deferred inflows of resources:			
Accounts payable and accrued expense		581,028	134,926
Accrued salaries and benefits		(9,026)	9,487
Compensated absences		53,200	(29,720)
Other post employment benefits obligation		122,102	101,057
Net pension liability		232,425	211,634
Employee compensation plan		25,399	18,996
Deferred inflows of resources		(62,566)	(80,111)
Total adjustments		6,718,803	(5,874,169)
Net cash provided by (used in) operating activities	$	5,769,947	(3,392,183)

See accompanying notes to the basic financial statements

(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 2016-2017 expenses are based on the 2015-2016 production volume.

	Fiscal Year 2017	
Production volume	**Acre Feet**	**Percentage**
Appropriative Pool	89,906	75.250%
Agricultural Pool	26,167	21.901%
Non-agricultural Pool	3,403	2.848%
Total production volume	119,476	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.

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

B. Basis of Accounting and Measurement Focus

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

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

C. Financial Reporting

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

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

Government 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,* effective for financial statements for periods beginning after June 15, 2016.

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*.

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

C. Financial Reporting

Government Accounting Standards Board Statement No. 77

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures,* effective for fiscal years beginning after December 15, 2015.

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.

Government Accounting Standards Board Statement No. 78

In December 2015, the GASB issued Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,* effective for financial statements for periods beginning after December 15, 2015.

The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions.* This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meet certain criteria.

Government Accounting Standards Board Statement No. 80

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14,* effective for financial statements for periods beginning after June 15, 2016.

The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

Government Accounting Standards Board Statement No. 82

In March 2016, the GASB issued Statement No. 82 – *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73,* effective for financial statements for periods beginning after June 15, 2016.

This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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

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

1. Use of Estimates

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

2. Cash and Cash Equivalents

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

3. Investments

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

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

4. Fair Value Measurements

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

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

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

5. Accounts Receivable and Allowance for Uncollectible Accounts

The Watermaster extends credit to customers in the normal course of operations. Management has determined that all amounts are considered collectable. As a result, the Watermaster has not recorded an allowance for doubtful accounts at June 30, 2017.

6. Prepaid Expenses

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

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

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

7. Capital Assets

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

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

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

8. Deferred Outflows of Resources

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

9. Compensated Absences

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

10. Deferred Inflows of Resources

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

11. Pensions

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

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

- Valuation Date: June 30, 2015 and 2014
- Measurement Date: June 30, 2016 and 2015
- Measurement Period: July 1, 2015 to June 30, 2016 and July 1, 2014 to 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. 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.

13. 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.

14. 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:

		2017	2016
Cash and cash equivalents	$	11,460,346	5,850,508
Cash and cash equivalents - restricted		15,000	-
	$	11,475,346	5,850,508

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

		2017	2016
Cash on hand	$	500	500
Deposits held in trust with County of San Bernardino		15,000	-
Deposits with financial institutions		233,408	521,412
Investments		11,226,438	5,328,596
Total cash and investments	$	11,475,346	5,850,508

(2) Cash and Investments, continued

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

	2017	2016
Deposits held with the California Local Agency Investment Fund	194 days	167 days

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

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

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

Investment in State Investment Pool

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

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

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

Custodial Credit Risk

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

(2) Cash and Investments, continued

Custodial Credit Risk, continued

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, 2017, were federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the Watermaster's name.

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

Interest Rate Risk

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

Credit Risk

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

Credit ratings of investments as of June 30, 2017 were as follows:

Investment Type	Total	Minimum Legal Rating	Not Rated
California Local Agency Investment Fund	$ 11,226,438	N/A	11,226,438

Credit ratings of investments as of June 30, 2016 were as follows:

Investment Type	Total	Minimum Legal Rating	Not Rated
California Local Agency Investment Fund	$ 5,328,596	N/A	5,328,596

(2) Cash and Investments, continued

Concentration of Credit Risk

The Watermaster's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for U.S. Treasury securities, mutual funds, and external investment pools) that represented 5% or more of total Watermaster's investment at June 30, 2017.

