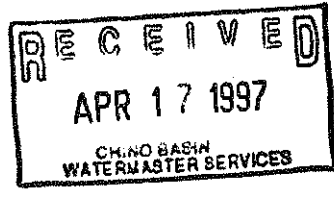


CBMWD
REAPPT
5/5/97
TS



1 **CIHIGOYENETCHE, GROSSBERG & CLOUSE**
2 **Jean Cihigoyenette (Bar No. 105227)**
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Attorneys for Plaintiff,
CHINO BASIN MUNICIPAL WATER DISTRICT

SUPERIOR COURT OF THE STATE OF CALIFORNIA

FOR THE COUNTY OF SAN BERNARDINO EXEMPT FROM FILING FE
PURSUANT TO GOVERNMENT
CODE SECTION 6103"

11 CHINO BASIN MUNICIPAL WATER)
12 DISTRICT,)
13)
14)
15)
16)
17)
18)

Plaintiff(s),

vs.

CITY OF CHINO, et al.,

Defendant(s).

CASE NO. RCV 51016

NOTICE OF MOTION AND MOTION FOR
COURT REVIEW OF ADVISORY
COMMITTEE MANDATED ACTION;
MEMORANDUM OF POINTS AND
AUTHORITIES IN SUPPORT THEREOF;
DECLARATION OF JEAN
CIHIGOYENETCHE

DATE: May 5, 1997
TIME: 8:30 a.m.
DEPT: H

19 COMES NOW the Chino Basin Watermaster which submits the following Memorandum of
20 Points and Authorities in support of its request for court review of the Advisory Committee's
21 mandated action.

I.

INTRODUCTION

24 On March 13, 1997, a Watermaster Board of Directors meeting was held. The Agenda for
25 that meeting called for the review and action on several matters which had been acted upon by the
26 Advisory Committee by a greater than 80% vote. The meeting Agenda sets forth the following
27 language:

28 //

1 "All consent calendar items listed below were approved by a greater
2 than 80% majority at the Advisory Committee meeting held February
3 13, 1997. Per Section 38(b)(1) of the Judgment, the Watermaster is
4 mandated to ratify the following: . . ."

5 The Watermaster Board of Directors felt that there were several matters on the consent
6 calendar that did not come within the purview of Advisory Committee review and action. In essence,
7 several of the critical matters on the consent calendar involved strictly administrative matters that the
8 Watermaster Board felt were not subject to the Advisory Committee's mandated vote. Nevertheless,
9 and in light of recent statements made by the court relative to the interim functioning of the
10 Watermaster, Watermaster Board of Directors felt that rather than rejecting outright the mandates of
11 the Advisory Committee on these issues, it would petition the court for review pursuant to paragraph
12 38(c) of the Judgment.

13 Therefore, the following Agenda Items from the March 13, 1997 Watermaster meeting are the
14 subject of this motion:

- 15 "F. Resolution of intention declaring the Watermaster's intent to enter into a
16 contract with CalPers
- 17 G. Inclusion of \$500.00 a month vehicle allowance in future Watermaster budgets
18 for the Chief of Watermaster Services, and a provision for mileage
19 reimbursement of personal vehicle usage while conducting Watermaster
20 business.
- 21 L. The ad hoc finance committee's recommendation that staff immediately begin
22 the process of selecting an auditor to perform Watermaster's F.Y. 1996-1997
23 financial audit, within expanded scope of work to include the events regarding
24 the forgery that occurred in December, 1996; and that staff implement the
25 procedural recommendations submitted by the committee where available and
26 feasible.
- 27 M. Resolution No. 97-1 establishing a Watermaster investment policy, as
28 approved by the Advisory Committee October 16, 1997.
- 29 N. Resolutions Nos. 97-2, 97-3 and 97-4 authorizing the adoption and
30 implementation of three separate section 457 deferred compensation plans."

31 This motion is brought pursuant to paragraph 38(c) of the Judgment. A copy of the Watermaster
32 Agenda for March 13, 1997 is attached hereto as Exhibit "A" and incorporated herein by this
33 reference.

34 //

35 //

1 II.

2 THE ADVISORY COMMITTEE HAD NO AUTHORITY
3 TO MANDATE THE CAL PERS CONTRACT

4 The first item which is the subject of this motion is Agenda Item "F". This applies to the
5 resolution of intention declaring the Watermaster's intent to enter into a contract with CalPers. The
6 Advisory Committee, through mandate, has directed the Watermaster to enter into the subject
7 agreement.

8 The proposed agreement would offer retirement benefits to Watermaster employees similar to
9 those benefits enjoyed by other employees of qualified public entities. This is considered part of the
10 employees compensation package.

11 The staff report submitted with the Agenda Item indicates that this is the last significant item
12 remaining so as to complete the transition of Watermaster Services from Chino Basin Municipal
13 Water District ("DISTRICT") however, fails to state who those responsibilities are being transferred
14 to. Nevertheless, the Advisory Committee has taken action in this matter despite the fact that it has
15 no jurisdiction over the issue.

16 The Watermaster has the exclusive authority to hire the appropriate personnel to assist in
17 carrying out its powers under the Judgment. (Judgment, paragraph 20). In furtherance of this, the
18 Watermaster has elected not to hire any employees at all. Historically, the Watermaster has operated
19 under a services and facilities contract wherein personnel required to complete the Watermaster tasks
20 are supplied by the District. The most recent such facilities agreement was entered into in or about
21 August, 1992 however, as a result of written notice of termination from the Advisory Committee the
22 agreement is no longer in effect. Nevertheless, such does not change the basic fact that the
23 Watermaster has no employees.

24 All compensation regarding the District employees are subject to the review of the District
25 itself and not the Advisory Committee. The facilities agreement, although lapsed, provided that the
26 employees assigned by the District to the Watermaster would report to and take direction from the
27 Advisory Committee. However, this is far short of granting the Advisory Committee authority to
28 determine the compensation of those employees. In fact, it would appear that the mandated action

1 might rise to the level of interference with a contractual relationship between the District and its
2 employees.

3 Additionally, there is no valid reason why this Agenda Item should be implemented by the
4 Watermaster. Notwithstanding the fact that it has no employees to fall under the plan, this item is
5 clearly intended to finalize the transition of Watermaster from the District. The court has clearly held
6 that, until further order, the District is the Watermaster. Despite these clear rulings by the court, the
7 Advisory Committee will not relent in establishing itself as the Watermaster independent of the
8 District. These employees are covered by a Pers Plan provided by the District, and, therefor receive
9 retirement benefits at present.

10 Yet another concern is the fact that the Agenda Item constitutes a resolution 97-5 whereby
11 the Board agrees to enter into a written contract however, the contract is not an exhibit in the Agenda
12 package. Finally, there is a serious question whether the Watermaster is the type of public agency
13 recognized under the public employees retirement system provided for in Government Code Section
14 20000 et. seq.

15 Therefore, the Watermaster requests the finding by the court that the issue of compensation of
16 the employees of Watermaster Services are not subject to the authority of the Advisory Committee
17 and that issues concerning compensation of those employees are strictly within the purview of the
18 District. Alternatively, the court is requested to make a finding that the mandated vote by the
19 Advisory Committee is improper and that this issue concerns the transition of Watermaster which the
20 court has not yet ruled upon.

21 III.

22 THE ADVISORY COMMITTEE HAS NO AUTHORITY
23 OVER THE ALLOTMENT OF A CAR ALLOWANCE
24 TO THE DIRECTOR OF WATERMASTER SERVICES.

25 The next item objected to by the Watermaster was set forth as Item "G" on the consent
26 calendar. The item has to do with the approval of a \$500.00 per month vehicle allowance to the
27 Director of Watermaster Services. The Advisory Committee approved this expense by a greater than
28 80% vote and therefore, feel that the Watermaster is mandated to approve this item.

1 For the same reasons as those set forth above, the allowance of compensation to the Director
2 of Watermaster Services in the form of a car allowance does not come within the authority vested in
3 the Advisory Committee. Once again, the Director of Watermaster Services is an employee of the
4 District and merely renders services to the Watermaster and the Advisory Committee under a facilities
5 agreement which is now lapsed. Nothing in that agreement extended authority to the Advisory
6 Committee to determine the compensation of District employees. Not only is the Advisory
7 Committee void of jurisdiction in this area but so is the Watermaster. Once again, the Advisory
8 Committee is attempting to interfere with the contractual relationship between the District and its
9 employees.

10 Therefore, the court is respectfully requested to issue a finding that this particular Agenda
11 item does not fall within the authority of the Advisory Committee or the Watermaster.

12 IV.

13 THE WATERMASTER ANNUAL AUDIT IS AN
14 ADMINISTRATIVE MATTER OVER WHICH THE
15 ADVISORY COMMITTEE HAS NO AUTHORITY.

16 Item "L" in the Agenda mandates that the Watermaster begin selecting an auditor for the
17 annual Watermaster audit as well as defining the parameters of that audit. However, the mandated
18 action provided in that Agenda Item is another example of the Advisory Committee overstepping its
19 authority under the Judgment.

20 Paragraph 48 of the Judgment establishes the authority to conduct the annual Watermaster
21 audit directly with the Watermaster. Paragraph 20 of the Judgment authorizes the Watermaster to
22 hire specialists, such as an auditor, to accomplish this responsibility. Moreover, the Judgment does
23 not instill in the Advisory Committee the authority to determine the parameters of the audit.

24 The Watermaster requests the court issue a ruling finding that the annual audit is an
25 administrative matter to be handled by the Watermaster and not subject to mandated action by the
26 Advisory Committee.

27 //

28 //

1 V.

2 THE ADVISORY COMMITTEE HAS NO
3 AUTHORITY OVER THE WATERMASTER
4 INVESTMENT POLICY.

5 Item "M" of the Agenda constitutes a resolution approving the investment policy of the
6 Watermaster. Paragraph 23 of the Judgment provides that the Watermaster may hold and invest
7 funds in investments which are authorized for public agencies of the State of California. Additionally,
8 under Government Code Section 53646, the Agency must establish an investment policy delineating
9 the types of investments which are appropriate for that public agency.

10 Nowhere in the Judgment are the Advisory Committee or Pool Committees vested with the
11 authority to oversee the investment policy of the Watermaster. Despite this, the Advisory Committee
12 has issued a mandate to the Watermaster that it shall approve the proffered investment policy.

13 Not only does that mandated vote exceed the Advisory Committees authority, it raises, once
14 again, the significant question as to who is the fiduciary with respect to Watermaster funds? The first
15 paragraph of the investment policy approved by the Advisory Committee clearly states that the
16 Watermaster Board is the fiduciary for these funds. At the same time, the Advisory Committee has
17 unilaterally authorized, through the investment policy, how those funds will be invested. Who then is
18 the fiduciary for the funds? Is it the Advisory Committee who mandates the investment or is the
19 Watermaster who has been identified as the fiduciary in the investment policy and, presumably, must
20 act in accordance with the Advisory Committee's mandate?

21 It is questionable whether the proposed investment policy conforms with the mandates of
22 California Government Code § 53646. First of all, the proposed investment policy would require the
23 Pool Committees and the Advisory Committees to review the annual policy statement regarding the
24 investments prior to the time that it is submitted to the Watermaster. The proposed investment policy
25 is silent as to whether or not the Advisory Committee will vote for approval of the policy statement
26 thereby mandating approval by the Watermaster.

27 Nothing in the Government Code in question would allow the Pool Committees or the
28 Advisory Committee to comment or make changes in the investment policy. Therefore, the proposed

1 investment policy is not in conformity with the Government Code.

2 Yet an additional area of non-compliance can be found in paragraph H of the investment
3 policy. Under the Government Code, the quarterly reports required of the public agency must be
4 submitted within thirty (30) days following the end of the quarter covered by the report. The
5 investment policy mandated by the Advisory Committee does not comply with that requirement.
6 Rather, it states that the matters will be considered at the next regularly scheduled meeting. This may
7 not occur within 30 days of the end of the quarter as required by law. The policy must be amended.

8 Notwithstanding the fact that the Watermaster has the exclusive authority over the investment
9 of Watermaster funds under the Judgment, it would seem only appropriate to extend such complete
10 control to them in light of the fact that they are the named fiduciary under the investment policy. It
11 should not be forgotten that under certain circumstances the individual Board members can be held
12 personally liable for violations of the investment policy. Therefore, the Watermaster requests the
13 finding by the court that the Advisory Committee has no authority under the Judgment over the
14 investment policy of Watermaster funds and, therefore, the mandated action previously taken is null
15 and void.

16 VI.

17 THE PROPOSED DEFERRED COMPENSATION

18 PLAN IS NOT SUBJECT TO WATERMASTER AUTHORITY.

19 The final item on the Agenda being challenged by the Watermaster is Item "N". This item is a
20 mandate by the Advisory Committee instructing the Watermaster to adopt resolutions 97-2, 97-3 and
21 97-4 authorizing the adoption and implementation of three deferred compensation plans. The
22 arguments pertaining to the Pers Plan and the automobile allowance discussed above are equally
23 applicable here. First of all, the deferred compensation plan as proposed, would apply to District
24 employees. The nature and extent of compensation for those employees is to be determined by the
25 District and not the Watermaster. Secondly, if such a compensation plan did fall within the
26 parameters of Watermaster affairs, it would fall within the exclusive authority of the Watermaster and
27 not the Advisory Committee. This is due to the fact that compensation of Watermaster employees is
28 administrative in nature.

1 Finally, this item is also intended to complete the transition of Watermaster from the District
2 to an entity not yet determined by the court. Once again, this proposal flies in the face of the court
3 finding that the District is the interim Watermaster until an alternate is decided upon by the court.
4 The approval of this item, whether mandated or not, is premature and inappropriate. Therefore, the
5 Watermaster respectfully requests the court to issue a finding that this matter concerns compensation
6 of District employees and, therefore, is not within the authority of either the Watermaster or the
7 Advisory Committee. Alternatively, Watermaster requests the ruling by the court that this agenda
8 item is in fact administrative in nature and within the exclusive authority of the Watermaster itself.

9 VII.

10 CONCLUSION.

11 Watermaster brings this motion before the court so as to continue smooth operation of the
12 Watermaster affairs and to comply with the provisions of the Judgment. Watermaster seeks a
13 declaration by the court as the issues set forth above in that it will not be able to reach an agreement
14 with the Advisory Committee on these issues. Watermaster is willing to fulfill its obligations under
15 the Judgment however, the Advisory Committee, by exceeding its authority under the Judgment, and
16 attempting to compel certain action by the Watermaster with which action the Watermaster disagrees.

17
18 Respectfully submitted.

19 Dated: April 3, 1997

CIHIGOYENETCHE, GROSSBERG & CLOUSE

20
21 By: 

JEAN CIHIGOYENETCHE

Attorneys for Plaintiff,

CHINO BASIN MUNICIPAL WATER DISTRICT

1 DECLARATION OF JEAN CIHIGOYENETCHE

2
3 I, Jean Cihigoyenetche, hereby declare as follows:

4 1. I am a partner in the law firm of Cihigoyenetche, Grossberg & Clouse, counsel for the
5 Chino Basin Municipal Water District ("DISTRICT") in this matter. I have first hand knowledge of the
6 matters set forth herein and, if called as a witness, would be competent to testify thereto.

7 2. I submit this declaration in support of the District's Motion for Court Review of Advisory
8 Committee Mandated Action. Although the Chino Basin Watermaster does not have legal counsel at the
9 present time, I have, in the recent past, been filing motions with the court on behalf of the District in their
10 capacity as Watermaster. Until final appointment of a Watermaster attorney can be accomplished, the
11 Board of Directors of the District, acting as Watermaster, have asked me to file the necessary court
12 pleadings in the day to day operation of the Watermaster affairs.

13 3. On March 13, 1997, the Watermaster Board of Directors held a public hearing to consider
14 several items which arose in the normal course of business of the Watermaster.

15 The Watermaster Board pulled several items from the meeting agenda which it felt were
16 administrative in nature and not within the purview of consideration and vote by the Advisory Committee.
17 The Watermaster Board was uncomfortable that the Advisory Committee had mandated these actions
18 and, therefore, the Watermaster would be required to implement them.

19 The items which were pulled from the meeting's agenda were listed under the consent calendar
20 as item "F", "G", "L", "M" and "N". A copy of the meeting agenda is attached to the memorandum of
21 points and authorities submitted herewith as Exhibit "A" and incorporated herein by this reference.

22 4. Some of the Watermaster Board members were concerned that some of the items on the
23 agenda, most specifically the \$500.00 car allowance for the Director of Watermaster Services, had been
24 addressed in a recent audit of the Watermaster affairs. That audit indicated that the manner in which the
25 car allowance being received by the Director of Watermaster Services was being reported as income was
26 not in compliance with Internal Revenue Service guidelines. Therefore, the Watermaster Board was
27 concerned about now ratifying a course of conduct which an audit had disclosed to them was improper.

28 //

EXHIBIT A

NOTICE OF MEETING

A MEETING OF THE

**CHINO BASIN WATERMASTER
BOARD OF DIRECTORS..**

WILL BE HELD ON

Thursday, February 27, 1997
10:00 A.M.

(Revised Agenda Attached)

*To be held at the offices of the
Chino Basin Municipal Water District
9400 Cherry Avenue, Building A
Fontana, CA
(909) 357-0241*

REVISED AGENDA

A MEETING OF THE
CHINO BASIN WATERMASTER BOARD OF DIRECTORS
FONTANA, CA
WEDNESDAY, FEBRUARY 27, 1997
10:00 AM

CALL TO ORDER

In an effort to conserve paper as well as minimize costs, detailed information pertaining to agenda items, if any, is available upon request. In an effort to provide more advance notice of meetings, any supporting documentation that was unavailable at the time of notice may be handed out at the meeting.

Resolution No. 96-6, adopted by the Chino Basin Watermaster on November 6, 1996, established the time and place of regular meetings of the Chino Basin Watermaster. The Quarterly Meeting scheduled for March 6, 1997 was canceled by the Chino Basin Watermaster, therefore, those agenda items scheduled for ratification on March 6, 1997 have been placed on this Revised Agenda.

1. CONSENT CALENDAR

NOTICE: ALL MATTERS LISTED UNDER THE CONSENT CALENDAR ARE CONSIDERED TO BE ROUTINE AND NON-CONTROVERSIAL AND WILL BE ACTED UPON BY THE COMMITTEE WITH ONE MOTION. THERE WILL BE NO SEPARATE DISCUSSION ON THESE ITEMS PRIOR TO THE TIME THE COMMITTEE VOTES UNLESS A COMMITTEE MEMBER, STAFF OR MEMBER OF THE PUBLIC REQUESTS SPECIFIC ITEMS BE DISCUSSED AND/OR REMOVED FROM THE CONSENT CALENDAR FOR SEPARATE ACTION.

A. MINUTES

The Watermaster will be asked to approve the minutes, as presented, of the following Chino Basin Watermaster meetings:

- (1) Minutes of the November 6, 1996 meeting.
- (2) Verbatim minutes of the January 9, 1997 meeting.
- (3) Verbatim minutes of the January 14, 1997 meeting.
- (4) Verbatim minutes of the January 23, 1997 meeting.

All consent calendar items listed below were approved by a greater than 80% majority at the Advisory Committee meeting held February 13, 1997. Per Section 38(b)(1) of the Judgment, the Watermaster is mandated to ratify the following:

B. NOTICE OF SALE OR TRANSFER OF RIGHT TO WATER IN STORAGE

- (1) West End Consolidated Water Company to the City of Upland, under Local Storage Agreement Numbers 13, 13.1 and 13.2, in the amount of 11,876,800 acre-feet.
- (2) City of Upland to the Chino Basin Watermaster, under Local Storage Agreement Numbers 24 and 24.1 in the amount of 10,000,000 acre-feet.
- (3) West San Bernardino County Water District to the Chino Basin Watermaster, under Local Storage Agreement Number 25, in the amount of 2,000,000 acre-feet.

- (4) Jurupa Community Services District to the San Antonio Water Company, under Local Storage Agreement No. 30, in the amount of 4,880,000 acre-feet.
 - (5) West End Consolidated Water Company to the Southern California Water Company under Local Storage Agreement Number 13.2, in the amount of 1,123,200 acre-feet.
- C. PETITION IN INTERVENTION
- (1) The California Speedway Corporation request to intervene into the Judgment as a member of the Overlying (Non-agricultural) Pool.
 - (2) Ambrosia Farms request to intervene into the Judgment as a member of the Overlying (Agricultural) Pool.
- D. FINANCIAL REPORT
- (1) Voucher List for the period October 1, 1996 through December 31, 1996
 - (2) Actual YTD Revenue & Expense Budget Comparison
 - (3) Combining Schedule of Revenue, Expenses and Changes in Working Capital
 - (4) Watermaster's Report of Financial Affairs for the period ended December 31, 1996
- E. CHINO BASIN WATERMASTER FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 1996
- F. RESOLUTION OF INTENTION DECLARING THE WATERMASTER'S INTENT TO ENTER INTO A CONTRACT WITH CalPERS.
- G. INCLUSION OF \$500 MONTH VEHICLE ALLOWANCE IN FUTURE WATERMASTER BUDGETS FOR THE CHIEF OF WATERMASTER SERVICES, AND A PROVISION FOR MILEAGE REIMBURSEMENT OF PERSONAL VEHICLE USAGE WHILE CONDUCTING WATERMASTER BUSINESS.
- H. AN EXTENSION TO THE CYCLIC STORAGE AGREEMENT THROUGH DECEMBER 31, 1997.
- I. PARTICIPATION IN A BASIN WATER QUALITY TESTING PROGRAM WITH THE CHINO BASIN WATER CONSERVATION DISTRICT FOR AN AMOUNT UP TO \$5,700.
- J. PARTICIPATION IN PHASE 1B OF THE TDS/NITROGEN STUDY IN THE AMOUNT OF \$5,100.
- K. CITY OF NORCO'S INTENT TO INJECT APPROXIMATELY 400 ACRE-FEET OF TEMESCAL BASIN WATER INTO THE CHINO BASIN, FOR SUBSEQUENT WITHDRAWAL, DURING 1997.
- L. THE AD HOC FINANCE COMMITTEE'S RECOMMENDATION THAT STAFF IMMEDIATELY BEGIN THE PROCESS OF SELECTING AN AUDITOR TO PERFORM WATERMASTER'S F.Y. 1996-1997 FINANCIAL AUDIT, WITH AN EXPANDED SCOPE OF WORK TO INCLUDE THE EVENTS REGARDING THE FORGERY THAT OCCURRED IN DECEMBER, 1996; AND THAT STAFF IMPLEMENT THE PROCEDURAL RECOMMENDATIONS SUBMITTED BY THE COMMITTEE WHERE AVAILABLE AND FEASIBLE.

- M. RESOLUTION NO. 97-1 ESTABLISHING A WATERMASTER INVESTMENT POLICY, AS APPROVED BY THE ADVISORY COMMITTEE OCTOBER 16, 1997.
 - N. RESOLUTION NOS. 97-2, 97-3 AND 97-4 AUTHORIZING THE ADOPTION AND IMPLEMENTATION OF THREE SEPARATE SECTION 457 DEFERRED COMPENSATION PLANS.
 - O. RATIFY THE ADJUSTMENT OF NEXT YEAR'S ASSESSMENTS TO CORRECT A REPORTING ERROR IN PRADO OLYMPIC SHOOTING PARK'S CURRENT YEAR ASSESSMENTS, AND RE-BILL PRADO OLYMPIC SHOOTING PARK FOR THE CORRECT AMOUNT.
2. RESOLUTION NO. 97-6
Resolution 97-6 is being presented in order to change Resolution No. 96-2 to eliminate all reference to the "Exception Check Account" and update it due to the recent change in Watermaster officers. The Watermaster will be asked to adopt Resolution No. 97-6 as presented.
3. LEGAL SERVICES CONTRACT
"A review and action upon legal services contract between Nossaman, Guthner, Knox & Elliott, LLP and Watermaster." (This agenda item was scheduled by Ms. Patti Bonawitz, Chino Basin Municipal Water District Board Secretary, on January 20, 1997. No further explanation or additional information has been provided).
4. STAFF REPORT
- A. Chino Basin Groundwater Monitoring Program Draft Report, February, 1997.
 - B. Chino Basin Groundwater Recharge Master Plan Update Draft Report, February, 1997.
 - C. AGWA Meeting, January 28, 1997.
 - D. RWQCB Water Management Initiative workshop presentation.
 - E. Next Watermaster meeting date, time and location.

MEETING ADJOURN

CHINO BASIN WATERMASTER MEETING
February 27, 1997

AGENDA ITEM 1
CONSENT CALENDAR

A. MINUTES OF
WATERMASTER
MEETINGS HELD
NOVEMBER 6, 1996,
JANUARY 9, 1997,
JANUARY 14, 1997 &
JANUARY 23, 1997

MINUTES
OF THE
CHINO BASIN WATERMASTER MEETING
November 6, 1996

DRAFT

The meeting of the Chino Basin Watermaster was held at the offices of Chino Basin Municipal Water District, 9400 Cherry Avenue, Building A, Fontana, November 6, 1996 at 3:00 A.M.

Watermaster Members Present

Bill Hill	Chairman
John L. Anderson	Secretary/Treasurer
Wyatt Troxel	Member
Anne W. Dunihue	Member

Watermaster Members Absent

George Borba	Vice Chairman
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Watermaster Staff Present

Traci Stewart	Chief of Watermaster Services
Alice Lichti	Controller
Mary Staula	Administrative Assistant

Others Present

Steve Arbelbide	California Steel Industries, Inc.
Paula Barron	Chino Basin Municipal Water District
Bob DeBerard	Grapes
Douglas D. Drury	Chino Basin Municipal Water District
Joe Grindstaff	Monte Vista Water District
Mark Kinsey	Chino Basin Municipal Water District
Robb Quincey	Chino Basin Municipal Water District
Larry Rudder	Chino Basin Municipal Water District

Chairman Hill called the meeting to order at 8:06 A.M.

Chairman Hill asked if all Consent Calendar items had been approved by a greater than 80% vote of the Watermaster Advisory Committee. After Ms. Stewart answered affirmatively, Chairman Hill entertained a motion to approve the Consent Calendar.

Motion by Ms. Dunihue, second by Mr. Troxel, and by unanimous vote.

Moved to approve the Consent Calendar items as presented.

A. **MINUTES**

Approved the minutes of the Watermaster meeting held July 10, 1996.

The Watermaster ratified the following actions taken by a greater than 80% vote of the Advisory Committee:

B. **TREASURER'S REPORTS**

- 1) Vouchers numbered 3287 through 3416 covering the period June 28, 1996 through September 30, 1996 in the amount of \$949,903.95.*
- 2) Watermaster's Report of Financial Affairs for the period ended September 30, 1996.*

C. **NOTICE OF LEASE OF WATER RIGHTS**

Lease of water rights agreements, through Watermaster, covering the period July 1, 1996 through June 30, 1996 totaling 7,167.2 acre-feet, as follows:

- 1) West San Bernardino County Water District to Jurupa Community Services District covering the period July 1, 1995 through June 30, 1996, to be used to offset overproduction, in the amount of 1000.0 acre-feet.*
- 2) Monte Vista Water District to the Chino Basin Watermaster, covering the period*

July 1, 1995 through June 30, 1996, 1697.3 acre-feet exchanged into the Cyclic Storage Account and 1110.0 acre-feet placed in a Cooperative Storage Account, for a total lease in the amount of 2807.3 acre-feet.

- 3) City of Ontario to the Chino Basin Watermaster, covering the period July 1, 1995 through June 30, 1996, 10.8 acre-feet to exchanged into the Cyclic Storage Account and 1501.9 acre-feet placed in a Cooperative Storage Account for a total lease in the amount of 1512.7 acre-feet.
- 4) City of Chino Hills to the Chino Basin Watermaster, covering the period July 1, 1995 through June 30, 1996, exchanged into the Cyclic Storage Account, in the amount of 284.9 acre-feet.
- 5) City of Upland to the Chino Basin Watermaster, covering the period July 1, 1995 through June 30, 1996, exchanged into the Cyclic Storage Account, in the amount of 1487.0 acre-feet.
- 6) Cucamonga County Water District to the Chino Basin Watermaster, covering the period July 1, 1995 through June 30, 1996, exchanged into the Cyclic Storage Account, in the amount of 75.3 acre-feet.
- 7) Fontana Union Water Company to Cucamonga County Water District, for the period of July 1, 1995 through June 30, 1996, in the amount of 8,954.175 acre-feet; including 2,557.433 acre-feet of water reallocated from unproduced safe yield and 6396.736 acre-feet of leased rights.

D. AGENCY AGREEMENTS FOR PROVISION OF WATER SERVICE

- 1) Agency Agreement "A" for Provision of Water Service from Fontana Water Company to Praxair, Inc. for the period commencing in FY 78-79 through FY 94-95 in the amount of 3,662.970 acre-feet, to be used to offset Fontana Water Company's overproduction during FY 95-96.
- 2) Agency agreement for the assignment of 1695.5 acre-feet of water from California Steel Industries to Fontana Water Company.

E. LAND-USE CONVERSIONS

FY 95-96 land-use conversion acreage in the amount of 4,192.142 acres.

F. NOTICE OF INTENT TO CHANGE OPERATING SAFE YIELD OF CHINO BASIN

The annual filing of a Notice of Intent pursuant to the Exhibit 1, Paragraph 2b, page 80 of the Judgment, "Changes in the safe yield shall not be made upon less than five (5) years notice of intent by Watermaster."

G. NOTICE OF INTENT TO RECAPTURE WATER IN STORAGE

The "Notice of Intent to Recapture Water in Storage" submitted pursuant to the Chino Basin Watermaster Uniform Groundwater Rules and Regulations, Section 2, Paragraph 2.9 as follows:

- 1) City of Norco, in the amount of 393.170 acre-feet.
- 2) County of San Bernardino, in the amount of 129.970 acre-feet.
- 3) California Steel Industries, in the amount of 233.120 acre-feet.

H. EXHIBIT "D", SIXTEENTH ANNUAL REPORT

Revised Exhibit "D" in the Sixteenth Annual Report for forwarding to the Court.

I. EIGHTEENTH ANNUAL REPORT

The Eighteenth Annual Report of the Chino Basin Watermaster, pursuant to the Judgment, Section VI, Paragraph 48, for forwarding to the Court.

J. WATERMASTER OFFICE RELOCATION

Amendment of the Watermaster Rules and Regulations, Article 2, Paragraph 2.01, to indicate the principal location of the Watermaster offices to be 2632 Archibald Avenue, Suite 109, Rancho Cucamonga, California 91730.

- K. FY 1996-97 BUDGET AMENDMENT**
FY 1996-97 Budget Amendment to include \$5000 to cover the costs associated with retaining temporary services to assist with the transcription of meeting minutes and filing.
- L. AMENDED FY 1996-97 BUDGET**
FY 1996-97 Amended Watermaster Budget which reflects the actions taken at the June 26 meeting to carryover funds from the FY 95-96 budget and at the October 16 meeting to retain temporary services.
- M. METER INSTALLATION CONTRACT**
Award a contract for hour meter installations in FY 1996-97 to Moose and Sons Electric Company to furnish and install hour meters at \$230.00 each, and to perform hour meter removal or repair as needed for the fee described under the "Optional Tasks" provision in the Contract.
- N. METER TESTING CONTRACT**
Award two contracts for meter testing and calibration in FY 1996-97. The contract award will be to Flo-Tech and Pump Check. Services provided to include water meter testing and calibration, drilling and tapping holes for pitot tube tests and furnishing brass plugs as required, for the fees described under Section Four, Item B in each Contract.
- O. RESOLUTION 96-6**
Resolution 96-6 entitled RESOLUTION OF THE CHINO BASIN WATERMASTER ESTABLISHING TIME AND PLACE OF REGULAR MEETINGS. Regular quarterly meetings of the Watermaster are now scheduled for the first Thursdays in the months of March, June, September and December. Review and approval of proposed fiscal year budgets will be completed by the June meeting of each year.
- P. RESOLUTION NO. 96-4**
Resolution No. 96-4 entitled, RESOLUTION OF THE CHINO BASIN WATERMASTER LEVYING REPLENISHMENT AND ADMINISTRATIVE ASSESSMENTS FOR FISCAL YEAR 1996-1997.
- Q. AMENDMENT TO RESOLUTION 96-2**
Amendment to Resolution 96-2 entitled RESOLUTION OF THE CHINO BASIN WATERMASTER AUTHORIZING AND DESIGNATING SIGNATORIES OF DEPOSITORY AGREEMENTS, DEPOSITORY CARDS AND DEPOSITS, TRANSFERS AND WITHDRAWALS OF FUNDS, to add a new Section 5 covering the use of credit cards and renumber Sections 5, 6, and 7 accordingly.

Ms. Dunihue asked if Ms. Stewart wished to comment or provide background information on any of the Consent Calendar items. Ms. Stewart briefly summarized each item. She advised the Board that staff hopes to take the Nineteenth Annual Report to the Pools in January, 1997.

Chairman Hill asked if the additional water to change the operating safe yield of the Basin came from something that was being worked on for a long time. Ms. Stewart explained that there is no current intent to change the safe yield, however, a requirement exists to provide five years prior notice if an intent is contemplated which has been protected since 1983 by filing a Notice of Intent annually and including it in the Annual Report.

Chairman Hill then asked for an explanation of the requests to recapture water in storage. Ms. Stewart said that an entity often removes water from storage in order to cover its yearly production. When that occurs, the entity submits a request to recapture water in storage at the end of the year. Chairman Hill jokingly said that he thought they had found a new source of water coming over the mountain.

