



Chino Basin Watermaster

Annual Financial Report

For the Fiscal Years Ended June 30, 2020 and 2019

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”

<u>Pools</u>	<u>Name</u>	<u>Title</u>	<u>Current Term</u>
Agricultural	Jeff Pierson	Chair	Ongoing ¹
Agricultural	Paul Hofer	Member	Ongoing ¹
Non-Agricultural	Robert Bowcock	Member	Ongoing ¹
Appropriative	James Curatalo	Vice-Chair	January 2022 ^{1,2}
Appropriative	Victor Preciado	Member	January 2021 ^{1,2}
Appropriative	Peter Rogers	Member	January 2022 ^{1,2}
Municipal	Bob G. Kuhn	Secretary/Treasurer	Ongoing ¹
Municipal	Steve Elie	Member	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 five-year term, effective January 2019 through December, 2023 (Board approval on November 15, 2018).

² The Appropriative Pool’s rotation sequence for Board membership effective January 2019 was approved by the Appropriative Pool on November 17, 2015.

**Chino Basin Watermaster
Peter Kavounas PE, General Manager
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Introductory Section



October 22, 2020

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, 2020 and 2019, following guidelines set forth by the Governmental Accounting Standards Board. 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. RCVRS 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. 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 February 19, 1998.

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 ten regular, full-time 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. RCVRS 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 (OBMP) 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. In 2019, Watermaster started the effort to update the OBMP which was originally adopted in 2000. The updated OBMP will provide a foundation for the next 20 years to enhance Basin water supplies, to protect and enhance water quality, and enhance Basin management. After an intensive stakeholder engagement process, Watermaster is expected to adopt the 2020 OBMP in Fall 2020.

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.

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

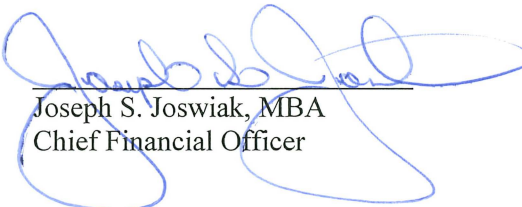
More information is contained in the Management's Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

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,


Peter Kavounas, P.E.
General Manager


Joseph S. Joswiak, MBA
Chief Financial Officer

Financial Section



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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, 2020 and 2019, 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

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, 2020 and 2019, 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 11 and the required supplementary information on pages 44 through 47 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Watermaster's basic financial statements. The introductory section on pages 1 through 3 and combining schedule of revenue, expenses and changes in net position on pages 48 and 49, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining schedule of revenue, expenses and changes in net position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules of revenue, expenses and changes in net position are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Independent Auditor's Report, continued

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated October 22, 2020, 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 50 and 51.

Fedak & Brown LLP

Fedak & Brown LLP

Cypress, California

October 22, 2020

Chino Basin Watermaster
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2020 and 2019

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, 2020 and 2019. We encourage readers to consider the information presented here with additional information that we have furnished in conjunction with the transmittal letter in the Introductory Section and with the accompanying basic financial statements and related notes, which follow this section.

Financial Highlights

- In 2020, the Watermaster's net position decreased by 3.21% or \$262,123 to \$7,893,099 as a result of ongoing operations. In 2019, the Watermaster's net position decreased by 16.51% or \$1,612,215 to \$8,155,222 as a result of ongoing operations.
- In 2020, the Watermaster's operating revenues increased by 8.33% or \$815,337 to \$10,601,181. The Watermaster's operating revenues decreased by 0.36% or \$35,823 to \$9,785,844, in 2019.
- In 2020, the Watermaster's non-operating revenues decreased by 20.87% or \$57,469 to \$217,925. The Watermaster's non-operating revenues increased by 77.97% or \$120,650 to \$275,394, in 2019.
- In 2020, the Watermaster's operating expenses decreased 7.54% or \$874,409 to \$10,725,488. The Watermaster's operating expenses increased by 27.01% or \$2,466,699 to \$11,599,897, in 2019.
- In 2020, the Watermaster's non-operating expenses increased 481.43% or \$277,942 to \$335,674. The Watermaster's non-operating expenses decreased by 26.36% or \$20,655 to \$57,732, in 2019.

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.

Chino Basin Watermaster
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Financial Analysis of the Watermaster, continued

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

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 16 through 43.

Statements of Net Position

Condensed Statements of Net Position					
	2020	2019	Change	2018	Change
Assets:					
Current assets	\$ 10,250,006	10,340,912	(90,906)	11,736,601	(1,395,689)
Capital assets, net	88,478	68,106	20,372	43,558	24,548
Total assets	10,338,484	10,409,018	(70,534)	11,780,159	(1,371,141)
Deferred outflows of resources	384,196	337,794	46,402	478,980	(141,186)
Liabilities:					
Current liabilities	831,198	866,133	(34,935)	755,892	110,241
Non-current liabilities	1,973,821	1,715,597	258,225	1,693,678	21,919
Total liabilities	2,805,019	2,581,729	223,290	2,449,570	132,159
Deferred inflows of resources	24,562	9,861	14,701	42,132	(32,271)
Net position:					
Net investment in capital assets	88,478	68,106	20,372	43,558	24,548
Restricted	845	845	-	845	-
Unrestricted	7,803,776	8,086,271	(282,495)	9,723,034	(1,636,763)
Total net position	\$ 7,893,099	8,155,222	(262,123)	9,767,437	(1,612,215)

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 \$7,893,099 and \$8,155,222 as of June 30, 2020 and 2019, respectively.

Compared to prior year, net position of the Watermaster decreased 3.21% or \$262,123. The Watermaster's total net position is made up of three components: (1) Net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

Chino Basin Watermaster
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Statements of Net Position, continued

A portion of the Watermaster's net position, 1.12% or 0.84% as of June 30, 2020 and 2019, respectively, reflects the Watermaster's investment in capital assets (net of accumulated depreciation) less any related debt (where applicable) used to acquire those assets that is still outstanding. The Watermaster uses these capital assets to provide services to customers within the Watermaster's service area; consequently, these assets are not available for future spending.

At the end of fiscal years 2020 and 2019, the Watermaster reflected a positive balance in its unrestricted net position of \$7,803,776 and \$8,086,271, respectively, that may be utilized in future years. See note 11 for further discussion.