(3) Capital Assets

Changes in capital assets for 2017 were as follows:

		Balance 2016	Additions	Disposals/ Transfers	Balance 2017
Depreciable assets:					
Computer equipment	$	107,551	-	-	107,551
Furniture and fixtures		43,666	5,460	-	49,126
Leasehold improvements		23,443	-	-	23,443
Vehicles and equipment		90,484	-	-	90,484
Total depreciable assets		265,144	5,460	-	270,604
Accumulated depreciation:					
Computer equipment		(101,506)	(2,978)	-	(104,484)
Furniture and fixtures		(35,333)	(2,863)	-	(38,196)
Leasehold improvements		(23,443)	-	-	(23,443)
Vehicles and equipment		(90,484)	-	-	(90,484)
Total accumulated depreciation		(250,766)	(5,841)	-	(256,607)
Total capital assets, net	$	14,378			13,997

Changes in capital assets for 2016 were as follows:

		Balance 2015	Additions	Disposals/ Transfers	Balance 2016
Depreciable assets:					
Computer equipment	$	107,551	-	-	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		265,144	-	-	265,144
Accumulated depreciation:					
Computer equipment		(98,528)	(2,978)	-	(101,506)
Furniture and fixtures		(33,250)	(2,083)	-	(35,333)
Leasehold improvements		(23,443)	-	-	(23,443)
Vehicles and equipment		(90,484)	-	-	(90,484)
Total accumulated depreciation		(245,705)	(5,061)	-	(250,766)
Total capital assets, net	$	19,439			14,378

(4) Compensated Absences

The changes to compensated absences for 2017, were as follows:

	Balance 2016	Additions	Deletions	Balance 2017	Due Within One Year	Due in more than one year
$	209,553	140,041	(86,841)	262,753	91,964	170,789

The changes to compensated absences for 2016, were as follows:

	Balance 2015	Additions	Deletions	Balance 2016	Current	Long Term
$	239,273	137,153	(166,873)	209,553	73,344	136,209

(5) Other Post-Employment Benefits Payable

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

Background

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

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

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

Plan Description – Eligibility

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

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

(5) Other Post-Employment Benefits Payable, continued

Plan Description – Eligibility, continued

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

	2017	2016	2015
Active plan members	9	8	9
Active employees' dependents	3	3	4
Retirees and dependents receiving benefits	1	1	1
Retirees and dependents not receiving benefits	-	-	-
Total plan membership	13	12	14

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. At June 30, 2017 and 2016, the ARC rate is 11.58% and 10.09%, respectively of the annual covered payroll.

Annual Cost

For the years ended June 30, 2017 and 2016, the Watermaster's ARC cost is $123,647 and $102,557. The Watermaster's net OPEB payable obligation amounted to $468,172 and $346,070 for the years ended June 30, 2017 and 2016. The Watermaster contributed $1,545 and $1,500 to adjust the annual required contribution for current retiree OPEB premiums for the years ended June 30, 2017 and 2016, respectively.

The balance at June 30, consists of the following:

	2017	2016	2015
Annual OPEB expense:			
Annual required contribution (ARC)	$ 122,131	101,484	97,383
Interest on net OPEB obligation	17,304	12,251	7,422
Adjustment to annual required contribution	(15,788)	(11,178)	(6,772)
Total annual OPEB expense	123,647	102,557	98,033
Change in net OPEB payable obligation:			
Age adjusted contributions made	(1,545)	(1,500)	(1,464)
Total change in net OPEB payable obligation	122,102	101,057	96,569
OPEB payable – beginning of year	346,070	245,013	148,444
OPEB payable – end of year	$ 468,172	346,070	245,013

(5) Other Post-Employment Benefits Payable, continued

Annual Cost, continued

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 2017 and the two preceding years were as follows:

Three-Year History of Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Cost	Age Adjusted Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Payable
2017	$ 123,647	1,545	1.25%	468,172
2016	102,557	1,500	1.46%	346,070
2015	98,033	1,464	1.49%	245,013