II. Staff Report

1. Hearing to Appoint Watermaster

Ms. Stewart reported that the hearing scheduled for November 20, 1996 to appoint Watermaster will be taken off calendar and that a request has been made by a Non-Agricultural Pool member to schedule a workshop to discuss this matter.

2. Storage Limits

Ms. Stewart said that progress is being made on storage limits and that a workshop is scheduled for November 12, 1996. She said the 85/15 Rule may go to the pool committees at their next regularly scheduled meeting in January, 1997.

Mr. Grindstaff asked to address the Board. He expressed his thoughts that the storage limits will be a major issue. He said that one of the things currently being discussed is to allocate storage to Watermaster as a way to fund cleanup in the Basin. He continued to say that, although progress has been made toward an agreement, things remain to be done and he expressed his hope that the discussions regarding this issue will allow Watermaster to go beyond the past practice of just accounting for water, to managing the Basin more effectively. He said that there are a significant number of issues yet to be addressed and when decisions are made, they may not carry 80% of the vote, because they will be difficult decisions dealing with difficult policy matters. Therefore, the Watermaster (Board) may be involved to a much greater extent with some of the key policy decisions being made.

Chairman Hill announced that Terry Catlin was elected to replace him on the Board as the representative for Division 1. He said that Mr. Catlin is highly qualified and will be a tremendous asset to the Board. He also announced that Mr. Troxel was reelected to serve on the CBMWD Board as the representative for Division 5.

Meeting adjourned at 8:20 A.M.

Secretary

VERBATIM
MINUTES
OF THE
SPECIAL MEETING OF THE
CHINO BASIN WATERMASTER
BOARD OF DIRECTORS
January 9, 1997

DRAFT

The meeting of the Chino Basin Watermaster was held at the offices of Chino Basin Municipal Water District, 9400 Cherry Avenue, Building A, Fontana, January 9, 1997 at 10:00 A.M.

Watermaster Members Present

George Borba
John L. Anderson
Terry Catlin
Anne W. Dunihue
Wyatt Troxel

Vice-Chairman
Secretary/Treasurer
Member
Member
Member

Watermaster Staff Present

Traci Stewart
Michelle Lauffer
Alice Lichti

Chief of Watermaster Services
Water Resources Specialist
Controller

Others Present

Steve Arbeibide
Paula Barron
Patti Bonawitz
Gerald J. Black
Bob DeBerard
Robert Dougherty
Doug Drury
Charles Fedak
Joe Grindstaff
Jimmy Gutierrez
Jack Hagerman
Edwin James
Mark Kinsey
Gene Koopman
Bob Page
Robb Quincey
Larry Rudder
Mike Teal
Dennis Yates

California Steel Industries, Inc.
Chino Basin Municipal Water District
Chino Basin Municipal Water District
Fontana Union Water Company
Grapes
Attorney, City of Ontario
Chino Basin Municipal Water District
CPA
Monte Vista Water District
Attorney, City of Chino
California Institute for Men
Jurupa Community Services District
Chino Basin Municipal Water District
Milk Producers Counsel
Daily Bulletin
Chino Basin Municipal Water District
Chino Basin Municipal Water District
City of Ontario
Councilman, City of Chino

VICE-CHAIRMAN BORBA called the meeting to order at 9:57 A.M.

Following the Flag Salute,

A. PUBLIC COMMENT

VICE-CHAIRMAN BORBA:

First item is public comment. Anyone in the audience may come forward and state issues that are not on the agenda. Of course, as you all know, no official action can be taken although we can discuss them. We're at a handicap this morning as the Watermaster because our legal counsel was unable to be here, so I'll do the best I can and I see some attorneys out there, maybe, on an unbiased basis, you can help me out.

ED JAMES

My name is Ed James. I am Chairman of the Appropriative Pool and General Manager for Jurupa Community Services District. I appreciate George giving me the opportunity to speak because I have to leave at 10:30. I have a meeting with my own Board I have to get back to. I guess there's some things that happened last night that I want to bring to your attention. I don't think I can remember all of it, quite a bit occurred. But, I'm here at this point. I guess, first of all, I wanted to bring an olive branch. I couldn't find an olive branch and I didn't want to rip any live trees, so I'm bringing the olive leaf here. Basically, what I'm trying to do here is, you are the Chino Basin Watermaster Board, court appointed.

and I think some people have indicated that you don't have certain authorities and all that, and that's a misperception. I think we have to understand that we're working, there is a transition period, it's awkward for everyone, and I appreciate the Board's indulgence as we move forward. One of the actions that was taken last night is, we have set up an Executive Committee. The Executive Committee's purpose is to help bridge some of the communication problems that producers had, some with the Chief of Watermaster, and also with this Board. The members of that committee are the Chairman of the three pools, myself, Bob DeBerard from the Ag Pool and Steve who is the Vice-Chairman for the Non-Ag Pool. We will be setting up, we will be meeting people and if you have any comments, we'd be more than willing to meet with you also. There were a lot of actions taken. Another thing that's been set up is a committee of financial officers of various water agencies with Alice Lichti, to look over at the current Watermaster policies and procedures, make sure that some of the issues that occurred in the past on our accounting and financing are taken care of. There's a real concern out there and I would also indulge that Chino Basin Municipal Water District have their financial officer also participate and I think there will be more discussion on that. I appreciate the five minutes you gave me to talk and we are going to try to move forward and I'm hoping we can bridge some of the miscommunication and work more closely as we work through this transition period.

VICE-CHAIRMAN BORBA:

When would you anticipate this would begin.

ED JAMES:

The Committee is available now and we haven't had our meeting yet, but we will be meeting and we'll probably be sending a letter to everyone, including to the Watermaster Board. If there are questions, concerns, then we would like to meet with you to alleviate some of these concerns and if, wherever we can, improve communication.

VICE-CHAIRMAN BORBA:

Are all the pools involved in this Executive Committee?

ED JAMES:

Yes, all three chairmen of each pool are involved.

VICE-CHAIRMAN BORBA:

Anyone else at this time would like to under public comments.

LARRY RUDDER:

Mr. President, members of the Board, for the record, I'm Larry Rudder. I'm the Chief Financial Officer of the Chino Basin Municipal Water District and also Treasurer of the Watermaster. I just want to let the Board know, it is my intention to resign as the Treasurer of the Watermaster. The way things have evolved over the years, I have little or no authority in those matters so I think it's unfair to myself and inappropriate that I continue in that capacity, so therefore, I will be submitting my letter of resignation today.

VICE-CHAIRMAN BORBA:

Thank you. Any other public comments. If not, we'll go to Item 1 on the Agenda which is

1. FRAUDULENT ACTIVITY ON WATERMASTER ACCOUNTS, AND RELATED REQUESTS FOR AUDIT.

Who would like to come forward on that? Traci?

TRACI STEWART:

I guess I should relay the information that happened at yesterday's meeting with regard to the agenda items. There was, one of the motions that was made was that, with regard to today's agenda items on your agenda, there was a motion made that no closed session and that no action with regard to these be taken and this motion was carried by more than 80% of the Advisory Committee. So, my understanding is that that becomes a mandated action and I thought that this was something that Ed would have, or the Executive Committee, relay, but,

ED JAMES:

If I could. I was going to bring it up under action Item No. 1. The action is that we've, the Committee, at this point, because there's so much going on and there's so much information out there that people don't really know, we were asked and was basically heard on that this Board not take any official action. That you can go ahead and discuss the issues, you have all the right to do that, but we knew last night, we spend from 4 to 8:00 p.m. trying to work out all the issues going on. There's a lot of stuff out there, a lot of miscommunication, that's why this Executive Committee has been. And so there was a motion asking that this Board not take any official action but that does not mean that you cannot discuss it. You have a right to discuss, if you have any questions and all that. We're just asking at this point that you do not take any action but you have the right to ask information and pursue it and we will begin working with you and presenting questions and I would ask you to ask questions today, so then if we do have more questions, then we can meet and answer those in the future for you

ROBERT DOUGHERTY, ATTY. CITY OF ONTARIO:

If I might speak on that, I'm Robert Dougherty representing the City of Ontario. I just want to try and make it clear what the two motions were that were passed. There was a motion that was passed by less than 80% but more than 50% of the Advisory Committee last night and that was to request the Board not to take any personnel action in regard to Watermaster staff until such time as requested by the Advisory Committee. That, of course, did not receive an 80% vote, it did receive a more than 50% vote. Our understanding of the rules as set down in the Judgement is if the Board wishes to take up the issue of personnel action, it now would be incumbent upon the Board to hold a public hearing and to give an appropriate notice which I seem to recall as 30 days. The second motion which did pass by more than 80% of the vote of the Advisory Committee was with respect to this meeting here today and it was two-fold. One was a request that you not take any personnel action today, the second was that you not adjourn to closed session for the purpose of discussing any personnel action. Mr. James is correct, this does not preclude you from discussing the issues but it should be done in open session and it is my understanding that the person who is the subject of discussion would not object to that, because she did not object last night.

WYATT TROXEL

Mr. Chairman, my question was, how would we have a discussion and not have a closed session?

VICE-CHAIRMAN BORBA:

It's agendized as closed session so we would have to go to open session...I don't know the procedure here. Well, we'll take that, if we decide to do that. I'd like to ask some questions of Traci. Now, we haven't had an update on this activity we had, the problems you had over there with this embezzlement or fraud or whatever you had. Would you step forward and bring us up to date on what the activity is.

TRACI STEWART:

Yes sir. I'm sorry. What I reported to the Advisory Committee yesterday is that I received a communication from the FBI indicating that it was their policy not to participate in any discussions when there's an on-going investigation and they informed us that they are waiting for some information from B of A's investigation relative to our case. There was a representative from the Sheriff's Department there last night. Essentially, his statement was the same and then I did apprise the Committee that the bank had put the money back into the account as of yesterday and that they're in the process of computing the interest that we would have earned had the money stayed in our account.

VICE-CHAIRMAN BORBA:

Okay. Can we continue on that. My problem, or questions are if you will, is that I don't know your procedures. You have an auditor, you have other people that work for you in the department, as to how this occurred. Was this just an outright fraud from someone? Reading the article in the paper, an outsider would think somebody knew something. That's a perception, I think, that you could draw from that...so it may be an area that is confidential or can't be disclosed, but

TRACI STEWART:

Our first reaction, and I did disclose this at the meeting that we had on the 4th, but our first reaction was that possibly it was somebody that had inside information. But, when we discovered that there were other entities that were also having the same problem and that their mail was being routed to the

same address that our mail had been routed to, then we pretty much figured that, no, it wasn't the case that it was someone with inside information, that we were the victims. And, in fact, that's what the Sheriff's Detective said last night, was that this was something that was really a common occurrence and billions of dollars are lost every year and that, in fact, now he had a new victim because the Watermaster was a victim of forgery but the bank is now a victim of theft. So, that's kind of it in a nutshell. We did ultimately receive our November bank statement because we acted really quickly and put in a change of address at the post office where the mail would have had to go through and the post office in Rancho Cucamonga, even though the address on the statement was the correct address, it still came here to the District. It didn't have the P.O. Box of the District, nor did it have the District's address on it, but it came here to the District first. And so, we didn't receive it until the 12th of December. But, we did receive it, and you know, that was what part of the problem was with the October statement, because we've had so much of a challenge since last April in relocating, since we're still going through the same post office, a number of other types of correspondence are still coming here to the District. That's why we still have worked out to come by on Thursdays and pick up mail and we've asked that anything that the District deems might be appropriate, that they go ahead and immediately send it back through the post office so they will be aware that this is still occurring.

VICE-CHAIRMAN BORBA:

Okay, another question I have, I really appreciate this committee (something about communication), I'd like to, I'm a little naive on this 80/20 thing and as I understand it, if they committees vote 80/20, then this Board is really, rubber stamps that action. Is that your understanding?

ROBERT DOUGHERTY, ATTY. CITY OF ONTARIO:

It's a mandate that you take the action. If you don't then it would go to the Court.

VICE-CHAIRMAN BORBA:

My question is leading, Mr. Dougherty, is this. Let's say, in fact, that the Advisory level of employees, there's a terrible accident somewhere and there's a casualty, there's going to be losses, who's going to get sued. Is it going to be the Advisory Board or is it going to be the Watermaster?

ROBERT DOUGHERTY, ATTY. CITY OF ONTARIO:

Well, it would be the Watermaster if it was a Watermaster employee.

VICE-CHAIRMAN BORBA:

Well, no, as I understand these people are now Advisory Committee employees. Is that not true?

ROBERT DOUGHERTY, ATTY. CITY OF ONTARIO:

Well, there's some argument about that. They're actually on your payroll, but it is our understanding that the Advisory Committee does control their duties and their functions.

VICE-CHAIRMAN BORBA:

That's a concern I've always had and this 80/20, I understand that, okay, and I don't have a problem with it, as long as I don't have a liability that goes with it. If we have a liability that goes with it, then I have a concern.

ROBERT DOUGHERTY, ATTY. CITY OF ONTARIO:

It's also, I understand that, if the PERS issue is taken care of, that they can become officially off of your employee list.

TERRY CATLIN:

What is the PDRS?

TRACI STEWART:

PERS, "pers".

VICE-CHAIRMAN BORBA:

So, if we go to PERS, that liability ends?

ROBERT DOUGHERTY, ATTY. CITY OF ONTARIO:

Well, I understand that in order for the employees handled as a unit not under your auspices, but PERS, that basically, you just need to sign off at this time and the documents are ready for that purpose.

VICE-CHAIRMAN BORBA:

Another problem I have is, the fact that the 80/20 rule is appropriate, and it's fine with me, okay, as long as I don't have a responsibility, but then nevertheless here, we have a Watermaster meeting which we're all participating in, then if there's an 80/20 rule we have no say so, no authority, zero.

ROBERT DOUGHERTY, ATTY. CITY OF ONTARIO:

Under the Judgement, if it's a Watermaster issue, which this is, then the 80/20 rule is a mandate if there's more than 80%. As far, you've posed other issues that we'd really have to examine when and if they ever happened, that is the issue of liability for an accident. I haven't had time to analyze what would happen. In the context that we're speaking of today, then it's our opinion the 80/20 rule applies.

JIMMY GUTIEREZ, ATTY. CITY OF CHINO

I have the opposite view, but, once Ms. Stewart finishes, I'd like to address both the audit and that question.

VICE-CHAIRMAN BORBA:

Let me ask one more question, then I'll be quiet. (Pause) I lost my train of thought.

TRACI STEWART:

Can I say, Mr. Borba, that we maintain insurance just as you maintained insurance for that purpose in the name of Watermaster and that any entity or group of people who would be serving in the capacity of Watermaster would be covered by that insurance and in the context that there might be some lawsuit that was successful, my understanding would be that that would then be incumbent upon the producers of the Basin who are paying for the costs associated with Watermaster to assess themselves and pay that. It would not become a liability to whoever the entity is that is Watermaster, individually as a separate entity. We carry liability insurance and the bonds and everything that we understand we're supposed to be carrying.

TERRY CATLIN:

Is the Watermaster Board a party to that?

TRACI STEWART:

They're named, yes, by person currently and we would be naming, there's a position and then there's also, one is like a blanket position and the other one is an indemnity and then there's also insurance that

TERRY CATLIN:

That says we are liable?

TRACI STEWART:

That we're covered. You know, like for example, Alice is named, I am named, because we're people that are conducting the day-to-day business of Watermaster activities.

VICE-CHAIRMAN BORBA:

Okay, that question I had, then I'll be quiet. I got my train of thought back now. On the audit, there was a request for an audit and now we have an 80/20 rule here that says we're not to get involved in it as I understand it. What's going to happen as far as your procedures and whatever you're doing over there as far as making sure that everything is pure and

TRACI STEWART:

That's what Ed eluded to. The Committee appointed a committee of financial officers from the various producers that want to participate and asked that those people convene and then work with Alice primarily and look at our financial procedures and policies and if they find they want to recommend

something, they would be doing that back to the Advisory Committee. In addition to that, Alice and I are hopeful that they would help us come up with a recommendation for our future operations because we know that we need to change banks, we made that commitment, but we feel there are some options that we would like some input from some other people that are in the industry on. And, so we feel this committee would be really helpful to us.

VICE-CHAIRMAN BORBA:

What do you think? It's not my call Mr. Attorney. Any questions, comments? If nothing, Mr. Gutierrez?

JIMMY GUTIERREZ:

Thank you for allowing me to speak. My name is Jimmy Gutierrez. I'm here in the capacity of the City Attorney for the City of Chino. I represent the City Council today. First of all, at the council meeting of Tuesday past, our City Council voted unanimously, 5/0, on a lack of confidence on the management of Watermaster Services. I wanted to convey that to you, I think I sent you a letter yesterday on that effect. But, let me focus on the agenda item which is the audit. We believe that Chino Basin Municipal Water District should conduct an audit of the internal controls currently utilized by Watermaster Services. I understand that there was a system of controls, or there is a system of controls in place by Chino Basin, and I understand that, in one point in time, Watermaster Services used the same procedure. At this current time, we do not know if those procedures are being met, although I think the Controller has indicated that those are being met. However, the auditor, who actually did the audit, stated yesterday at the Advisory Committee meeting that it requires to be tested. He cannot take anybody's word, he doesn't know if the same procedures are being utilized. But a system of internal controls is, is basically, assurance that certain procedures are being taken to make sure that money isn't being taken, and I'm not accusing anybody of taking any money, that the appropriate procedures are being utilized to bank the money and deal with the bank. We don't know those things and we'd like there to be an audit for the simple reason that it's a question of confidence, especially since it hit the paper and Bob Page of the Daily Bulletin is here and I'm sure we will see an article in the paper tomorrow and people are going to continue to ask "what is going on, what is going on". We're asking that question. But, there's also an issue of perception. What does the public think? And, the reason it's important is because everybody in Chino Basin pays for these services, pays for this loss, cause all those costs are passed on. And, I think that is something that is often lost track of. The other question I have with respect to banking services is I heard yesterday that Watermaster Services banks with the Bank of America and I believe that Watermaster Services does not have a contract for banking services with the Bank of America. I am very familiar with that contract because I've analyzed it for the City of Chino and I'm personally not happy with that contract for the reason that the Bank of America in the contract seeks to limit its liability on these types of losses. I wrote a letter to the Bank of America on behalf of the City of Chino two weeks ago, telling them that if they do not accept my amendments to their standard contract, that I would recommend to the City Council that we bank with another bank because they're seeking to limit their liability. I think all those issues need to be looked at and that's the reason why I think the audit needs to be made. There's also another question that's directly resolved because the question of the audit is just the peak of the iceberg. The real issue is the structure of Watermaster. At this point in time, we have employees of Chino Basin Municipal Water District basically being accountable to themselves, basically being accountable to the Advisory Committee, which in my view of the Judgement is not possible and they have been operating illegally. I think their activity is wholly unauthorized in every conceivable respect and I want to go into that a little bit, but, I think the more important issue because, is this, that I'd like to do. I wish your attorney was here so that he could advise you, but I took the liberty of bringing the Judgement and I want to read a couple of sentences in the Judgement so that you can understand where the authority really lies. I'm going to read Paragraph 17 from the Judgement that states what the powers and duties of the Watermaster is and you are the Watermaster. It says:

WYATT TROXEL:

Can I have a point of order question? What agenda item are we talking about?

JIMMY GUTIERREZ:

No. 1, because you're being told that you can't do an audit and I'm going to tell you that under the Judgement, not only may you, but you must.

WYATT TROXEL:

Okay, I wasn't sure what subject you were talking about.

JIMMY GUTIERREZ:

Paragraph 17 says: "Subject to the continuing supervision and control of the Court, Watermaster shall have and may exercise the express powers, and shall perform the duties, as provided in this Judgment or hereafter ordered or authorized by the Court..." Paragraph 20 say "Watermaster may employ or retain such administrative, engineering, geologic, accounting, legal or other specialized personnel and consultants as may be deemed appropriate in the carrying out of its powers and shall require appropriate bonds from all officers and employees handling Watermaster funds." Also, Paragraph 25, "Watermaster may enter into contracts for the performance of any powers herein granted;..." Those are your powers. Now, I want to go to this 80/20 rule because, in my opinion, it has been totally mis-interrupted, misapplied to the point that it makes no sense and I totally disagree with Mr. Dougherty. That's what you'd expect when you have two lawyers in the same room. But, what's important is the definition of discretionary determinations because what it says under Paragraph 38(b) of the Advisory Committee, which is the paragraph that gives power to the Advisory Committee, it says "The Advisory Committee shall have the duty to study, and the power to recommend, review and act upon all discretionary determinations..." it goes on to say "When any recommendation or advice of the Advisory Committee is received by Watermaster, action consistent therewith may be taken by Watermaster; provided, that any recommendation approved by 80 votes or more in the Advisory Committee shall constitute a mandate for action by Watermaster consistent therewith." but it goes on to say "If Watermaster is unwilling or unable to act pursuant to recommendation or advice from the Advisory Committee..." I won't read the rest of it but clearly, it says if you're unable or unwilling, therefore, you have the power not to follow the 80% mandate. But what it says is that, if you do not agree, you can have a hearing but the hearing, at the hearing make findings and then you can act in the manner you want and if the Advisory Committee doesn't like it, the Advisory Committee takes you to Court. But there is nothing in this Judgment, and I defy anyone, including Mr. Dougherty, to point to language in the Judgment that says that you must act in accordance with that 80% vote. It is not the case and also, a more important distinction which I now come to is the distinction between your powers as administrators as employees is different from discretionary action. I believe that the Judgment gives Watermaster enumerated powers to do the things such as I read, and only Watermaster has those. Under the powers of the Advisory Committee, there is no statement that the Advisory Committee can hire anybody, can hire a lawyer, can hire an accountant, can hire anybody else, nor does the Advisory Committee have the power to enter into any contract such as the lease they have on a facility now. Nor, is there anything in the Advisory Committee that says that the Watermaster is prevented from doing its duties under the Judgment. It talks about discretionary and there is no place in the Judgment where discretionary is defined except where it comes in the Judgment a discussion about a plan for water basin management of the water in the District. That's the only other place a discretionary term is used. Now, I don't expect you to take my word for it, because I'm not your lawyer. However, I want you to be aware that at least the City of Chino believes this to be the case and has taken the action. As a matter of fact, the City of Chino was the sole dissenter in the vote taken a year ago to displace Chino Basin Watermaster and we filed an opposition and the Judge believed enough in what we were saying that he did not grant the motion to replace Chino Basin Board with this Advisory Committee to be the Watermaster because there's a structural component within the Judgment that says the Watermaster is you, you report to the Court, not to the Advisory Committee. The Advisory Committee has their rights, their powers, and if they don't like anything that you do, the Advisory Committee can challenge you and we believe that it is an inherent dysfunction if we combine the structure that is contemplated in the Judgment where on the one hand, the Watermaster, which is yourselves administer the groundwater in this Basin with the rights of the producers to disagree. Getting back to the point, we believe that the audit should take place, we believe that you should commission the audit, we need to have confidence and we need to have the Daily Bulletin and the San Bernardino Sun and all the other papers change their perception about what is going on within Watermaster. Something smells and everybody knows that where there's a smell, there's a corpse someplace. I'm not pointing the finger at anybody, but there, I think, is a reason why the Chief of Watermaster Services wants to limit the scope of the audit. And, my question is, what is she hiding? Maybe she's not hiding anything. Let the audit go forth.

ROBERT DOUGHERTY, ATTY. CITY OF ONTARIO:

My I have a chance to address Mr. Gutierrez' remarks?

VICE-CHAIRMAN BORBA:

Just a minute. Do we have any questions of Mr. Gutierrez from the panel?

TERRY CATLIN:

Just my understanding. My understanding is that there is a distinction between policy issues versus administrative issues?

JIMMY GUTIERREZ:

I believe so.

TERRY CATLIN:

And that, according to what you're saying, this Board can take administrative issues without the need for an 80% vote?

JIMMY GUTIERREZ:

That is my interpretation of the Judgment, yes.

TERRY CATLIN:

I also talked to, I talked to Jean, our legal counsel, personally, over the phone earlier this week and he pretty much said the same thing that you did. I'm a little hesitant, I mean I wish he were here so he could speak for himself but that is my understanding. I approached him because being a new kid on the block, I wanted to try and understand what some of these Watermaster issues were and he clearly stated to me that, as the Watermaster Board, we have administrative powers that we can exercise without a mandate from the Advisory Committee.

WYATT TROXEL:

One other question. According to what you've indicated to us that, should there be a greater than 80% rule or determination by the Advisory Committee, that we can override that but the procedure would be to call a hearing, according to what you read.

JIMMY GUTIERREZ:

I think it depends, first of all, whether, on discretionary actions only. And, I don't think this one qualifies as a discretionary action. I think that it is administrative or ministerial as a designated power to you under the Judgment.

VICE-CHAIRMAN BORBA:

Mr. James, you need to leave go first.

ED JAMES:

It's tough following an attorney. A lot of things Mr. Gutierrez said, I agree. There's a lot of issues there and a lot of misunderstanding. However, for his opinion, I can bring ten other attorneys and have different opinions, they'll come up here and tell you different things. What the action was action, again, because of this, there's a lot of things that need to be resolved. First of all, on the audit, and I agree with Jimmy that we have a perception problem, P.R. problem out there with this occurring. The concern that the Committee took last night was, the auditor came over and said to do it right, it's going to cost over \$30,000. A lot of people said that's a lot of money to spend. We probably can look at these, we knew that Chino Basin had correct policies, they've been scrutinized and the auditor said he scrutinized but he has never scrutinized new Watermaster. So, what we asked was, pulling all the people together, pulling the financial officers from the various agencies, and that's why I would want Chino Basin Municipal Water District to appoint someone on that committee, we have Alice Lichti, who used to be your CEO, okay, thank you, you all know what she, I never worked here when she was here, but she was excellent at the time. Everyone had a lot of confidence, you had confidence. She'll be there. We have to proceed till the public realizes we are doing everything to protect it. If the group comes back and says "hey, there's still things falling through the cracks and we need to spend the \$30,000, we want to do it". We just didn't want to spend people's money, and we're talking about everyone's money here, if it didn't need to be wasted. And, yet, we're still just trying to reserve and protect the integrity of Watermaster and making sure that people out there believe that everything is

being done in their interest. There are several personnel issues and I was going to stay around, but I have to leave right now. There are concerns I have and that's what this committee wants to do. We want to (garbled). I agree with Jimmy, they are, right now because there's no one else, they are Chino Basin Municipal Water District employees and there are rules and procedures, they are here and (garbled). Once they become over and they change and we're going through this transition, there's going to have to be a contract. That has not been developed yet. We're in limbo folks and it's very tough. But there are concerns that have happened on the personnel issues that need to be resolved and that's what I hope the Executive Committee can come in and meet with you, because I found that there's some merit increases that have not been given. Turns out that we haven't presented the information to Chino Basin to get those. That has to be resolved, there are people out there who deserve just compensation, they haven't gotten that. There are other issues too I found out. But, because of this lack of communication, people are being hurt by it and that's where we're hopefully ought to be resolved and move forward. Again, what the Advisory Committee said is, don't take any action here, we want to work with you, you work with us, let's resolve this. There is the personnel or the perception out there, we've got to get that resolved, and let's move forward. Thank you and I'm sorry I have to leave but I appreciate your time.

VICE-CHAIRMAN BORBA:

Thank you Mr. James. Mr. Dougherty.

ROBERT DOUGHERTY, ATTY. CITY OF ONTARIO:

Thank you Mr. Chairman. I think what I'd like to do is start with reading, word for word, the section of the Judgment that Mr. Gutierrez paraphrased for you. And, it is paragraph 38(b)(1) entitled Committee Initiative. It says, "When any recommendation or advice of the Advisory Committee is received by Watermaster, action consistent therewith may be taken by Watermaster; provided, that any recommendation approved by 80 votes or more in the Advisory Committee shall constitute a mandate for action by Watermaster consistent therewith. If Watermaster is unwilling or unable to act", next page, "pursuant to recommendation or advice from the Advisory Committee (other than such mandatory recommendations), Watermaster shall hold a public hearing, which shall be followed by written findings and decisions. Thereafter, Watermaster may act in accordance with said decision, whether consistent with or contrary to said Advisory Committee recommendation. Such action shall be subject to review by the Court, as in the case of all other Watermaster determinations." That's where the subsection ends. Another issue was brought up and that was the question of whether an action is discretionily or mandatory. Well, discretionary or mandatory does not equate with administrative. A lot of what you do, a lot of what every organization does is administrative, however, it can be an administrative action which is either mandatory or discretionary, depending upon what it is that the Board or the body taking action does. It is mandatory when you have no discretion to follow. For example, if you are precluded from doing something, then it's mandatory that you don't. If it is required that you pay your taxes on time for the body, if the body has taxes, that's mandatory. On the other hand, you have perhaps a mandatory duty to look at personnel issues of those employees that are yours, and we won't get into that issue now of whose employee Chief of Watermaster Services is. But, once you have that mandatory duty to look into it, it's discretionary how you handle it. You can either discretionary take action or not take action. What the Advisory Committee has asked, by more than 80% today, has been that you do not go into closed session and you do not take any action today. I think that is a direction that is given with respect to a discretionary matter. Now, having said that, I think I'm going to be at this point in time, totally politically incorrect. I've sat through these meetings now since last February at the Advisory Committee and I have absolutely been appalled at the various, what I perceive as hidden agendas that have been going on in that body. Without getting into what they are, I will say, I wonder why they are, who has them, sometimes I wonder what they are, although sometimes I can guess and, for some reason, the agenda at this point, by at least the City of Chino and the Monte Vista Water Company has been to get the Chief of Watermaster Services. Now, I ask why. Well, I think there are a number of possible explanations, but I won't get into that because I would only be speculating and I can't put myself inside somebody else's head and do that. However, it is rather apparent that that is the objective. A vote was taken last night, there was an attempt to reconcile everything. Another issue that was up for consideration was whether Mr. Grindstaff should remain as the Chairman of the Advisory Committee in view of the letter that had been written by his Board at Monte Vista to the Advisory Committee and also a follow-up letter that came to light. At the end of the meeting, it was determined that no action would be taken in the spirit of the olive branch, to replace Mr. Grindstaff. It was also the overwhelming recommendation to back off and let's continue

with staff as it is and take no action that might result in an adverse determination for the Chief of Watermaster Services. Now, apparently, the City of Chino cannot accept that and they are here today arguing all sorts of "legal-ease" which was incorrectly quoted as you can see, why they feel the Board should take action when the Advisory Committee requested otherwise. Again, this whole thing about an audit I think is a total smoke screen. Now, audits, in and of themselves are right and proper and should be done for proper purposes, but let's look at exactly what happened in this incident. Somebody got a hold of the account number. Now, that can be done in any number of ways, and I've checked this out with the Sheriff's Department, I've checked it out with my banker, they basically can either get your check at the bank, or it can be somebody you send a check to, or it could be somebody that pulls your deposit slip out of the trash if you happen to not shred it, and that may be something that should be looked at, what is and what is not shredded, but once they get that number, they can just simply use their home computer, I am told, and duplicate that bank number, print out checks, run it through and, I'm not sure that Mr. Borboa's bank that he's associated with has the same practice, but at least I've talked to bankers that say it is much more expensive to them, in terms of cost, to check signatures, that the sheer volume of checks just precludes it and that basically, it's a cost, an unfortunate cost of doing business if a forged check gets through. And, under the commercial code which is adopted in I believe all 50 States now, as long as it is reported within a reasonable length of time, and I think the maximum amount is a year, although some banks do try to limit it by contract with a shorter period, the bank is liable to make good the loss by that kind of forgery. That was a decision by the State Legislatures. It's a question of, there's a risk of loss, who is better able to bare the risk of loss and the legislative determination is that it is the bank, which, of course, then obviously, is part of the cost of doing business to all the bank customers. So what is the purpose of an audit that would be brought about as a result of what happened here? The purpose might be to find out if anything happened, did any deposit slips get thrown out without being shredded, okay. But, to go beyond that, to go beyond and try to figure out anything else based on this incident really is unnecessary and I think is being used as a smoke screen for a different agenda than what has been stated publicly. That is to see if something is wrong with the Watermaster staff's administrative procedures. So, I don't know how this Board will react. Again, it was the request of the Advisory Committee that you not proceed with any discussion in closed session or with any personnel action. I believe that based upon what I've read of Paragraph 38, that that is a mandate because if you take action, it would be a discretionary action. Thank you very much.

JIMMY GUTIERREZ:

I would just like to clarify what the position is of the City of Chino. I articulated this last night at the Advisory Committee. The City of Chino believes that Traci Stewart is your employee and has no business telling you what to do with your employee. During the discussion Tuesday night at the counsel meeting, counsel stated that. That's why the letter to you merely says "lack of confidence in water services administration". We do not think that we have any business to tell you what to do. For the same reason, we don't think that the Advisory Committee has any business to tell you what to do. Now, Traci Stewart is your employee. She acknowledges that. I noticed that she signed in at your sign-in sheet as representing CBMWD, not Watermaster, not Watermaster Services, CBMWD in her own writing. She acknowledges she's an employee of CBMWD. Fred Fudacz, her lawyer, or the lawyer for the Advisory Committee, said the same thing yesterday. The point is that, when it comes to CBMWD employees, the Judgment's silent about the Advisory Committee being involved in that and that's what I said last night. I do not think that we should interfere with that. I think we should not make any vote on it, and I voted consistent with that. I think the best we should do, and I participated in a motion voting on a lack of confidence on what is occurring in the administration of those services and that's our position. Thank you.