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2020</u>	<u>2019</u>	<u>Change</u>	<u>2018</u>	<u>Change</u>
Revenues:					
Operating revenues	\$ 10,601,181	9,785,844	815,337	9,821,667	(35,823)
Non-operating revenues	217,925	275,394	(57,469)	154,744	120,650
Total revenues	<u>10,819,106</u>	<u>10,061,238</u>	<u>757,868</u>	<u>9,976,411</u>	<u>84,827</u>
Expenses:					
Operating expenses	10,725,488	11,599,897	(874,409)	9,133,198	2,466,699
Depreciation	20,067	15,824	4,243	10,057	5,767
Non-operating expenses	335,674	57,732	277,942	78,397	(20,665)
Total expenses	<u>11,081,229</u>	<u>11,673,453</u>	<u>(592,224)</u>	<u>9,221,652</u>	<u>2,451,801</u>
Change in net position	<u>(262,123)</u>	<u>(1,612,215)</u>	<u>1,350,092</u>	<u>754,759</u>	<u>(2,366,974)</u>
Net position, beginning of period, as previously stated	8,155,222	9,767,437	(1,612,215)	8,715,929	1,051,508
Prior period adjustment (note 10)	-	-	-	296,749	(296,749)
Net position, beginning of period, as restated	<u>8,155,222</u>	<u>9,767,437</u>	<u>(1,612,215)</u>	<u>9,012,678</u>	<u>754,759</u>
Net position, end of period	<u>\$ 7,893,099</u>	<u>8,155,222</u>	<u>(262,123)</u>	<u>9,767,437</u>	<u>(1,612,215)</u>

The statements of revenues, expenses and changes of net position show how the Watermaster's net position changed during the fiscal years. In the case of the Watermaster, net position decreased 3.21% or \$262,123 to \$7,893,099 as a result of ongoing operations for the year ended June 30, 2020; and net position decreased 16.51% or \$1,612,215 to \$8,155,222 as a result of ongoing operations for the year ended June 30, 2019.

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

In 2020, the Watermaster's total revenues increased 7.53% or \$757,868 to \$10,819,106. The Watermaster's operating revenues increased 8.33% or \$815,337 to \$10,601,181, due primarily to an increase of \$869,133 in replenishment water revenue, which was offset by a decrease of \$60,399 in administrative assessments. The Watermaster's non-operating revenues decreased 20.87% or \$57,469 to \$217,925, due to a decrease in investment earnings.

Chino Basin Watermaster
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2020 and 2019

Statements of Revenues, Expenses and Changes in Net Position, continued

In 2019, the Watermaster's total revenues increased 0.85% or \$84,827 to \$10,061,238. The Watermaster's operating revenues decreased 0.36% or \$35,823 to \$9,785,844, due primarily to a decrease of \$77,055 in administrative assessments, which was offset by an increase of \$68,721 in replenishment water revenue. The Watermaster's non-operating revenues increased 77.97% or \$120,650 to \$275,394, due to an increase in investment earnings.

In 2020, the Watermaster's total expenses decreased 5.07% or \$592,224 to \$11,081,229. The Watermaster's operating expenses decreased 7.54% or \$874,409 to \$10,725,488, due primarily to a decrease of \$3,106,511 in optimum basin management plan, which was offset by increases of \$1,500,832 in groundwater replenishment and other water purchases, \$412,021 in watermaster administration, and \$319,249 in pool, advisory, and board administration. The Watermaster's non-operating expenses increased 484.43% or \$277,942 to \$335,674, due to an increase in reverse distribution.

In 2019, the Watermaster's total expenses increased 26.59% or \$2,451,801 to \$11,673,453. The Watermaster's operating expenses increased 27.01% or \$2,466,699 to \$11,599,897, due primarily to increases of \$2,133,351 in optimum basin management plan and \$373,454 in Watermaster administration. The Watermaster's non-operating expenses decreased 26.36% or \$20,665 to \$57,732, due to a decrease in reverse distribution.

Capital Asset Administration

At the end of fiscal year 2020 and 2019, the Watermaster's investment in capital assets amounted to \$88,478 and \$68,106 (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 2020 were as follows:

	Balance 2019	Additions	Disposals/ Transfers	Balance 2020
Capital assets:				
Depreciable assets	\$ 315,073	40,440	(20,352)	335,161
Accumulated depreciation	(246,967)	(20,068)	20,352	(246,683)
Total capital assets	<u>\$ 68,106</u>	<u>20,372</u>	<u>-</u>	<u>88,478</u>

Changes in capital assets in 2019 were as follows:

	Balance 2018	Additions	Disposals/ Transfers	Balance 2019
Capital assets:				
Depreciable assets	\$ 274,700	40,373	-	315,073
Accumulated depreciation	(231,142)	(15,825)	-	(246,967)
Total capital assets	<u>\$ 43,558</u>	<u>24,548</u>	<u>-</u>	<u>68,106</u>

Chino Basin Watermaster
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2020 and 2019

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 S. Joswiak, at 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, 2020 and 2019**

	2020	2019
Current assets:		
Cash and cash equivalents (note 2)	\$ 9,602,443	9,855,150
Cash and cash equivalents - restricted (note 2)	845	845
Accounts receivable	204,138	66,992
Accrued interest receivable	36,163	67,991
Prepaid expenses and other current assets	406,417	349,934
Total current assets	10,250,006	10,340,912
Non-current assets:		
Capital assets, net (note 3)	88,478	68,106
Total non-current assets	88,478	68,106
Total assets	10,338,484	10,409,018
Deferred outflows of resources:		
Deferred outflows of resources (notes 4 and 9)	384,196	337,794
Total deferred outflows of resources	384,196	337,794
Current liabilities:		
Accounts payable and accrued expenses	642,163	705,637
Accrued salaries and benefits	55,639	44,957
Long-term liabilities – due within one year:		
Compensated absences (note 5)	133,396	115,539
Total current liabilities	831,198	866,133
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Compensated absences (note 5)	247,735	214,572
Total OPEB liability (note 6)	254,785	214,783
Net pension liability (note 9)	1,308,658	1,188,162
Employee compensation plan (note 8)	162,643	98,080
Total non-current liabilities	1,973,821	1,715,597
Total liabilities	2,805,019	2,581,729
Deferred inflows of resources:		
Deferred inflows of resources (notes 4 and 9)	24,562	9,861
Total deferred inflows of resources	24,562	9,861
Net Position: (note 11)		
Net investment in capital assets	88,478	68,106
Restricted	845	845
Unrestricted	7,803,776	8,086,271
Total net position	\$ 7,893,099	8,155,222

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, 2020 and 2019

	2020	2019
Operating revenues:		
Administrative assessments	\$ 8,630,373	8,690,772
Replenishment water revenue	1,796,372	927,239
Other revenue	174,436	167,833
Total operating revenue	10,601,181	9,785,844
Operating expenses:		
Groundwater replenishment and other water purchases	2,119,942	619,110
Optimum basin management plan	4,672,712	7,779,223
Watermaster administration	2,839,448	2,427,427
Pool, advisory, and board administration	1,093,386	774,137
Total operating expense	10,725,488	11,599,897
Operating loss before depreciation	(124,307)	(1,814,053)
Depreciation expense	(20,067)	(15,824)
Operating loss	(144,374)	(1,829,877)
Non-operating revenue (expense):		
Reserve distribution	(335,674)	(57,732)
Investment earnings	217,925	275,394
Total non-operating revenue, net	(117,749)	217,662
Change in net position	(262,123)	(1,612,215)
Net position, beginning of period	8,155,222	9,767,437
Net position, end of period	\$ 7,893,099	8,155,222