(6) Nonqualified Employee Compensation Plan

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

On June 30, 2017, 2016 and 2015, Watermaster made an employer contribution of $25,399, $18,996 and $4,750 to the Plan for the benefit of its eligible employee for the 12 consecutive month period from July 1, 2016 to June 30, 2017, from July 1, 2015 to June 30, 2016 and from July 1, 2014 to June 30, 2015, respectively. For each of Watermaster's regular payroll periods beginning on and after July 1, 2015 during the remainder of the Employment Term (from June 30, 2014 up to the expiration date of June 30, 2017), the Watermaster agrees to make an employer contribution to the Plan for the benefit of the eligible employee equal to 8% of the corresponding salary including any incentive compensation paid during that payroll period; provided that the eligible employee is still employed with Watermaster on the payday of that payroll period. The balance of Watermaster's Employee Compensation Plan as of June 30, 2017 and 2016 amounted to $49,145 and $23,746, respectively.

(7) Deferred Compensation Savings Plan

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

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the Watermaster is in compliance with this legislation. Therefore, these assets are not the legal property of the Watermaster, and are not subject to claims of the Watermaster's general creditors. Market value of all plan assets held in trust at June 30, 2017 and 2016 was $1,067,524 and $870,106, respectively.

(7) Deferred Compensation Savings Plan, continued

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.

(8) Defined Benefit Pension Plan

Plan Description

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

Benefits provided

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

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

The provision and benefits for the Plan's miscellaneous pool in effect at June 30, 2017, are summarized as follows:

	Miscellaneous Plan	
	Classic	**PEPRA**
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.5% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8.000%	6.25%
Required employer contribution rates	10.069%	6.555%

(8) Defined Benefit Pension Plan, continued

Contributions

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

For the fiscal years ended June 30, 2017 and 2016, the contributions recognized as part of pension expense for the Plan was as follows:

	Miscellaneous Plan	
	2017	**2016**
Contributions – employer	$ 83,557	133,410

Net Pension Liability

As of June 30, 2017 and 2016, the Watermaster reported net pension liabilities for its proportionate share of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability	
	2017	**2016**
Miscellaneous Plan	$ 1,043,862	811,437

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, 2016 and 2015 (the measurement dates), 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, 2015 and 2014 (the valuation dates), rolled forward to June 30, 2016 and 2015, 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 the measurement date June 30, 2015 and 2016 was as follows:

	Miscellaneous Plan
Proportion – June 30, 2014	0.00964%
Increase in proportion	0.00218%
Proportion – June 30, 2015	0.01182%
Increase in proportion	0.00024%
Proportion – June 30, 2016	0.01206%

(8) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources

For the fiscal years ended June 30, 2017 and 2016, the Watermaster recognized pension expense of $134,751 and $50,305, respectively.

As of June 30, 2017 and 2016, the Watermaster reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		2017		2016	
Description		**Deferred Outflows of Resources**	**Deferred Inflows of Resources**	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Pension contributions subsequent to the measurement date	$	114,507	-	83,557	-
Differences between actual and expected experience		3,319	-	8,551	-
Changes in assumptions		-	(40,728)	-	(80,897)
Net differences between projected and actual earnings on plan investments		211,977	-	-	(40,555)
Differences between actual contribution and proportionate share of contribution		-	(18,158)	11,832	-
Net adjustment due to differences in proportions of net pension liability		121,643	-	197,891	-
Total	$	451,446	(58,886)	301,831	(121,452)

As of June 30, 2017 and 2016, employer pension contributions reported as deferred outflows of resources related to contributions subsequent to the measurement date of $114,507 and $83,557, respectively and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018 and 2017.

At June 30, 2017, other amounts reported as deferred outflows and inflows of resources related to the pensions, which will be recognized as pension expense as follows:

Fiscal Year Ending June 30,		**Deferred Net Outflows/(Inflows) of Resources**
2018	$	75,917
2019		65,230
2020		79,456
2021		57,450

(8) Defined Benefit Pension Plan, continued

Actuarial assumptions

The total pension liabilities were determined by actuarial valuations as of June 30, 2015, which were rolled forward to June 30, 2016, using the following actuarial assumptions:

Valuation Date	June 30, 2015 and 2014
Measurement Date	June 30, 2016 and 2015
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.65%
Inflation rate	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 April 2014 experience study report (based on CalPERS demographic data from 1997 to 2011) available online at https://www.calpers.ca.gov/docs/forms-publications/calpers-experience-study-2014.pdf.