JOE GRINDSTAFF:

I was hoping not to have to speak today. Joe Grindstaff and I'm the General Manager of Monte Vista Water District and I'm not going to talk about any of the legal issues that are here. I can say that, representing Monte Vista Water District, Monte Vista Water District believes, for good reasons, I think, that there should be an audit, that it should be a full audit. Monte Vista Water District, as I explained yesterday, when in fact the loss occurred on a Wednesday, I was not informed of that. Traci changed the account and the account number within the bank. On Friday, we received a call and people here tell me that's common. I verified again with my controller, he has never, in seventeen years as the controller at Monte Vista Water District, received a call from Watermaster Services, and he said he's never been late either, by-the-way. On the Friday, after the discrepancy was discovered, our district

received a call asking that we immediately bring over our check for our administrative fees, \$147,000. That check was delivered that afternoon. Monday night, and I was even out of town at the time this all occurred, Monday night, I got a message and called Traci ... (end of side A)...not just an account number that fell in the trash someplace, or that somebody had and had tried to transfer \$142,000 out of that new account into the old account. Now, in fact, I believe that that probably all was coincidence, but certainly, it gave rise to great concern in our agency and our controller has been a banker and has worked as an internal auditor and on Wednesday morning, the first time I could talk to him about this, he said to me, Joe, this is terrible, we need to have an audit. And, I had suggested that the day before. He actually called around; I think he called virtually every CFO, he told me that he called, I think it was ten or twelve chief financial officers of agencies in our area. And, this morning I verified, he said he called the City of Ontario, he called the City of Upland, he called the City of Chino, the City of Chino Hills, Cucamonga County Water District, he called virtually all of those places, and unanimously, they said there should be an audit, the chief financial officers of those organizations. He, on the, the only disagreements, one of the CFOs said you should wait until the police have finished investigating staff and another CFO said, you know, it shouldn't be the auditor that's regularly used because there may be a conflict there. But other than that, it was unanimous there should be an audit. At our Board meeting on Wednesday night, after Cal had called around, Cai made a report about that. Our Board wrote a letter, or directed that a letter be written and actually, personally reviewed, and started to send a letter saying that we need to have an audit. That was not, never has been, the motive of our district to do anything personnel wise, to attack any individual. Our district is a representative of their customers and our Board of Directors takes their fiduciary responsibilities very seriously and I resant and categorically deny any implication that our position on this has anything to do with anything except for the fact that we believe we should look at the internal controls. Any questions?

WYATT TROXEL:

I have a general question. If we were to consider to recommend an audit, and say it cost \$30,000, or whatever it is, who pays for it? Who is actually paying for it?

ALICE LIGHT:

The producers would end up paying for it.

WYATT TROXEL:

Not the general public? It's not Chino Basin Municipal Water District?

ALICE LIGHT:

In some instances, it will be passed through, probably not a significant increase or anything like that on the water bills, but the agencies would pay for it and the majority would be paid for by the cities.

WYATT TROXEL:

Okay. So the producers are represented on the Advisory Committee?

ALICE LIGHT:

Yes, the Advisory Committee is made up of predominately cities, and the agricultural pool, and the industrial area (the non-agricultural pool) are also represented with, I think, 20% votes.

JOE GRINDSTAFF:

I'd like to add that, if, in fact, this Board decides to do that, it will probably invite legal action and it may end up being through that legal action that you would pay. I think you should be aware. In my opinion, and I voted against that motion, but in my opinion, that is a consequence that might occur. And, I shouldn't probably give legal advice, but I'm telling you that I think, in fact, that the Advisory Committee was very sincere and committed to the fact that they wanted to do it a different way and that some of those people feel so strongly that they would elect, at that point, to go to Court, and I just think that should be on the table.

WYATT TROXEL:

Okay. If I could try to understand. I think, out of all the mush that occurred today, mush because we got a lot of conflicting statements, what I think I've heard is that, members of the Advisory Committee would be supportive of an audit, but be cautious in how it's initiated and for us not to suggest one at this time. Is that what I heard?

JOE GRINDSTAFF:

I should be careful about speaking for the Advisory Committee because

WYATT TROXEL:

You're the Chairman of it

JOE GRINDSTAFF:

I know, but there are some people that feel, I think that's accurate for what the Advisory Committee would, that they, the Advisory Committee would say, look, we're trying to work through this, we have a plan, we think that in the best interest of all of us working together, you should try our plan.

WYATT TROXEL:

From what I've heard, you've formed two, in a sense, ad-hoc committees, an Executive Committee and, I guess what I'll call a CFO Committee that would take up, among other things, this issue and that what we would then do is hold off and wait to see what they recommend in turn. As a group, cooperatively, what is an appropriate course and time table?

JOE GRINDSTAFF:

I think that's what the Advisory Committee wants to do, yes, to let those CFO's meet and review the issue and make recommendations. And, can I step back into my hat from Monte Vista for a moment? From Monte Vista's perspective, one of the flaws of that is just the time table and the logistics and nobody was really even appointed to be in charge of seeing that that gets done. Monte Vista would feel much more comfortable if, in fact, there was a time table and a person responsible to see we have all of the CFO's together, they've met and they're going to bring a recommendation back to everybody on a date certain and that's something we can rely on rather than a (garbled) where they're going to appoint a committee and they're going to get together and they're going to look at things and tell us what we should be doing.

VICE-CHAIRMAN BORBA:

You say there's no time table on that?

JOE GRINDSTAFF:

Not that I'm aware of. There was no time table.

TRACI STEWART

My intention, Mr. Borba, was to go ahead and put out a letter this afternoon indicating the action that the Advisory Committee had taken and to request participants to get back to us by the beginning of next week so that we did have a sense of who was going to be participating on it and we could get something scheduled, because there wasn't any time table set up, Joe's correct. So, I didn't know how else to do it.

ROBERT DOUGHERTY, ATTY. CITY OF ONTARIO:

It was my understanding that basically, the ad-hoc Executive Committee would be overseeing this and that the time table was basically, do it as soon as possible. In other words, get it done.

VICE-CHAIRMAN BORBA:

I hope so, because that'll be a mandate if there isn't any, to get something done.

ANNE DUNIHUE:

Mr. Chairman, I just wanted to ask a question. At this point in time, has the money that, Watermaster is the victim of fraud, has that money been reinstated into your account? (Affirmed by a nod from Alice) So that, there actually, at this point there is no dollar figure lost.

ALICE LICHTI:

Well, actually, at this point in time, we're short \$74 that has not yet been returned to us because the fraudulent people ordered new checks and that (people laughed and coughed) she told me yesterday.

ANNE DUNIHUE:

That's coming through too?

ALICE LICHT:

Yes, that's coming through too.

VICE-CHAIRMAN BORBA:

Mr. Grindstaff, thank you very much. Oh, excuse me Mr. Grindstaff, we've got a question for you.

TERRY CATLIN:

Based on the Advisory Committee's recommendation to have this audit. Those CFO's are from the Advisory Committee or from the, where are they from?

JOE GRINDSTAFF:

The CFO's were, to be invited were the CFO's from the Advisory Committee members and Chino Basin Municipal Water District and, I don't know, was there anybody else? I know that Ed was trying to open it up.

TRACI STEWART

Whoever would like to participate.

ROBERT DOUGHERTY, ATTY. CITY OF ONTARIO:

It was basically accounting personnel.

JOE GRINDSTAFF:

Yeah, someone who had internal audit experience.

ROBERT DOUGHERTY, ATTY. CITY OF ONTARIO:

Right. And the number wasn't limited. It was basically thrown out for volunteers, but there was an indication, I felt, that there would be quite a few volunteers.

TRACI STEWART

I know Mr. Koopman in the Ag Pool was concerned because they didn't really have a specific CPA, but they would like to see a CPA at least on it. So, we have a sense that we should have some good representation. There's an interest in having good representation.

TERRY CATLIN:

Would this audit be limited, or full?

JOE GRINDSTAFF:

The discussion was not even that it would be an audit, but these guys, these people, would get together, look at what we're doing, and make recommendations and that they would use their expertise and if, in fact, they felt that there was a full audit needed, then they would recommend that, or if they felt we needed just to revise policies, it think, am I correct, that the CFO's would make that decision?

TERRY CATLIN:

Depending on the makeup of that body. Is there potential for a bias or conflict of interest?

JOE GRINDSTAFF:

There's probably always potential. I believe that the CFO's for the agencies in this area are honorable people. I believe that and I believe that for every agency. I have no reason to think otherwise, whether it's a city or a district or whoever and, if the politics are kept out, I believe, generally, CFO's are more inclined to keep politics out, I think that they would come together, probably without any of the rest of us being there, and make decisions. But, obviously, it is possible that there could be a conflict and obviously, it is possible that the CFO's wouldn't agree. Maybe that Larry Rudder would be assigned, he'd go there and he'd say I think we need to do this and, Cal Good, our controller, would go there and say I think we need to do that, and they'd disagree and there could be, I don't know.

TERRY CATLIN:

So there's the potential that it could be dragged on and no resolution.

(Jimmy Gutierrez left the room with his council member, Dennis Yates)

JOE GRINDSTAFF:

That is potential, but the intent was that it would happen soon and that was Monte Vista's concern, or one of our concerns.

WYATT TROXEL:

As I understand it now, the accountant/CFO group would do a preliminary review of practices and procedures and they would try to make a determination if a full audit was warranted or not and then there would be some recommendation back to the Advisory Board in that regard. And, that, perhaps there would be an audit subsequent to that.

JOE GRINDSTAFF:

I guess that, I think that is accurate.

WYATT TROXEL:

I'm just trying to understand it.

ROBERT DOUGHERTY, ATTY. CITY OF ONTARIO:

The problem I think I have, and I believe a number of other people have, is when we say audit. It is kind of a generic term and we really don't define what is going to happen. Then we hear "full audit" and "limited audit" but what do those terms mean. I don't know. If the objective is to find out how the thing that happened to the Watermaster account happened, and to take precautions to try and make sure, to the best we can, that it will not happen again, that is a focus. Now, the question is, that's what caused the concern, should that be the focus, or should it go beyond that. I think, certainly, that CEO's are going to look at that issue. But in connection with looking at that issue, which is the immediate concern, there's nothing to keep them from looking at other practices that might require review and possible improvement because, obviously, anything could be improved. But I think at this point, they're certainly going to look at it with an open mind. I don't see where there would be bias here or what have you. Certainly, I don't mind people reviewing my procedures and telling me where I could improve. But, on the other hand, I know that other people take it as an affront and a s_____ on their intelligence and get all upset if that happens. But, I don't think we're dealing with that attitude here. I think that everyone honestly wants to know how this happened and what, if anything, could be done to avoid it happening in the future.

ANNE DUNIHUE:

Then the process that you see now is that you would have the CFO's look at the process and then determine whether an audit should be done rather than just having an audit to have an audit.

JOE GRINDSTAFF:

Yeah, I think that's accurate. They would look at the process, maybe look at the procedures, in fact, that are currently used and evaluate those, and look at their own time, and say could we do this, should we do this, what's the proper way. It's kind of left to the CFO's to come back and make a recommendation. They look at the situation and they know more than Bob or I or any of the rest of us probably in here about what should be done, so that was the recommendation.

VICE-CHAIRMAN BORBA:

Mr. Catlin?

TERRY CATLIN:

So aside from the event of there being a loss of funds, there would also be an examination of the policies and procedures as a whole and an opinion rendered as to its integrity?

JOE GRINDSTAFF:

Of the financial policies and procedures. That was not something that was a task given to the CFO's. They're going to look at it and say, this is what we think should be done. There was no assignment to give an opinion because an opinion would require an independent auditor be hired and that he or she do testing and do what I call a full audit which means, they actually test and say, there was a \$9,000 loss I think Mr. Fedak explained yesterday and we want to conduct our testing procedure to determine if another \$9,000 loss could occur and to make sure policies, procedures and practices are in place that would prevent that kind of thing from occurring again. And, as I understand it, that's what a full audit would do. Maybe I should defer it to the CPA here. (CPA said yes) Yes. But that was not the task. It could be that the CFO's however, would come back and say that should be the task, we aren't the ones to do it; or, that should be the task and we have one of our CFO's who is capable and competent to do that. He is volunteering to spend his city's or his district's or his agency's time to conduct that audit for us. I think it's more likely, if they decide it is necessary, that they would recommend that someone be hired. But, it is possible the other way, I think.

TERRY CATLIN:

I would think that in the interest of calming public fears one would want an official opinion rendered.

JOE GRINDSTAFF:

That is certainly Monte Vista's opinion, but I should have somebody else stand here and express the Advisory Committee's opinion sometimes.

DENNIS YATES:

My name is Dennis Yates, I'm a councilman from the City of Chino. I guess I might be the original culprit with the Watermaster issue. It seems like an eternity ago when I got wind that these very people that are addressing you about the audit are the very people that tried to vote you folks out of the Watermaster Board. So, I want you to keep that in your mind. Being a fellow elected official, I'm a little aghast sitting here that these employees sitting behind me are again trying to dictate policy and that is your job as elected officials, it's my job as an elected official and I shouldn't have to remind you of that. The proposal of the members doing a self audit to me is like putting the fox in the hen house. It's almost to the point, to me, where it's hilarious. It would be what I consider a "drive-by audit". I don't think it would be effective and it will be steered by these employees of the Advisory Board. I have already had conference with counsel on the issue of requesting a Grand Jury Audit of the Watermaster. They've already voted 5/0 to instruct our City attorney, Mr. Gutierrez, to do so. If this Board, elected body, does not chose today to do an audit, to develop your own RFP, you will leave the City of Chino no other avenue but to request a Grand Jury Audit and that's a promise from the City of Chino. On the second item of the agenda, we did, Tuesday night, unanimously, 5/0 vote, a vote of "no confidence" for the administration of the Watermaster for several reasons. One, the budgeting, enlarging the budget of Watermaster, the unauthorized leasing of a new office building, some suspicious hiring of an engineer and what it all boils down to Board, is, if I have a problem with your administrator, I don't feel I have to go to, or any other elected official, go to the Advisory Committee employees to lodge a complaint against an employee of the Watermaster. I should be able to come to you folks who are their employer and do that. But the Advisory Board is working it now to where, everything has to go through them. You have to go through them, I have to go through them. But, they're not elected officials, we are. We're the ones that are going to have to pay the preacher down the road. So, I beg of you to go ahead and authorize the audit, develop the RFP and get this audit going to get the trust back to the Watermaster Board. And, also, I would request that you do go into closed session and you consider a "vote of no confidence" of the administrator of the Watermaster. There any questions?

LARRY RUDDER:

Yes. In light of that conversation, I'd like to express a concern I've had in the past as Finance Officer in the Watermaster for a few years, there were several occasions, not many, but several occasions where I advised the Advisory Committee that the action they were contemplating was not sound financial practice, or it violated District policy. The two or three times that this happened, they, in a very cavalier manner I might add, dismissed it. They had 80% of the votes so, go sit down. And, I don't know if something similar to that is going to happen with this audit, internal audit. Are they going to pick and choose what they like at their discretion? Or even if they come up with a list of procedures

and they change their mind later, can they change their mind later on a case by case basis? So, that's a concern I had as Financial Officer.

VICE-CHAIRMAN BORBA:

Your first comment about those exceptions that you

LARRY RUDDER:

Ocoasionally, there were exceptions in either accounting practice, I didn't think it was good accounting practice, or it violated District policy and procedure and I informed the Advisory Committee at the time they were considering the action and I was informed by them, and supported by their Counsel also, that they had 80% of the vote so, therefore, they didn't have to follow the practice.

VICE-CHAIRMAN BORBA:

Did you find that these exceptions were something that could lead to losses or anything, or just strictly

LARRY RUDDER:

No, I think these were more, honestly, just for convenience. But, they just didn't want to go to the trouble or whatever, or didn't want to follow the District's policies and procedures. They disagreed with it so, we'll waive it.

VICE-CHAIRMAN BORBA:

Thank you. Any questions for Mr. Rudder?

ROBERT DOUGHERTY, ATTY. CITY OF ONTARIO:

I think the appropriate question would be exactly what the issue was, exactly what the practice was, and exactly when was the advice given because, again, it's very difficult for anyone to respond to nebula as generic remarks as such that were just made. And, with respect to this issue of the integrity of the CEO's, the fox in the hen house so to speak concern, there's certainly nothing that would keep the City of Chino's Financial Officer from participating and, of course, Chino Basin's Financial Officer was invited to participate, so.

VICE-CHAIRMAN BORBA:

Any other comment?

ALICE LICHTI:

May I? I've noticed several times throughout the meeting that there's confusion between you five people sitting here as the Watermaster Board and the District Board. It's difficult and it's a difficult position. Since 1977, when the Watermaster was first formed, there have been problems, not major problems, but miscommunications between the Advisory Committee and the District. The Advisory Committee wanting employees of the District that happen to be assigned to work for them to do certain tasks and I don't believe the situation has changed today, only today, since last March's action to move the Watermaster to different headquarters, the employees are kindof stuck out in the middle. Legally, they are employees of Chino Basin Municipal Water District.

VICE-CHAIRMAN BORBA:

If you're giving us a legal opinion here, be careful now.

ALICE LICHTI:

No. Their payroll taxes are paid through the District's payroll numbers, PERS at this time, looks on them as Chino Basin MWD employees. The action was taken last year to, as soon as possible, remove those employees from that position and make them Watermaster employees and until the Watermaster Board makeup is changed, they would still be your employees, although they would be filing taxes under a different ID number and they would be paying directly to PERS their retirement portions. So, it's very, very confusing as to who works for who. And, as I say, there has always, since 1978, there have been problems between direction given to District employees by the Advisory Committee that were assigned to work for them and District's other pulls on them for their time and efforts as to who they were responsible to. The present employees feel they are responsible to the Advisory Committee. There are certain procedures that still need to be followed because they are

District employees as far as merit increases are concerned. I personally, will welcome an audit. I feel that the audit will best be done by people in positions similar to Mr. Rudder because they know, through long experience, what should be in place as far as policies and procedures relating to finances are concerned. I don't believe that any of them have ever come up against a fraud case such as we have just experienced. That doesn't say that they can't tomorrow. And, in speaking with Mr. Rudder following the fraud case, he has told me that he has looked at his own procedures and tightened down a few screws. I wouldn't be a bit surprised if some of the other financial officers haven't done likewise. They have a wealth of knowledge there that we can draw on at very minimal cost and if they will respond as quickly as Traci can get the letters out to them as far as who is willing to work on this committee, we can come up with either yes, your procedures are good, they should be modified (and if they need to be modified, I have no hesitation in doing that), and I think you'll find that financial officers, as a whole, as a body, are people with integrity and we don't let ourselves be swayed by politics. So, it would be my recommendation that we at least give the financial officers an opportunity to look into the picture, make their recommendations and there's going to be an Advisory Committee meeting on the 22nd is that right? Okay, pools on the 22nd and Advisory on the 13th of February. That's a little more than a month away. If they can have a report ready for that meeting, there will be a lot of time saved. If we go out for proposals, for a formal audit, the Watermaster's next meeting is in March. Unless there's a special Watermaster meeting called, the proposals could not be awarded prior to then, the Advisory Committee would not look at them until February 13 and you would lose up to two months before getting a move on this situation.

TERRY CATLIN:

Question. You're saying if you went out for bid they would not be looked at by the Advisory Committee until February 13, is that right?

ALICE LICHTI:

That would be their next regular meeting at which time they would review something, unless a special meeting was called for that purpose.

TERRY CATLIN:

But, then, there's still the question of whether or not this Board has administrative powers to contract with an auditor independently of the Advisory Committee. In my mind

ALICE LICHTI:

If you decided you wanted to hire an auditor and if your directions were given today to go out for proposals, if that was your decision and that was your action and we went out for proposals, they would go to the Advisory Committee on February 13 and would come back to this body in March, unless a lot of special meetings were set up in order to do the review. And, you would lose up to two months time before the person was even hired.

TERRY CATLIN:

But isn't there this question, though, I mean, if, it's like we need to get approval from the Advisory Committee to do that.

ALICE LICHTI:

No.

TERRY CATLIN:

Then why do they need to look at it?

ALICE LICHTI:

Every contract goes through the Advisory Committee. They're all reviewed by the Advisory Committee.

TERRY CATLIN:

But it says here, in the Adjudication, Paragraph 20, that Watermaster may employ or retain administrative engineering, etc. accounting consultants. But, you're saying there is a need still to get approval by the Advisory Committee.

ALICE LICHTI:

That would be the normal routine of it. If you wanted to bypass the Advisory Committee, then you would still have to call a special meeting in order to act before March.

TERRY CATLIN:

This is in accordance to past practices? In my mind, I guess that there's still the suggestion that we have the power to do it without their approval. I guess that's to be debated.

ALICE LICHTI:

That's debatable between the attorneys.

DENNIS YATES:

We, as an elected body in the City of Chino, do not necessarily have to go out for an RFP. Under personnel services, you can, I don't know if this Board can do the same, you don't have to lose all that time that the lady was referring to. You can go out and hire somebody without an RFP. Correct me if I'm wrong. So you're not going to lose that most precious time that the lady referred to that you don't need to do an RFP. You can just go out and pick somebody and start the audit almost immediately.

ROBERT DOUGHERTY, ATTY. CITY OF ONTARIO:

I would agree that you can pick somebody, but the purpose of an RFP is to determine the scope of what they do, how they're going to do it, and the product that you're going to get for whatever you're going to pay for it and find out how much they're going to charge you.

DENNIS YATES:

But that can be done in the premium Mr. Chairman.

ROBERT DOUGHERTY, ATTY. CITY OF ONTARIO:

Be that as it may, I'm not going to comment on the time. Obviously, it is within your power to shortcut that procedure. All that is being suggested by the Advisory Committee is why spend the producer's money initially, when the producer's CFO's have agreed to look into it and see whether it's necessary. To me, the concern is, if you're not going to trust the CFO's of the public agencies that make up a good portion of the Advisory Committee, then we have a real major problem in the west end of San Bernardino County, and I don't think we have that problem.

DENNIS YATES:

Mr. Chairman, I'd like Mr. Dougherty a question. If he is speaking for the majority of the Ontario City Counsel and has he asked about this question and have they voted on it?

ROBERT DOUGHERTY, ATTY. CITY OF ONTARIO:

I am taking my direction from the City of Ontario's assigned representative to the Advisory Committee until such time as the City Counsel considers the matter, it is my understanding that this matter arose very rapidly, that it was not agendized, that the City Counsel meeting which was held last Tuesday, therefore, under the Brown Act, it could not be discussed.

DENNIS YATES:

So you're not speaking for the majority of the Ontario City Counsel?

ROBERT DOUGHERTY, ATTY. CITY OF ONTARIO:

I am not speaking at their direction. I am speaking at the direction of our Advisory Committee member.

VICE-CHAIRMAN BORBA:

- Very good. Any other comments or discussions or questions? If not, then

TERRY CATLIN:

You mentioned the matter of trust. For me, it's not a matter of trust, it's a matter of expediency or timeliness. My impression is, from what I'm hearing is, a lot of what is being proposed by the Advisory Committee is undefined as of yet and

ROBERT DOUGHERTY, ATTY. CITY OF ONTARIO:

We can speak at the _____ and I really wish that somebody that is in favor of an audit would, at this point, would tell us what exactly they want to have looked at and what they want to have as a audit and why they're doing it in the first place. Again, if we focus on what happened that precipitated this whole rhu-ha-ha, it was the fact that the Watermaster account got tapped by some crooks somewhere for money which has now been paid back by the bank because, it's the bank's loss. If the focus is on that, then, the audit should be directed toward that. If the focus is otherwise, it should be defined. I think what the CFO's are going to look at is the specific problem, because that's what they should look at originally, and in connection with that, they're going to look at the entire accounting procedures to see what improvements can be made. This is not a adverse reflection on anybody. We're not saying your procedures are _____, they should be revised and you're dumb for not doing it before, because everyone can stand to improve. But, I just can't understand, why, with the Advisory Committee acting the way it did, the producers in the Basin, the majority of them making the recommendation that they did, that here we have basically, one public agency, actually two public agencies fighting tooth and nail to have something otherwise done. I mean, from the standpoint of who pays money into the water fund in this Chino Basin, I think you know as well as I do that Chino and Monte Vista are not the major financial players and the major financial players, in addition to the vast majority of the minor financial players have already indicated what they would like to see you do. Now, I agree you have the power to order an audit, you have the power to bypass the RFP procedure, then the question I have is why would you do that?

VICE-CHAIRMAN BORBA:

~~(Angrily)~~ Mr. Dougherty, you, it bothers me at this point in time that you keep insinuating that there's a hidden agenda. Would you folks like to respond to that? I'd like to that on the table.

ROBERT DOUGHERTY, ATTY. CITY OF ONTARIO:

I don't know why the two agencies are not willing to accept the Advisory Committee recommendations.

VICE-CHAIRMAN BORBA:

I'm more concerned with the hidden agenda type of thing.

VOICE FROM THE AUDIENCE

I'd like to know what the hidden agenda is too.

JOE GRINDSTAFF:

What Monte Vista Water District clearly and concisely wants out of an audit is a signed opinion that the policies and procedures that we have been following and or will be following will prevent a future loss or a future incident of this kind. I think that's the kind of signature that we want from assigned professional, a CPA, that says we have independently examined the policies and procedures and practices of this and we believe, and we're putting our CPA license and our name down that the policies, procedures and practices will prevent that. It's not, for me, that's what I want, I don't know the list of things, I want a signature from a CPA that says that and if we can get that some other way, then I am happy. That's what I want. I think that's the thing that will assure our Board that, in fact, the financial policies, procedures and practices are, in fact, acceptable.

VICE-CHAIRMAN BORBA:

Thank you sir. Mr. Yates.

DENNIS YATES:

Mr. Chairman. I will admit to this Board that the City of Chino does have a hidden agenda. When I first, as I addressed to this Board earlier, first got wind that the Advisory Board was trying to replace the elected officials, that's what got my attention and that has become my personal covered agenda. The fight was initially started to keep elected officials as the Watermaster. The City of Chino has come up with five to six different alternatives to the Watermaster, all of them basically that elected officials would be the Watermaster. That is our hidden agenda and through that process, when we instructed our City attorney to look into expenditures of the Watermaster, the 800% inflation of the budget, all of these things start surfacing. Her leasing the building, the engineer hiring practice. All of this has bubbled to the surface and then most recently, the misappropriation of the funds. So, we're trying to protect

ourselves as elected officials because we ultimately, and you ultimately, bare the final responsibility. So, Bob is correct, we do have a hidden agenda. He's absolutely correct.

VICE-CHAIRMAN BORBA:

Thank you, now I understand. Mr. Fedak.

CHUCK FEDAK:

Our firm were the auditors when we performed the audit for the Watermaster for the year ending June, 1996. I just want to clear up a couple of things here and hopefully, this will be a positive injection. The term "audit", no disrespect Mr. Dougherty, to a CPA the term audit is not a generic term. There is no small audit, big audit, full blown audit, little tiny audit, it's an audit. Whoever you hire to do this, you're going to receive one of four opinions. You're going to get an unqualified, you might get an unqualified opinion which says everything is fine, you might get a qualified opinion which says that everything is fine except for this little tiny thing. It's not big enough to materially destroy everything but we've got to mention it. The third type you might get would be an adverse, everything's not okay because this thing is so big it adversely affects everything. The fourth type you might get is a disclaimer. A disclaimer is everything is so bad we just can't issue an opinion. And that's what an audit is. When you engage a CPA to do an audit, you're going to receive one of those four opinions and whether you do a financial audit or an audit of your internal controls, you're also going to receive one of those four opinions and that's what you're hiring an independent CPA to do. And, I thought I would mention that because there's a lot of discussion here between the various types of audits when there's really only one type of audit, but you might get four types of an opinion. I've been in public accounting for 24 years. When I was in school, it's grilled, what do you do when you find fraud. What do you do, what do you do. And, I tell you, when you get out of school, you just think everyone is doing something. You don't trust anybody. Well, in 24 years, I've seen a situation similar to what we have three to four times and the one issue that I'm not, and I'm just an innocent bystander listening to the rhetoric here and one thing that I'm not hearing, Mr. Dougherty referred to it one time and it's the first time I've heard it. The last time we had this was about three years, this was a non-governmental entity. The owner of the company looked at me and said, "You know Chuck, I think I lost about \$100,000. I don't really care who did it, that's not my problem, what I want to make sure is, I don't want it to happen again". And, that's the major reason why you might hire a CPA firm. And, I think what you need to do here is think about March of 1997, what are you going to do if you lose another \$100,000 here? Now, I can't tell you that an audit is going to guarantee that's not going to happen. But, one of the things we would do, or any CPA would do would give you recommendations on how to prevent this from happening and how to strengthen the system that's already there which we have not tested. I need to say that because the audit we performed at the end of June was under a totally different situation. It was all run here, under Chino Basin and Mr. Rudder was involved and all the staff here was directly involved. So, the other thing is, you have the same problem that I have in terms of independence. In our firm, we require all staff people to sign a four page document every twelve months and they must be independent or they're not going to be, they may not be either employed, or they may not work on a specific audit, and the only danger you have with hiring in-house people is, here in again, I'll go back to school where we're taught independence is not a fact, it's a state of mind. And, you need to think about that, you really do. You want somebody independent here. If it's not me, fine, but you need to get somebody independent in here, you need to get a CPA firm, that's why we have CPA's because they are totally independent. So think of independence, think of the future because you want to try to stop this from happening again and I'll let it go at that. Any questions for me?

VICE-CHAIRMAN BORBA:

Yes, we have two questions or comments. Bob was first.

ROBERT DOUGHERTY, ATTY. CITY OF ONTARIO:

I'm glad to be somewhat cleared up on what an audit is and you indicated what the opinions are that, the range of opinions that you give. What I don't know, I'll profess to this ignorance, is exactly what is it that you look at in order to come to this opinion, or one of the four opinions. And, I think you mentioned that you could look at a financial audit or a procedures audit and I would assume because you mentioned two types that they are different in scope and I'm not sure what the scope is. And, then, of course, there's the question of independence. Well, I don't think anyone is suggesting that Watermaster staff be involved in the audit of Watermaster procedures. What the suggestion is, is that the people who contribute the money to this program are the ones that have their personnel, their chief

financial officer look at it. And, I don't know who would be more interested in knowing if they're being ripped off and what could be done to prevent it, than the person that has actually experienced the theft. I'd rather use the word theft than misappropriation because misappropriation implies some internal connection as opposed to theft which can be done by anybody. So to me, it would be similar to his individual who had the business set up (changed tapes) I don't see where the bias would be.

JIMMY GUTIERREZ:

Crisis is not a problem. Crisis is an opportunity if you act on it. I'm going to focus on the City of Chino. We've had a couple of crisis in the past, one involving Chino Basin. Chino Basin funded the City of Chino some years ago, a substantial amount of money because of a wastewater discharge. We had a miserable program. We weren't taking care of it. But, we responded to that crisis and we cleaned up our act and we do a very good job. Recently, I'm sure you're all aware that we had a financial loss and we responded to that. We've done a lot of things. We've hired a financial advisor, we have entered into a contract with that person, we have got a new auditor, we've entered into a very tight contract with that person, we are now in the process of entering into a very tight contract with a bank for banking services. Now, I agree with everything that Mr. Fedak has said and Mr. Grindstaff has said about the audit for internal controls but I would also suggest that you consider looking at the legal relationship between Watermaster and the bank. I believe there's not an agreement in-place and what's important there, is to assure that the appropriate procedures between Watermaster and the bank are in-place. I don't know if this firm is qualified to do that or not, but also to assure that the bank doesn't cheat you by limiting its liability if you have losses. That's something that I'm personally involved in now, and that's another concern. Apart from that, in the future, I don't know what Chino Basin Municipal Water District has done, under its statutory responsibilities with respect to its investments. Under the Judgment, the Judgment clearly says the Watermaster is responsible to deal with the investment of water funds the same as under the Government Code applicable to a public entity and I don't know if you have a policy for that. That was vaguely discussed at the Advisory Committee. I raised questions, I didn't get an answer, and that's another area I think you need to look at. But for now, I think the audit should be what you've heard and probably think you also need to look at banking services.

VICE-CHAIRMAN BORBA:

Thank you sir.

CHUCK FEDAK:

Can I just address one more thing to Mr. Dougherty. When we do an audit, when any CPA does an audit, it is based on, we hope would be statistical samples and we base those samples based on our reliance on the existing internal controls as we see it. Typically, we base our conclusions on samples and we infer to the population statistically, the results of those samples. The key word here is the reliability and internal control going into this thing. One of the reasons that the cost of this type of audit is so high is, this has nothing to do with Traci, or staff or anybody, going into this, our reliability factor would be very low. So instead of looking at all disbursements of, instead of looking at selected disbursements of say 50, now we're going down, we're looking at many more items now because we're required to do so because of what our interpretation of the Law reliance of the internal control is. So, basically, we're basing it on samples but in this type of an-audit, it's-almost, not quite the whole population, but it's a big sample, much bigger than normal would be done.

TERRY CATLIN:

The purpose of the statistics and the high sample rate, isn't that to field incompetence in your opinion..