See accompanying notes to the basic financial statements

Chino Basin Watermaster
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from stakeholders	\$ 10,464,035	9,781,139
Cash paid to employees for salaries and wages	(1,286,506)	(1,244,207)
Cash paid to vendors and suppliers for materials and services	<u>(9,303,876)</u>	<u>(10,420,828)</u>
Net cash used in operating activities	<u>(126,347)</u>	<u>(1,883,896)</u>
Cash flows from non-capital financing activities:		
Payments for non-operating expenses	<u>(335,674)</u>	<u>(57,732)</u>
Net cash used in non-capital financing activities	<u>(335,674)</u>	<u>(57,732)</u>
Cash flows from capital financing activities:		
Acquisition of capital assets	<u>(40,439)</u>	<u>(40,372)</u>
Net cash used in capital financing activities	<u>(40,439)</u>	<u>(40,372)</u>
Cash flows from investing activities:		
Investment earnings received	<u>249,753</u>	<u>264,832</u>
Net cash provided by investing activities	<u>249,753</u>	<u>264,832</u>
Net decrease in cash and cash equivalents	(252,707)	(1,717,168)
Cash and cash equivalents at the beginning of year	<u>9,855,995</u>	<u>11,573,163</u>
Cash and cash equivalents at the end of year	<u>\$ 9,603,288</u>	<u>9,855,995</u>
 Reconciliation of cash and cash equivalents to statements of net position:		
Cash and cash equivalents	\$ 9,602,443	9,855,150
Cash and cash equivalents - restricted	<u>845</u>	<u>845</u>
Total cash and cash equivalents	<u>\$ 9,603,288</u>	<u>9,855,995</u>

Continued on next page

See accompanying notes to the basic financial statements

Chino Basin Watermaster
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2020 and 2019

	2020	2019
Reconciliation of operating income to net cash used in operating activities:		
Operating loss	\$ (144,374)	(1,829,877)
Adjustments to reconcile operating income to net cash used in operating activities:		
Depreciation	20,067	15,824
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
(Increase) decrease in assets and deferred outflows of resources:		
Accounts receivable	(137,146)	(4,705)
Prepaid expenses and other current assets	(56,483)	(306,212)
Deferred outflows of resources	(46,402)	141,186
Increase (decrease) in liabilities and deferred inflows of resources:		
Accounts payable and accrued expense	(63,474)	94,180
Accrued salaries and benefits	10,682	4,283
Compensated absences	51,021	33,649
Other post employment benefits obligation	-	-
Net OPEB liability	40,002	5,984
Net pension liability	120,496	(22,308)
Employee compensation plan	64,563	16,371
Deferred inflows of resources	14,701	(32,271)
Total adjustments	18,027	(54,019)
Net cash used in operating activities	\$ (126,347)	(1,883,896)

See accompanying notes to the basic financial statements

**Chino Basin Watermaster
Notes to the Financial Statements
For the Fiscal Years Ended June 30, 2020 and 2019**

(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 2019-2020 expenses are based on the 2018-2019 production volume.

Production volume	Fiscal Year 2020		Fiscal Year 2019	
	Acre Feet	Percentage	Acre Feet	Percentage
Appropriative Pool	69,919	73.33%	75,114	74.55%
Agricultural Pool	21,841	22.91%	21,786	21.62%
Non-agricultural Pool	3,588	3.76%	3,861	3.83%
Total production volume	95,348	100.00%	100,761	100.00%

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 un-pumped 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 the parties, and the Court has approved the agreement and ordered the Watermaster to proceed in accordance with the terms of the agreement. The Court has approved revisions to the Chino Basin Watermaster Rules and Regulations.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(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:

In May 2020, the GASB issued Statement No. 95 – *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

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

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

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

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

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, 2020 and 2019.

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.

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.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

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

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

7. Capital Assets, continued

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

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

8. Deferred Outflows of Resources

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

9. Deferred Inflows of Resources

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

10. 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.

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, 2018 and 2017
- Measurement Date: June 30, 2019 and 2018
- Measurement Period: July 1, 2018 to June 30, 2019 and July 1, 2017 to June 30, 2018

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

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

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

12. Postemployment Benefits Other than Pensions (OPEB)

For purposes of measuring the net OPEB Liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Watermaster’s Retiree Health Plan and additions to/deductions from the Watermaster’s fiduciary net position have been determined on the same basis as they are reported by the Watermaster. For this purpose, the Watermaster recognizes benefit payments when due and payable in accordance with benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

13. 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.

14. 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.

15. Net Position

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

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances of any debt, or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** – Consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments, or constraints imposed by law through enabling legislation.
- **Unrestricted** – Consists of the net amount of 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 components of net position.

(2) Cash and Investments

Cash and cash equivalents as of June 30 are classified in the accompanying financial statements as follows:

	2020	2019
Cash and cash equivalents	\$ 9,602,443	9,855,150
Cash and cash equivalents - restricted	845	845
Total cash and cash equivalents	\$ 9,603,288	9,855,995

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(2) Cash and Investments, continued

Cash and cash equivalents as of June 30 consist of the following:

	2020	2019
Cash on hand	\$ 500	500
Deposits held in trust with County of San Bernardino	845	845
Deposits with financial institutions	771,623	383,936
Investments	8,830,320	9,470,714
Total cash and cash equivalents	\$ 9,603,288	9,855,995

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

	2020	2019
Deposits held with the California Local Agency Investment Fund (LAIF)	191 days	173 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
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State Obligations - CA and Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S. Agency Obligations	5 years	None	None
Negotiable Certificates of Deposit	5 years	30%	None
Collateralize Bank Deposits	5 years	None	None
Corporate debt - Short and Long Term	5 years	None	None
Commercial Paper - Pooled Funds	270 days	40% of the	10%
Commercial Paper - Non-Pooled Funds	270 days	Watermaster's	
Repurchase agreements	1 year	money	None
Local Agency Investment Fund (LAIF)	N/A	None	None

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(2) Cash and Investments, continued

Custodial Credit Risk, continued

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. 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).

The California Government Code and the Watermaster's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by public agencies. California law also allows financial institutions to secure Watermaster deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2020 and 2019, bank balances are federally insured up to \$250,000. The remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the Watermaster's name.

Investment in State Investment Pool

The Commission is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code Section 16429 and is under the management of the Treasurer of the State of California with oversight provided by the Local Agency Investment Advisory Board. The fair value of the Commission's investment in this pool is reported in the accompanying financial statements at amounts based upon the Commission'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. Bank balances are secured by the pledging of a pool of eligible securities to collateralize the Commission's deposits with the bank in accordance with the Code.

The pool portfolio is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB 79 for external investment pools that elect to measure, for financial reporting purposes, investments at amortized cost. LAIF does not have any legally binding guarantees of share values. LAIF does not impose liquidity fees or redemption gates on participant withdrawals.

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.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(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, 2020 and 2019.