Discount Rate

The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, the amortization and smoothing periods recently adopted by CalPERS were utilized. The crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments.

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

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach.

(8) Defined Benefit Pension Plan, continued

Discount Rate, continued

Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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

The tables below reflect 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.

As of June 30, 2017, the target allocation and the long-term expected real rate of return by asset class were as follows:

Asset Class	New Strategic Allocation	Real Return Years 1–10	Real Return Year 11+
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	1.0%	-0.55%	-1.05%
Total	100.0%		

(8) Defined Benefit Pension Plan, continued

Discount Rate, continued

As of June 30, 2016, the target allocation and the long-term expected real rate of return by asset class were as follows:

Asset Class	New Strategic Allocation	Real Return Years 1–10	Real Return Year 11+
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0%	0.99%	2.43%
Inflation Sensitive	6.0%	0.45%	3.36%
Private Equity	10.0%	6.83%	6.95%
Real Estate	10.0%	4.50%	5.13%
Infrastructure and Forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100.0%		

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

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

As of June 30, 2017, the Watermaster's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, are as follows:

	Discount Rate - 1% 6.65%	Current Discount Rate 7.65%	Discount Rate + 1% 8.65%
Watermaster's Net Pension Liability	$ 1,634,988	1,043,862	565,500

As of June 30, 2016, the Watermaster's net pension liability at the current discount rate, using a discount rate that is one-percentage point lower, and using a discount rate that is one-percentage point higher, are as follows:

	Discount Rate - 1% 6.65%	Current Discount Rate 7.65%	Discount Rate + 1% 8.65%
Watermaster's Net Pension Liability	$ 1,377,903	811,437	362,332

(8) Defined Benefit Pension Plan, continued

Payable to the Pension Plan

At June 30, 2017 and 2016, the Watermaster reported no payables for the outstanding amount of contribution to the pension plan.

Pension Plan Fiduciary Net Position

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

(9) Net Position

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

		2017	2016
Net investment in capital assets:			
Capital assets, net	$	13,997	14,378
Total net investment in capital assets		13,997	14,378
Restricted with other governments:			
Restricted - cash and cash equivalents		15,000	-
Total restricted with other governments		15,000	-
Unrestricted net position:			
Non-spendable net position:			
Prepaid expenses and deposits		35,572	18,597
Total non-spendable net position		35,572	18,597
Spendable net position are designated as follows:			
Undesignated net position reserve		8,651,360	9,751,676
Total spendable net position		8,651,360	9,751,676
Total unrestricted net position		8,686,932	9,770,273
Total net position	$	8,715,929	9,784,651

(10) 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, 2017:

- Commercial General Liability: $2,000,000 General Aggregate Limit (Other than Products/Completed Operations); $2,000,000 Products/Completed Operations Aggregate Limit (Any One Person or Organization); $1,000,000 Personal and Advertising Injury Limit; $1,000,000 Each Occurrence Limit; $300,000 Rented To You Limit; $15,000 Medical Expenses Limit (Any One Person).

(10) Risk Management, continued

- 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); $1,000,000 Uninsured Motorists Single Limit. $1,000 deductible for Comprehensive and $1,000 deductible for Collision.
- Property: $525,000 with liability limits varying by property type with a $1,000 deductible.
- Crime coverage: $50,000 per claim with a $1,000 deductible.
- Director & Officers Liability: $1,000,000 Liability Coverage; Employment Practices Liability: $1,000,000 Liability Coverage. Director and Officer/Crisis Management: $25,000 to $100,000 with liability limits varying by type of coverage.
- Workers' compensation: Total annual premium is $6,246.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2017, that has effective dates that may impact future financial presentations.

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.