CHUCK FEDAK:

It supports our opinion that the financial statements are free of a material distortion or material error and in this case, the sample must large, much larger than it normally would in a normal audit. And, I can tell you, a lot of it would not be statistical, a lot of it would be judgmental. There's certain types of disbursements and this type of an incidences that you'd need to look at and there would be no statistical sample, we would 100% tasked in certain areas. Pretty much, any correspondence from B of A, in terms of transfers, I mean, we would look at all of that. And it has to be done. There is no statistical sample.

TERRY CATLIN:

Do you deal with both public and private? (Mr. Fedak answered yes) What normally initiates an audit for most firms. Is it because something wrongful occurred or

CHUCK FEDAK:

No actually, I think the primary bankings, obtaining a financing, maintaining of outside credit lines and things like that. Insurance companies, bonding companies, for construction clients, bonding companies are an issue. Credibility to them because they're tied into that client some way. They're either loaning them money or they're doing work or they're doing something for them.

VICE-CHAIRMAN BORBA:

Generally, there's always a recommendation at the end of the audit. Can you recall from the last audit done for Watermaster if you had some recommendations for improvement?

CHUCK FEDAK:

We didn't have any recommendations for improvement at that time, but again, you've got to keep in mind, it's a totally different situation. It was all done, we audited it here, we stayed here and audited the staff here on the operations that were done here.

VICE-CHAIRMAN BORBA:

Any more questions?

SOMEONE FROM THE AUDIENCE:

Who hired you to do that audit?

CHUCK FEDAK:

To do the audit of Watermaster? The Board of Directors of Chino Basin Municipal Water District.

VICE-CHAIRMAN BORBA:

Okay, any more comments or discussion? I'm going to lean on my two legal people out here. Here's the suggestion I'm going to make to this panel is that, because of implied litigation from someone this morning, I adjourn this meeting until we have our legal counsel in a closed meeting as it relates to litigation if we do an audit. Is that legal? Can I do that?

ROBERT DOUGHERTY, ATTY. CITY OF ONTARIO:

First off, I want to make it clear that whoever suggested there's implied litigation is not referring to anything that I might do. On the other hand, your suggestion to adjourn this meeting to another time when your legal counsel could be present

VICE-CHAIRMAN BORBA:

As it relates to litigation if we order an audit.

ROBERT DOUGHERTY, ATTY. CITY OF ONTARIO:

I would hate to suggest your procedure for calling meetings, but it might very well be that you could adjourn it but you might want to check with your legal counsel to the extent you would have to put out another notice that would indicate what you're doing.

VICE-CHAIRMAN BORBA:

What I'm saying is does it make sense

ROBERT DOUGHERTY, ATTY. CITY OF ONTARIO:

I certainly don't see that as a non-option.

JIMMY GUTIERREZ:

Well, I think it probably makes good practice for you to adjourn it until you can consult with counsel but I would point out that in the Judgment, any action that you take as Watermaster, does give any party the right to bring a lawsuit within 90 days to challenge the action you took, irrespective of the 80/20. So

I think you are correct, there is a potential for litigation and I would leave it to your attorney to advise you on the closed session.

VICE-CHAIRMAN BORBA:

So as of right now, I'm on solid ground from that standpoint? Any comments or discussion? If not, I'm going to adjourn the meeting.

Meeting adjourned at 11:37 a.m.

The forgoing verbatim minutes were prepared by Watermaster Services and represent a full, true and as correct as feasibly possible, transcript of the Special Meeting of the Chino Basin Watermaster held January 9, 1997.

Secretary

VERBATIM
MINUTES
OF THE
SPECIAL MEETING OF THE
CHINO BASIN WATERMASTER
BOARD OF DIRECTORS
January 14, 1997

DRAFT

The meeting of the Chino Basin Watermaster was held at the offices of Chino Basin Municipal Water District, 9400 Cherry Avenue, Building A, Fontana, January 14, 1997 at 9:00 A.M.

Watermaster Members Present

George Borba
John L. Anderson
Terry Catlin
Anne W. Dunihue
Wyatt Troxel

Vice-Chairman
Secretary/Treasurer
Member
Member
Member

Watermaster Staff Present

Traci Stewart
Michelle Lauffer
Alice Lichti
John Ossiff
Mary Staula

Chief of Watermaster Services
Water Resources Specialist
Controller
Legal Counsel
Administrative Assistant

Others Present

Richard L. Adams II
Steve Arbelbide
Paula Barron
Ron Craig
Bob DeBerard
Gerald J. Black
Robert DeLoach
Robert Dougherty
Joe Grindstaff
Jimmy Gutierrez
Jack Hagerman
Edwin James
Gene Koopman
Michael J. McGraw
Thomas H. McPeters
Lloyd W. Michael
Bob Page
Tim Ryan
Mike Teal

Attorney, City of Pomona
California Steel Industries, Inc.
Chino Basin Municipal Water District
City of Chino Hills
Grapes
Fontana Union Water Company
City of Pomona
Attorney, City of Ontario
Monte Vista Water District
Attorney, City of Chino
California Institute for Men
Jurupa Community Services District
Milk Producers Counsel
Fontana Water Company
Attorney, Fontana Union Water Company
Cucamonga County Water District
Daily Bulletin
Attorney, City of Fontana
City of Ontario

VICE-CHAIRMAN BORBA called the meeting to order at 9:02 A.M.

Following the Flag Salute,

VICE-CHAIRMAN BORBA:

Originally, I had postponed, or not postponed, but adjourned this meeting to a closed session, but being that on the agenda we do have a public comment period, I wouldn't mind opening it up to public comment for those folks who were not here Thursday to express themselves. I don't want to continue a dialog and be repetitious. Is there anyone here that would like to make a comment to this Board that was not here Thursday? If there is, you're welcome to come forward. If not, then we're going to go into closed session under the Government Code 54956-9 for advice and council with legal counsel. In order to cause less commotion, I think it would be probably better if we go outside and all you folks stay in your chairs, it would be a lot less disruptive if we do that.

ATTY. JOHN OSSIFF:

Mr. Chairman, if I may make a comment on that?

VICE-CHAIRMAN BORBA:

Okay.

ATTY. JOHN OSSIFF:

As I indicated in the letter that I had sent to you, the Watermaster Rules do require that Watermaster business be conducted in public session. Also, the reference you made to the Brown Act is not applicable to the meetings of Watermaster as an extension of the Court.

VICE-CHAIRMAN BORBA:

You weren't here last Thursday, I wish you had been. There was an implied threat of legal action if there was some action taken by this Board, that absolutely authorizes us to go into closed session as it relates to legal matters. And, with that, we'll

ATTY. JOHN OSSIFF:

Well, that's my advice and

VICE-CHAIRMAN BORBA:

Well, my advice is that we can do that under the Brown Act and there was an implied threat of legal action. With that, we'd like to ask you some legal questions in closed session. Then, we'll have a vote and if there is any action to be taken, it will be done publicly right here. It only pertains to legal action.

The Board members and Atty. John Ossiff left the room.

The meeting reconvened at 9:40 A.M.

VICE-CHAIRMAN BORBA:

At this point in time, is there any actions to be taken in this matter? (Silence) Is there a motion, is there none? Either we do or we don't.

TERRY CATLIN:

I'd like to make a motion to perform an independent audit.

VICE-CHAIRMAN BORBA:

Is there a second to that motion?

JOHN ANDERSON:

I'll second it.

VICE-CHAIRMAN BORBA:

Made and seconded. Any discussion on that motion?

MEMBER OF THE AUDIENCE:

Could you repeat the motion?

TERRY CATLIN:

I'd like to make a motion to perform an independent audit of financial activities, practices and procedures of Watermaster Services.

VICE-CHAIRMAN BORBA:

If there is no discussion, will Madam Secretary, will you take the roll please.

ATTY. JOHN OSSIFF:

If I may make a comment, Mr. Chairman, that as I stated in my letter sent to you before the meeting, I believe that it is outside the procedural scope of the Judgement to take final action at this meeting as it has been called. I don't think the proposed motion is within the scope of the Watermaster's authority under the Judgement for this meeting.

VICE-CHAIRMAN BORBA:

Pertaining to what particular part of it? I mean, what are you referring to specifically?

ATTY. JOHN OSSIFF:

I believe that for such action that would constitute discretionary action of Watermaster, at minimum, would require 30 days notice prior to the meeting at which formal action was taken.

VICE-CHAIRMAN BORBA:

Could the fact that the Advisory Committee has already acted on it has no input as to what you're stating. I mean, you still think the 30 day rule is still required, even though they've taken an action? It's nothing new that we're advocating it.

ATTY. JOHN OSSIFF:

I think the 30-days would still be required.

WYATT TROXEL:

Question. The motion has been quoted and seconded to call for an audit and you're saying that if we were to take an action, be it a discretionary action, the more appropriate motion would be to call for a hearing and set a date 30 days out?

ATTY. JOHN OSSIFF:

I think it would fall within the scope of Section 38(b)(2) of the Judgement that talks about discretionary action..."notice of such intended action shall be served on the Advisory Committee and its members at least thirty (30) days before the Watermaster meeting, at which such action is finally authorized." I think there would have to be compliance with that section of the Judgement.

WYATT TROXEL:

Assuming that we understand and agree to that, then the motion that's been made, would it be inappropriate to vote on it either way? In other words, there's potential for yes votes and no votes, is it outside the bounds of Watermaster?

ATTY. JOHN OSSIFF:

I don't think the Watermaster can take final action on that. A vote would not constitute a vote to take (stop)... within the scope of the Judgement, would not constitute a vote to take that action. I think, at best, it, under the Judgement, would be ineffective or advisory.

TERRY CATLIN:

Isn't that open to a matter of interpretation of the Judgement?

ATTY. JOHN OSSIFF:

I suppose the answer is that everybody can have their own understanding, but that's our understanding of the requirements of the Judgement and the provisions of that section.

TERRY CATLIN:

How do you accommodate Paragraph 20 where it says we may hire consultants?

ATTY. JOHN OSSIFF:

In general, hiring consultants? I think hiring consultants (stop)...well, Paragraph 20 is one of several different pages of Section V. of the Judgement under "Powers and Duties" of the Watermaster, acquiring facilities, imposing assessments, etc., entering into contracts.. All of those are powers of the Watermaster, some may be ministerial but I think the majority of them are discretionary and by discretionary, I mean in the sense that Watermaster can, for example, with contracts or facilities or for services, enter or not enter into a contract. I think it's discretionary in that regard. As a discretionary matter, it would have to go through the Pool Committees and the Advisory Committee process, or if Watermaster wanted to take independent discretionary action, comply with the provisions of Section

38(b)(2). In other words, it's a Watermaster power, but probably falls within the scope of a discretionary action that the Watermaster could take.

TERRY CATLIN:

You're saying the word "probably", yet it's open to interpretation. Again, Paragraph 20 simply says "Watermaster may employ or retain such administrative, engineering, geologic, accounting, legal or other specialized personnel and consultants as may be deemed appropriate in the carrying out of its powers..."

ATTY. JOHN OSSIFF:

When I said "probably", I was speaking in terms of there's a whole list of powers. If you specifically want to talk about contracts, unless you have something specific in mind that I could address, I think, if I understand what you're talking about, hiring a consultant of some sort I think does fall within a discretionary power.

WYATT TROXEL:

That would then require a 30-day notice if we take action, say from the Advisory Committee, exercising this discretionary power?

ATTY. JOHN OSSIFF:

I think that's what Section 38(b)(2) says.

VICE-CHAIRMAN BORBA:

And you're specifically saying this is not an administrative action. Is that also your interruption?

ATTY. JOHN OSSIFF:

If by administrative you mean ministerial, something that Watermaster is required to do under the Judgement, the answer is yes. This would not be an administrative or ministerial action, it would be discretionary.

VICE-CHAIRMAN BORBA:

So you (inaudible), in effect, from an administrative standpoint, you cannot overview the Advisory Committee without a 30-day notice. Is that what you're saying?

ATTY. JOHN OSSIFF:

I think you've used of the word "administrative review" in a little different use there. Watermaster has authority, it can take discretionary action pursuant to the procedures of 38(b)(2), it can act in accordance with Advisory Committee actions, or it can decide not to, again, in accordance with the procedures of the Judgement. So, certainly, Watermaster has administrative powers in that sense, and responsibilities. But, I was speaking in terms of discretionary versus ministerial action.

WYATT TROXEL:

Just one clarification, if the Advisory Committee were to have a vote to go ahead with an audit, then that could shorten up the time frame in initiating the audit? But, if we're going to counter their recommendation, that sets a 30-day minimum requirement.

ATTY. JOHN OSSIFF:

Yes.

WYATT TROXEL:

I would like to offer a substitute motion that we call for a hearing to be set 30-days from this date, or some reasonable date; to initiate an independent audit.

VICE-CHAIRMAN BORBA:

Is there a second to that motion?

ANNE DUNIHUE:

I'll second that motion.

VICE-CHAIRMAN BORBA:

I believe the protocol is such that we call for questions on this amendment, right? Rather, discussion on this amendment. Give me the legal protocol here.

ANNE DUNIHUE:

Substitute motion.

VICE-CHAIRMAN BORBA:

Do we discuss the substitute motion?

ATTY. JOHN OSSIFF:

I believe so.

VICE-CHAIRMAN BORBA:

Any discussion on this motion?

TERRY CATLIN:

Can you repeat the motion?

WYATT TROXEL:

The motion would be to call for a hearing at least 30-days out, to call for an audit and to obtain an outside firm to perform the audit.

TERRY CATLIN:

And what is the purpose of the 30-day notice as it pertains to the Judgement?

ATTY. JOHN OSSIFF:

The Judgement doesn't specify, in that particular section, a purpose. The overall purpose and intent of the Judgement is to maximum input of the parties and to ensure that every party has as much opportunity as possible for input in the decision-making process. And, this is certainly something that has been emphasized by the Court as well recently.

WYATT TROXEL:

It would seem that part of the action has been put in-place. The Advisory Committee has appointed a panel of financial representatives from the various parties to initiate a (inaudible). It seems that one of the things this might do is...they said they were going to be responding very quickly. This kind of almost assures they have to do something, so it would seem that there might be some input from that group that could help with an audit.

VICE-CHAIRMAN BORBA:

If I may, that comment doesn't clear the air of a third party, unbiased opinion and the public perception. I think most people agree with myself now that we need a clean-cut third party review of this in order to be 100%...

WYATT TROXEL:

I agree with that. That's not what the motion calls for. The motion calls for an external audit, just that the 30-days will provide opportunity for input. It doesn't mean that we have to decide...

VICE-CHAIRMAN BORBA:

You confused that motion by stating the fact that they doing that committee to set up an internal audit.

WYATT TROXEL:

My motion doesn't stop there.

TERRY CATLIN:

In regards to the 30-day notice. Didn't the Advisory Committee have opportunity to discuss this when they brought it up on their own in their meeting last Wednesday? Did they not vote on this, on the possibility of performing an external audit?

ATTY. JOHN OSSIFF:

I have the disadvantage of not being at that particular Advisory Committee meeting, so I don't know exactly what was discussed. In terms of the 30-day provision, that is really intended to provide parties an opportunity to comment on and give input on proposed Watermaster actions. That has not gone through the Committee process. I don't think there was proposed Watermaster action at the time, so that particular issue couldn't have been discussed at any of the Pool Committees or Advisory Committee meetings.

VICE-CHAIRMAN BORBA:

Any more discussion on that amendment? Madam Secretary, would you take the roll please.

RECORDING SECRETARY:

Subject to the amended motion, right?

SEVERAL BOARD MEMBERS:

It wasn't an amendment, it was a substitute motion.

JOHN ANDERSON:

That cancels the first motion then?

WYATT TROXEL:

If it passes.

RECORDING SECRETARY:

On the substitute motion, do you want individual...

VICE-CHAIRMAN BORBA:

Yes, call the roll.

ANNE DUNIHUE	YES
WYATT TROXEL	YES
GEORGE BORBA	NO
JOHN ANDERSON	NO
TERRY CATLIN	NO

VICE-CHAIRMAN BORBA:

Motion failed for lack of majority. We will now vote and take the roll on the original.

ANNE DUNIHUE	NO
WYATT TROXEL	NO
GEORGE BORBA	YES
JOHN ANDERSON	YES
TERRY CATLIN	YES

VICE-CHAIRMAN BORBA:

Motion's carried by majority vote.

LLOYD MICHAEL:

Whose paying for this?

VICE-CHAIRMAN BORBA:

Pardon?

LLOYD MICHAEL:

Who's paying for it?

VICE-CHAIRMAN BORBA:

I assume the Watermaster pays for it.

LLOYD MICHAEL:

That'll be an interesting discussion.

VICE-CHAIRMAN BORBA:

Okay. With that, I'll adjourn the meeting with one comment. In the future, I do believe very honestly, that the Watermaster needs to have a notice of a hearing that will be 30 or plus days to review our relationship with our legal counsel. It appears we have legal counsel for both entities and that doesn't set right for some reason with me. Anyway, but nevertheless, at this point in time, with that we'll adjourn the meeting.

Meeting adjourned at 9:55 a.m.

The forgoing verbatim minutes were prepared by Watermaster Services and represent a full, true and as correct as feasibly possible, transcript of the Special Meeting of the Chino Basin Watermaster held January 14, 1997.

Secretary

DRAFT

VERBATIM
MINUTES
OF THE
SPECIAL MEETING OF THE
CHINO BASIN WATERMASTER
BOARD OF DIRECTORS
January 23, 1997

The meeting of the Chino Basin Watermaster was held at the offices of Chino Basin Municipal Water District, 9400 Cherry Avenue, Building A, Fontana, January 23, 1997 at 1:30 P.M.

Watermaster Members

Present

George Borba
John L. Anderson
Terry Catlin

Vice-Chairman
Secretary/Treasurer
Member

Absent

Anne W. Dunihue
Wyatt Troxel

Member
Member

Watermaster Staff Present

Traci Stewart
Fred Fudacz
MICHELLE: Lauffer

Chief of Watermaster Services
Legal Counsel
Water Resources Specialist

Others Present

Pat Andrews
Steve Arbelbide
Paula Barron
Bob DeBerard
Patti Bonawitz
Linda Devlin
Robert Dougherty
Joe Grindstaff
Jimmy Gutierrez
Jack Haggerman
Mark Kinsey
Gene Koopman
Marilyn Levin
Larry Rudder
Bob Page
Mike Teal
Bob Valenti

Chino Basin Municipal Water District
California Steel Industries, Inc.
Chino Basin Municipal Water District
Grapes
Chino Basin Municipal Water District
Soren McAdam Bartells, CPA's
Attorney, City of Ontario
Monte Vista Water District
Attorney, City of Chino
California Institute for Men
Chino Basin Municipal Water District
Milk Producers Counsel
State Attorney General's Office
Chino Basin Municipal Water District
Daily Bulletin
City of Ontario
Chino Basin Municipal Water District

Chairman Anderson called the meeting to order at 1:34 P.M.

Following the Flag Salute, Chairman Anderson read:

If any members of the public would like to address the Board on any item that is within the jurisdiction of the Board, however, no action may be taken on any item not appearing on the agenda unless the action is otherwise authorized by Subdivision (b) of Section 54954.2 of the Government Code..

FUDACZ: Well, I'm not exactly the public. My name is Fred Fudacz. I'm Watermaster Counsel. I was directed, as you may be aware by now, to send a letter to the Board relative to certain positions of the Advisory Committee in regards to the proposed audit. I

just wondered if you had a chance to get that and if you had any questions, I'm here and available to answer any that you may have.

CHAIRMAN ANDERSON: George or Terry, you wanted to ask questions of Mr. Fudacz? (No questions).

FUDACZ: If things arise during the course of the proceedings, I'm certainly available for that.

CHAIRMAN ANDERSON: (garbled)

STEVE ARBELBIDE: Mr. President, members of the Board, I'm Steve Arbelbide and I'm a member of the executive committee of the Advisory Pools, or the Advisory Committee and the Watermaster Pools. This morning we met with a few of the members of the Board to discuss some of our concerns regarding the audit, the procedures that had taken place with some of the actions by the Board. Hopefully, it was to, more or less, to communicate our positions, and also to get some information back from the Board as to why you took your positions, and so forth, or those actions. But, what we wanted to do with the executive committee was to establish a communications bridge between the Watermaster Board and the various Pools of the Watermaster. And this morning, we kind of exchanged some of the ideas there on why our Ad Hoc Financial Committee was formed and what they had found. We had presented some of their preliminary findings that they had recommended to you. We were hoping that with the process that we were doing that this would expedite the audit process and avoid having to go to hiring an outside consultant to do an audit until its really deemed necessary. We also discussed some of the roles that the, that the Board plays, and that the Advisory Committee plays and those areas that could be clarified and looked at so that there isn't this misconception of duties or roles or different opinions so we can all work in the same direction. So, hopefully, you know, with that type meeting that we had, that we can continue that and meet with various members of the Board in the future to resolve these types of issues before we get to that point of having to go to litigation or just to get an understanding of our positions on these matters.

CHAIRMAN ANDERSON: Questions of Steve?

ARBELBIDE: All right, thank you.

GENE KOOPMAN: Good afternoon, my name is Gene Koopman, I'm here from the Agricultural Pool. I also was part of the meeting that was held this morning. I don't think there's a lot of difference between the position of the Advisory Committee and Watermaster. I believe its more, you know, its definitely a timing element. When going back to the Advisory Committee with the information we had, and being told that this, this audit was going to cost us in the neighborhood of \$30,000 to \$35,000 dollars. We got the money back, so that made some of us feel a little more comfortable with if it had been something internal, that the bank wouldn't have been so quick to give us the money back. The feeling was, we did need to do an audit, but just to, before we knew what was going on, to spend the \$30,000, \$35,000 dollars, that it would be better that if we tried to do something internally. So, this Ad Hoc Committee was created, with financial representatives from the different agencies, and these are the agencies that, you know, put considerable amount of money in to the Watermaster. They're definitely interested, and I believe they're meeting as we speak. They're supposed to come up with the results and findings by February 13th. Depending on the outcome of those findings, will be the determining factor on whether the Advisory Committee decides to go ahead with a further audit or no audit or what have you. I think the basic difference between where the Advisory Committee has been and the Watermaster is strictly on timing. And on whether this 30 days has to, you know, or you agree or on whether you have to wait the 30 days or

not. I think its unfortunate that its come down to that. I think from a timing standpoint, the way we're going about it now, will, actually speed up the process. I do think that Watermaster can start the 30 day and should start the 30 day clock, and, but I also think that they should put this thing out for RFP's. My first feeling when I heard, I heard the \$30,000 to \$35,000 dollars, and I've been involved in different groups that have, we've done audits for the state and for other private institutions, that this seemed like an awful lot of money considering the size of the organization. I don't know whether that's a valid number or not, but we do know its a lot of money. And, everybody involved, in fact, the Ag Pool, the Ag Pool on its own could ask for an audit, and the way, its kind of a funny situation, but we literally, the Ag Pool, could have asked for an audit, and the expense would have been picked up by the Appropriators. But we felt comfortable enough at that time to go with this process. Even further than that, as far as in discussions this morning, there seems to be differences of opinion on the interpretation of the Adjudication, even within the Advisory Board. And even, I can say, within the Agricultural Pool, that there are differences in interpretation on what actually the responsibilities of Watermaster and that of the Advisory Committee. I think that we, we need for both organizations, to at some point, go to the judge and get his determinations on what are the rights and responsibilities of Watermaster and also of the Advisory Committee. In discussions, in fact, I said this morning I believe that the Watermaster, because Chino Basin has been Watermaster for a considerable number of years, that there's no organization that has a better idea of what they see the problems, you know, of being Watermaster. I, I think that even internally, that the discussions that are going on at the Advisory Committee and Watermaster on what is going to be the new Watermaster, differences of opinion in what the Adjudication says are finding their way into those discussions and that definitely needs to be straightened away. We have, I think part of the problem comes from poor communication, lack of communication. This executive committee has been formed, it is hopefully going to straighten that out that we will have better communication between those two organizations. If you have any questions, I'll be glad to answer any.

GEORGE BORBA: I had a question, Mr. Chairman. Mr. Koopman, I take it the Ag Pool agrees, it does not have a problem with the audit, its just the timing issue, that's the problem.

KOOPMAN: Yes

BORBA: Is that right? So, what's the difference between 10 days and 30 days? What's the difference if you have no problem with the audit itself? 30 day rule, you know, that's what's in there, but I don't agree with personally, but I think its an administrative procedure.

KOOPMAN: Well, there again...

BORBA: It seems like if you're going to do an audit, timing is of the essence and it should be done immediately. That 30 days is just a drag out as far as I'm concerned.

KOOPMAN: Well, I, I think, I think that the bottom line on that is the difference in interpretation of the Adjudication. And I'm comfortable with, with the 30 days, because of this Ad Hoc Committee that we put in place. Absent that

BORBA: But, you're not opposed to us doing the audit? Its just the 30 days. Is that right? Or not right?

KOOPMAN: I would like, I, personally, I feel at this point, I don't have enough information, and I hope to get that information from this Ad Hoc Committee. Absent the Ad Hoc Committee, I would say "Yes, let's go ahead and do the audit as quick as we possibly can.

BORBA: I misunderstood you. I thought you said you didn't have any problems with the audit.

KOOPMAN: If one is needed, and, let's say that the Ad Hoc Committee comes out and says we need an audit and we find out the cost is going to be \$40,000 dollars, I would say let's go ahead we have to do it. Because I think there's no question, as does the Advisory Committee and the Watermaster here, it comes down to perception. We have to not only be lily white, but we have to have the perception of being that way. And we cannot afford any other kind of perception.

BORBA: You said, are you saying an in-house audit will give a better perception than a third party, outside auditor, is that what you're saying?

KOOPMAN: No

BORBA: OK

KOOPMAN: But what I'm saying is that we'll have a better idea. One of the people on here from City of Upland is also a CPA and it was something that I had asked for. And when he puts his name on the line, his license is at risk.

BORBA: I understand that. But if it was me, I have an opposite perception. To me, if it was an inside audit is a different perception, than a third party un.. third party audit...to me there's a different perception between those two audits.

KOOPMAN: Yes

BORBA: (garbled comments)

KOOPMAN: Any other questions? Thank you.

DOUGHERTY: Well, I wasn't going to speak, but I think I will at this point. Robert Dougherty representing the City of Upland. Well I think this..

CHAIRMAN ANDERSON: Upland?

DOUGHERTY: That's where I live. Oh Bob, shall I start over, bad day. City of Ontario. Again, we keep using this word audit, and I still don't know what we're going to be looking for. And, if the word audit is proposed because of what happened recently involving the WM account and what I understand is approximately \$24,000 of forged checks, were run through that account. I also understand that insofar as we know the checks were printed up or were caused to be printed by some third party who somehow got hold of the WM account number and they were in fact forgeries and in fact the bank paid those forgeries and now made good on the money. So the thing we have here is a committee of the Advisory Committee, an Ad Hoc Committee of the people who would have been ripped off had the bank not reimbursed the money. I don't consider that an "inside" look at one's operations. We had the WM staff on the one hand, it was a WM account, and we have essentially, I would say, the depositors, taking a look at the procedure. And I think its all very well and good for Mr. Koopman to say that the Ag Pool wouldn't oppose an audit, but I think he did acknowledge that it would be the Appropriators that would pay for it. If there's really a suspicion of anything inappropriate that a audit would uncover, then I think we ought to know exactly what it is that people would hope to uncover as a result of it. I just cannot see it in this fact situation and getting down to the procedure, I think we have to look at the Judgment for a delineation of power between the Advisory Committee and the Watermaster Board, whoever that board might be serving from time to time. The Judgment spells it out, and it essentially provides two situations for the Watermaster

when faced with a vote of the Advisory Committee. One is if its a majority vote of the Advisory Committee, the WM can take action consistent with it, you don't have to have 30 days. But if action is contemplated which is not consistent with the Advisory Committee recommendation, then the 30 day notice, the public hearing and the finding provisions all apply. And, you're right, if you go through that procedure, and you do determine that, for reasons which you give, the Advisory Committee should not be followed, then you could make a determination adverse or opposite to what they did or at least at various to what they did. And then anyone can go to court, and of course, anyone can go to court basically anytime. On the other hand, when it gets to 80% or more, the Judgment says it right in black & white, its a mandated action. It is not subject to further review by the Watermaster. If the Watermaster elects not to follow the mandated action, then a Court could compel it because it is a mandate. But in this situation, I don't know why we have this public perception problem, except that it may be of our own making, by shall we say, not precisely defining what we are attempting to do and why we are going about it the way we are going about it. I would respectfully request the Board to simply table this matter. allow the Ad Hoc Committee to complete its study, and once you have the study, at that point if there is some feeling that an audit by a CPA independent of the people who put the money into the pot can come up with something, then that can be considered. Thank you.

CHAIRMAN ANDERSON: Any other public comments.

MARILYN LEVIN:: I also was not going to even come or speak. Marilyn Levin, I'm with the Attorney General's office and the State of California is a member of the Ag Pool. So we work very closely with Gene Koopman. Just wanted to comment on a couple of things. I believe that I am here also to respectfully request that you table this matter until the work of the Ad Hoc Committee is finished and you would have an opportunity to see what they have come up with. And, I'll explain really briefly because you talked about perception of the audit. First of all, the Advisory Committee as well as the Agricultural Pool including Mr. Koopman the farmers and the State of California, I believe all voted to establish this Ad Hoc Committee. It is not an in-house audit. It is comprised of at least seven individuals who are accountants, and one is a CPA. Who I believe was the Watermaster CPA for very many years as I understand it, a very respected individual. Because of that, as well as our requesting that the Chino Basin Municipal Water District send an accountant also to this Ad Hoc Committee, it seemed immanently reasonable not at this point to spend at least \$30,000 to \$35,000 on an audit, or to even go through the procedure to figure out what kind of audit we needed. If it were a more full blown audit, perhaps it would be more money. So it seemed both for the Chino Basin Municipal Water District as Watermaster as well as for the Advisory Committee, this was a very prudent way to approach it and many of people who had first wanted an audit, after hearing all of the information, really had to step back and think about, you know, what is the prudent way to approach this. And, perhaps at the last meeting, we weren't able to communicate that to you as well. I asked yesterday at the meeting, well, what is the agenda of this Ad Hoc Committee? I thought that that would be helpful, and if you would have an opportunity to look down the agenda, they are including looking at the internal procedures of the Chief of Watermaster. Its not an internal audit, the Chief of Watermaster Services is not looking at the Chief of Watermaster Services, its the Appropriators, the Ag Pool is, is happy with the person who is, the CPA, and we would like Chino Basin Municipal Water District to join in as well. It would be a savings of taxpayers dollars if, if you could do that. The second thing is, that we have directed the Ad Hoc Committee to look at whether or not, if they are not satisfied, a full blown audit is necessary and to bring that recommendation back to the Advisory Committee. And, at that time, if it is, we'll have to look at how much it would cost and who should be able to do it. So I was happy to see the agenda that, and, and the scope of responsibilities of this group. And this group has now met twice, they're meeting today, they met one other time. These people are, are, I don't actually know if they're all employed in-house with the cities, they're probably just

accountants who, you know, have a business and work as consultants, so their reputation is also on the line. And they're donating their time in the sense that the cities are picking up the costs. I don't think the perception will be that its a white-wash, and, a um, well that its a white-wash, that its an in-house audit. I really think that if people understand in the public what we're doing, we're real careful to get a varied group of people. In fact, the Ag Pool was concerned that we didn't have a representative, accountant, and someone asked if the State of California could send over their accountant, and I didn't know who that was, and I didn't think that we could. But, everyone wanted to make sure that they were protected on this committee. I'm not going to get into any of the other issues about the notice, the roles. Hopefully, we won't ever have to get into that. But now, today, I just request that, that I believe it would be an important decision to table this until we get the report of this Ad Hoc Committee, and to send over the Chino Basin Municipal Water District accountant so that you could feel comfortable that you understand what the work of the Committee is and what they're doing.

BORBA: Mr. Chairman, clarification. The folks that do this audit, you say they are not employed, that's not my understanding.(overlapping with Marilyn's response).

LEVIN: I, I don't know if, they are employed by each of the cities, yes.

BORBA: I understand they are employees, I don't know, from my understanding, they were employed by the members of the pools, now you're saying they're not. I don't know.

LEVIN: No, no they are employed, I just don't know if they are

BORBA: I don't mean contract employees, I mean full time employees.

LEVIN: OK, I don't know.

BORBA: Could you get that clarified?

FUDACZ: There's at least one representative, the Upland representative, that I know for a fact is a member of an accounting firm that is a consultant to the City of Upland serving on this Committee. As far as the others, I don't know, he's Mr. Reardon, CPA.

BORBA: Somebody should know?

Traci Stewart:: They're all employees (garbled background comments from Board members)

BORBA: That's a difference

LEVIN: OK, that's an important question, and I assumed

FUDACZ: never mind

LEVIN: .. and actually, you know, I don't know if its such a perception issue.

BORBA: But you mentioned that

LEVIN: Absolutely, absolutely. God, luckily, I didn't have to swear under oath (laughter).

BORBA: No problem, no problem.

TERRY CATLIN: So are we saying

LEVIN: But I'm sorry about that.

BORBA: That's OK, I, I didn't know.

CHAIRMAN ANDERSON: According to our list here, most of them the way I understand it, are city employees.

LEVIN: Yeah, it sounds, accounting manager, right down the line

DOUGHERTY: I would just like to add that Mr. Reardon, who Mr. Fudacz mentioned, is an independent accountant, he is also the elected Treasurer of the City of Upland, so

LEVIN: And he was the main, I'm sorry, he was the main reason, his name on the list, was the main reason why the Ag Pool, portions of the Ag Pool were happy with the fact that he was a CPA, and he was an independent CPA. So we, we would urge you, and also that the Ag Pool voted for this Ad Hoc Committee and voted to send the letter to the Watermaster asking you basically at this point to work with us, and I'm here to ask you to table the matter.