(3) Capital Assets

Changes in capital assets for 2020 were as follows:

	<u>Balance 2019</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance 2020</u>
Depreciable assets:				
Computer equipment	\$ 107,551	-	-	107,551
Furniture and fixtures	89,499	-	-	89,499
Leasehold improvements	23,443	-	-	23,443
Vehicles and equipment	94,580	40,440	(20,352)	114,668
Total depreciable assets	<u>315,073</u>	<u>40,440</u>	<u>(20,352)</u>	<u>335,161</u>
Accumulated depreciation:				
Computer equipment	(107,552)	-	-	(107,552)
Furniture and fixtures	(49,690)	(8,631)	-	(58,321)
Leasehold improvements	(23,443)	-	-	(23,443)
Vehicles and equipment	(66,282)	(11,437)	20,352	(57,367)
Total accumulated depreciation	<u>(246,967)</u>	<u>(20,068)</u>	<u>20,352</u>	<u>(246,683)</u>
Total capital assets, net	<u>\$ 68,106</u>			<u>88,478</u>

Changes in capital assets for 2019 were as follows:

	<u>Balance 2018</u>	<u>Additions</u>	<u>Disposals/ Transfers</u>	<u>Balance 2019</u>
Depreciable assets:				
Computer equipment	\$ 107,551	-	-	107,551
Furniture and fixtures	49,126	40,373	-	89,499
Leasehold improvements	23,443	-	-	23,443
Vehicles and equipment	94,580	-	-	94,580
Total depreciable assets	<u>274,700</u>	<u>40,373</u>	<u>-</u>	<u>315,073</u>
Accumulated depreciation:				
Computer equipment	(106,018)	(1,534)	-	(107,552)
Furniture and fixtures	(41,059)	(8,631)	-	(49,690)
Leasehold improvements	(23,443)	-	-	(23,443)
Vehicles and equipment	(60,622)	(5,660)	-	(66,282)
Total accumulated depreciation	<u>(231,142)</u>	<u>(15,825)</u>	<u>-</u>	<u>(246,967)</u>
Total capital assets, net	<u>\$ 43,558</u>			<u>68,106</u>

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(4) Deferred Outflows and Inflows of Resources

Changes in deferred outflows and inflows of resources for 2020 were as follows:

	<u>Balance 2019</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance 2020</u>
Deferred outflows of resources				
Deferred pension outflows	\$ 337,794	314,438	(283,635)	368,597
Deferred OPEB outflows	-	15,599	-	15,599
Total deferred outflows of resources	<u>\$ 337,794</u>	<u>330,037</u>	<u>(283,635)</u>	<u>384,196</u>
	<u>Balance 2019</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance 2020</u>
Deferred inflows of resources				
Deferred pension inflows	\$ 4,973	45,986	(28,079)	22,880
Deferred OPEB inflows	4,888	1,682	(4,888)	1,682
Total deferred inflows of resources	<u>\$ 9,861</u>	<u>47,668</u>	<u>(32,967)</u>	<u>24,562</u>

Changes in deferred outflows and inflows of resources for 2019 were as follows:

	<u>Balance 2018</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance 2019</u>
Deferred outflows of resources				
Deferred pension outflows	\$ 466,761	155,871	(284,838)	337,794
Deferred OPEB outflows	12,219	-	(12,219)	-
Total deferred outflows of resources	<u>\$ 478,980</u>	<u>155,871</u>	<u>(297,057)</u>	<u>337,794</u>
	<u>Balance 2018</u>	<u>Additions</u>	<u>Amortization</u>	<u>Balance 2019</u>
Deferred inflows of resources				
Deferred pension inflows	\$ 42,132	-	(37,159)	4,973
Deferred OPEB inflows	-	5,363	(475)	4,888
Total deferred inflows of resources	<u>\$ 42,132</u>	<u>5,363</u>	<u>(37,634)</u>	<u>9,861</u>

(5) Compensated Absences

The changes to compensated absences for 2020 were as follows:

	<u>Balance 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2020</u>	<u>Due Within One Year</u>	<u>Due in more than one year</u>
\$	<u>330,110</u>	<u>190,683</u>	<u>(139,662)</u>	<u>381,131</u>	<u>133,396</u>	<u>247,735</u>

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(5) Compensated Absences, continued

The changes to compensated absences for 2019 were as follows:

<u>Balance</u> <u>2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2019</u>	<u>Due Within</u> <u>One Year</u>	<u>Due in more</u> <u>than one year</u>
\$ 296,461	162,312	(128,663)	330,110	115,539	214,572

(6) Other Post-Employment Benefits Payable

Plan Description

The Watermaster's defined benefit Other Post-Employment Benefit (OPEB) Plan (Plan) provides OPEB for all permanent and vested full-time employees. The Plan is a single-employer defined benefit OPEB plan administered by the Watermaster. The Watermaster's Board has the authority to establish and amend the benefit terms and financing requirements of the Plan. Watermaster participates in a CalPERS Health Program, a community-rated program for its medical coverage. Watermaster does not have an OPEB trust established and no assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided

The Plan provides a contribution equal to 50% of the retiree only costs for eligible retirees and surviving spouses in receipt of a pension benefit from CalPERS. An employee is eligible for this employer contribution provided they are vested in their CalPERS pension benefit and commence payment of their pension benefit within 120 days of retirement from the Watermaster.

Vesting requires at least 5 years of CalPERS total service. The surviving spouse of an eligible retiree who elected spouse coverage under CalPERS is eligible for the employer contribution upon death of the retiree. Board members during or prior to 1994 are also eligible for a Watermaster contribution at retirement.

Employee Covered by Benefit Terms

As of June 30, 2020 and 2019, the following employees were covered by the benefit terms:

	<u>2020</u>	<u>2019</u>
Active employees	9	9
Inactive employees or beneficiaries currently receiving benefit payments	<u>5</u>	<u>5</u>
Total plan membership	<u><u>14</u></u>	<u><u>14</u></u>

Total OPEB Liability

The Watermaster's total OPEB liability of \$254,785 was measured as of December 31, 2019, and was determined by an actuarial valuation as of that date.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(6) Other Post-Employment Benefits Payable, continued

Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2020 actuarial valuation, which was measured at December 31, 2019, was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	December 31, 2019 and December 31, 2017
Measurement Date	December 31, 2019 and December 31, 2018
Actuarial cost method	Entry Age Normal cost method in accordance with the requirements of GASB Statement No. 75
Inflation	2.75% per annum
Salary increases	3.0% per annum, in aggregate
Discount rate	2.66% and 3.80%; the discount rate is based on the resulting rate using the average of 3-20 year municipal bond rate indices: S&P Municipal Bond 20-Year High Grade Rate Index, Bond Buyer Go 20 - Municipal Bond Index, Fidelity 20-year Go Municipal Bond Index
Healthcare cost trend rates	6.5% for HMO and PPO as of June 30, 2020, decreasing 0.25% per year to an ultimate rate of 4.5% for both HMO and PPO as of June 30, 2028 and later years.