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. 81

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements.* The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

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

Governmental Accounting Standards Board Statement No. 83

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

The provisions of this Statement are effective for reporting periods beginning after June 15, 2018. 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. 84

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

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

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

The provisions of this Statement are effective for reporting periods beginning after December 15, 2018. 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. 85

In March 2017, the GASB issued Statement No. 85 – *Omnibus 2017.* The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. The impact of the implementation of this Statement to the Watermaster's financial statements has not been assessed at this time.

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

Governmental Accounting Standards Board Statement No. 86

In May 2017, the GASB issued Statement No. 86 – *Certain Debt Extinguishment Issues.* The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The provisions of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. 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. 87

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

The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The impact of the implementation of this Statement to the Watermaster's financial statements has not been assessed at this time.

(12) 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.

(13) Subsequent Events

Events occurring after June 30, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of November 16, 2017 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, 2017

Funded Status and Funding Progress of the Plan

Required Supplemental Information – Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2017	$ -	707,124	707,124	-	1,054,776	67.04%
6/30/2016	-	565,767	565,767	-	1,005,439	56.27%
6/30/2015	-	524,713	524,713	-	954,193	54.99%

The most recent valuation (dated June 30, 2017) includes an Actuarial Accrued Liability and Unfunded Actuarial Accrued Liability of $707,124. The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2017 was $1,054,776. The ratio of the unfunded actuarial accrued liability to annual covered payroll is 67.04%.

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, 2016
Actuarial cost method	Entry age normal actuarial 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)
Average salary increase	3.00%
Medical insurance premium rate increase	
Year 1	7.00%
Year 2	8.00%
Year 3	7.00%
Year 4	8.00%
Year 5	7.00%
Year 6	8.00%
Years 7 - 10	5.00%
Years 11-21	5.00%
Years 21+	5.00%

Chino Basin Watermaster
Schedule of the Watermaster's Proportionate Share of the Net Pension Liability
As of June 30, 2017
Last Ten Years*

	Measurement Dates		
	6/30/2016	**6/30/2015**	**6/30/2014**
Watermaster's Proportion of the Net Pension Liability	0.01206%	0.01182%	0.00964%
Watermaster's Proportionate Share of the Net Pension Liability	$ 1,043,862	$ 811,437	599,803
Watermaster's Covered-Employee Payroll	$ 979,741	$ 888,483	726,672
Watermaster's proportionate share of the net pension liability as a as a Percentage of its Covered-Employee Payroll	106.54%	91.33%	82.54%
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	75.36%	78.02%	83.03%
Plan's Proportionate Share of Aggregate Employer Contributions	$ 118,862	$ 99,615	79,352

Notes:

Changes in Benefit Terms – There were no changes in benefit terms for the measurement date June 30, 2017.

Changes of Assumptions – There were no changes of assumption for the measurement date June 30, 2017.

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

Chino Basin Watermaster
Schedule of Pension Plan Contributions
As of June 30, 2017
Last Ten Years*

	Measurement Dates		
Schedule of Pension Plan Contributions:	**6/30/2016**	**6/30/2015**	**6/30/2014**
Actuarially Determined Contribution	$ 132,932	$ 110,292	$ 97,178
Contributions in Relation to the Actuarially Determined Contribution	(83,557)	(133,410)	(112,177)
Contribution Deficiency (Excess)	$ 49,375	$ (23,118)	$ (14,999)
Covered Payroll	$ 979,741	$ 888,483	$ 726,672
Contribution's as a percentage of Covered-employee Payroll	8.53%	15.02%	15.44%

Note:

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

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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, 2017