CHAIRMAN ANDERSON: Any other questions, Terry?

CATLIN: Excuse me, Mr. Chairman.

BORBA: You had another question.

LEVIN: I don't know anything more than what I just said, no I just..

CATLIN: Uh, the other people assigned to this committee, other than the Upland official, are they affiliated with Watermaster in some way?

LEVIN: All I know, and obviously I started off on the wrong foot by saying that they could be consultants. I don't know. As I understand it, they are working for these cities, and these cities are associated with the whole Watermaster process, is that what you mean?

CATLIN: Yeah.

LEVIN: Yes, of course, they're not like, its not San Francisco, who's not related to the Watermaster, right,,they're cities within the Watermaster area.

CATLIN: You're saying that the cities would be picking up the cost. Wouldn't the bottom line still be that the public is still paying for it?

LEVIN: Well I assume that is correct, they would be paying for it, but any audit probably would also be looked at by the various cities. I think its not the right question, it comes down to the fact that the Appropriators in the basin, and the Ag Pool in the basin, and the Non-Ag Pool in the basin, and you as the Watermaster, we are concerned. If we are concerned, we are looking into the procedures. So, there's no reason why there would be not a thorough job done. If the Chief of Watermaster were looking into their own procedures, yes. And also I might add that at the meeting that this was voted on, one of the investigators who couldn't say much about this case, just chose to stand up and explain to us all that whatever happened, this kind of thing happens all the time. He doubted that it had anything to do with our internal procedures. You know, by listening to an investigator, stand up, probably on his own time explaining that to us, it is doubtful that there's going to be a public perception that we're just looking at our own procedures and doing some kind of white-wash. I really think that if you look down the list of the people, we would be the most, all the Ag Pool, and the Appropriators, and the Non-Ag would be the people who would be interested in doing an adequate job. And it seems to me that

you could afford yourself the protection, if you thought something separate needed to be done, would be to join the group, go to the couple of meetings, and be part of the report. And, as I said, part of the agenda is that if it is necessary to do an outside audit, as you've asked for, then at that time we can reach all these other thorny issues that we would all like to avoid right now.

GUTIERREZ: Jimmy Gutierrez, for the City of Chino. There's two reasons to do the audit. The first one is to make sure that adequate controls exist regarding the funds that are used to pay for Watermaster Services. The second reason is even a greater reason, and that is to assure that the WM acts as a WM, because effectively speaking, the Advisory Committee has been acting as WM, and doesn't want the WM under the Judgment, which is your Board, to do its job. You were appointed to be the WM for a number of reasons. One was to fairly administer the Judgment, serve as an arbiter of the interests of the parties, and to protect the public with respect to water quantity, quality and cost. And the reason everyone here does not want you to do it is because they want to continue to operate. They don't want the WM to be the WM. They have effectively rewritten the Judgment, and they don't even want the Court to supervise the functions of the WM under the Judgment.

DOUGHERTY: Can I just, one very short thing? I think the, it gets right down to this. Mr. Borba, for example, if somebody that you suspected stole your money, I think you would probably have more interest in finding out who it was, and how it was done than anyone else out there because its your money. And by the same token, to the extent that this happening could have resulted in a loss, to Ontario, Chino, and everyone else and every city and every agency, that contributes to the WM fund, we all have, I think, the most sincere interest in finding out what happened, why it happened and to prevent it from happening again. So, for that reason, it is not an in-house audit, anymore than your looking into your money being stolen would be an in-house audit of whoever might have stolen it. And when it comes to the people that are looking at it initially, that the Advisory Committee wants to have review this before any significant amount of money is spent on some outside individual who would have less interest financially than their entities, we think it should not be done. And I'm a little bit concerned that Mr. Gutierrez should cast doubt on perhaps the people who have been selected as the Ad Hoc Committee to do this job, one of which includes, is a representative of the City of Chino. Again, we would just repeat our request that the matter be tabled.

BORBA: Mr. Dougherty, let me make one comment since you directed those comments to me and I was elected by the people to protect and guard the people's money, and I look at it like its my money.

DOUGHERTY: I was just

BORBA: Although it didn't come out of my personal pocket, I want you to know that I look at it from that standpoint, very seriously the responsibility that I have here.

DOUGHERTY: And I think what I was doing was an analogy was that, just as you look at it seriously, the producers look at it seriously.

BORBA: Who is the ultimate guardian of these moneys? Is it the WM, or is it the Advisory Board?

DOUGHERTY: The ultimate guardian of these moneys is the Court.

BORBA: Well, granted, but through us. Through the WM I would think. Its not through you folks as WM.

RUDDER: That is a very good question, if I may at this time. That brings up an interesting question on who's the guardian. That's a question I've had for a number of years when I was Treasurer of Watermaster. And I was told on several occasions by the Advisory Committee I had no authority, since they had 80% vote. So, who is the fiduciary of Watermaster funds on an 80% vote? And, that's a very good question, I don't know if I can get an answer from Watermaster Counsel today, who that person is, I don't know who it is.

FUDACZ: The notion of what a WM is I don't think its very well understood in the public. Its a very arcane sort of device. We're not talking about a public agency set up by a legislature. We're talking about an entity akin to a Court appointed receiver, is the best way of putting it. And that situation is somewhat complicated in our Judgment because we have a bifurcation of responsibility. And that is an outgrowth of the negotiations that brought about our Judgment. But the ultimate fiduciary is the Court, and our responsibility is to the Court and to enforce and uphold the Judgment. My role as WM Counsel is to tell everyone what the Judgment is because that's what people have to adhere to. There is liability, exposure if we don't adhere to the Judgment. And if there's any question about it, if you don't agree with my opinion, or Mr. Gutierrez's opinion, you can always go to Court. But, the responsibility is set forth in the Judgment and, the way it sets forth the responsibility is that the Advisory Committee, when it acts on an 80% vote, and its a discretionary matter, essentially assumes that responsibility. That action is promulgated by, and has to be promulgated by WM, whether WM agrees with it or not. Otherwise, certain provisions of the Judgment wouldn't make any sense. There's a specific provision for WM to go to Court in the case it objects to one of its own actions. That doesn't make any sense in the context where there isn't that mandate. But ultimately, it is the Court operating under this Judgment that has responsibilities and we are functionaries of the Court. And we have to adhere to the limitations and the procedures set forth in that Judgment, otherwise we are acting outside its scope, and we don't have any authority to act. So, I know that's complicated, its difficult to understand from the perspective of an elected official for Chino Basin Municipal Water District, where your authority stems from a legislative mandate. I mean, its understandable your reaction, I mean there is perhaps a public perception out there as a result of the news paper articles that something is amiss. But, its the Court's responsibility, we can all go to Court, every party to the Judgment can go to Court, and assure itself that everything is right. And ask any questions. Any party can audit the books and records of WM at any time. Chino Basin as a District, if it has concerns about what is going on, can force those books to be opened up, analyze the procedures, do anything it likes to satisfy itself. That's a right to any party. Any party can go to Court at any time and challenge anything that's going on. That may seem awkward, its not the way business is done in a District that's set up by a legislative mandate. But unfortunately, for better or worse, that's the creature that we created for ourselves and that's the way we've got to conduct our business, in accordance with those procedures. So, the responsibility ultimately lies with the Court, we are functionaries of the Court, and there's a process set up in the Judgment as to whose responsibility is what under what circumstances. Where there's an 80% mandate, that responsibility essentially falls on the Advisory Committee, because the WM has no say in what's done. And, if you have any questions about it, I'd be happy to answer them. I know its a difficult thing to understand, particularly as elected officials. And, its a peculiar creature of the law that creates these Watermasters, but unfortunately, the State of California has no legislative scheme to mandate management and control of groundwater resources and what's arisen in its place are these judgments with these Watermasters set up to essentially manage basins through adjudications. And that's just the way the creature was set up and has evolved over time.

CATLIN: Mr. Chairman. So, just so I have it straight, the Court is the ultimate overseer of the Adjudication?

FUDACZ: Right.

CATLIN: We're two parties who have differing opinions on how to best serve the Court then, am I right?

FUDACZ: Yes, well, I mean if there are, if there are then, but Watermaster and Advisory Committee are not parties. They're not contestants. They don't have their own set of interests. I mean, when you sit as WM, you don't have an interest other than serving the Court and abiding by the Judgment and implementing the Judgment. Its the same for WM, for Advisory Committee, when it sits as Advisory Committee, it is a functionary of the Court. Now, all those activities looked at and examined by the parties to the Judgment that are providing the money that essentially is the subject matter of the Judgment. And they can go into Court at any time to challenge anything that's done. So, essentially, there is the ultimate control where every single party to the Judgment can go to the ultimate holder of responsibility, the Court, and make sure that everything is going according to Hoyle.

GRINDSTAFF: Just one aside, it seems to me that the Judgment does provide for Counsel for the Advisory Committee, if needed, and for each of the Pools, so it is possible that the pools can sue each other or could go to Court and ask, and have differing points of view.

FUDACZ: Oh, there's no question about it.

GRINDSTAFF: OK, I thought that was, you said that we might not have differing points of view because we're the Advisory Committee

FUDACZ: But we're not party contestants. The differing points of view is what the Judgment says and our responsibility when we sit as the Advisory Committee is not to pursue any individual interest that a party may have, but to implement the Judgment as its written. Similarly, that's the role of Watermaster. The parties don't have that restriction. They're free to contest their interests as they see them without such restrictions. So, I'm very sensitive to this, because as a District you challenged, at one point, you challenged my role in this, that I had a conflict of interest. How could I represent the Advisory Committee and Watermaster at the same time. I'd submit to you those parties, those two entities are doing the same job. It's like

BORBA: Right now, we're in an adversarial position right now, and you're representing both parties. I think that's different.

FUDACZ: Well, if you're in an adversarial position, you shouldn't be.

BORBA: You do have a conflict as far as I'm concerned. Very honestly.

FUDACZ: We, we took this to the Court, and you know, the Court looked at that already and its a rough analogy, and its very rough, to a corporation. Where you have a board of directors and an executive.

BORBA: I don't think the issue is as clear cut as this one is though. As far as conflict on your behalf.

FUDACZ: I don't understand.

BORBA: Well, we're in adversarial positions, its quite evident you're representing both sides, and I don't know how you can do that.

FUDACZ: I am not, I am representing the Judgment and the Court.

BORBA: Well, you've advised the Advisory Committee, and I'm sure you've advised us.

FUDACZ: Yeah, I tell them the same thing. Sometimes I tell them things they don't like to hear and

BORBA: You can tell them anything you want, and maybe you don't like what I'm telling you either, but you have a conflict because you're advising two adversarial people, positions or parties, whatever you want to call them.

CATLIN: How do you avoid the bias? I mean, the big dispute here is whether or not we have administrative power to carry on an audit on our own will, without, you know, Advisory Committee approval. That's a big part of the dispute, so how do you eliminate the bias from?

FUDACZ: Well, I've got to read the Judgment with a responsibility to the Court. Ultimately, I'm responsible to the Court.

CATLIN: But then, we have, we have other people, lawyers saying, having a differing opinion.

FUDACZ: Their client is the City of Chino, the State of California, whomever they represent. My client is, in essence, the Judgment and the Court and, you know, its a difficult job. Particularly under these circumstances, but what is the alternative? The alternative is everyone have an armed camp, with a lawyer, with no one trying to be that arbiter and so that every time you do anything, you're in Court. And, I would submit that would be a very expensive, non-productive approach to managing this basin.

GUTIERREZ: May I respond to that. What started this comment was Mr. Rudder's statement about who's the fiduciary. Uh, my opinion is that this Board is a fiduciary, if there's a loss of moneys, you are each individually responsible unless you've delegated your authority to Mr. Rudder, in which case, he's individually responsible. There is a paragraph in the Judgment under the enumerated powers for the WM that says all funds must be held as required by public entities under the Government Code. Two years ago, the legislature amended the investment provisions, which make the elected officials of public entities fiduciaries for the loss of any funds unless that responsibility is explicitly delegated to the Treasurer. Now, Mr. Fudacz has found it convenient over the last few years to systematically interpret the Judgment in such a manner as to repose all authority of the WM in the Advisory Committee, when none exists. The only time the Advisory Committee has any authority is when it deals with a discretionary item. I do not believe that the enumerated powers granted to the WM constitute discretionary items, because under the authority given to the Advisory Committee, no specific powers are enumerated other than the power to make recommendations on discretionary matters. The Judgment does not define the term discretionary. The only other place in the Judgment where the term discretionary is found is in connection with the adoption of a water management plan. And, I think that's the area where the Advisory Committee has authority, not on these enumerated powers. You have enumerated powers under the Judgment to conduct an audit, you should conduct an audit for a number of reasons, one is to make sure that there are procedures in place now, especially since the employees of the Chino Basin Watermaster have now effectively broken away and are doing what they're doing on their own and we don't know if they are using the same procedures. That is clearly one reason. The other reason is to assure yourselves you don't have any personal liability for what these employees are doing.

MICHELLE LAUFFER: May I ask a question for clarification please? I usually refer to them in the minutes. What portion of the Judgment did you just cite?

GUTIERREZ: I said a portion of the Judgment. I didn't site the paragraph because I don't have it in front of me, but its in there.

MICHELLE:: You spoke from it, and so I can't find it and I'm just asking

GUTIERREZ: There's a paragraph in there.

MICHELLE:: But you can't

GUTIERREZ: Not without looking at it....

MICHELLE:: OK, OK, I just wanted it for the minutes.

GUTIERREZ: There it is, Paragraph 23, Investment of Funds. Watermaster may hold and invest any and all Watermaster funds in investments authorized from time to time for public agencies of the State of California. And that brings in the Government Code.

MICHELLE:: Thank you.

DOUGHERTY: I don't think the issue is investing the funds in stocks and I think that is what the provisions of the Government Code relate to, is the propriety of investments. Certainly, I don't think it would make you liable in a situation, like this, as Mr. Gutierrez seems to imply, if you don't go outside of the Judgment, as my opinion is and obviously Mr. Fudacz', and order an audit at this time.

FUDACZ: I'd like to clear up this issue of liability. You should understand that I don't just represent the Chino Basin Watermaster, I represent a number of Watermasters and you're not the only client of this sort that I have. I think I may be as familiar with this creator as anyone in the State of California. There's a doctrine of quasi judicial immunity that would protect member sof Watermaster Board for their actions, so long as they follow the terms of the Judgment and everything is in line with the dictates of the Court. So the notion of exposing yourself to personal liability isn't an issue as long as you're within the (??) of that doctrine and you follow the Judgment and you adhere to the instructions of the Court.

CHAIRMAN ANDERSON: How many years have you been attorney to the Watermaster Advisory Committee? Three or four years?

FUDACZ: I was hired as a special consultant to the Advisory Committee and then hired as Watermaster counsel a couple of years ago.

CHAIRMAN ANDERSON: I guess the next question is, how come today is the first time we met you?

FUDACZ: That's a good question. No one has ever asked me to come and I think that is something you ought to look at. The history (interrupted)

CHAIRMAN ANDERSON: No one has ever asked you to attend a meeting when Watermaster activity going on?

FUDACZ: I've never been asked to come except one meeting I was late to.

BORBA: Mr. Fudacz, I called your secretary last Wednesday for you to be here last Thursday

FUDACZ: And Mr. Ossiff was

BORBA: I asked for you specifically sir. (garbled) So you have been requested, I requested you come.

FUDACZ: Our firm is Watermaster counsel, I'm not Watermaster counsel. I apologize, I would have liked to have been here. I didn't mean to imply that that didn't happen, obviously it did, but the history of Watermaster has been that mostly you've been presented with 80% mandates which you, under the Judgment, are bound to ratify. And, that's typically what's happened. I think we did a survey of all the meetings and, on an average, they last a few minutes basically for that reason. I was told to take my directions from the Advisory Committee and the Chief of Watermaster Services and I guess the notice was that it wasn't a good expenditure of funds to have me come here just to watch this ratification of action. There hasn't been many, if any situations, where there has, in the past, been this sort of dispute. So I think, you know, my suggestion is that it's important for me to be at these meetings now, for that reason and provide whatever guidance I can. I would urge that on everyone. I'm certainly not in the business of forgoing attendance at meetings because that's how I make a living.

CHAIRMAN ANDERSON: For meetings that you stay fifteen minutes half-hour?

FUDACZ: Yeah, it takes me an hour to drive out and an hour to back, so by the time, for very little amount of time, you're running up quite a bill, unfortunately. I think that was part of the thought process. I am happy to be here. I'd be delighted frankly, and my partners would be delighted to have me here too.

CHAIRMAN ANDERSON: The reason I asked the question was, we might not have been here today if you'd been at the Watermaster meetings and kind of helped fill in some of the details so we weren't going this way. This all hasn't stemmed just from what happened with the bank deal

FUDACZ: I know there's been a dispute all along and a misunderstanding of roles and it's understandable because, this Judgment is particularly difficult to understand because of the different pools, the Advisory Committee, and the Watermaster. And that's, there's some books about it I can provide you if you're interested. Professor Blomquist of the University of Indiana did a study of all the basins in Southern California and talks about the Watermasters and talks about the background of the Judgment. I think it would be very useful reading for you to understand how this came about and why we have this very bizarre governance system within our basin and just what the respective roles were meant to be. But I think you can garner some guidance by what's happened in the past. The suggestion has been that past Watermaster Boards just were shirking their duty and didn't do what they were supposed to. I don't think that's the case. I think that reflects what the intention of the parties, and the Court, and the Judgment was from the outset of the Judgment from '78 on. We have that whole experience to look to in interpreting what the proper roles of the respective entities are. That's a long, circuitous way of telling you why I haven't been here before, and it's not that I don't want to and there's a rationale for it, it wasn't my decision and I'm happy to be here.

CHAIRMAN ANDERSON: Somewhere along the line, someone had to see this coming, and it would have helped us if we'd had some explanation or some counsel to give us some information that no one could give us and now we're down to the point where it looks like the Judge is going to have to make the Judge's comments, statement, to get it straightened out again.

FUDACZ: Well, that may be, that would be unfortunate. I hope that people with good will and good faith could come together and work things out. That's the history of these

adjudications, people work through their problems and develop consensus. My understanding is that was the characteristic of activity in this basin in the past and it certainly is in other basins. Obviously, from time to time, there are disputes and that's why the Court has continuing jurisdiction. That's a concept that I don't know if everyone understands. Most Judgments, you have a final Judgment and the Trial Court is relieved of any supervision or any responsibility for the Judgment. Here, in our Judgment, we have a specific provision that provides for the Court to exercise continuing supervision over everything that we do. So we have Judge now, Judge Gunn, who I was before this very morning and had a question about the bank accounts and that I explained to him and he didn't seem alarmed by it because he understood that the money had been returned. I think he read that in the paper, but he did ask me about it. So that's quite a bit different than your vanilla type litigation, in a very special context, and we're part of the judicial branch of the Government as opposed to the legislative branch of the Government. So that gives a whole different cast and meaning to your duties and responsibilities here. Your duties and responsibilities are to the Judgment that was enacted by the Court.

CHAIRMAN ANDERSON: Okay, I want to get to the liability part. Maybe I didn't quite understand, you know, we're liable but not responsible? Try to clear me up on that one.

FUDACZ: A Court has immunity from liability. It's a special circumstance whether you can sue a Court for doing something that's within its power to do. Even in this sue happy society of ours, it's rare that you find Superior Courts being sued. You can't sue a Judge for a bad decision. You know, if you lose in Court, you can't turn around and sue your Judge. There's a doctrine that grows out of that called quasi judicial immunity that provides some protection to functionaries of the Court. Like you have a receiver appointed by the Court to assist the Court in doing certain things with property and all that. You have a master to deal with, like busing cases are an example, where a special master was appointed to look after the implementation of the plan. If the receiver of the master acts within the scope of the authority granted to it by the Court, the Court's immunity extends to the individual or the individuals acting as receiver or master or whatever. And that's the protection that you have as individuals sitting on a Watermaster Board. The importance is to not act outside the Judgment so you assure yourself that you have that protection. We always carry insurance in all the Watermasters we have. We have insurance with Watermaster now to insure that be there any question or someone questions whether you're acting either within or without your authority, you're insured for that, and I certainly advise all my Watermasters to have that. But, I think it's fairly well accepted that there is this notion of quasi judicial immunity that is applicable here. But, again, it behooves us to be careful in what we do and be careful to follow the Judgment.

CATLIN: Mr. Fudacz is it your belief that the Watermaster Board serves as a rubber stamp contingency?

FUDACZ: No, as I think as Mr. Dougherty pointed out, if, there's a number of situations. If there's an 80% mandate, you have to do that. Watermaster can disagree, you like in this situation, my estimation is you have a mandate to defer to the Advisory Committee in what it's proposing to do. Now you could disagree with that and go to Court and challenge that and the Judgment provides for that. If there's less than an 80% mandate from the Advisory Committee, say there's a 50% to 80% recommendation that comes to you, then you're in an area where you exercise some discretion. You can either follow that recommendation or decide not to follow it, but if you decide not to follow it, you have to have a public hearing and provide 30 days notice and issue a decision with specific findings. I believe the theory behind that is that gives all the parties to the Judgment who may disagree with what you do, a chance to look at what you're doing and take it to Court because every party has the right to protect itself by going to Court and seeking an interpretation and even an amendment to the Judgment. The Judgment can be amended except that there's certain areas that are spelled out relating to specific designation of

water rights in which the Court doesn't have continuing jurisdiction. But in all other areas, we can, as we are apt to say in some of the meetings, open up the Judgment. Where there has been no recommendation, let's say you're presented with a problem where the Advisory Committee hasn't acted at all, you can initiate action, but again, you've got to give 30 days notice to everyone so they know what you're doing and they'll have the opportunity to give you input and then challenge what you do if they disagree. But, these are the basic parameters under which you operate.

CATLIN: That's open to interpretation. How do you view Paragraph 20 and Paragraph 48...in Paragraph 20 where it says we can hire consultants, including auditors; Paragraph 48 with respect to filing the annual report a certified audit could be performed.

FUDACZ: There's no question you have the power to do it. If the Advisory Committee didn't have any recommendation, they'd just ignored the thing, sat on their fannies, you could go and do that.. If they told you by 50% vote they don't want an audit, you could have a public hearing and have that audit ordered up and support your decision with written findings.

CATLIN: Again, that's one of the key points, where it's open to interpretation. That's your view but I've also heard other views.

FUDACZ: The only thing I would say is that is the history of the Judgment and supported by the literature on this basin which there is, there's transcripts of the hearing relating to the Judgment, the discussions which I've had an opportunity to review as counsel, so I'm not looking from just the bare words of the Judgment. I recognize that this Judgment is not crystal clear and anyone that's heard me provide advice, it's often times that the Judgment is ambiguous, I don't know what the answer is. I don't think this is one of those situations.

CHAIRMAN ANDERSON: Any other public comments?

CATLIN: Mr. Chairman. In regards to the internal audit versus an outside audit. I strongly believe there needs to be an objective audit, it needs to be an independent audit by a third party. Even though there's nothing official there, maybe a third party, still there's other members who might have some bias. Now that's not a personal attack on those officials. Just let me give you a little bit on my background. I'm trained as a scientist. Scientists, good scientists anyway, go out of their way to eliminate bias in their specs. The whole concept of a placebo double blind studies is to eliminate bias from their study. I understand lawyers prevent witnesses from going into the Court before their testimony so that bias isn't introduced into their testimony. So there this whole, that's where I'm coming from when I'm concerned about bias. I think it needs to be objective. Again, it's not a personal attack on any CFO or any official that might be a part of that Executive Committee. And to have an audit, there would be independence in my mind of any fraudulent activity, defraud, or perceived fraudulent activity for loss of funds. As we heard last time in a meeting, Mr. Fedak pointed out that a lot of times an audit is initiated just because the company wants to have a better understanding of their financial institutions. Now, I look at the Watermaster literature and the Board members are listed at the bottom. Seems to me that that's an endorsement of those communications and it seems to be, it would be prudent for me, it would be my responsibility to make sure that affairs of the financial accounting is practiced properly. Now, even though, you know, there's talk about Board members here being appointed by the Court. But still, when the Court made up the adjudication, it seems to me the Court knew we were elected officials when they made up that assignment or appointment. But still, as elected officials (change tapes).....in regards to financial practices. As far as the money that might be involved, well there's still a big question that, if the Executive Committee (tape messed up)

BORBA: (Garbled) I understand Larry done some work on the, call

RUDDER: At the request of the Watermaster Board I did solicit bids for auditing services. We contacted five firms:
(Larry quickly named the five firms but I was unable to understand or interpret the names of those firms).

I believe Soren, McAdam & Bartells. And the low, what we believe is the best firm to serve this purpose is Soren McAdam & Bartles. Their fee is from \$7,000, to \$14,000, not-to-exceed \$14,000 and that is for an internal audit, an operation audit, excuse me. Let me pass out some copies here. I have, present here today is Linda Devlin of the firm, she's a share holder of Soren McAdam & Bartles. They're locate in Redlands and have offices in Riverside. They are an independent firm, the largest independent firm in the Inland Valley. They have approximately 75 members on staff. They have no affiliation with any entity here in our member agencies or any of the water districts in this area. However, they do have experience in serving other water agencies and other Watermaster audits. They will be available if you so desire to go forth with an audit starting Tuesday and will be complete and have a report back to the Board within 30 days. The letter you have before you itemizes the various areas they'll look into, including the, following the established policies, standards and the contract or judicial order (garbled) by opportunities for improvement in the procedures and work flow (garbled) recommendations for improvement and future action in terms of compliance, assess the Watermaster's internal control system, cash receipts, disbursements, payroll system and basically, the entire accounting system. Develop recommendations for improvements to the internal control system. If there's any questions I can answer, I'd be glad to or Linda Devlin would be, also I'm sure, glad to answer any questions you might have.

CATLIN: Mr. Chairman, just for clarification, you looked at several firms.

RUDDER: We looked at five firms yes.

CATLIN: Five firms. And this copy here is what you would recommend out of examining these five firms.

RUDDER: This is my recommendation. They are one of the two low bidders. At \$7,000 they would be the low bidder and they are the most comprehensive, proposing to do a minimum of sixty specimens and a minimum of twenty-five cash receipts initially. So I think in terms of the scope of work, they're definitely the low bidder. Some of the firms were up in the neighborhood of \$15 or \$25,000.

MICHELLE: May I ask a question? On the second page, the sixth item down says "we will evaluate the adequacy of the internal control system for soundness and compliance with the District's policies and procedures", we have adopted some of our own policies and procedures so would those be in replacement, where we have them, would they replace District policies and procedures because the Watermaster has adopted them.

RUDDER: That's a very interesting question. For many years, the Watermaster had no policies and procedures so they just automatically, we thought, fell under the Chino Basin policies and procedures. But some years ago, that's where some conflict started to arise. They had no policies and procedures, yet they didn't want to follow Chino Basin's policies and procedures. So the policies and procedures were more or less on an ad hoc basis. It's whatever the Advisory Committee wanted at the time. So, to answer your question, I guess we would look at Watermaster's policies and procedures, check them for accuracy and also for the ones you don't have policies and procedures on, we'd look at ours, Chino Basin's.

BORBA: Clarify, would you repeat that please, Larry, I missed something. (Garbled) the district versus theirs or they're going to review all policies.

RUDDER: They're going to review all policies and procedures.

BORBA: So we can take that District out and put "all policies"

RUDDER: Yes.

CHAIRMAN ANDERSON: Have any more questions

CATLIN: No more questions, but just on that one point. Would it be more objective to avoid the use of District there? What would be the, it seems like we'd be using the District as a standard so to speak. Is there a better standard to use?

RUDDER: I don't believe there's a better standard to use than the District. If there's a conflict in the policies and procedures, then the auditors would have to verify or report on the adequacy of the policies and procedures of Watermaster.

CATLIN: Can we break District (inaudible) out?

BORBA: Does that mean if there's different standards, it's okay? I don't know.

LINDA: That's possible. The reason why this was put in the way it was is we understood the Watermaster was supposed to be following the District's policies and procedures. That's what the direction was, so that's the standard we're holding Watermaster to.

BORBA: But its come out now there are some additional

LINDA: As long as they're not in, they're adverse, they're not adverse to the District's policies and procedures, we will still evaluate those. If they're contrary, that gets reported back, if they're good policies and procedures, that gets reported back also.

CATLIN: If you were to go into any public institution, what would you consider standard practices? I mean, what standards would you use. I don't know, do you understand my question? The concern I have is, what if there's something wrong with the District's procedures, lets say.

LINDA: We would report back on that also, because they could be inadequate also.

CATLIN: So you always compare the practices and procedures of one like public agency to maybe another one.

LINDA: No.

CATLIN: How do you determine what you're going to use as your standard for comparison.

LINDA: Standard is what we are taught in school and that is that we should have segregation of duties so that one person cannot both record and perform a transaction and then record it and basically handle all phases of an activity. For instance, writing a check, signing the check, sending it to the vendor, getting the bank statement back, doing the bank reconciliation and basically recording it on the books. One person doing all of that can basically do a lot of things with nobody checking. So what our objective is, for a good, sound internal control system, is to have those different individual activities done by different people or split up as much as possible so that that type of activity can not occur without being caught relatively soon after it actually occurs.

CATLIN: That's how it should be practiced at every public institution. Is there a government policy that you work against? You're saying that's how you were taught in school.

LINDA: No, that's what we practice. That is internal control, okay? We come in to make sure that your system is as good as it possibly can be. In a governmental entity if we're doing an A128 audit, which is required when we do, when you have federal funds for instance, we have specific areas that we have to test. We'll test the major system within your entity, your accounting system, and your environment, your accounting environment, etc. okay? Within the yellow book that sets forth government (tape tweaked) standards, there's specific information about internal control and compliance that we have to follow. Governmental is very straight forward, if

CATLIN: So you're really using the yellow book as your standard really. Everything has to be in accordance with the procedures in that book?

LINDA: If it's an A128 audit.

CATLIN: That's what this is.

LINDA: No, this is an operational audit because it's not, because there's no federal funds involved.

CHAIRMAN ANDERSON: Any questions? Thank you Larry.

BORBA: Mr. Chairman, I make a motion that we hire the firm of Soren McAdam & Bartles to do this audit for us starting as soon as possible.

CATLIN: Second.

CHAIRMAN ANDERSON: Any further discussion?

BORBA: I have a comment Mr. Chairman, that I am just very amazed, I'm amazed, I'm disappointed at the resistance the Advisory Committee has to this audit, putting out numbers of \$30 to \$35,000 without knowing what they're talking about. The perception out there is one that I think should be clean and clear without any internal restrictions at all, and I just, I just don't understand the reluctance, the difference between ten days and thirty days, what's the difference? The audit should be done immediately in my opinion. Therefore, I call for the question on the motion.

CHAIRMAN ANDERSON: All in favor? (Ayes were heard.)

CHAIRMAN ANDERSON: Opposed? I guess with that, we're adjourned.

Meeting adjourned.

The forgoing verbatim minutes were prepared by Watermaster Services and represent a full, true and as correct as feasibly possible, transcript of the Special Meeting of the Chino Basin Watermaster held January 23, 1997.

Secretary

CHINO BASIN WATERMASTER MEETING
February 27, 1997

AGENDA ITEM 1
CONSENT CALENDAR

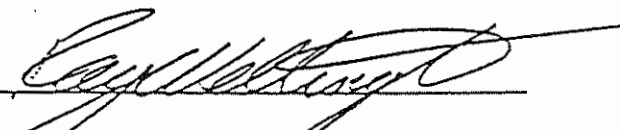
- B. NOTICE OF SALE
OR TRANSFER OF
RIGHT TO WATER
IN STORAGE

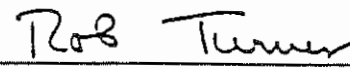
NOTICE
OF
SALE OR TRANSFER OF RIGHT TO WATER IN STORAGE

Please take notice that the West End Consolidated Water Company has sold or transferred to the City of Upland, the quantity of 11,876.80 acre feet of water in storage being all or a portion of water in storage under Local Storage Agreement Numbers 13, 13.1 and 13.2 on file with Watermaster.

Dated: November 18, 1996

Seller: West End Consolidated Water Company Buyer: City of Upland

By: 
Ray Wellington
(Print the above name)

By: 
Rob Turner; Public Works Direc
(Print the above name)

139 No. Euclid Avenue
Upland, CA 91786
(909) 982-4107
(909) 980-3047 Fax

460 No. Euclid Avenue
Upland, CA 91786
(909) 931-4100
(909) 931-4274 Fax

NOTICE
OF
SALE OR TRANSFER OR RIGHT TO WATER IN STORAGE

PLEASE TAKE NOTICE THAT the City of Upland,
has sold or transferred to Chino Basin Watermaster,
the quantity of 10,000.00 acre feet of Water in Storage being all or
a portion of Water in Storage under Agreement Number 24 and 24.1 dated
April 5, 1989 and June 6, 1990 on file with Watermaster.