Changes in the total OPEB Liability

Changes in the total OPEB Liability as of June 30, 2020 (measured at December 31, 2019) were as follows:

	<u>Increase (Decrease)</u>		
	<u>Total OPEB Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net OPEB Liability/(Asset) (c) = (a) - (b)</u>
Balance at July 1, 2019	\$ 214,783	-	214,783
Changes during the year:			
Service cost	17,062	-	17,062
Interest	8,739	-	8,739
Changes in assumptions	17,923	-	17,923
Contributions - employer	-	3,722	(3,722)
Benefit payments	(3,722)	(3,722)	-
Net changes	40,002	-	40,002
Balance at June 30, 2020	\$ <u>254,785</u>	<u>-</u>	<u>254,785</u>

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(6) Other Post-Employment Benefits Payable, continued

Changes in the total OPEB Liability, continued

Changes in the total OPEB Liability as of June 30, 2019 (measured at December 31, 2018) were as follows:

	<u>Increase (Decrease)</u>		
	<u>Total OPEB Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net OPEB Liability/(Asset (c) = (a) - (b)</u>
Balance at July 1, 2018	\$ 208,799	-	208,799
Changes during the year:			
Service cost	18,418	-	18,418
Interest	7,571	-	7,571
Changes in assumptions	(17,582)	-	(17,582)
Contributions - employer	-	2,423	(2,423)
Benefit payments	(2,423)	(2,423)	-
Net changes	5,984	-	5,984
Balance at June 30, 2019	\$ 214,783	-	214,783

Sensitivity of the total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Watermaster as of June 30, 2020, as well as what the Watermaster's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.66%) or 1-percentage-point higher (3.66%) than the current discount rate:

	<u>Discount Rate - 1% 1.66%</u>	<u>Current Discount Rate 2.66%</u>	<u>Discount Rate + 1% 3.66%</u>
	Total OPEB Liability	\$ 306,298	254,785

The following presents the total OPEB liability of the Watermaster as of June 30, 2019, as well as what the Watermaster's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.80%) or 1-percentage-point higher (4.80%) than the current discount rate:

	<u>Discount Rate - 1% 2.80%</u>	<u>Current Discount Rate 3.80%</u>	<u>Discount Rate + 1% 4.80%</u>
	Total OPEB Liability	\$ 256,653	214,783

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(6) Other Post-Employment Benefits Payable, continued

Sensitivity of the total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the Watermaster as of June 30, 2020, as well as what the Watermaster's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

		<u>1% Decrease</u>		<u>Current</u>		<u>1% Increase</u>
		5.50% HMO/ PPO decreasing to 3.50%		6.50% HMO/ PPO decreasing to 4.50%		7.50% HMO/ PPO decreasing to 5.50%
		<u>HMO/PPO</u>		<u>HMO/PPO</u>		<u>HMO/PPO</u>
Total OPEB Liability	\$	<u>205,211</u>		<u>254,785</u>		<u>321,455</u>

The following presents the net OPEB liability of the Watermaster as of June 30, 2019, as well as what the Watermaster's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

		<u>1% Decrease</u>		<u>Current</u>		<u>1% Increase</u>
		5% HMO/ 5.50% PPO decreasing to 4% HMO/PPO		6% HMO/ 6.50% PPO decreasing to 5% HMO/PPO		7% HMO/ 7.50% PPO decreasing to 6% HMO/PPO
		<u>HMO/PPO</u>		<u>HMO/PPO</u>		<u>HMO/PPO</u>
Total OPEB Liability	\$	<u>174,054</u>		<u>214,783</u>		<u>268,910</u>

OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2020 and 2019, the Watermaster recognized OPEB expense of \$21,197 and \$25,514, respectively. As of June 30, the Watermaster reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

<u>Description</u>		<u>2020</u>		<u>2019</u>	
		<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$	15,599	-	-	(4,888)
Difference between expected and actual experience		-	(1,682)	-	-
Total	\$	<u>15,599</u>	<u>(1,682)</u>	<u>-</u>	<u>(4,888)</u>

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(6) Other Post-Employment Benefits Payable, continued

OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB, continued

The changes in assumptions are amortized over a seven-year period. Amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30	Deferred Net Outflows(Inflows) of Resources
2020	(1,155)
2021	(1,155)
2022	(1,155)
2023	(1,155)
2024	(1,155)
Thereafter	(8,143)

(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 as of June 30, 2020 and 2019 was \$1,587,857 and \$1,440,213, respectively.

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) 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, 2020 and 2019, the Watermaster made an employer contribution of \$64,564 and \$28,853, respectively, to the Plan for the benefit of its eligible employee for the 12 consecutive month period from July 1, 2019 to June 30, 2020, and July 1, 2018 to June 30, 2019, respectively.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(8) Nonqualified Employee Compensation Plan, continued

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.

On June 22, 2017, Watermaster agreed to make an employer contribution to the Plan for the benefit of another eligible employee equal to 4% of the corresponding salary for the payroll period effective following July 1, 2017; and shall continue to be provided on each paycheck date thereafter until the Board takes further action.

The balance of Watermaster's Employee Compensation Plan as of June 30, 2020 and 2019 amounted to \$162,643 and \$98,080, respectively.

(9) 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.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(9) Defined Benefit Pension Plan, continued

Benefits provided, continued

The Watermaster participates in the Plan's miscellaneous risk pool. The provisions and benefits for the Plan's miscellaneous risk pool in effect at June 30, 2020, are summarized as follows:

	Miscellaneous Plan	
	Classic	PEPRA
	Prior to January 1, 2013	On or after January 1, 2013
Hire date		
Benefit formula	2.5% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8.000%	6.250%
Required employer contribution rates	11.432%	6.985%

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 years ended June 30, the contributions recognized as part of pension expense for the Plan were as follows:

	Miscellaneous	
	2020	2019
Contributions – employer	\$ 202,432	173,396

Net Pension Liability

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

	2020	2019
Miscellaneous Plan	\$ 1,308,658	1,188,162

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, 2019 (the measurement date), 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, 2018 (the valuation date), rolled forward to June 30, 2019, using standard update procedures.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(9) Defined Benefit Pension Plan, continued

Net Pension Liability, continued

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's miscellaneous risk pool as of the measurement dates June 30, 2019 was as follows:

	Miscellaneous Plan
Proportion – June 30, 2019	0.01233%
Increase in proportion	0.00044%
Proportion – June 30, 2020	0.01277%

The Watermaster's proportionate share of the pension liability for the Plan's miscellaneous risk pool as of the measurement dates June 30, 2018 was as follows:

	Miscellaneous Plan
Proportion – June 30, 2018	0.01221%
Increase in proportion	0.00012%
Proportion – June 30, 2019	0.01233%

Deferred Pension Outflows (Inflows) of Resources

For the fiscal years ended June 30, 2020 and 2019, the Watermaster recognized pension expense of \$310,032 and \$242,896, respectively.

As of June 30, 2020 and 2019, the Watermaster reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	\$ 202,432	-	173,396	-
Differences between actual and expected experience	83,850	-	30,077	-
Changes in assumptions	40,282	-	102,267	-
Net differences between projected and actual earnings on plan investments	-	(22,880)	5,875	-
Differences between actual contribution and proportionate share of contribution	1,820	-	-	(4,973)
Net adjustment due to differences in proportions of net pension liability	40,213	-	26,179	-
Total	\$ 368,597	(22,880)	337,794	(4,973)

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(9) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

As of June 30, 2020 and 2019, employer pension contributions reported as deferred outflows of resources related to contributions subsequent to the measurement date of \$202,432 and \$173,396, respectively, and will be recognized as a reduction of the net pension liability in the fiscal years ended June 30, 2021 and 2020.