	Watermaster Administration	Optimum Basin Management	Pool Administration and Special Projects: Appropriative Pool	Agricultural Pool	Non-Ag Pool	Groundwater Replenishment	LAIF Value Adj.	GASB 68 Beginning Net Position	Grand Totals	AMENDED BUDGET 2016-2017
Administrative Revenues:										
Administrative Assessments			9,946,419		251,175				10,197,595	10,355,413
Interest Revenue			72,578	3,604	765				76,947	19,890
Mutual Agency Project Revenue	159,631								159,631	158,923
Miscellaneous Income	7								7	-
Total Revenues	159,638	-	10,018,998	3,604	251,940	-	-	-	10,434,180	10,534,226
Administrative & Project Expenditures:										
Watermaster Administration	1,679,842								1,679,842	1,441,392
Watermaster Board-Advisory Committee	197,415								197,415	198,553
Ag Pool Misc. Expense - Ag Fund				546					546	400
Pool Administration			142,854	365,890	98,748				607,492	612,150
Optimum Basin Mgmt Administration		1,706,970							1,706,970	1,774,519
OBMP Project Costs		2,931,331							2,931,331	3,811,606
Debt Service		386,803							386,803	465,200
Basin Recharge Improvements		1,097,468							1,097,468	5,060,744
Total Administrative/OBMP Expenses	1,877,257	6,122,572	142,854	365,890	98,748	-	-	-	8,607,868	13,364,563
Net Administrative/OBMP Expenses	(1,717,619)	(6,122,572)								
Allocate Net Admin Expenses To Pools	1,717,619		1,292,513	376,184	48,921				-	
Allocate Net OBMP Expenses To Pools		4,638,301	3,490,335	1,015,858	132,108				-	
Allocate Debt Service to App Pool		386,803	386,803						-	
Allocate Basin Recharge to App Pool		1,097,468	1,097,468						-	
Agricultural Expense Transfer*			1,757,933	(1,757,933)					-	
Total Expenses			8,167,907	546	279,777	-	-	-	8,607,868	13,364,563
Net Administrative Income			1,851,091	3,058	(27,836)	-	-	-	1,826,312	(2,830,337)
Other Income/(Expense)										
Replenishment Water Assessments						858,227			858,227	-
Desalter Replenishment Obligation						116,635			116,635	-
Non-Ag Stored Water Purchases									-	-
Exhibit "G" Non-Ag Pool Water			570,000						570,000	-
Interest Revenue						8,914			8,914	-
MWD Water Purchases									-	-
Non-Ag Stored Water Purchases									-	-
Exhibit "G" Non-Ag Pool Water			(570,000)						(570,000)	-
MWD Water Purchases									-	-
Groundwater Replenishment						(3,550,973)			(3,550,973)	-
LAIF - Fair Market Value Adjustment							(15,213)		(15,213)	-
Other Post-Employment Benefits (OPEB)			(118,624)		(3,478)				(122,102)	-
Refund-Excess Reserves			(31,189)		(3,509)				(34,698)	-
Refund-Recharge Debt			(155,824)						(155,824)	-
Funding To/(From) Reserves									-	(200,000)
Net Other Income/(Expense)			(305,637)	-	(6,987)	(2,567,197)	(15,213)	-	(2,895,034)	(200,000)
Net Transfers To/(From) Reserves		(1,068,722)	1,545,453	3,058	(34,823)	(2,567,197)	(15,213)	-	(1,068,722)	(2,630,337)
Net Assets, July 1, 2016			7,493,337	483,176	79,969	2,465,056	3,308	(740,195)	9,784,651	
Net Assets, End of Period			9,038,790	486,234	45,146	(102,141)	(11,905)	(740,195)	8,715,929	8,715,929
15/16 Assessable Production			89,906.000	26,167.031	3,402.908				119,475.939	
15/16 Production Percentages			75.250%	21.902%	2.848%				100.000%	

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

Chino Basin Watermaster
Combining Schedule of Revenue, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2016