DATED: 11-20-96

SELLER: City of Upland

Rob Turner

Rob Turner, Public Works Director

BUYER: Chino Basin Watermaster

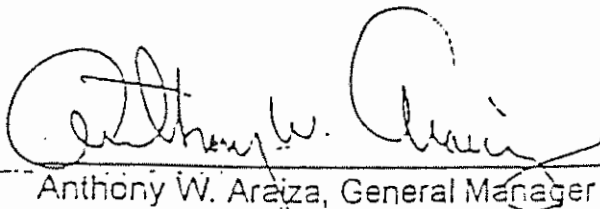
NOTICE
OF
SALE OF WATER IN STORAGE

PLEASE TAKE NOTICE THAT West San Bernardino County Water District, has sold to the CHINO BASIN WATERMASTER, the quantity of two thousand (2,000) acre feet of Water in Storage being all or in a portion of Water in Storage under Agreement Number 25 dated January 10, 1991, on file with the Watermaster.

Dated: December 6, 1996

Seller:

Buyer:



Anthony W. Araiza, General Manager
West San Bernardino County
Water District

Chino Basin Watermaster

NOTICE
OF
SALE OR TRANSFER OF RIGHT TO WATER IN STORAGE

Please take notice that the Jurupa Community Services District has sold or transferred to the San Antonio Water Company, the quantity of 4,880 acre feet of water in storage being all or a portion of water in storage under Local Storage Agreement Number 30 on file with Watermaster.

Dated: December 20, 1996

Seller: Jurupa Community Services District

Buyer: San Antonio Water Company

By: Edwin D. James

By: Rav Wellington

Edwin D. James
(Print the above name)

Rav Wellington
(Print the above name)

8621 Jurupa Road
Riverside, California 92509
(909) 685-7434
(909) 685-1153

139 No. Euclid Avenue
Upland, California 91786
(909) 982-4107
(909) 920-3047

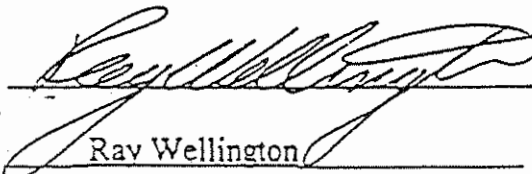
NOTICE
OF
SALE OR TRANSFER OF RIGHT TO WATER IN STORAGE

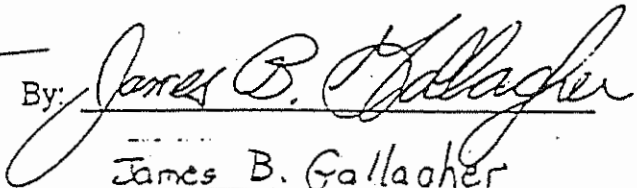
Please take notice that the West End Consolidated Water Company has sold or transferred to the Southern California Water Company, the quantity of 1,123.20 acre feet of water in storage being all or a portion of water in storage under Local Storage Agreement Numbers 13.1 and 13.2 on file with Watermaster.

Dated: November 18, 1996

Seller: West End Consolidated Water Company

Buyer: Southern California Water Company

By: 
Ray Wellington
(Print the above name)

By: 
James B. Gallagher
(Print the above name)

139 No. Euclid Avenue
Upland, CA 91786
(909) 982-4107
(909) 980-3047 Fax

2143 East 'D' Street
Ontario, CA 91761
(909) 390-5313
(909) 390-5299 Fax

CHINO BASIN WATERMASTER MEETING
February 27, 1997

AGENDA ITEM 1

CONSENT CALENDAR

C. PETITION IN INTERVENTION

SUPERIOR COURT OF THE STATE OF CALIFORNIA
FOR THE COUNTY OF SAN BERNARDINO

CHINO BASIN MUNICIPAL WATER DISTRICT, Plaintiff, v. City of Chino, et al., Defendants.
Case No. RCV 51010 (formerly Case No. SCV 164327)

PETITION IN INTERVENTION: STIPULATION

WHEREAS, pursuant to Section 60 of the Judgment herein, any non-party assignee of the adjudicated rights of any producer, or any other person newly proposing to produce water from Chino Basin may become a party to this Judgment upon filing a Petition in Intervention; and

WHEREAS, The California Speedway Corporation (herein "Petitioner"), is proposing to produce water from a well(s) located on property within the Chino Groundwater Basin; and

WHEREAS, Petitioner desires to intervene in the instant action and to have its production assigned to the Overlying (Non-Agricultural) Pool and become bound by all benefits and burdens of the Judgment entered therein.

WHEREAS, Chino Basin Watermaster consents to and approves of the intervention by Petitioner.

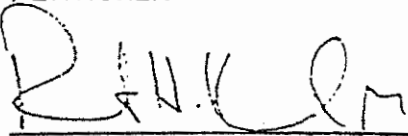
NOW, THEREFORE, the parties signatory herelo hereby petition the Court for an order authorizing intervention herein and determining Petitioner to be bound by all benefits and burdens of the Judgment entered therein.

STIPULATED to this _____ day of _____, 199_____.

CHINO BASIN WATERMASTER

PETITIONER

Chairman



The California Speedway Corporation
Robert H. Kumick its Senior V.P.

ATTEST:

Secretary

SUPERIOR COURT OF THE STATE OF CALIFORNIA
FOR THE COUNTY OF SAN BERNARDINO

CHINO BASIN MUNICIPAL WATER DISTRICT, Plaintiff, v. City of Chino, et. al., Defendants.
Case No. RCV 51010 (formerly Case No SCV 164327)

PETITION IN INTERVENTION: STIPULATION

WHEREAS, pursuant to Section 60 of the Judgment herein, any non-party assignee of the adjudicated rights of any producer, or any other person newly proposing to product water from Chino Basin may become a party to this Judgment upon filing a Petition in Intervention; and

WHEREAS; Chin Te Lee (herein "Petitioner"), is proposing to product water from a well(s) located on property within the Chino Groundwater Basin; and

WHEREAS, Petitioner desires to intervene in the instant action and to have its production assigned to the Overlying Agricultural Pool and become bound by all benefits and burdens of the Judgment entered therein.

WHEREAS, Chino Basin Watermaster consents to and approves of the intervention by Petitioner.

NOW, THEREFORE, the parties signatory hereto hereby petition the Court for an order authorizing intervention herein and determining Petitioner to be bound by all benefits and burdens of the Judgment entered therein.

STIPULATED to this 15th day of Nov, 1996.

CHINO BASIN WATERMASTER

PETITIONER

Chairman

Chin Te Lee
Chin Te Lee
Ambrosia Farms
11475 Yorba Avenue
Chino, California 91710

ATTEST:

Secretary

CHINO BASIN WATERMASTER MEETING
February 27, 1997

..... AGENDA ITEM 1
..... CONSENT CALENDAR

D.(1) VOUCHER LIST

CHINO BASIN WATERMASTER
VOUCHER LIST

October through December 1996

01/16/97

Date	Num	Name	Memo	Paid Amount
10/1/96	3417	BlackWolf Inc.		
			Hewlett Packard 8P Laser Printer	-668.67
			Secondary Envelope Paper Feeder Tray	-53.88
TOTAL				-1,022.55
10/2/96	3418	STEWART, TRACI		
			Employee Vehicle Allowance	
			October, 1996	-500.00
TOTAL				-500.00
10/4/96	3419	BlackWolf Inc.		
			H.P. 4 Plus Laser Jet Printer	-1,319.54
			H.P. 4 Plus Envelope Feeder	-289.85
TOTAL				-1,609.79
10/7/96	3420	CHINO BASIN MUNICIPAL WATER DISTR...	VOID:	
TOTAL				0.00
10/7/96	3421	CHINO BASIN MUNICIPAL WATER DISTR...		
10/1/96	95-10-01	CHINO BASIN MUNICIPAL WATER DISTR...	Invoice 20138	-118.82
7/16/96	95-07-03	CHINO BASIN MUNICIPAL WATER DISTR...	PP#15 Accrual	-12,000.18
7/31/96	95-07-04	CHINO BASIN MUNICIPAL WATER DISTR...	Accrue PP#16	-14,044.43
7/31/96	95-07-05	CHINO BASIN MUNICIPAL WATER DISTR...	Accrue PP#17 to 7/31	-2,973.24
TOTAL				-29,136.67
10/7/96	3422	LICHTI, ALICE W.		
9/30/96	005		Sept'96 Controller Services	-3,395.00
TOTAL				-3,395.00
10/7/96	3423	GTE CALIFORNIA		
			9/22/96 Bill	
			Telephone expense 484-3888	-376.96
TOTAL				-376.96
10/7/96	3424	MOOSE & SONS ELECTRIC		
			9/23-9/30 - Install 22 Hour meters	-7,360.00
TOTAL				-7,360.00
10/7/96	3425	PETTY CASH		
			Reimburse Petty Cash Fund	
			Repair Computer Power Supply	-30.17
			Deposit Laser 4Plus P2 repair	-20.00
			9/10 & 9/30 Workshop Lunches	-39.19
TOTAL				-88.35
10/7/96	3425	SCHRIMMER INSURANCE AGENCY, INC.		
			9al 96/97 Earthquake Policy	-1,050.00
			9al 96/97 Pub Off Liability Ins	-3,312.50
TOTAL				-4,362.50
10/7/96	3427	STAULA, MARY		
			Sep '96 mileage-52.2 miles	-18.13
TOTAL				-18.13

**CHINO BASIN WATERMASTER
VOUCHER LIST**

October through December 1996

01/16/97

Date	Num	Name	Memo	Paid Amount
10/7/96	3428	THEIRL, JIM	Copper Bristle Brush to clean concrete Textbook for ACRVIEW Class	-2.90 -53.99
TOTAL				-61.89
10/7/96	3429	U.S. POSTAL SERVICE	Postage-Other Replenishment postage meter	-500.00
TOTAL				-500.00
10/7/96	3430	CHAVARIN, DORA	Sep. '96 mileage-54.5 miles	-16.90
TOTAL				-16.90
10/7/96	3431	FEDAK, CHARLES Z. & CO.	Sep.96 Audit Services	-1,390.00
TOTAL				-1,390.00
10/7/96	3432	DOWNS OIL CO., INC.	Sep.'96 gasoline for WM truck	-137.53
TOTAL				-137.53
10/9/96	3433	EDISON CO.	7/8-8/3/96 Electrical Bill	-331.75
TOTAL				-331.75
10/9/96	3434	RADIO SHACK	cassette tapes Tapes for recording Meetings	-27.41
TOTAL				-27.41
10/9/96	3435	DALLA'S PIZZA MARKET	9/10/96 Advisory Comm. Lunch	-153.00
TOTAL				-153.00
10/14/96	3436	OFFICE DEPOT		
9/11/96	018252111		1 box In/Out File Markers	-8.23
8/30/96	018168862		"Paid" Rubber Stamp	-14.15
9/4/96	018196036		600 Active Party Notice Cards	-76.92
			1 box 1" X 2" Laser Labels	-17.92
			Wall Pocket File	-5.11
10/11/96	018467937		Data Disks, corr film, pens, etc	-48.91
10/11/96	018483805		Data Cartridges, corr film, binders	-100.38
10/11/96	018458489		2 Flags, corr. film	-238.57
TOTAL				-508.29
10/14/96	3437	U. S. PRINTING		
10/14/96	3108		500 #10 Envelopes	-96.44
TOTAL				-96.44
10/16/96	3438	COMPUTER CITY	Repairs to HP4 Printer Repairs to HP4 Printer	-227.25

**CHINO BASIN WATERMASTER
VOUCHER LIST**

October through December 1996

01/16/97

Date	Num	Name	Memo	Paid Amount
TOTAL				-227.2
10/21/96	3439	CHEVRON	WM Account #721-860-742-9	
10/1/96	7216607429		Fuel & Truck wash	-10.9
TOTAL				-10.9
10/21/96	3440	COPELCO CAPITAL INC.	Invoice #6348050961030	
10/7/96	961030		November Copier Lease	-537.1
TOTAL				-537.1
10/21/96	3441	CUTTIN' UP COUNTRY	Invoice #0404	
10/17/96	0404		Modify & assemble conf. table	-80.
TOTAL				-80.
10/21/96	3442	JAMES ROLING INSURANCE AGENCY	Invoice #5555	
10/14/96	5555		Oct 96-Jun 97 Position Bonds Jul-Sep '97 Position Bonds	-139 -46
TOTAL				-185
10/21/96	3443	NOSSAMAN GUTHNER KNOX & ELLIOT	Bill #80131	
10/14/96	Bill #80131		39.25 hrs Legal Svc-Sept'96 Federal Express 9/19/96 Duplicating Costs Telephone Costs	-9,197 -10 -69 -8
TOTAL				-9,284
10/21/96	3444	PETTY CASH	Replenish Petty Cash Fund	
10/16/96			Deskjet Transparencies Kinko's transparencies for 10/16 mtg Approp. Pool Meeting Expense Non-Ag Pool Meeting Expense	-41 -1 -1 -1
TOTAL				-9
10/21/96	3445	PINNACLE PUBLISHING, INC	Smart Access Subscription	
10/16/96	2525388		Feb-Jun '87 Subscription Jul87-Jan'89 Subscription	-2 -11
TOTAL				-13
10/21/96	3446	POSTALIA, INC.	Invoice #014502	
10/16/96	9/30/96		Replenish Postage Meter	-
TOTAL				-
10/21/96	3447	REID & HELLYER	Invoice #14684	
10/16/96	14684		Audit Assurance Letter	-
TOTAL				-
10/21/96	3448	STAULA, MARY	Expense Reimbursement	
10/15/96			Recording Tapes & Microphone	-
TOTAL				-
10/21/96	3449	STEWART, TRACI	Expense Reimbursement	

CHINO BASIN WATERMASTER
VOUCHER LIST

October through December 1996

01/16/97

Date	Num	Name	Memo	Paid Amount
10/14/96			Postage-special meeting Notices	-110.38
TOTAL				-110.38
10/21/96	3450	U.S. POSTAL SERVICE		
10/16/96			Replenish Postage Meter	-500.00
TOTAL				-500.00
10/21/96	3451	XSOFT	Invoice #90061	
10/10/96	90061		Sales Tax on Visual Recall Sys. Visual Recall Support & Upgrade	-13.18 -170.00
TOTAL				-183.18
10/21/96	3452	SAN BERNARDINO COUNTY	Permits	
10/21/96			Electrical permits for 8 hour meters	-631.60
TOTAL				-631.60
10/24/96	3453	ALT COMPUTERS, INC.	replace cpw/hd/memory	
			Replace cpw/hd/memory	-454.71
TOTAL				-454.71
10/24/96	3454	ALT COMPUTERS, INC.	Balance due on Computer Repairs	
			Balance due on Computer Repairs	-51.72
TOTAL				-51.72
10/25/96	3455	METROPOLITAN WATER DISTRICT	Member & Sub-Agency Conference	
			Registration for Stewart & Lauffer	-66.00
TOTAL				-66.00
10/25/96	3456	INDIANA UNIVERSITY	Groundwater Basin Reports	
			Performance of Institutions GW Mgmt	-48.00
TOTAL				-48.00
10/28/96	3457	ALBERTSON'S	10/30/96 AGWA Meeting Luncheon	
			10/30/96 AGWA Meeting Luncheon	-138.97
TOTAL				-138.97
10/28/96	3458	CHINO BASIN MUNICIPAL WATER DISTR...	Invoice #20192	
			CB-13T MWD Connection Monthly Fee	-1,250.00
			CB-14T MWD Connection Monthly Fee	-625.00
TOTAL				-1,875.00
10/28/96	3459	MIJAC ALARM	Ref #78269	
			Nov-Jan Security Services	-128.00
TOTAL				-128.00
10/28/96	3460	MINOLTA BUSINESS SYSTEMS,	Invoice #6102104411	
			3 Staple Cartridges for Copier	-65.78
TOTAL				-65.78
10/28/96	3461	PARRELLA, PETE	User #67260 Wall #600399	

**CHINO BASIN WATERMASTER
VOUCHER LIST**

October through December 1996

01/16/97

<u>Date</u>	<u>Num</u>	<u>Name</u>	<u>Memo</u>	<u>Paid Amount</u>
			Piping rearrangement reimbursement	-265.00
TOTAL				-265.00
10/28/96	3462	RANCHO TECH LLC	Office Building Lease November, 1996 Lease Fee	-3,120.00
TOTAL				-3,120.00
10/28/96	3463	STETSON ENGINEERS, INC.	Invoice #4987 Sep '96 services-AG Pool Meter Testing Program Sep '96 services-AG Pool Monitoring Program	-734.50 -734.50
TOTAL				-1,469.00
10/28/96	3464	STEWART, TRACI	Employee Vehicle Allowance November, 1996	-500.00
TOTAL				-500.00
10/28/96	3465	PARK, PATRICK R.	Invoice #254 10/01-10/28/96 System & Software Consulting	-2,000.00
TOTAL				-2,000.00
10/29/96	3466	EAGLE AWARDS	Custom Resolutions & Awards Tom Schollenberger Svc Recognition	-50.54
TOTAL				-50.54
10/30/96	3467	PETTY CASH	Petty Cash Fund Receipts #17-23 Surge Protector & c-90 tape Postage Due Acct & fees ACWA Lunch 10/30/96 Coffee, creamer, donuts 10/28 Workshop	-24.27 -23.51 -31.51 -11.3
TOTAL				-90.6
10/30/96	3468	LAUFFER, MICHELLE	Mileage Reimbursement Aug '96 29.5 miles Sep '96 11.5 miles Oct '96 113 miles	-9.1 -3.5 -35.0
TOTAL				-47.7
11/4/96	3469	STAULA, MARY	Employment Reimbursement Oct '96 mileage-18.5 miles	-5.0
TOTAL				-5.0
11/4/96	3470	CHAVARIN, DORA	Employee Reimbursement Oct '96 mileage-55.3 miles	-17.0
TOTAL				-17.0
11/4/96	3471	CHEVRON	WM Truck - 51.26 gal Gas & Wash	-7.0
TOTAL				-7.0
11/4/96	3472	GTE CALIFORNIA	10/22/96 Bill	-7.0

CHINO BASIN WATERMASTER
VOUCHER LIST

October through December 1996

01/16/97

Date	Num	Name	Memo	Paid Amount
			Telephone expense 484-3888	-381.3
TOTAL				-381.3
11/4/96	3473	LICHTI, ALICE W.	Invoice #006	
			Accounting Services 10/01 - 10/31/96	-2,747.5
TOTAL				-2,747.5
11/4/96	3474	THEIRL, JAMES	Employee Reimbursement	
			Ladder for meter reading	-23.6
			Construction glue for well tags	-10.0
TOTAL				-33.7
11/12/96	3475	DOWNES OIL CO., INC.		
10/31/96	307387		October '96 - 72.96 gallons for Truck	-100.11
TOTAL				-100.11
11/12/96	3476	EDISON CO.	Account 2-04-792-5300	
10/31/96			10/03-11/01/96 Electrical Usage	-353.84
TOTAL				-353.84
11/12/96	3477	GEOTECHNICAL SERVICES		
			Water level Measuring Device	-1,207.25
			pH/cond/temp. meter	-480.71
TOTAL				-1,587.96
11/18/96	3478	DeBERARD, ROBERT	Well #3301527	
			Piping Rearrangement reimbursement	-265.00
TOTAL				-265.00
11/18/96	3479	RANCHO MOBIL	WM truck repairs	
			Battery and Wiper Blades for WM Truck	-114.00
TOTAL				-114.00
11/18/96	3480	WEBER NAMEPLATE		
			500 Aluminum tags for wells	-255.00
TOTAL				-255.00
11/18/96	3481	FEDAK, CHARLES Z & CO.	95/96 Audit Services	
10/29/96			5 hrs Principal - October, 1996	-500.00
TOTAL				-500.00
11/18/96	3482	OFFICE DEPOT		
10/1/96	018520713		Laserjet Toner, Hanging Folders	-110.28
10/4/96	018570320		2 Deskjet ink cartridges	-37.54
10/4/96	018571402		Sand Um & 8 bxs 4X6 index cards	-96.31
10/22/96	018749135		2 boxes clear protect sheets	-15.00
10/29/96	018809942		Computer Monitor Arm	-51.58
10/29/96	018817967		3 pkgs Erasers	-7.22
TOTAL				-318.34
11/25/96	3483	COPELCO CAPITAL INC.	Invoice #6348050961100	

CHINO BASIN WATERMASTER
VOUCHER LIST
October through December 1996

01/16/97

Date	Num	Name	Memo	Paid Amount
11/18/96			December Copier Lease	-537.7
TOTAL				-537.7
11/25/96	3484	NOSSAMAN GUTHNER KNOX & ELLIOT	VOID: BILL #81821	
TOTAL				0.0
11/25/96	3485	PARK, PATRICK R.	Invoice #255	
11/25/96			Computer Contractor 11/01/96 - 11/25/9696 Troubleshooting Meter Testing Activities	-2,120.0 -480.0
TOTAL				-2,600.0
11/25/96	3486	STETSON ENGINEERS, INC.	Invoice #7010	
10/31/96			Oct'96 36.5Hrs Meter Testing Program Oct'96 36.5Hrs AG Pool Monitoring Project	-474.0 -474.0
TOTAL				-948.0
11/25/96	3487	LAUFFER, MICHELLE	Mileage Reimbursement	
			Nov '95 272 miles	-84.0
TOTAL				-84.0
12/2/96	3488	RANCHO TECH LLC	Office Building Lease	
			December, 1996 Lease Fee	-3,120.0
TOTAL				-3,120.0
12/2/96	3489	STEWART, TRACI	Employee Vehicle Allowance	
			December, 1996	-500.0
TOTAL				-500.0
12/2/96	3490	CHAVARIN, DORA	Nov'96 Mileage Reimbursement	
11/30/96			Nov'96 Mileage Reimbursement	-12.0
TOTAL				-12.0
12/2/96	3491	CHINO BASIN MUNICIPAL WATER DISTRL	Invoice #20301	
10/31/96	20301		Oct'96 Maint Chg MWD CB-13T Oct'96 Maint Chg MWD CB-14T	-1,250.0 -625.0
TOTAL				-1,875.0
12/2/96	3492	GTE CALIFORNIA	909 484-3888	
11/30/96			11/22/96 Telephone Bill	-344.0
TOTAL				-344.0
12/2/96	3493	WILDERMUTH, MARK J.	Jul 14 - Nov 23'95 Eng Svcs	
11/30/96			Task #2 re allocation of storage	-3,550.0
11/30/96			Eval losses re GE discharges	-7,050.0
11/30/96			Finalize compiling of data & maps	-1,170.0
11/30/96			SBCPCD Mtg & doc. review	-1,400.0
TOTAL				-19,320.0
12/2/96	3494	NOSSAMAN GUTHNER KNOX & ELLIOT	Bill #81821	
10/31/96			Oct'96 - 43 85 hrs Legal Svc 10/2/96 Federal Express	-10,450.0 0.0

CHINO BASIN WATERMASTER VOUCHER LIST

October through December 1996

01/16/97

Date	Num	Name	Memo	Paid Amount
			Oct'96 Duplicating Costs	-17.2
TOTAL				-10,493.4
12/24/96	5001	NOSSAMAN GUTHNER KNOX & ELLIOT	Bill #82120	
11/30/96	82120		Nov'96 - 14.00 hrs Legal Svc	-3,176.5
			11/14/96 Federal Express	-21.5
			Nov'96 Duplicating Costs	-30.7
TOTAL				-3,228.7
12/24/96	5002	CHINO BASIN WATER CONSERVATION ...	Invoice #289	
12/16/96	Inv 289		35% Gmowr Recharge Master Plan	-3,909.41
TOTAL				-3,909.41
12/24/96	5003	FEDAK, CHARLES Z & CO.	95/96 Audit Services	
12/16/96			3 hrs Priv/1.75 hrs Clerical - Nov'96	-335.00
TOTAL				-335.00
12/18/96	5004	PARK, PATRICK R.	Computer Consultant	
			60 hrs Computer consulting	-2,400.00
			20 hrs Integrate meter data	-800.00
TOTAL				-3,200.00
12/18/96	5005	U.S. POSTAL SERVICE		
			Replenish Postage Meter	-500.00
TOTAL				-500.00
12/30/96	5006	DYT, ANDY	User 25020	
8/21/96			Removed meter well #3300151	-85.00
TOTAL				-85.00
12/30/96	5007	TEST/RITE	Meter Testing Contractor	
12/16/96	Inv 1019		Meter Test Well #S00468	-100.00
TOTAL				-100.00
12/30/96	5008	PETTY CASH	Replenish Petty Cash Fund	
12/30/96			Coffee, Creamer, Paper Goods	-34.73
			Lube, oil change & gen chikup	-31.42
			3 rolls Polaroid Film	-29.07
TOTAL				-95.22
12/30/96	5009	STETSON ENGINEERS, INC.	Invoice #7032	
12/30/96	Inv 7032		Nov'96 34.25Hrs Meter Testing Program	-445.25
			Nov'96 34.25Hrs AG Pool Monitoring Project	-445.25
TOTAL				-890.50
12/30/96	5010	RANCHO TECH LLC	Building Lease at \$3,120/month	
12/30/96			January 1997 Office Rent	-3,120.00
TOTAL				-3,120.00
12/17/96	2003253009	CHEVRON	WM Account #721-660-742-9	
11/30/96			Nov'96 95 033 gals fuel for WM truck	-114.05

CHINO BASIN WATERMASTER
VOUCHER LIST

October through December 1995

01/16/97

Date	Num	Name	Memo	Paid Amount
TOTAL				-114.0
12/17/96	2003263010	COPELCO CAPITAL INC.	Invoice #5348050961230	
12/16/96			January Copier Lease & late charge	-592.0
TOTAL				-592.0
12/17/96	2003253011	EDISON CO.	Account 2-04-792-5300	
12/11/96			11/01 - 12/05/96 Electrical Usage	-289.0
TOTAL				-289.0
12/17/96	2003263012	STAULA, MARY	Expense Reimbursement	
12/16/96			Paper supplies 12/10 Meetings	-38.0
TOTAL				-38.0

TOTAL CHECKS ISSUED

\$136,755

AGENDA ITEM 1

D.(2) ACTUAL YTD REVENUE
& EXPENSE BUDGET
COMPARISON

01/22/97

CHINO BASIN WATERMASTER
ACTUAL YEAR TO DATE REVENUES AND EXPENSES
COMPARED WITH TOTAL 1996/1997 BUDGET

	Jul - Dec '96	Budget	\$ Over Budget	% of Budget
Ordinary Income/Expense				
Income				
4008 SBCFCD re San Sevaine	2,259.39			
4110 Admin Asmnts-Approp Pool	820,857.35	820,858.00	-10.55	100.0%
4120 Admin Asmnts-Non-Agri Pool	40,942.31	40,942.00	0.31	100.0%
4700 Non operating revenues	13,506.32	64,320.00	-50,713.68	21.2%
Uncategorized Income	0.00			
Total Income	<u>937,665.37</u>	<u>986,130.00</u>	<u>-48,464.63</u>	<u>95.1%</u>
Gross Profit	937,665.37	986,130.00	-48,464.63	95.1%
Expense				
6010 Salary Costs	83,433.02	147,653.00	-64,219.98	56.5%
6020 Office Building Expense	25,912.75	55,800.00	-29,887.25	46.4%
6030 Office Supplies & Equip.	14,136.44	29,200.00	-15,063.56	48.4%
6040 Postage & printing costs	2,808.86	9,000.00	-6,191.14	31.2%
6050 WM Adm contract services	42,178.75	93,809.00	-51,630.25	45.0%
6066 Engineering services	21,827.39	107,413.00	-85,585.61	20.3%
6067 Legal services	61,751.04	175,000.00	-113,248.96	35.3%
6080 Insurance	5,448.57	13,150.00	-7,701.43	41.4%
6110 Dues and subscriptions	1,377.88	9,500.00	-8,122.12	14.5%
6140 Other WM admin expenses	456.96	4,500.00	-4,043.04	10.2%
6150 Well Monitoring Supplies	342.87	2,100.00	-1,757.13	16.3%
6170 Travel & transportation	5,113.59	12,950.00	-7,836.41	39.5%
6190 Conferences & seminars	1,189.99	5,300.00	-4,110.01	22.5%
6200 Advisory Comm - WM Board	17,376.76	54,554.00	-37,177.24	31.9%
6600 TDS/Nitrogen-Admin.	590.79	3,079.00	-2,488.21	19.2%
6700 Meter Testing-Admin.	17,078.39	24,384.00	-7,305.61	70.0%
6800 Monitoring-Admin	7,100.97	23,083.00	-15,982.03	30.8%
7000 Allocated WM Admin Exp.*	0.00			
8300 Appr PI-WM & Pool Admin	17,651.77	46,972.00	-29,320.23	37.6%
8360 Appr PI-TDS/Nitrogen Study	375.95	7,897.00	-7,521.05	4.8%
8370 Appr PI-Meter Testing	1,096.47	14,890.00	-13,793.53	7.4%
8380 Appr PI-Monitoring Study	0.00	4,638.00	-4,638.00	0.0%
8400 Agri Pool-WM & Pool Admin	15,155.10	49,000.00	-33,844.90	30.9%
8460 Ag Pool-TDS/Nitrogen Study	0.00	2,466.00	-2,466.00	0.0%
8470 Meter Testing- Ag Pool	13,639.43	74,358.00	-60,718.57	18.3%
8480 Ag Pool-Monitoring Project	8,682.73	82,998.00	-74,315.27	10.5%
8500 Non-Ag PI-WM & Pool Admin	1,574.74	8,277.00	-6,702.26	19.0%
8560 NAG PI-TDS/Nitrogen Study	-53.71	1,216.00	-1,269.71	-4.4%
8570 NAG-Meter Testing	0.00	4,908.00	-4,908.00	0.0%
8580 NAG Monitoring Study	0.00	1,408.00	-1,408.00	0.0%
8600 SB222 projects	0.00	59,000.00	-59,000.00	0.0%
8700 Meter Installation Project	17,971.35	45,715.00	-27,743.65	39.3%
8800 San Sevaine Project	1,406.08			
Total Expense	<u>385,524.93</u>	<u>1,174,218.00</u>	<u>-788,593.07</u>	<u>32.8%</u>
Net Ordinary Income	552,040.44	-138,088.00	740,128.44	-293.5%
Other Income/Expense				
Other Income				
4210 Approp Pool-Replenishment	3,012,027.79	3,012,028.00	-0.21	100.0%
4220 Non-ag Pool-Replenishment	1,773.70	1,779.00	-0.30	100.0%
4600 Groundwater Sales	690,618.20	1,180,000.00	-489,381.80	58.5%
Total Other Income	<u>3,704,424.69</u>	<u>4,193,307.00</u>	<u>-489,382.31</u>	<u>88.3%</u>
Other Expense				
5010 Groundwater Replenishment	3,206,000.00	3,013,307.00	192,693.00	106.4%
5100 Other water purchases	690,518.20	1,180,000.00	-489,381.80	58.5%
Total Other Expense	<u>3,896,518.20</u>	<u>4,193,307.00</u>	<u>-297,188.80</u>	<u>92.9%</u>
Net Other Income	-192,193.51	0.00	-192,193.51	100.0%
Net Income	<u>359,346.93</u>	<u>-138,088.00</u>	<u>547,334.93</u>	<u>-191.3%</u>

AGENDA ITEM 1

D.(3). COMBINING SCHEDULE
OF REVENUE, EXPENSES
& CHANGES IN WORKING
CAPITAL

ILLINOIS BASIN WATERMASTER
 COMBINING SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN WORKING CAPITAL AND RETAINED EARNINGS-SCHEDULE 1

For the Six Months Ended December 31, 1996

	WATERMASTER ADMINISTRATION		GROUNDWATER OPERATIONS		POOL ADMINISTRATION AND SPECIAL PROJECTS			EDUCATIONAL FUNDS	GRAND TOTAL
	ADMINISTRATION	JOINT WM ADVISORY	SO222 FUNDS	GROUNDWATER REPLENISHMENT	APPROPRIATIVE POOL	AGRICULTURAL POOL	NON-AGRIC. POOL		
Revenues									
Assessment revenue				3,013,806.49					3,013,806.49
Replenishment water assessments					800,057.35		40,942.31		921,799.66
Administrative assessments									
Water sales				690,618.20					690,618.20
Interest revenue					8,032.11	5,208.70	251.39	36.12	13,808.32
Interest revenue 6/1/96 - 9/30/96	2,259.39		2,259.39						2,259.39
Total revenues	2,259.39	-	2,259.39	3,704,424.69	888,089.46	5,286.70	41,193.70	36.12	4,642,090.06
Expenses									
Structure & Equipment purchases									
Replenishment water purchases				3,206,000.00					3,206,000.00
Water purchases				600,618.20					690,618.20
Utility costs	107,969.83	15,625.00	123,594.83		18,953.10	20,532.61	1,503.82		170,584.36
Office building expenses	25,912.75		25,912.75						25,912.75
Materials and supplies	14,712.65		14,712.65			1,694.28			16,406.93
Printing and mailing	2,808.86	110.38	2,919.22			154.12			3,073.34
Contract labor and materials	60,150.10		60,150.10			2,870.75			63,020.85
Engineering fees	23,233.47		23,233.47			5,310.50			28,543.97
Legal fees	61,751.04		61,751.04						61,751.04
Insurance expenses	5,448.57		5,448.57						5,448.57
Travel and transportation	5,113.59		5,113.59						5,113.59
Other expenses	3,024.83	1,641.40	4,666.23		171.00	815.00	17.21		5,769.53
Total Watermaster administration expenses	310,125.69	17,378.76	327,502.45						
Net Watermaster administration expenses	(307,866.30)	(17,378.76)	(325,243.06)						
Allocation of admin. expenses to Pools			325,243.06		223,513.54	90,482.62	11,246.90		
Agricultural expense transfer					127,059.88	(127,959.88)			
Total expenses	\$ -	-	3,806,618.20	370,597.61	-	12,767.93	-	4,282,243.13	
Income (loss)			(182,193.51)	510,291.85	5,286.70	28,425.77	36.12	359,846.93	
Working capital, beginning of period			157,659.06	55,106.20	463,363.26	307,168.33	15,530.55	2,644.87	1,081,472.36
Working capital, end of period	\$ 157,659.06	\$ (137,087.22)	\$ 981,655.11	\$ 392,455.03	\$ 43,956.32	\$ 2,680.99	\$ 1,441,319.29		
Production percentages					68.722%	27.820%	3.458%		