At June 30, 2020, 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	Deferred Net
Ending	Outflows/(Inflows)
June 30,	of Resources
<hr/>	<hr/>
2021	\$ 118,605
2022	1,298
2023	18,758
2024	4,623
2025	-
Thereafter	-

Actuarial assumptions

The total pension liabilities in the June 30, 2019 and 2018, actuarial valuations were determined using the following actuarial assumptions and methods:

Valuation Date	June 30, 2018 and 2017
Measurement Date	June 30, 2019 and 2018
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68

Actuarial assumptions:

Discount rate	7.15%
Inflation rate	2.50%
Salary increases	Varies by Entry Age and Service
Mortality Rate Table*	Derived using CalPERS' Membership Data for all Funds
Period Upon Which Actuarial Experience Survey Assumptions Were Based	1997-2015
Post Retirement Benefit Increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies

* The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of Scale MP 2016. For more details on this table, please refer to the December 2017 experience study report (based on CalPERS demographic data from 1997 to 2015) that can be found on the CalPERS website.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(9) Defined Benefit Pension Plan, continued

Discount Rate

The discount rate used to measure the total pension liability was 7.15% 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. 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 table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1–10</u>	<u>Real Return Year 11+</u>
Global Equity	50.0%	4.80%	5.98%
Global Fixed Income	28.0%	1.00%	2.62%
Inflation Sensitive	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
Total	<u>100.0%</u>		

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.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(9) Defined Benefit Pension Plan, continued

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

As of June 30, 2020, 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, is as follows:

	Discount Rate - 1%	Current Discount Rate	Discount Rate + 1%
	6.15%	7.15%	8.15%
	<u> </u>	<u> </u>	<u> </u>
Watermaster's Net Pension Liability	\$ <u>2,049,334</u>	<u>1,308,658</u>	<u>697,283</u>

As of June 30, 2019, 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, is as follows:

	Discount Rate - 1%	Current Discount Rate	Discount Rate + 1%
	6.15%	7.15%	8.15%
	<u> </u>	<u> </u>	<u> </u>
Watermaster's Net Pension Liability	\$ <u>1,851,236</u>	<u>1,188,162</u>	<u>640,805</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in separately issued CalPERS financial reports. See pages 44 through 47 for the Required Supplementary Schedules.

(10) Prior Period Adjustment

In fiscal year 2018, the Watermaster implemented GASB Statement No. 75, to recognize its net OPEB liability. As a result of the implementation, the Watermaster recognized net OPEB liability and remove the net OPEB obligation associated with GASB 45 as of June 30, 2017 in the amount of \$173,730 and \$468,172, respectively. The Watermaster recorded a prior period adjustment to reclassify prior year's employer OPEB Contribution from expense to deferred outflows of resources of \$2,307 at June 30, 2017.

Previously recorded net position of \$8,715,929 has been restated to \$9,012,678 as of June 30, 2017. In addition, the effect of the implementation of GASB 75 is recorded as an adjustment to the beginning net position at July 1, 2017.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(10) Prior Period Adjustment, continued

The effect of the above changes is summarized as follows:

Net position at June 30, 2017, as previously stated		\$ <u>8,715,929</u>
Net OPEB Liability - GASB 75 Implementation:		
Effect of adjustment to record net OPEB liability	\$ (173,730)	
Effect of adjustment to remove net OPEB liability associated with GASB 45	468,172	
Effect of adjustment to record deferred OPEB outflows	<u>2,307</u>	
Total adjustment to net position		<u>296,749</u>
Net position – beginning, as restated at July 1, 2017		\$ <u><u>9,012,678</u></u>

(11) Net Position

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

	<u>2020</u>	<u>2019</u>
Net investment in capital assets:		
Capital assets, net	\$ <u>88,478</u>	<u>68,106</u>
Total net investment in capital assets	<u>88,478</u>	<u>68,106</u>
Restricted with other governments:		
Restricted - cash and cash equivalents	<u>845</u>	<u>845</u>
Total restricted with other governments	<u>845</u>	<u>845</u>
Unrestricted net position:		
Non-spendable net position:		
Prepaid expenses and deposits	<u>406,417</u>	<u>349,934</u>
Total non-spendable net position	<u>406,417</u>	<u>349,934</u>
Spendable net position are designated as follows:		
Undesignated net position reserve	<u>7,397,359</u>	<u>7,736,337</u>
Total spendable net position	<u>7,397,359</u>	<u>7,736,337</u>
Total unrestricted net position	<u>7,803,776</u>	<u>8,086,271</u>
Total net position	\$ <u><u>7,893,099</u></u>	<u><u>8,155,222</u></u>

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(12) Risk Management

The Watermaster is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Watermaster is insured for a variety of potential exposures. The following is a summary of the insurance policies carried by the Watermaster as of June 30, 2020:

- 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).
- Commercial Excess Liability: Limits of Liability are \$10,000 Retained Limit, \$8,000,000 Each Occurrence, \$8,000,000 General Aggregate Limit, \$8,000,000 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.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2020, that have effective dates that may impact future financial presentations.

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 requirements of this Statement were effective for reporting periods beginning after December 15, 2018; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

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

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 requirements of this Statement were effective for reporting periods beginning after December 15, 2019; however, in light of the COVID-19 pandemic, the effective date has been postponed by 18 months. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 89

In June 2018, the GASB issued Statement No. 89 – *Accounting for Interest Cost incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2019; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

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

Governmental Accounting Standards Board Statement No. 90

In August 2018, the GASB issued Statement No. 90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2018; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

Governmental Accounting Standards Board Statement No. 91

In May 2019, the GASB issued Statement No. 91 – *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

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

Governmental Accounting Standards Board Statement No. 91, continued

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement were effective for reporting periods beginning after December 15, 2020; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 92

In January 2020, the GASB issued Statement No. 92 – *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

The requirements of this Statement were as follows: (1) The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance; (2) The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020; (3) The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020; and (4) The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020; however, in light of the COVID-19 pandemic, the effective date has been postponed by one year. Earlier application is encouraged and is permitted by topic.

Governmental Accounting Standards Board Statement No. 93

In March 2020, the GASB issued Statement No. 93 – *Replacement of Interbank Offered Rates*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR.

This Statement achieves that objective by: (1) Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment; (2) Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate; (3) Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable; (4) Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap; (5) Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap; (6) Clarifying the definition of reference rate, as it is used in Statement 53, as amended; and (7) Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

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

Governmental Accounting Standards Board Statement No. 93, continued

The requirements of this Statement were effective as follows: (1) The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021; and (2) All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020; however, in light of the COVID-19 pandemic, the effective dates have been postponed by one year. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 94

In March 2020, the GASB issued Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 96

In May 2020, the GASB issued Statement No. 96 – *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

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

Governmental Accounting Standards Board Statement No. 97

In June 2020, the GASB issued Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 41 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance.