	Watermaster Administration	Optimum Basin Management	Pool Administration and Special Projects: Appropriative Pool	Pool Administration and Special Projects: Agricultural Pool	Pool Administration and Special Projects: Non-Ag Pool	Groundwater Operations: Groundwater Replenishment	Groundwater Operations: SB 222 Funds	LAIF Value Adj.	GASB 68 Beginning Net Position	Grand Totals	AMENDED BUDGET 2015-2016
Administrative Revenues:											
Administrative Assessments			8,874,750		309,364					9,184,115	9,184,215
Interest Revenue			23,426	2,046	164					25,636	22,050
Mutual Agency Project Revenue	157,349									157,349	157,941
Miscellaneous Income										-	0
Total Revenues	157,349	-	8,898,176	2,046	309,528	-	-	-	-	9,367,100	9,364,206
Administrative & Project Expenditures:											
Watermaster Administration	1,482,333									1,482,333	1,347,768
Watermaster Board-Advisory Committee	144,320									144,320	166,918
Ag Pool Misc. Expense - Ag Fund										-	400
Pool Administration	-	-	109,504	341,451	95,741	-	-	-	-	546,696	567,433
Optimum Basin Mgmt Administration	-	1,741,442	-	-	-	-	-	-	-	1,741,442	1,831,093
OBMP Project Costs	-	2,218,629	-	-	-	-	-	-	-	2,218,629	3,380,855
Debt Service	-	304,376	-	-	-	-	-	-	-	304,376	460,200
Basin Recharge Improvements	-	1,391,315	-	-	-	-	-	-	-	1,391,315	3,472,477
Mutual Agency Project Costs										-	10,000
Total Administrative/OBMP Expenses	1,626,654	5,655,762	109,504	341,451	95,741	-	-	-	-	7,829,112	11,237,144
Net Administrative/OBMP Expenses	(1,469,304)	(5,655,762)									
Allocate Net Admin Expenses To Pools	1,469,304		1,056,580	358,282	54,442					-	
Allocate Net OBMP Expenses To Pools		3,960,071	2,847,697	965,643	146,731					-	
Allocate Debt Service to App Pool		304,376	304,376							-	
Allocate Basin Recharge to App Pool		1,391,315	1,391,315							-	
Agricultural Expense Transfer*			1,665,377	(1,665,377)						-	
Total Expenses			7,374,848	-	296,914	-	-	-	-	7,829,112	11,237,144
Net Administrative Income			1,523,328	2,046	12,614	-	-	-	-	1,537,988	(1,872,938)
Other Income/(Expense)											
Replenishment Water Assessments			-	-	-	1,070,692		-	-	1,070,692	-
Non-Ag Stored Water Purchases			-	-	-	-		-	-	-	-
Exhibit "G" Non-Ag Pool Water			2,540,000	-	-	-		-	-	2,540,000	-
Interest Revenue			-	-	-	6,285		-	-	6,285	-
MWD Water Purchases			-	-	-	-		-	-	-	-
Non-Ag Stored Water Purchases			-	-	-	-		-	-	-	-
Exhibit "G" Non-Ag Pool Water			(2,540,000)	-	-	-		-	-	(2,540,000)	-
MWD Water Purchases			-	-	-	-		-	-	-	-
Groundwater Replenishment			-	-	-	-		-	-	-	-
LAIF - Fair Market Value Adjustment			-	-	-	-		(138)	-	(138)	-
Other Post-Employment Benefits (OPEB)			(97,313)	-	(3,744)	-		-	-	(101,057)	-
Refund-Excess Reserves			(87,128)	-	(3,182)	-		-	-	(90,310)	-
Refund-Recharge Debt			(345,914)	-		-		-	-	(345,914)	-
Net Other Income/(Expense)			(530,355)	-	(6,926)	1,076,977	-	(138)	-	539,558	-
Net Transfers To/(From) Reserves		2,077,545	992,973	2,046	5,688	1,076,977	-	(138)	-	2,077,545	(1,872,938)
Net Assets, July 1, 2015			6,346,620	481,130	69,774	1,388,080	158,251	3,446	(740,195)	7,707,106	
Net Assets, End of Period			7,339,593	483,176	75,462	2,465,056	158,251	3,308	(740,195)	9,784,651	9,784,651
14/15 Assessable Production			84,107.515	28,520.530	4,333.753					116,961.798	
14/15 Production Percentages			71.910%	24.384%	3.705%					100.000%	

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

Report on Internal Controls and Compliance

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

Board of Directors
Chino Basin Watermaster
Rancho Cucamonga, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Chino Basin Watermaster (Watermaster) as of and for the years ended June 30, 2017 and 2016, 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 16, 2017.

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 16, 2017