AGENDA ITEM 1

D.(4) REPORT OF
FINANCIAL
AFFAIRS

CHINO BASIN WATERMASTER
Treasurer's Report of Financial Affairs for the Period
October 1 - December 31, 1996

SUMMARY:

Petty Cash		\$	105.00
Demand Deposits			9,498.59
Savings Deposits			27,168.62
Local Agency Investment Fund			<u>4,952,781.84</u>
TOTAL CASH IN BANKS AND ON HAND			<u><u>\$ 4,989,554.05</u></u>

TOTAL CASH IN BANKS & ON HAND	12/31/96	\$ 4,989,554.05
TOTAL CASH IN BANKS & ON HAND	09/30/96	<u>967,200.98</u>
PERIOD INCREASE (DECREASE)		<u><u>\$ 4,022,353.07</u></u>

CHANGE IN CASH POSITION DUE TO:

Contract Revenue (SBCFCD re San Sevaine)	\$	2,259.39
Stored Water Sales		486,625.00
FY 96/97 Assessments Received		3,935,606.15
Interest Revenue		13,606.32
Watermaster Administration Expenses		(150,629.67)
Replenishment Water Purchases		(3,206,000.00)
Stored Water Purchases		(486,625.00)
Consultants, Legal, Engineering Services		<u>(64,951.89)</u>
Net Income		529,890.30
Change in Receivables		(275,789.52)
Change in Prepaid Expenses		(883.06)
Change in Payables		3,771,394.74
Change in Deferred Credits		(2,259.39)
Changes in Long Term Assets		<u>0.00</u>
PERIOD INCREASE (DECREASE)		<u><u>\$ 4,022,353.07</u></u>

CHINO BASIN WATERMASTER
Treasurer's Report of Financial Affairs for the Period
October 1 - December 31, 1996

	Petty Cash	Demand #1	Demand #2	Savings	Time
DEPOSITORIES:					
Bank of America-Cucamonga Office	\$ 105.00	\$ -	\$ 9,498.59	\$ 27,168.62	
Local Agency Investment Fund-Sacramento	0.00	0.00	0.00	0.00	\$ 4,952,781.84
TOTALS	\$ 105.00	\$ -	\$ 9,498.59	\$ 27,168.62	\$ 4,952,781.84

SUMMARY:

Petty Cash	\$ 105.00
Demand Deposit - Account #1	-
Demand Deposit - Account #2	9,498.59
Savings Deposits	27,168.62
Time Deposits	<u>4,952,781.84</u>
TOTAL CASH IN BANKS AND ON HAND:	<u>\$ 4,989,554.05</u>

SUMMARY OF FINANCIAL TRANSACTIONS:

Balances as of 6/30/96	\$ 100.00	\$ 6,719.38	\$ -	\$ 36,955.90	\$ 923,425.70
Deposits	5.00	243,447.44	3,568,945.28	1,248,744.89	4,129,356.14
Withdrawals	0.00	250,166.82	3,559,446.69	1,258,532.17	100,000.00
Balances as of 9/30/96	\$ 105.00	\$ -	\$ 9,498.59	\$ 27,168.62	\$ 4,952,781.84
Net Increase or (Decrease)	\$ 5.00	\$ (6,719.38)	\$ 9,498.59	\$ (9,787.28)	\$ 4,029,356.14

CHINO BASIN WATERMASTER
Investment Transactions for the Period
October 1 - December 31, 1996

Effective Date	Transaction	Depository	Deposited	Redeemed	Days to Maturity	Interest Rate (*)	Maturity Yield
10/07/96	Withdrawal	L.A.I.F.		\$ 100,000.00	Floating	5.601%	
10/21/96	Deposited	L.A.I.F.-Quarterly Interest	\$ 13,356.14		Floating	5.601%	
12/06/96	Deposited	L.A.I.F.	2,869,000.00		Floating	5.599%	
12/10/96	Deposited	L.A.I.F.	650,000.00		Floating	5.599%	
12/12/96	Deposited	L.A.I.F.	395,000.00		Floating	5.599%	
12/16/96	Deposited	L.A.I.F.	202,000.00		Floating	5.599%	
TOTAL INVESTMENT TRANSACTIONS			\$ 4,129,356.14	\$ 100,000.00			

* The earnings rate for L.A.I.F. is a daily variable rate; 5.601% is the average for the month of October, 1996. The effective yield for November, 1996 was 5.599%; the rate at December 31, 1996 is not yet available.

Investment Status at
December 31, 1996

Financial Institution	Principal Amount	No. of Days	Interest Rate	Maturity Date
Local Agency Investment Fund	\$ 4,952,781.84	Floating	5.599%	N/A
Time Certificates of Deposit	0.00			
TOTAL INVESTMENTS	\$ 4,952,781.84			

The funds available during the coming quarter are sufficient to meet all foreseen expenditures during the coming quarter.

All investment transactions have been executed in accordance with the criteria stated in the Chino Basin Watermaster's Investment Policy.

CHINO BASIN WATERMASTER MEETING
February 27, 1997

AGENDA ITEM 1
CONSENT CALENDAR

- E. CHINO BASIN WATERMASTER
FINANCIAL REPORT FOR F.Y.
ENDED JUNE 30, 1996



CHINO BASIN WATERMASTER

8632 Archibald Ave., Suite 109, Rancho Cucamonga, CA 91730
TEL: (909) 484-3888 • FAX: (909) 484-3890

TRACI STEWART
Chief of Watermaster Services

MEMORANDUM

DATE: February 27, 1997
TO: Watermaster Board Members
FROM: Watermaster Services Staff
SUBJECT: Independent Auditors' Report on Financial Statements
for Fiscal Year Ended June 30, 1996

BACKGROUND

The Chino Basin Watermaster Financial Report for Fiscal Year Ended June 30, 1996 (Draft Audit) was presented to the Pool Committees and the Advisory Committee for review in October, 1996. At their respective meetings, the Committees took action to approve the draft financial report, pending receipt and review of the auditor's letter. The draft financial report had no changes since committee review in October, 1996. Staff received Mr. Fedak's Independent Auditors' Report on Financial Statements (the auditor's letter) too late for the October 16 Advisory Committee meeting, but it was presented to the pool committees on January 22, 1997.

DISCUSSION

At their meeting held February 13, 1997, the Advisory Committee approved the Independent Auditors' Report on Financial Statements for Fiscal Year Ended June 30, 1996 by a greater than 80% majority.

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Financial Report
for the
Fiscal Year Ended
June 30, 1996

CHINO BASIN WATERMASTER

Bill Hill, Chairman

George Borba, Vice Chairman

John Anderson, Secretary/Treasurer

Anne Dunihue, Member

Wyatt Troxel, Member

EXECUTIVE STAFF

Traci Stewart, Chief of Watermaster Services

AUDITORS

Charles Z. Fedak & Co., CPAs

LEGAL COUNSEL

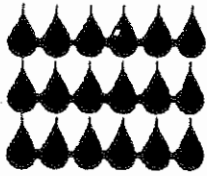
Nossaman, Guthner, Knox & Elliott, LLP

Fred Fudacz, Attorney at Law

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**Financial
Section**



Charles Z. Fedak & Co.
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

The Board of Directors
Chino Basin Watermaster
Fontana, California

We have audited the accompanying financial statements of Chino Basin Watermaster as of and for the year ended June 30, 1996, as listed in the accompanying table of contents. These financial statements are the responsibility of the Watermaster's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chino Basin Watermaster as of June 30, 1996 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Cypress, California
October 4, 1996

Charles Z. Fedak & Co.

CHINO BASIN WATERMASTER
 Comparative Balance Sheet
 June 30, 1996
 With Comparative 1995 Totals

ASSETS

	<u>1996</u>	<u>1995</u>
Assets		
Cash	\$162,453	\$114,847
Short-term investments	1,036,639	2,788,000
Accounts receivable	515,318	1,451,276
Prepaid expenses	13,783	3,509
Refundable deposits	<u>3,120</u>	<u>0</u>
Total current assets	<u>\$1,731,313</u>	<u>\$4,357,632</u>
 Fixed Assets		
Office furniture & equipment	36,516	0
Accumulated depreciation	<u>(2,140)</u>	<u>0</u>
Total fixed assets	<u>34,376</u>	<u>0</u>
Total assets	<u><u>\$1,765,689</u></u>	<u><u>\$4,357,632</u></u>

LIABILITIES AND RETAINED EARNINGS

Liabilities

Unearned revenue	\$15,734	\$0
Accounts payable and accrued liabilities	<u>634,107</u>	<u>3,012,831</u>
Total liabilities	<u>\$649,841</u>	<u>\$3,012,831</u>

Retained Earnings

Unreserved	<u>1,115,848</u>	<u>1,344,801</u>
Total liabilities and retained earnings	<u><u>\$1,765,689</u></u>	<u><u>\$4,357,632</u></u>

See accompanying notes to the financial statements

CHINO BASIN WATERMASTER
Comparative Statement Revenue, Expenses and Changes in Retained Earnings
For the Fiscal Year Ended June 30, 1996
With Comparative 1995 Totals

	1996	1995
Operating revenues		
Assessment revenue:		
Replenishment water assessments	\$713,652	\$95,901
Administrative assessments	551,147	842,985
Water sales:		
Stored water	1,859,291	5,313,219
Total operating revenues	3,124,090	6,752,105
Operating expenses		
Direct operating expenses:		
Replenishment water deliveries	700,957	95,901
Water purchases	1,858,949	5,992,320
Material & supplies	4,017	1,258
Printing and mailing	13,661	1,934
Contract labor and materials	256,882	177,806
Engineering fees	64,494	61,984
Audit fees	325	3,800
Depreciation	2,140	0
Legal fees	195,711	119,567
Insurance expenses	11,259	12,221
Meeting compensation	0	2,575
Other expenses	28,601	25,657
Total direct operating expenses	3,136,996	6,495,023
Chino Basin Municipal Water District (CBMWD) services contract		
Salaries, payroll burden & overhead	279,013	234,398
Material and supplies	326	1,202
Printing and mailing	2,537	3,938
Legal expenses	0	9,841
Other expenses	19,859	7,931
General and administrative	5,287	4,353
Total operating expenses	3,444,018	6,756,666
Operating income (loss)	(319,928)	(4,581)
Nonoperating revenues		
Miscellaneous revenues	0	5
Interest revenue	90,975	68,033
Total nonoperating revenues, net	90,975	68,043
Net income (loss)	(228,953)	63,462
Retained earnings at beginning of year	1,344,801	1,281,339
Retained earnings at end of year	\$1,115,848	\$1,344,801

See accompanying notes to the financial statements

CHINO BASIN WATERMASTER
 Comparative Statement of Cash Flows
 For the Fiscal Years Ended June 30, 1996 and 1995

	1996	1995
Cash Flows from operating activities:		
Operating income (loss)	(\$319,928)	(\$4,581)
Add/(deduct) items not requiring, or generating cash during the current period:		
Depreciation expense	2,140	0
(Increase)/decrease in accounts receivable	947,844	799,221
(Increase)/decrease in interest receivable	(11,886)	13,841
(Increase)/decrease in prepaid expenses	(10,274)	186
(Increase)/decrease in refundable deposits	(3,120)	0
Increase/(decrease) in unearned revenue	15,734	0
Increase/(decrease) in accounts payable and accrued liabilities	(2,378,724)	878,125
Total adjustments to operating income (loss)	(1,438,286)	1,691,373
Net cash provided (used) by operating activities	(1,758,214)	1,686,792
Cash flows from investing activities:		
Interest income from investments	90,975	68,038
Net increase/(decrease) from investing activities	90,975	68,038
Cash applied and other sources:		
Other non-operating expenses/revenues, net	0	5
Office furniture and equipment purchases	(36,516)	0
Net cash provided/(used) from other sources	(36,516)	5
Net cash provided/(used) by nonoperating activities	54,459	68,043
Net increase/(decrease) in cash and cash equivalents	(1,703,755)	1,754,835
Cash and cash equivalents at beginning of year	2,902,847	1,148,012
Cash and cash equivalents at end of year	\$1,199,092	\$2,902,847

See accompanying notes to the financial statements

CHINO BASIN WATERMASTER
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

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

Description of 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. WCV51010 (formerly Case No. SCV164327) entitled "Chino Basin Municipal Water District v. City of Chino et al", signed by the Honorable Judge Howard B. Wiener on January 27, 1978. The effective date of this judgment for accounting and operations was July 1, 1977.

Pursuant to the judgment, the Chino Basin Municipal Water District (CBMWD) five (5) member Board of Directors is appointed "Watermaster" to administer and enforce the provisions of the judgment. Their term of appointment of Watermaster is for five (5) years, and the Court, by subsequent orders, provides for successive terms or for a successor Watermaster. Three (3) 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 (non-agricultural) purposes; and (3) Appropriative Pool which represents cities, districts, other public entities and public utilities. The three Pools act together to form the "Advisory Committee" which serves to make recommendations for formal action to the Chino Basin Watermaster.

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

Watermaster expenses 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 1995/96 expenses are based on the 1994/95 production volume, and allocations for fiscal year 1994/95 expenses are based on the 1993/94 production volume:

	1994/95		1993/94	
	Acre Feet	%	Acre Feet	%
Appropriative Pool	97,641	62.196	101,012	67.388
Overlying Agricultural Pool	55,022	35.048	44,298	29.552
Overlying Non-Agricultural Pool	4,327	2.756	4,586	3.060
Total Production	156,990	100.000	149,896	100.000

The Agricultural Pool members ratified an agreement with the Appropriative Pool at their meeting of June 16, 1988. The agreement required the Appropriative Pool to assume Agricultural Pool administrative expenses including special project allocations in exchange for an accelerated transfer of unpumped agricultural water to the Appropriative Pool. In addition, the Agricultural Pool transferred all pool administrative reserves at June 30, 1988 to the Appropriative Pool effective July 1, 1988.

The accounting policies of the Watermaster conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

Basis of Accounting

The accounts of the Chino Basin Watermaster are maintained on the accrual basis and are reported as a single enterprise. Separate accounting records are maintained to segregate the Watermaster activities, as well as to track cash and investment amounts for each individual fund's use, as required under the judgment and the rules and regulations of the Watermaster and each Pool. Investments are stated at cost, which approximates market.

Reclassifications

Certain reclassifications have been made to the 1994 memorandum column data to conform with the 1995 financial statement presentation.

(2) Cash, Deposits, Short-Term and Pooled Investments

State statutes and the Watermaster's investment policy authorize the Watermaster to invest in obligations of the U.S. Treasury and other U.S. agencies, banker's acceptances, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Records, certificates of deposit with financial institutions having an operating branch within the Watermaster geographic area, repurchase agreements, and the state treasurer's investment pool.

The Watermaster's deposits are categorized to give an indication of the level of risk assumed at year end by the following three categories:

Category 1

- Includes deposits insured or collateralized with securities held in the Watermaster's name.
- Includes investments that are insured or registered or for which the securities are held by the Watermaster or its agent in the Watermaster's name.

Category 2

- Includes deposits with collateralized securities held by the pledging financial institution's trust department or agent in the Watermaster's name.
- Includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Watermaster's name.

Category 3

- Includes uncollateralized deposits or deposits with collateralized securities held by the financial institution or its agent, but not in the Watermaster's name.
- Includes uninsured and unregistered investments for which securities are held by the broker or dealer or by its trust department or agent but not in the Watermaster's name.

In accordance with Government Accounting Standards Board Statement Number 3 ("GASB 3") criteria, the Watermaster's custodial credit risk on deposits and investments are categorized as follows:

	Categories			Bank Balance/ Contract Value	Carrying Amount
	1	2	3		
DEPOSITS					
Demand cash amounts	\$100,000	\$85,693	\$0	\$185,693	\$162,453
INVESTMENTS					
Pooled funds:					
Local Agency Investment Funds (LAIF)*	0	0	0	1,036,639	1,036,639
Total deposits and investments	\$100,000	\$85,693	\$0	\$1,222,332	\$1,199,092

* Monies pooled with the State Treasurer in the Local Agency Investment Fund (LAIF) are not subject to risk categorization.

The bank balance reflects the amount credited by a financial institution to the Watermaster's account as opposed to the Watermaster's own ledger balance for the account. The carrying value reflects the ledger value, which includes checks written by the Watermaster which have not cleared the bank as of June 30, 1996.

For the purposes of the statement of cash flows, the Chino Basin Watermaster considers cash and cash equivalents to be defined as demand deposits, savings accounts, LAIF investments and all securities with original maturities of three months or less from date of purchase. For financial presentation purposes, cash and cash equivalents are shown as cash and short-term investments.

(3) *Appropriative Pool Interest Revenue Allocation*

On August 30, 1979 the Appropriative Pool unanimously approved assessment procedures whereby any interest earned from the Watermaster assessments paid by Appropriative Pool members would reduce the total current assessment due from those members. Fiscal year 1994/95 interest revenue was allocated to the Appropriative Pool members based on the funds received in payment of the 1994/95 assessments, resulting in a reduction of the 1995/96 assessment.

(4) *Agricultural Pool Sale*

In June 1983, the Agricultural Pool sold 2,000 acre feet of water in storage to Cucamonga County Water District. Funds from this sale are held and invested by the Watermaster Treasurer for future use as determined by the Agricultural Pool members. At June 30, 1996 the proceeds from the sale and related interest earned thereon totaled \$387,168. From this amount, \$10,517 was authorized by the Pool for retention of special legal counsel for negotiations on the Desalter Agreement. This resulted in a remaining unexpended balance of \$376,651 at June 30, 1996.

(5) *Replenishment Water Deliveries*

The Watermaster assessed water producers 3,061 acre feet of replenishment water during fiscal year 1995/96, based on prior fiscal year production. During fiscal year 1995/96, an additional 8,976 acre feet was purchased internally to avoid purchasing water from Metropolitan Water District (MWD) at a higher price in the following year.

**Supplementary
Information**

CHINO BASIN WATERMASTER
COMBINING SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN WORKING CAPITAL AND RETAINED EARNINGS - SCHEDULE I
For the Year Ended June 30, 1996

	WATERMASTER ADMINISTRATION		GROUNDWATER OPERATIONS		POOL ADMINISTRATION AND SPECIAL PROJECTS				GRAND TOTAL	
	ADMINIS-TRATION	JOINT WM ADVISORY BRD	TOTAL	SD222 FUNDS	GROUNDWATER REPLENISHMENT	APPROPRIATIVE POOL	AGRICULTURAL POOL	NON-AGR POOL		EDUCATIONAL FUNDS
Revenues										
Assessment revenue										
Replenishment water assessments			\$0	\$6,014	\$707,638					\$713,652
Administrative assessments			0			\$530,297		\$14,050		551,147
Water sales										
Stored water			0		1,859,201					1,859,201
Interest revenue										
			0			63,594	\$25,349	1,850	\$174	90,967
Total revenues	0	0	0	6,014	2,568,929	599,891	25,349	16,708	174	3,215,065
Expenses										
Furniture & Equipment purchases	\$30,516		\$36,516							36,516
Water purchases	0		0		2,559,008					2,559,006
CDMWD salaries, payroll burden & overhead	162,327	33,236	105,563			47,069	31,536	4,845		279,013
CDMWD general and administrative	3,077	473	3,550			715	935	87		5,207
Material and supplies	4,343		4,343							4,343
Printing and mailing	10,655	300	10,063			170	5,000	49		16,198
Contract labor and materials	73,308		73,308			70,903	100,239	4,352		256,802
Engineering fees	64,494		64,494							64,494
Audit fees	325		325							325
Legal fees	105,194		105,194				10,517			105,711
Insurance expenses	11,259		11,259							11,259
Utilities	3,070		3,070							3,070
Leases	12,130		12,130							12,130
Other expenses	31,450	427	31,877			225	350			37,452
Total Watermaster administration expenses	598,956	34,444	(633,400)							0
Administration expense transfer	0	0	0			156,505	(156,505)			0
Allocation of admin. expenses	(598,956)	(34,444)	(633,400)			615,043		17,457		0
Total expenses	0	0	0	0	2,559,008	891,690	0	26,790	0	3,478,394
Net income (loss)				6,014	7,023	(291,007)	25,349	(10,002)	174	(263,329)
Working capital, beginning of period				151,645	40,003	755,171	361,819	25,612	2,471	1,344,801
Working capital, end of period	0	0	0	157,659	55,106	463,364	307,168	15,530	2,645	1,081,412
Adjustments to retained earnings:										
Add back: Furniture & equipment purchases			0	0	0	35,510		1,006	0	38,516
Less: Depreciation expense			0	0	0	(2,011)	0	(59)	0	(2,140)
Retained earnings, end of period	\$0	10	\$0	\$157,659	\$55,106	\$496,793	\$307,168	\$16,477	\$2,645	\$1,115,848

See accompanying notes to the financial statements

CHINO BASIN WATERMASTER MEETING
February 27, 1997

AGENDA ITEM 1
CONSENT CALENDAR

F. RESOLUTION OF INTENTION
DECLARING WATERMASTER'S
INTENT TO ENTER INTO A
CONTRACT WITH CALPERS



CHINO BASIN WATERMASTER

8632 Archibald Ave., Suite 109, Rancho Cucamonga, CA 91730
TEL: (909) 484-3858 • FAX: (909) 484-3890

TRACI STEWART
Chief of Watermaster Services

MEMORANDUM

DATE: February 27, 1997
TO: Watermaster Board Members
FROM: Watermaster Services Staff
SUBJECT: Resolution of Intention to Approve a CalPERS Contract

BACKGROUND

Staff presented information in the agenda package for the regularly scheduled Pool Committee meetings held January 22, 1997, regarding the process and schedule necessary to enter into a contract between the California Public Employees Retirement System (PERS) and the Chino Basin Watermaster. The PERS schedule was developed around the quarterly meeting schedule that had been adopted by the Pools and the Advisory Committee in October 1996, and by the Watermaster on November 6, 1996. The Watermaster Board received copies of the January 22, 1997 agenda package along with all the Pool members.

At the January 22, 1997, meetings, the Pool members acknowledged that the actual Resolution of Intention would not be available until the February 13, 1997 Advisory Committee meeting, but recommended approval knowing that it was the next step in the PERS process. Staff received a draft Resolution of Intention from PERS (attached) on February 7, 1997, by fax, and the summary of major provisions is anticipated shortly. The actuarial valuation letter received from PERS on January 16, 1997, provides a summary in its absence.

DISCUSSION

The CalPERS contract is the most significant item remaining prior to completion of the transition away from Chino Basin Municipal Water District (several other more minor benefit plan resolutions and/or contracts could be paid by Watermaster under the employee cobra rights while resolutions or contracts are completed, if necessary).

The Advisory Committee took action by a greater than 80% majority to instruct Watermaster to adopt a Resolution of Intention and to enter into a contract with CalPERS on behalf of Chino Basin Watermaster.

mis:letters\0213pers adv

RESOLUTION 97-5

RESOLUTION OF INTENTION
TO APPROVE A CONTRACT
BETWEEN THE
BOARD OF ADMINISTRATION
OF THE
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
AND THE
GOVERNING BODY OF THE
CHINO BASIN WATERMASTER

WHEREAS, the Public Employees' Retirement Law permits the participation of public agencies in the Public Employees' Retirement System, making their employees members of said System, and sets forth the procedure by which participation may be accomplished; and

WHEREAS, one of the steps required in the procedure is the adoption by the governing body of the public agency of a resolution giving notice of intention to approve a contract for such participation of said agency in the Public Employees' Retirement System, which resolution shall contain a summary of the major provisions of the proposed retirement plan; and

WHEREAS, attached is a summary of the major provisions of the proposed plan;

NOW, THEREFORE, BE IT RESOLVED, that the governing body of the above agency gives, and it does hereby give notice of intention to approve a contract between said governing body and the Board of Administration of the Public Employees' Retirement System, providing for participation of said agency in said retirement system, a copy of said contract and a copy of the summary of the major provisions of the proposed plan being attached hereto, as an "Exhibit", and by this reference made a part hereof.

The undersigned do hereby attest that this resolution is approved and adopted on this ____ day of _____, 1997.

CHINO BASIN WATERMASTER

By _____

Title _____

ATTEST:

Chino Basin Watermaster

STATE OF CALIFORNIA)
) SS
COUNTY OF SAN BERNARDINO)

I, _____, Secretary of the Chino Basin Watermaster, DO HEREBY CERTIFY that the foregoing Resolution being No. 97-5, was adopted at a regular meeting of the Chino Basin Watermaster Board by the following vote:

AYES:

NOES:

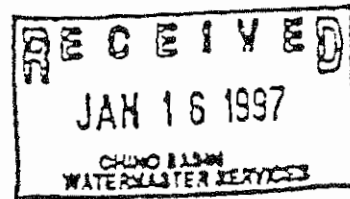
ABSENT:

ABSTAIN:

CHINO BASIN WATERMASTER



Actuarial & Employer Services Division
P.O. Box 942709
Sacramento, CA 94229-2709
Telecommunications Device for the Deaf - (916) 326-3240
(916) 326-3420 FAX (916) 658-1586



January 10, 1997

Reply to Section 220

Ms. Traci Stewart
Chief of Watermaster Services
Chino Basin Watermaster
8632 Archibald Avenue, Suite 109
Rancho Cucamonga, CA 91730

Dear Ms. Stewart:

Enclosed is the actuarial valuation conducted to determine the contributions necessary for participation of the Chino Basin Watermaster in the Public Employees' Retirement System (CalPERS).

The employer contribution rates are based on a contract to provide the 2% @ 60 Full formula; Section 20042 (One-Year Final Compensation); and Section 20124 (Military Service Credit as Public Service) for local miscellaneous members.

Due to legislation effective January 1, 1994, new contracting public agencies shall include in the contract Section 21573 (Third Level of 1959 Survivor Benefits), if the agency has not entered into a voluntary agreement to provide Social Security coverage to its employees. Individuals employed on the contract effective date will be eligible to elect not to be covered, but participation will be required of all future hires. For information on the provisions of Section 21573, please refer to the PERS Optional Benefits Listing.

The employer cost for the Third Level of 1959 Survivor Benefits is \$1.50 per month per covered member. Agencies are generally billed on an annual basis. In addition, members covered by the 1959 Survivor Benefits contribute \$2.00 monthly, \$1.00 semi-monthly, or \$.93 bi-weekly, based on the payroll reporting frequency.

The local miscellaneous member contribution rate will be 7% of reportable earnings as of the effective date of the contract.

Section 20322 of the Government Code as amended effective July 1, 1994 states that elected or appointed officials, who are first elected or appointed on or after July 1, 1994, or who are elected or appointed to a term of office not consecutive with a term held on June 30, 1994 are excluded from membership in this System. "Members of the Governing Body" who will not be excluded pursuant to Section 20322 have been excluded by specific contract provision.

January 10, 1997

We understand that Section 11332 of the Omnibus Budget Reconciliation Act of 1990 (OBRA) requires social security coverage for all public employees, whether hired or elected, unless the employee actively participates in a public retirement system in conjunction with the employment. If members of your governing body are compensated, authoritative responses to any questions you may have regarding the mandatory social security provisions included in OBRA should be available from the Internal Revenue Service, Room 5334, 1111 Constitution Avenue, N.W., Washington D.C. 20224.

The proposed contract does not include Section 20938. The Retirement Law gives each member the right to claim credit for prior service rendered to agencies covered by this System. The cost of this benefit is borne by the contracting agency to which service was rendered. However, if the contract includes Section 20938, prior service credit is limited to those in employment on contract date.

CalPERS requires contracting agencies to pay an administrative charge of \$200.00 to cover initial administrative costs. There is also a charge of \$25.00 per member to cover the cost of the prior service calculations.


PLEASE NOTE: Should the agency dissolve, become inactive or terminate its contract, any liability still outstanding for prior and current service is immediately due and payable.

The enclosed Form CON-8B, Anticipated Schedule of Agency Actions, must be completed and returned to initiate further steps necessary for participation in CalPERS.

The agency will be billed at a later date for the services involved in the conduct of the actuarial valuation.

If you have any questions regarding the actuarial valuation, please contact David DuBois at (916) 326-3427. Questions concerning the contract process should be directed to me at (916) 326-3625.

Sincerely,



Ellie Wright
Employer Representative
Public Agency Contract Services

EW:jm

Enclosures

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
Actuarial and Employer Services Division
Public Agency Contract Services
P.O. Box 942709
Sacramento, CA 94229-2709
(916) 326-3420

ANTICIPATED SCHEDULE OF AGENCY ACTIONS

The Chino Basin Watermaster hereby requests the documents necessary for participation in the Public Employees' Retirement System. We have reviewed the benefit programs available and we intend to provide the benefits as shown below. (Enter the dates each action will be taken, sign and return the schedule.)

2% @ 60 Full formula; Section 20042 (One-Year Final Compensation); and Section 21024 (Military Service Credit as Public Service) for local miscellaneous members.

Enter dates:

1. 2/12 THE DATE YOUR AGENCY NEEDS THE RESOLUTION OF INTENTION FROM THIS OFFICE TO INCLUDE IN AGENDA FOR YOUR GOVERNING BODY. This date must be at least four weeks from the date this form is received in the Public Agency Contract Services office.
2. 3/6 ADOPTION OF RESOLUTION OF INTENTION declaring the agency's intent to enter into a contract with CalPERS.
3. 3/7 EMPLOYEE ELECTION.
4. 3/26 ADOPTION OF FINAL RESOLUTION. This date cannot be earlier than 20 days after adoption of the Resolution of Intention (date #2).
5. 4/6/97 EFFECTIVE DATE OF CalPERS CONTRACT. This date cannot be earlier than the first day of a payroll period following the effective date of the Resolution.

BY *Tim A. Stewart*

TITLE Chief of Watermaster Services

Date 1/16/97 TELEPHONE (909) 484-3888

THIS OFFICE WILL PREPARE ALL DOCUMENTS NECESSARY TO COMPLETE YOUR CONTRACT. IF YOUR AGENCY ATTEMPTS TO EXPEDITE THE CONTRACT PROCESS BY PROCEEDING WITHOUT THE DOCUMENTS PROVIDED BY THIS OFFICE, LEGAL REVIEW MAY BE REQUIRED WHICH COULD DELAY THE ANTICIPATED EFFECTIVE DATE OF THE CONTRACT.

CHINO BASIN WATERMASTER MEETING
February 27, 1997

AGENDA ITEM 1
CONSENT CALENDAR

G. VEHICLE
ALLOWANCE



CHINO BASIN WATERMASTER

8632 Archibald Ave., Suite 109, Rancho Cucamonga, CA 91730
TEL: (909) 484-3888 • FAX: (909) 484-3890

TRACI STEWART
Chief of Watermaster Services

MEMORANDUM

DATE: February 27, 1997
TO: Watermaster Board Members
FROM: Watermaster Services Staff
SUBJECT: Vehicle Allowance

BACKGROUND

At the October 10, 1996 Appropriative Pool meeting, an Ad Hoc Review Committee was designated to review the vehicle allowance for the Chief of Watermaster Services. Previously, the Overlying (Non-Agricultural) and Overlying (Agricultural) Pools had noted the vehicle allowance in their approval of the Amended FY 96/97 Budget.

After completing their survey, the Ad Hoc Committee recommended "the inclusion of a \$500 per month car allowance for the Chief of Watermaster Services in future Watermaster budgets and that any usage of personal vehicles continue to be reimbursed at the current IRS rate of \$0.315 per mile". A copy of the committee's report is included for review.

DISCUSSION

On February 13, 1997, the Advisory Committee approved by a greater than 80% majority that a \$500 per month vehicle allowance for the Chief of Watermaster Services be included in future Watermaster budgets and that employee use of a personal vehicle for Watermaster business be reimbursable at the current IRS rate.

mfs:letters\vehical.rec

West San Bernardino County
Water District

855 West Base Line, P.O. Box 920
Rialto, California 92377-0920
Phone (909) 875-1804

Board of Directors
Oliver P. Roemer
President
Beverly Smith
Vice President
Bruce E. Cash
Alec H. B. Fergusson
Alan G. Dyer

Administrative Staff
Anthony W. Araiza
General Manager - Secretary
Joan A. Peterson
Treasurer - Office Manager
Mariada Ashworth
Administrative Secretary

Fax (909) 875-7284 Administration
(909) 875-1361 Engineering

MEMORANDUM

DATE: January 16, 1997

TO: Watermaster Committee Members

FROM: Ad Hoc Review Committee:
Anthony W. Araiza, West San Bernardino County Water District
Terri Horn, Mutual Water Co. of Glen Avon Heights
Arnold Rodriguez, Santa Ana River Water Company

SUBJECT: Car Allowance for Chief of Watermaster Services

BACKGROUND

At the request of some individuals in attendance at the October 10, 1996 Appropriate Pool meeting, an Ad Hoc Committee was established to review the car allowance for the Chief of Watermaster Services. Watermaster Services staff conducted a compensation survey at the Executive Officer level of similar agencies and provided a summary table (attached) to the Ad Hoc Committee for its use.