(14) Commitments and Contingencies

Grant Awards

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

Litigation

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

Chino Basin Watermaster
Notes to the Financial Statements, continued
For the Fiscal Years Ended June 30, 2020 and 2019

(14) Commitments and Contingencies, continued

COVID-19 Pandemic

In December 2019, a novel strain of coronavirus has spread around the world resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Commission could potentially be adversely affected by this global pandemic. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus. The Commission has not included any contingencies in the financial statements specific to this issue.

(15) Subsequent Events

Events occurring after June 30, 2020, have been evaluated for possible adjustment to the financial statements or disclosure as of October 22, 2020 which is the date the financial statements were available to be issued.

Required Supplementary Information

Chino Basin Watermaster
Schedules of Changes in the Watermaster's Net OPEB Liability and Related Ratios
For the Year Ended June 30, 2020
Last Ten Years*

Defined Benefit OPEB Plan

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability			
Service cost	\$ 17,062	18,418	16,048
Interest	8,739	7,571	7,073
Change in assumptions	17,923	(17,582)	14,256
Benefit payments	<u>(3,722)</u>	<u>(2,423)</u>	<u>(2,308)</u>
Net change in total OPEB liability	40,002	5,984	35,069
Total OPEB liability - beginning of year	<u>214,783</u>	<u>208,799</u>	<u>173,730</u>
Total OPEB liability - end of year (a)	<u>\$ 254,785</u>	<u>214,783</u>	<u>208,799</u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 3,722	2,423	2,308
Administrative expense	<u>(3,722)</u>	<u>(2,423)</u>	<u>(2,308)</u>
Net change in plan fiduciary net position	-	-	-
Plan Fiduciary Net Position - beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Plan Fiduciary Net Position - end of year (b)	<u>-</u>	<u>-</u>	<u>-</u>
Net OPEB Liability - ending (a) - (b)	<u>\$ 254,785</u>	<u>214,783</u>	<u>208,799</u>
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	0.00%	0.00%	0.00%
Covered - employee payroll	N/A	N/A	N/A
Net OPEB Liability as a percentage of covered-employee payroll	N/A	N/A	N/A

Note:

The Watermaster adopted GASB 75 for the fiscal year ended June 30, 2018.

Benefit changes – None noted.

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

**Chino Basin Watermaster
Schedules of Watermaster's OPEB Contributions
For the Year Ended June 30, 2020
Last Ten Years***

Defined Benefit OPEB Plan

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially Determined Contribution	\$ 525,655	358,358	402,609
Contributions in relation to the Actuarially Determined Contribution	-	-	-
Contribution Deficiency (Excess)	\$ -	-	-
Watermaster's Covered-Employee Payroll	1,091,719	1,031,755	860,266
Contribution's as a percentage of Covered-Employee Payroll	48.15%	34.73%	13.46%

Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of December 31, 2019, six months prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Valuation Date	December 31, 2019
Measurement Date	December 31, 2019
Actuarial cost method	Entry Age Normal cost method in accordance with the requirements of GASB Statement No. 75
Actuarial assumptions:	
Discount rate	2.66% per annum
Inflation	2.75% per annum
Salary increases	3.00% per annum, in aggregate
Funding Practice	Pay-as-you-go
Participation Rates	50% of eligible active employees are assumed to elect medical coverage at retirement. Future retirees are assumed to elect similar plans as current retirees. Actual plan coverage is used for current retirees.
Healthcare cost trend rates	Medical costs are adjusted in future years by the following trends:
2020	PPO/HMO: 6.50%
2021	PPO/HMO: 6.25%
2022	PPO/HMO: 6.00%%
2023	PPO/HMO: 5.75%
2024+	PPO/HMO: 5.50%

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

Chino Basin Watermaster
Schedules of the Watermaster's Proportionate Share of the Net Pension Liability
As of June 30, 2020
Last Ten Years*

Description	Fiscal Year				
	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016
Watermaster's Proportion of the Net Pension Liability	0.01277%	0.01233%	0.01221%	0.01206%	0.01182%
Watermaster's Proportionate Share of the Net Pension Liability	\$ 1,308,658	1,188,162	1,210,470	1,043,862	811,437
Watermaster's Covered-Employee Payroll	\$ 1,091,719	1,031,755	860,266	979,741	888,483
Watermaster's proportionate share of the net pension liability as a Percentage of its Covered-Employee Payroll	119.87%	115.16%	140.71%	106.54%	91.33%
Plan's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	76.24%	75.76%	73.43%	75.36%	78.02%
Plan's Proportionate Share of Aggregate Employer Contributions	\$ 173,953	141,457	126,549	118,862	99,615

Notes to the Schedule of the Watermaster's Proportionate Share of Net Pension Liability:

Changes in Benefit Terms – The Watermaster can make changes to their plan provisions, and such changes occur on an ongoing basis. A summary of the plan provisions that were used for the Watermaster's plan can be found in the plan's annual valuation report.

Changes of Assumptions – In fiscal year 2018, the financial reporting discount rate was lowered from 7.65% to 7.15% - in fiscal year 2020, the discount rate remained at 7.15%. In December 2016, the CalPERS Board approved lowering the funding discount rate used from 7.50% to 7.00%, which is to be phased-in over a three-year period (7.50% to 7.375%, 7.375% to 7.25%, and 7.25% to 7.00%) beginning with the June 30, 2016, valuation reports. The funding discount rate includes a 15 basis-point reduction for administrative expenses, and the remaining decrease is consistent with the change in the financial reporting discount rate.

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

**Chino Basin Watermaster
Schedules of Pension Plan Contributions
As of June 30, 2020
Last Ten Years***

Description	Fiscal Year				
	6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016
Actuarially Determined Contribution	\$ 192,849	155,931	151,169	132,932	110,292
Contributions in Relation to the Actuarially Determined Contribution	<u>(202,432)</u>	<u>(151,517)</u>	<u>(114,507)</u>	<u>(133,410)</u>	<u>(133,410)</u>
Contribution Deficiency (Excess)	\$ <u>(9,583)</u>	<u>4,414</u>	<u>36,662</u>	<u>(478)</u>	<u>(23,118)</u>
Covered Payroll	\$ <u>1,091,719</u>	<u>1,031,755</u>	<u>860,266</u>	<u>979,741</u>	<u>888,483</u>
Contribution's as a percentage of Covered-Employee Payroll	<u>18.54%</u>	<u>14.69%</u>	<u>13.31%</u>	<u>13.62%</u>	<u>15.02%</u>

Note to the Schedule of Pension Plan Contributions:

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

Supplemental Information Section

Chino Basin Watermaster
Combining Schedule of Revenue, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2020

Watermaster Administration	Optimum Basin Management	Pool Administration and Special Projects			Groundwater Replenishment	LAIF Value Adj.	GASB 75 Beg. Net Position	Grand Totals	Amended Budget 2019-2020
		Appropriative Pool	Agricultural Pool	Non-Ag Pool					
Administrative Revenues:									
Administrative Assessments		8,265,837		364,536			8,630,373	8,465,297	
Interest Revenue		172,301	10,354	2,451			185,106	75,124	
Mutual Agency Project Revenue	171,905						171,905	171,906	
Miscellaneous Income	94						94	-	
Total Revenues	171,999	-	8,438,138	10,354	366,987	-	-	8,987,479	8,712,327
Administrative & Project Expenditures:									
Watermaster Administration	1,814,787						1,814,787	1,639,738	
Watermaster Board-Advisory Committee	179,693						179,693	183,147	
Ag Pool Misc. Expense - Ag Fund							-	400	
Pool Administration		258,169	624,838	95,624			978,631	836,473	
Optimum Basin Mgmt Administration	2,514,835						2,514,835	2,391,840	
OBMP Project Costs	2,611,392						2,611,392	3,930,468	
Debt Service	526,276						526,276	633,440	
Basin Recharge Improvements							-	1,634,782	
Total Administrative/OBMP Expenses	1,994,480	5,652,503	258,169	624,838	-	-	-	8,625,614	11,250,288
Net Administrative/OBMP Expenses	(1,822,481)	(5,652,503)							
Allocate Net Admin Expenses To Pools	1,822,481		1,343,924	417,474	61,082		-	-	
Allocate Net OBMP Expenses To Pools		5,126,227	3,824,059.89	1,174,261	127,906		-	-	
Allocate Debt Service to App Pool		526,276	526,276				-	-	
Allocate Basin Recharge to App Pool		-	-				-	-	
Agricultural Expense Transfer*			2,216,573	(2,216,573)			-	-	
Total Expenses			8,169,003	-	284,612	-	-	8,625,614	11,250,288
Net Administrative Income			269,135	10,354	82,376	-	-	361,865	(2,537,961)
Other Income/(Expense)									
Replenishment Water Assessments					1,059,430		1,059,430	-	
Desalter Replenishment Obligation					61,942		61,942	-	
Exhibit "G" Non-Ag Pool Water		675,000					675,000	-	
RTS Charges from IEUA					(31,147)		(31,147)	-	
Interest Revenue					5,738		5,738	-	
MWD Water Purchases							-	-	
Non-Ag Stored Water Purchases							-	-	
Exhibit "G" Non-Ag Pool Water		(675,000)					(675,000)	-	
Groundwater Replenishment					(1,413,794)		(1,413,794)	-	
LAIF - Fair Market Value Adjustment						26,985	26,985	-	
Gain on Sale of Assets		2,438		95			2,533	-	
Other Post-Employment Benefits (OPEB)		-		-			-	-	
Refund-Excess Reserves		(271,110)		-			(271,110)	-	
Refund-Recharge Debt		(64,564)					(64,564)	-	
Funding To/(From) Reserves							-	(225,500)	
Net Other Income/(Expense)			(333,237)	-	95	(317,832)	26,985	-	(623,988)
Net Transfers To/(From) Reserves	(262,123)	(64,101)	10,354	82,471	(317,832)	26,985	-	(262,123)	(2,312,461)
Net Assets, July 1, 2019	(0)	7,737,656	505,144	25,310	314,372	16,184	(443,445)	8,155,222	
Net Assets, End of Period		7,673,555	515,498	107,781	(3,460)	43,169	(443,445)	7,893,099	7,893,099
19/20 Assessable Production		69,918,990	21,841,407	3,588,067				95,348,464	
19/20 Production Percentages		73.330%	22.907%	3.763%				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, 2019

Watermaster Administration	Optimum Basin Management	Pool Administration and Special Projects			Groundwater Replenishment	LAIF Value Adj.	GASB 75 Beginning Net Position	Grand Totals	Amended Budget 2018-2019
		Appropriative Pool	Agricultural Pool	Non-Ag Pool					
Administrative Revenues:									
Administrative Assessments		8,298,615		392,157			8,690,772	8,695,545	
Interest Revenue		213,712	12,036	2,107			227,855	63,968	
Mutual Agency Project Revenue	167,712						167,712	167,712	
Miscellaneous Income	237						237	-	
Total Revenues	167,950	8,512,327	12,036	394,264	-	-	9,086,577	8,927,225	
Administrative & Project Expenditures:									
Watermaster Administration	2,043,156						2,043,156	1,654,141	
Watermaster Board-Advisory Committee	197,612						197,612	209,519	
Ag Pool Misc. Expense - Ag Fund								400	
Pool Administration		135,480	397,651	142,771			675,901	690,643	
Optimum Basin Mgmt Administration	1,902,174						1,902,174	2,038,267	
OBMP Project Costs	4,227,588						4,227,588	5,412,869	
Debt Service	516,021						516,021	580,585	
Basin Recharge Improvements	1,434,159						1,434,159	3,068,941	
Total Administrative/OBMP Expenses	2,240,768	8,079,941	135,480	397,651	-	-	10,996,610	13,655,365	
Net Administrative/OBMP Expenses	(2,072,818)	(8,079,941)							
Allocate Net Admin Expenses To Pools	<u>2,072,818</u>	1,456,073	539,172	77,573			-		
Allocate Net OBMP Expenses To Pools		6,129,761	4,305,915.21	1,594,445	229,400.62				
Allocate Debt Service to App Pool		516,021	516,021						
Allocate Basin Recharge to App Pool	<u>1,434,159</u>	1,434,159							
Agricultural Expense Transfer*		2,531,268	(2,531,268)						
Total Expenses		10,378,916	-	449,745	-	-	10,996,610	13,655,365	
Net Administrative Income		(1,866,589)	12,036	(55,481)	-	-	(1,910,034)	(4,728,140)	
Other Income/(Expense)									
Replenishment Water Assessments					796,239		796,239	-	
Desalter Replenishment Obligation					-		-	-	
Non-Ag Stored Water Purchases								-	
Exhibit "G" Non-Ag Pool Water		131,000					131,000	-	
RTS Charges from IEUA					(29,084)		(29,084)	-	
Interest Revenue					10,776		10,776	-	
MWD Water Purchases								-	
Non-Ag Stored Water Purchases								-	
Exhibit "G" Non-Ag Pool Water		(131,000)					(131,000)	-	
MWD Water Purchases					(459,025)		(459,025)	-	
Groundwater Replenishment					-		-	-	
LAIF - Fair Market Value Adjustment						36,645	36,645	-	
Other Post-Employment Benefits (OPEB)								-	
Refund-Excess Reserves								-	
Refund-Recharge Debt		(57,732)					(57,732)	-	
Funding To/(From) Reserves								-	
Net Other Income/(Expense)		(57,732)	-	-	318,906	36,645	297,819	-	
Net Transfers To/(From) Reserves	(1,612,214)	(1,924,321)	12,036	(55,481)	318,906	36,645	(1,612,214)	(4,728,140)	
Net Assets, July 1, 2018		9,661,977	493,108	80,791	(4,534)	(20,461)	9,767,436		
Net Assets, End of Period		7,737,656	505,144	25,310	314,372	16,184	8,155,222	8,155,222	
17/18 Assessable Production		76,859,928	28,460,605	4,094,766			109,415,299		
17/18 Production Percentages		70.246%	26.012%	3.742%			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, 2020 and 2019, and the related notes to the financial statements, which collectively comprises the Watermaster's basic financial statements, and have issued our report thereon dated October 22, 2020.

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
October 22, 2020