DISCUSSION

The options which appeared to be available with regard to vehicle usage for the Chief of Watermaster Services during the process to develop the current year budget were:

1. Purchase of an additional vehicle by Watermaster.
2. Inclusion of a car allowance for the Chief of Watermaster Services in the Watermaster Budgets.

The past practice of Chino Basin Municipal Water District, which maintained a pool of vehicles for use by District personnel, was to require personnel attending off site meetings to utilize a pool vehicle whenever possible instead



Watermaster Committee Members
January 16, 1997
Page 2

of utilizing their personally owned vehicles. High visibility, responsible employees with high usage had either been assigned vehicles or were subsequently provided with a vehicle allowance. Prior to inclusion of a car allowance in the Watermaster draft budgets, the District had reduced the number of pool vehicles in its vehicle pool and the Chief of Watermaster Services, who presents Watermaster producers' interests at numerous off site meetings, utilized her personally owned vehicle without reimbursement because of the lack of budgeted funds, the unavailability of pool vehicles and criteria associated with their use at the District.

During budget workshops for the current fiscal year, a vehicle allowance for the Chief and mileage reimbursement for Watermaster Services staff was selected as a less expensive alternative to Watermaster than purchasing another vehicle for the Chief with mileage reimbursement to the remaining staff.

A survey of executive officer positions at similar entities found that \$500 per month is a reasonable car allowance for this position and is less expensive than Watermaster purchasing, insuring, and maintaining another vehicle.

RECOMMENDATION

The Ad Hoc Review Committee recommends the inclusion of a \$500 per month car allowance for the Chief of Watermaster Services in future Watermaster Budgets and that any usage of personal vehicles continue to be reimbursed at the current IRS rate of \$0.315 per mile.

AWA:ma

Chino Basin Watermaster conducted a compensation survey of similar agencies at the Executive Officer level.

COMPENSATION SURVEY

DESCRIPTION	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
ANNUAL SALARY	\$86,000	\$72,163 - \$98,405	\$45,300	\$104,028	\$106,320	\$102,000	\$80,000 ** 28 to 30 hrs per week	\$65,386 - \$79,483
VEHICLE ALLOWANCE mileage vehicle, vehicle allowance	\$550	car provided	Vehicle provided. Purchased every 2 years. Bus. use only Pers car .25/mile	675.00 monthly	Vehicle Provided	Vehicle * Provided	n/a	\$500
EXECUTIVE LEAVE (# of days per year)	none	none	none established	5	compensatory time off	6 days sick 2 weeks vacation on books day one	n/a	none
BENEFITS (Insurance, 401K, Cafeteria Plan, etc)	PERS Deferred Compensation Cafeteria Plan	PERS Deferred Compensation Cafeteria Plan	100 % company paid +dependants, medical dental, vision	PERS, 401K Cafeteria Plan	PERS Cafeteria Plan	PERS Cafeteria Plan	n/a	PERS Deferred Compensation Cafeteria Plan
NUMBER OF EMPLOYEES	36	7	6	19	29	6	8	5
ANNUAL BUDGET	\$ 6 mil	\$ 3.5 mil	\$.75 mil	\$29.2 mil	\$38.2 mil	\$1.6 mil	\$ 3 mil	\$1.4 mil

CHINO BASIN WATERMASTER MEETING
February 27, 1997

AGENDA ITEM 1
CONSENT CALENDAR

H. CYCLIC STORAGE
AGREEMENT



CHINO BASIN WATERMASTER

8632 Archibald Ave., Suite 109, Rancho Cucamonga, CA 91730
TEL: (909) 484-3888 • FAX: (909) 484-3890

TRACI STEWART
Chief of Watermaster Services

MEMORANDUM

DATE: February 27, 1997
TO: Watermaster Board Members
FROM: Watermaster Services Staff
SUBJECT: Cyclic Storage Agreement

BACKGROUND

The Cyclic Storage Agreement between Metropolitan Water District and Chino Basin Watermaster expired January 5, 1997. At their meetings on January 22, 1997, the pool committees recommended to the Advisory Committee that the current agreement remain in effect through December 31, 1997, to allow additional time for the committees to meet and formulate a recommendation regarding storage limits and to negotiate a new agreement which reflects the necessary storage limit impacts.

DISCUSSION

The Advisory Committee approved this item on its consent calendar on February 13, 1997 by a greater than 80% majority.

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cyclstor.rec

CHINO BASIN WATERMASTER MEETING
February 27, 1997

AGENDA ITEM 1
CONSENT CALENDAR

I. CBWCD BASIN
WATER QUALITY
TESTING

Mark J. Wildermuth
Water Resources Engineers
415 North El Camino Real, Suite A
San Clemente, CA 92672

Voice 714.498.9294
Fax 714.498.1712

Jan. 16, 1997

Ms. Traci Stawart
Chief of Watermaster Services
8632 Archibald Ave., Suite 109
Rancho Cucamonga, CA 91730

Barry H. Kehl
CBWCD, General Manager
4594 San Bernardino St.
Montclair, CA 91763

Request for Proposal for Chemical Analysis Service

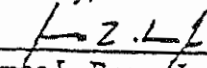
On behalf of the Chino Basin Watermaster (Watermaster) and the Chino Basin Water Conservation District (CBWCD), we have solicited bids for laboratory work for the respective agencies upcoming water quality monitoring programs. Initially, we contacted four EPA-qualified laboratories to conduct the following tasks:

1. Provide appropriate bottles.
2. Pick up the collected samples from the Office.
3. Analyze samples.
4. Provide the analytical results on both PC-formatted floppy disks and hard copies

After our first round of bidding, three were selected based on costs for more intense negotiations. The resulting outcome was a unit cost of \$127 per sample using the Truesdail Laboratories of Tustin. For your information their quote is attached to this correspondence, as is a summary of all the laboratory bids after our negotiations.

If you have any question, please call me at (714) 498-9294.

Sincerely,


James L. Burror Jr.
Assistant Engineer

cc: MW
Jim T. Watermaster



Chino Basin Water Conservation District

January 10, 1997

Ms. Traci Stewart,
Chief of Watermaster Services
Chino Basin Watermaster
8632 Archibald Avenue, Suite 109
Rancho Cucamonga, CA 91730

Re: Basin Water Quality Testing
January 1997 - March 1997

Dear Ms. Stewart:

At the Tuesday, January 8, 1997 meeting of the Board of Directors it was determined that this district would share costs, up to \$5,700, with the Chino Basin Watermaster which are related to having a limited number of water quality samples taken and analyzed. In order to assist in securing the samples, this District will provide the services of its Conservation Specialist to work with one of your employees.

Enclosed with this letter is a schedule of proposed sampling dates and testing locations. If you are in agreement with the sampling program and are desirous in sharing costs, on a 50/50 basis, to have the samples analyzed please advise and we will schedule accordingly.

Should you be desirous of sharing such costs we will need to determine who will front the costs and bill the other and to what extent we will want an agreement to be fashioned. Please feel free to call me.

Sincerely yours,

Barrett Kehl,
General Manager/Secretary

Enc.: (1)

Division 1
SANDRA OLSON
Division 2
LOUIS BADDLES
Division 3
PAUL HOFER
Ontario - Division 4
GEOFFREY VANDEW HEU
Division 5
JOHN SCHONEVELD
Division 6
ALBERT SCHEENSTELA
Division 7

OFFICERS
ALBERT SCHEENSTELA
President
SANDRA OLSON
Vice President
JOHN SCHONEVELD
Treasurer
BARRETT KEHL
Secretary - Manager

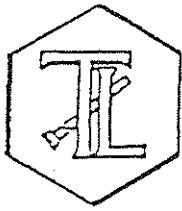
DISTRICT COUNSEL
WILLIAM BRUNICE

4594 SAN BERNARDI
P.O. Box 31
MONTCLAIR, CA 97
(909) 626-2711
FAX (909) 626-5

Estimated Analytical Costs for Surface Water Samples at Chino Basin
Spreading Basins

Basins	Sampling Periods					
	1/15/96	1/29/96	2/12/96	2/26/96	3/11/96	3/25/96
Upland	1	1	1	1	1	1
Montclair 1	1	1	1	1	1	1
Montclair 2	1	1	1	1	1	1
Montclair 3	1	1	1	1	1	1
Montclair 4	1	1	1	1	1	1
Brooks	1	1	1	1	1	1
15th Street	1	1	1	1	1	1
Ely 3	1	1	1	1	1	1
Church	1	1	1	1	1	1
Lower Cuca, West	1	1	1	1	1	1
Chris	1	1	1	1	1	1
Lower Day	1	1	1	1	1	1
Wineville	1	1	1	1	1	1
Riverside	1	1	1	1	1	1
Elwanda	1	1	1	1	1	1
Victoria	1	1	1	1	1	1
San Sevaine 1	1	1	1	1	1	1
San Sevaine 5	1	1	1	1	1	1
Hickory	1	1	1	1	1	1
Number of Samples	19	19	19	19	19	19
Total No. of Samples						114
Cost at \$100/sample						\$11,400

Note — labor cost to obtain samples was assumed to be borne primarily by
Watermaster staff with assistance from District staff.



TRUESDAIL LABORATORIES, INC.
FAX TRANSMITTAL QUOTATION

January 16, 1997

Mark J. Wildermuth
Water Resources Engineers
415 N. El Camina Real, Suite A
San Clemente, CA 92672

RE: ~~Chino Basin Water Master & Chino Basin Water Conservation District~~

Truesdail Laboratories is pleased to respond to your Request for Quotation to provide environmental services for the identified water quality monitoring program.

We understand the Scope of Work as described by FAX:

70 groundwater samples analyzed for parameters listed in Table I

110 surface water samples analyzed for parameters listed in Table II

Because of the volume of samples and the equivalent parameters in each Table, we will be quoting a single cost for each sample type.

Unit Cost for Table I parameters \$127 each

Unit Cost for Table II parameters \$127 each

See the attached list for Table I and II parameters.

If you have any questions please call at your convenience.

Sincerely
TRUESDAIL LABORATORIES, INC.

Stephen C. Roesch
Chief Scientist, Manager
Environmental Services

PARAMETER SUMMARY

TABLE I

Total Hardness
Hydroxide
Calcium
Sodium
Sulfate
Boron
EC
Turbidity
TDS
Tritium

Total Alkalinity
Bicarbonate
Magnesium
Potassium
Chloride
Fluoride
Color
pH
Nitrate

TABLE II

Total Hardness
Hydroxide
Calcium
Sodium
Sulfate
Boron
EC
Color
Turbidity
TDS
Nitrate
Total Phosphorus

Total Alkalinity
Bicarbonate
Magnesium
Potassium
Chloride
Fluoride
MBAS
Odor
pH
Ammonia
Nitrite

Laboratory Bidding Summary Attachment

Agency Samples	Truesdail	Clinical Labs of S.B.	Core
Watermaster	\$127	\$163	\$221
CBWCD	\$127	\$216	\$204

CHINO BASIN WATERMASTER MEETING
February 27, 1997

AGENDA ITEM 1
CONSENT CALENDAR

J. TDS/NITROGEN STUDY

Draft Phase 1B Cost Breakdown by Agency

Consultant

Task Group 3 - Develop Hydrological Methods	\$209,203
Task Group 4 - Develop Socioeconomic Impact Methods	\$96,000
Task Group 9 - Develop Water Quality Monitoring Plan	\$16,600
Task Group 10B - Support Regulatory Approval Process	<u>\$60,200</u>
Consultant Subtotal	\$381,903

**RWQCB
SAWPA MGT.**

	\$60,000
	\$50,000
Phase 1A Carryover	<u>(\$50,000)</u>
Subtotal Phase 1B	\$441,903
Contingency	<u>\$2,997</u>
Total Phase 1B	\$444,900

Draft Distribution of Costs Among SAWPA, SARDA & Other

<u>Agency</u>	<u>SAWPA Costs</u>	<u>SARDA Costs</u>	<u>Other</u>
CBMWD	\$41,000		
EMWD	\$41,000		
OCWD	\$41,000		
SBVMWD	\$41,000		
WMWD	<u>\$41,000</u>		
	\$205,000		
CORONA		\$21,874	
EVMWD		\$3,508	
REDLANDS		\$13,366	
RIALTO		\$14,084	
RIVERSIDE		\$73,103	
RIX JPA		\$67,999	
YVWD		<u>\$6,068</u>	
		\$205,000	
CBWCD			\$2,600
CBWM			\$5,100
CSDOC			\$18,000
WSECWD			\$4,000
SBWCD			\$2,600
RHWC			<u>\$2,600</u>
			\$34,900
Totals	\$205,000	\$205,000	\$34,900
		Phase 1B Total	\$444,900

SARDA is based on percentage of flow times \$205,000.

Percentages used are: Corona 10.87%; EVMWD 4.15%; Redlands 5.52%; Rialto 5.37%; Riverside 35.58%; RIX JPA 33.17%; and YVWD 2.98%.

CHINO BASIN WATERMASTER MEETING
February 27, 1997

AGENDA ITEM 1
CONSENT CALENDAR

K. NORCO'S CHINO BASIN
INJECTION PROGRAM



CHINO BASIN WATERMAS

8632 Archibald Ave., Suite 109, Rancho Cucamonga, CA 91730
TEL: (909) 484-3888 • FAX: (909) 484-3890

TRACI STEWART
Chief of Watermaster Services

MEMORANDUM

DATE: February 27, 1997
TO: Watermaster Board Members
FROM: Watermaster Services Staff
SUBJECT: Norco's Chino Basin Injection Program

BACKGROUND

At the January 22, 1997 pool committee meetings, staff provided a status report regarding the City of Norco's injection program. Norco entered into a storage agreement in 1994 to allow water injected from the Temescal Basin into the Chino Basin to be used to offset overproduction.

DISCUSSION

In Fiscal Year 1994-95, 215.4 acre-feet was injected from the Temescal Basin into the Chino Basin and placed in storage under Agreement #31. In Fiscal Year 1995-96, 260.26 acre-feet was injected and used to offset overproduction. During Fiscal Year 1996-97, the City of Norco anticipates injecting approximately 400 acre-feet for subsequent withdrawal.

The Advisory Committee approved this item on their consent calendar on February 13, 1997 by a greater than 80% majority.

m1s:letters\norcoinj.pro

CHINO BASIN WATERMASTER MEETING
February 27, 1997

AGENDA ITEM 1
CONSENT CALENDAR

L. AD HOC FINANCE
COMMITTEE REPORT

To: Watermaster Advisory Committee
From: Ad Hoc Finance committee
Date: January 23, 1997
Subject: Ad Hoc Committee Conclusions and Recommendations.

The Ad Hoc Finance Committee members met on January 16 and January 23, 1997. We were specifically asked to review the circumstances and make recommendations regarding financial policies, practices and procedures. Attached are our recommendations and conclusions from both meetings.

Our conclusions regarding whether the Watermaster could do anything differently that would prevent fraudulent activity of this nature from happening is based on the circumstances outlined to the Ad Hoc Committee by the staff of Watermaster Services. The Ad Hoc Committee did not, nor would we have had time to review the financial records of the agency. Based on the representations made to the committee it appears the nature of the fraud was external to the organization and could not be prevented. At best the level of exposure or risk to this type of fraud or forgery can only be reduced through procedures designed to give immediate or verbal confirmation of certain account activities and through instituting the other recommendations outlined below.

The committee recommends that any special audit engagement be done in conjunction with the year end audit with the scope of work expanded in the months of the forgery activity and the process of auditor selection be started immediately with the audit to begin shortly thereafter. The audit is the natural starting point of any investigation. With this in mind, the proposal for services should include meetings with the auditors and the advisory committee during the course of the audit specifically to discuss or review any findings which may suggest the need for immediate corrective action on the part of the advisory committee. In this fashion the committee can expand [or reduce] the required work based on field work findings rather than at the end of the engagement.

The Ad Hoc Finance Committee could not see any overriding reason as to why Watermaster staff should be subjected to two audits. Given the time frame for issuance of a request for proposal and final auditor selection, the fiscal year end audit and this audit would be in close proximity of each other. Hence they could be done as one audit. It should be kept in mind that the size of the organization and revenue cycle are such that the audit process could be started in advance of fiscal year end with follow up auditing related to the final months which could not be audited. It is possible to have the Watermaster audit completed and issued by the end of August under this arrangement.

Our recommendations related to the internal financial policies, practices and procedures that should be changed (or strengthened) are only minor modifications and should be weighed against the cost and staffing of the Watermaster Services as well as the future possibility of utilizing outside accounting services which would change these procedures.

January 16, 1997 Recommendations:

1. Check into bank confirmation of transfers. (Bank not to release funds until they call and get verbal confirmation).
2. Check on Ban Track to allow for more timely information from B of A. Check transactions on a daily basis, at least until we change banks or some other similar service designed to give immediate information of account transactions.
3. Advise committee that B of A is not meeting Watermaster's needs and explain their confusion between CBMWD and CBWM.
4. Send out RFP for banking services (must be a LAIF depository) and send with proposed services contract.
5. Get assigned "PIN" numbers (if any) changed.
6. Corporate Account versus Public Entity Account? One may have more advantages than the other.
7. Don't sign standard banking agreement. City of Chino will provide copy of draft agreement they are negotiating.
10. Have B of A send statements only on a more frequent basis (i.e. weekly) and canceled checks under separate cover monthly.

January 23, 1997 recommendations and conclusions:

9. Work through the "Governmental Division" of the bank. A regional representative who is normally a vice-president of the bank, will handle your account rather than a branch manager.
10. Eliminate concept of an "exception checking account" because the bank may recognize an authorized signature, but they don't necessarily check the dollar limit of signature authority.
11. Order "Safety Checks" printed on paper that cannot be copied or scanned.
12. Assign "bank reconciliation" to an employee other than the Controller and add a brief synopsis regarding bank reconciliation to the Financial Procedures.
13. During the month(s) assessments are being deposited, arrange "same day transfers" of public entity checks from bank to LAIF. (The bank should not require a public entity check to clear before transferring the money.)
14. Mail copies of Financial Transaction Reports and Voucher Lists to the members of the Advisory Committee and the Watermaster Board monthly. Do not wait for quarterly meeting for them to see the reports.

15. Formulate a procedure for the actual funds for the sale of water, etc., between agencies to go directly from one agency to the other, rather than through Watermaster Services, with Watermaster Services being notified of the transaction for accountability of water and funds.

CONCLUSIONS:

1. Can Watermaster Services do anything differently that will prevent fraudulent activity of this nature from happening in the future?

No. Nor could Watermaster Services have done anything differently in the past to prevent what happened given the circumstances outlined to the committee.

2. Are there any internal financial policies, procedures or practices that should be changed? If so, what?

Yes, but only minor modifications as delineated under "recommendations" above if feasible.

FINAL CONCLUSION AND RECOMMENDATION:

This Committee recommends that Requests for Proposals be mailed as soon as possible for a Watermaster Annual Audit and the process of auditor selection be started immediately with the audit to begin shortly thereafter. with an "expanded scope" for this first year that Watermaster Services has been stand-alone, to address the December activities regarding the forgeries.

Committee Members:

Carole A. Coney	Accounting Manager	City of Ontario
Calvin W. Good Jr.	Administrative Services / Controller	Monte Vista Water District
Patrick J. Griffin	Director of Finance	City of Chino
Walter F. Reardon	CPA	City of Upland
Ken Waring	Auditor - Controller	Jurupa Community Services District
Shawna Whallon	Director of Finance & Administration	Cucamonga County Water District
Karen Zane	Accounting Manager	City of Pomona

EUNICE M. ULLOA
Mayor

GLENN DUNCAN
Mayor Pro Tem



CITY of CHINO

LEO LEON
BRUCE ROBBINS
DENNIS YATES
Council Members

KATHLEEN A. BLOMO
Interim City Manager

January 29, 1997

Mr. Ken Waring, Auditor-Controller
Jurupa Community Services District
8621 Jurupa Road
Riverside, CA 92509

Dear Ken,

After having reviewed the draft recommendations and conclusions of the Watermaster Ad Hoc Finance Committee faxed to me January 27th, and reviewing the discussions of the January 23, 1997 Committee meeting, I have concerns about the process utilized by the Committee to reach its recommendations and conclusions. Specifically, I have a concern about the method by which the Committee received information about the loss of Watermaster funds.

As I indicated at the January 23, 1997 Ad Hoc Finance Committee meeting, it is impossible for me to eliminate either members of Watermaster staff, or a lack of procedural controls, as possible causes in the loss of funds, based upon the information given surrounding said loss. In other words, without an independent investigation of the loss, along with a report presented by the independent investigator directly to the Ad Hoc Finance Committee, I feel it is premature to recommend to the Watermaster Advisory Committee any specific action at this time. It is conceivable that an immediate audit should be performed, or it may be acceptable to simply expand the scope of the annual audit to include a review of internal control processes at Watermaster.

Because of this, I would make the following recommendations:

- 1) The Watermaster Advisory Committee contract with an independent entity an investigation of the circumstances surrounding the Watermaster loss of funds, including receiving a written report of the findings of said investigation.
- 2) The Watermaster immediately implement all recommendations made by the Ad Hoc Finance Committee regarding internal control and reporting procedures, with an emphasis on Item #7 from the January 23, 1997 meeting regarding funds being exchanged directly between agencies rather than through Watermaster.

If you have any questions about this information, please call me at (909) 627-7577, extension 227.

Sincerely,

Patrick J. Griffin
Director of Finance



01-29-1997 02:25PM

MONTE VISTA WATER DISTR.

00 02 712

TO: KEN WARING
AD HOC WATERMASTER FINANCE COMMITTEE

FROM: CALVIN GOOD
MONTE VISTA WATER DISTRICT

DATE: January 29, 1997

SUBJECT: Ad Hoc Committee Conclusions and Recommendations

Ken, I feel we should state that the Committee did not review any of the Financial Records. Also, although it appears that the fraud was external to the organization, we do not know positively that this is so. Only a thorough review of the facts through an audit would determine this. I still feel strongly that an audit is necessary.

The Financial Procedures Document that was reviewed was in Draft and has not been approved by the Advisory Committee or the Watermaster.

I also feel that the entire incident should be documented in detail as to what actually occurred and forwarded to the Advisory Committee and to the Watermaster Board.

Thank You

Cal Good

CHINO BASIN WATERMASTER MEETING
February 27, 1997

AGENDA ITEM 1
-----CONSENT CALENDAR

N. RESOLUTION NOS.
97-2, 97-3 AND 97-4
FOR DEFERRED
COMPENSATION

RESOLUTION NO. 97-2

RESOLUTION OF THE CHINO BASIN WATERMASTER,
SAN BERNARDINO COUNTY, CALIFORNIA,
AUTHORIZING THE ADOPTION AND IMPLEMENTATION
OF A SECTION 457 DEFERRED COMPENSATION PLAN.

A resolution of the CHINO BASIN WATERMASTER authorizing the adoption and implementation of a Section 457 Deferred Compensation Plan.

WHEREAS, the CHINO BASIN WATERMASTER, Rancho Cucamonga, California, has considered the establishment of Section 457 Deferred Compensation Plan to be made available to the employees of the Watermaster; and

WHEREAS, said employees are often unable to acquire retirement security under other existing and available retirement plans due to the contingencies of employment mobility; and

WHEREAS, the Watermaster receives benefits under said Plan by being able to assure reasonable retirement security to said employees by being more able to attract competent personnel to its service and by increasing its flexibility in personnel management through elimination of the need for continued employment for the sole purpose of allowing an employee to qualify for retirement benefits.

NOW, THEREFORE, BE IT RESOLVED BY THE CHINO BASIN WATERMASTER, RANCHO CUCAMONGA, CALIFORNIA:

The Watermaster hereby establishes said Section 457 Deferred Compensation Plan for said employees, approves Lincoln National Corporation as a funding provider under the Deferred Compensation program and authorizes its officials to execute all documents necessary to establish the Plan as presented to the Agency.

The Resolution shall be in full force and effect from and after its passage and all necessary approval by the CHINO BASIN WATERMASTER.

*****APPROVED BY THE ADVISORY COMMITTEE BY A GREATER THAN 80% MAJORITY ON FEBRUARY 13, 1997.

-----THE UNDERSIGNED DO HEREBY ATTEST THAT THIS RESOLUTION IS ADOPTED AND EXECUTED THE 27TH DAY OF FEBRUARY, 1997.

CHINO BASIN WATERMASTER

By _____

Title _____

ATTEST:

Secretary

STATE OF CALIFORNIA)
) SS
COUNTY OF SAN BERNARDINO)

I, _____, Secretary of the Chino Basin Watermaster, DO HEREBY CERTIFY that the foregoing Resolution being No. 97-2 was adopted at a regular meeting of the Chino Basin Watermaster Board by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Secretary

[SPONSOR] DEFERRED COMPENSATION PLAN [AND TRUST]

Chapter 01 PLAN ESTABLISHED

01 Plan Established. As provided in Section 457 of the Internal Revenue Code of 1986, as amended (hereinafter referred to as the "Code"), _____ (hereinafter referred to as the "Plan Sponsor") hereby establishes the _____ Deferred Compensation Plan (hereinafter referred to as the "Plan") for the employees of _____. Nothing contained in this Plan shall be deemed to constitute an employment agreement between the participant and the Plan Sponsor and nothing contained herein shall be deemed to give a participant any right to be retained in the employ of the Plan Sponsor.

Chapter 02 DEFINITIONS

02-1 Plan Sponsor. "Plan Sponsor" means _____, a governmental entity in the State of _____ as described in Section 1.457-2(c)(2) of the Treasury Regulations.

02-2 Compensation. "Compensation" means all payments made to a public employee by the Plan Sponsor as remuneration for services rendered.

02-3 Deferred Compensation. "Deferred Compensation" means the amount of the Participant's Compensation which the Participant and the Plan Sponsor shall mutually agree (prior to the date for which such Compensation is earned) will be deferred.

02-4 Accumulated Deferrals. "Accumulated Deferrals" means Compensation deferred under the Plan, adjusted until date of payment by income received, increases or decreases in investment value, fees and any prior distributions made.

02-5 Participation Agreement. "Participation Agreement" means the agreement executed and filed by an Eligible Employee with the Plan Sponsor pursuant to Chapter 04 of this Plan, in which the Eligible Employee elects to become a Participant in the Plan.

02-6 Separation From Service. "Separation (or Separates) from Service" means "separation from service" as that term is interpreted for purposes of Section 402(e)(4)(A)(iii) of the Code and refers to the severance of the Participant's employment with the Plan Sponsor. A Participant will be deemed to have severed his or her employment as of the date of his or her last payroll.

02-7 Participant. "Participant" means any Eligible Employee of the Plan Sponsor who executes a Participation Agreement with the Plan Sponsor assenting to the provisions of this Plan, once the Participation Agreement has been approved.

02-8 Beneficiary. "Beneficiary" means a beneficiary of a Participant, a Participant's estate, or any other person whose interest in the Plan is derived from the Participant.

02-9 Committee. "Committee" means the Committee for Deferred Compensation appointed by the Plan Sponsor.

02-10 Eligible Employee. "Eligible Employee" means any person who is employed by and receives any type of Compensation from the Plan Sponsor for whom services are rendered, and who is a full-time, regular part-time working half-time, or more, or career seasonal employee of the Plan Sponsor.

02-11 "Normal Retirement Age" as used in the Plan, means the range of ages:

- (1) Ending not later than age seventy and one-half (70-½); and
- (2) Beginning not earlier than the earliest age at which the Participant has the right to retire under a Plan Sponsor's pension plan for which the Participant is eligible without consent of the Plan Sponsor and under which the Participant will receive immediate retirement benefits without actuarial adjustment due to retirement prior to some later specified age in the Plan Sponsor's pension plan.

Chapter 03 ADMINISTRATION

03-1 Administered By Committee. This Plan shall be administered by the Committee which shall represent the Plan Sponsor in all matters concerning the administration of this Plan.

03-2 Committee To Adopt Rules and Regulations. The Committee shall have full power and authority to adopt rules and regulations for the administration of the Plan, and to interpret, alter, amend, or revoke any rules and regulations so adopted.

03-3 Committee Action Fair And Reasonable. Every action taken by the Committee shall be presumed to be a fair and reasonable exercise of the authority vested in or the duties imposed upon it. The Committee and its individual members shall be deemed to have exercised reasonable care, diligence and prudence and to have acted impartially as to all persons interested, unless the contrary be proven by affirmative evidence.

03-4 **Committee To Maintain Records Of Accounts.** To facilitate an orderly administration of the Plan, the Committee shall maintain or cause to be maintained a deferred compensation ledger account with respect to each Participant.

03-5 **Deferred Compensation Revolving Fund.** All deferred compensation hereunder may be paid into a special fund created and maintained in accordance with Chapter 12 in the treasury of the Plan Sponsor called the "deferred compensation revolving fund". All costs of administration and staffing of the Plan, expenses of the Committee, and such other amounts determined by the Committee, as permitted by law, may be paid as necessary out of the deferred compensation revolving fund. Amounts in the deferred compensation revolving fund may be invested as directed by the Committee. All Accumulated Deferrals payable to Participants or their respective Beneficiary or Beneficiaries shall be paid from the deferred compensation revolving fund unless otherwise paid.

Chapter 04 PARTICIPATION IN THE PLAN

04-1 **Enrollment.** Enrollment in the Plan.

(1) An Eligible Employee may become a Participant by executing a Participation Agreement. Compensation will be deferred for any calendar month only if a Participation Agreement providing for such deferral is executed by the Participant and approved by the Committee or its designee before the beginning of the month.

(2) In signing the Participation Agreement, the Participant elects to participate in this Plan and consents to the Plan Sponsor deferring the amount specified in the Participation Agreement from the Participant's gross Compensation for each pay period. The amount specified must equal to at least ten dollars (\$10) per pay period and shall continue until changed or revoked pursuant to Chapter 04-6 or 04-7 of this Plan.

04-2 **Plan to Plan Transfers.**

(1) **Transfers To The Plan:** If a Participant was formerly a participant in an eligible state deferred compensation plan (within the meaning of Section 457 of the Code and the regulations thereunder), and if such plan permits the direct transfer of the Participant's interest therein to the Plan, then the Plan shall accept assets representing the value of such interest; provided, however, the Committee may require in its sole discretion that some or all of such interest be transferred in cash or its equivalent. Such amount shall be held, accounted for, administered and otherwise treated in that same manner as compensation deferred by the Participant under the Plan except that:

(a) Only the amount, if any, transferred to the Plan which was deferred under the transferor plan in the taxable year when transfer occurs shall be treated as Compensation deferred under the Plan in such year.

(b) No amount may be transferred to the Plan as of the time when such amount is paid or made available under the Section 457 plan of the Participant's prior employer.

(2) **Transfers From the Plan:** The amounts credited to the account of a former Participant in the Plan may be transferred to another eligible deferred compensation plan (within the meaning of Section 457 of the Code and the regulations thereunder) and in which the former Participant currently participates, and if such plan provides for the acceptance of such amounts. The only rollovers or transfers allowable under Section 457 of the Code are from one eligible Section 457 plan to another eligible Section 457 plan. If a Participant, prior to pay-out beginning, accepts employment with an entity who offers an eligible Section 457 plan, and the Participant becomes a participant in that plan, then Accumulated Deferrals may, at the election of the Participant and after written notice to the Committee, be transferred to the other plan, provided that plan provides for the acceptance of such transfers.

(3) **Application for Transfer:** If the conditions in subchapters (1) and (2) of this chapter are met and the Participant wishes to transfer his/her account, he/she shall complete any application form and/or other documents as may be required by the Committee.

(4) **Administrative Rules:** The Committee shall prescribe such rules consistent with the provisions of subchapters (1) and (2) of this Chapter concerning plan-to-plan transfers as in its sole judgment it deems desirable for the orderly administration of the Plan.

04-3 Deferral Limitation.

(1) Except as provided in Chapter 04-4, relating to catch-up, the maximum that may be deferred under the Plan for any taxable year of a Participant shall not exceed the lesser of seven thousand five hundred dollars (\$7,500), as such amount is adjusted from time to time by the Secretary of Treasury pursuant to Code Section 457(e)(15), or thirty-three and one-third percent (33+1/3%) of the Participant's includible compensation, each reduced:

(a) By any amount excludable from the Participant's gross income for that taxable year under Section 403(b) of the Code: and

(b) Effective for taxable years beginning after December 31, 1988, by any amount:

(i) Excluded from gross income under Section 402(a)(8) or 402(h)(1)(B) of the Code (relating to a Participant's elective deferrals to simplified employee pensions) for that taxable year,

(ii) For which a deduction is allowable for that taxable year by reason of a contribution to an organization described in Section 501(c)(18) of the Code (relating to pension trusts created before June 25, 1959, forming part of a plan for payment of benefits under a pension plan funded only by contributions of employees); or

(iii) Which is deferred by a Participant under Section 401(k) of the Code (relating to qualified cash or deferred arrangement) during that taxable year, and

(c) By any amount the Participant contributes to any other plan covered by Section 457 of the Code (relating to deferred compensation plan(s)) during the taxable year.

(2) "Includible compensation" for purposes of this Chapter means includible compensation as defined in Section 457(e)(5) of the Code and as further defined by Treasury Regulation 1.457-2(e)(2) interpreting that section, and is determined without regard to community property laws. Includible compensation for a taxable year includes only compensation from the Plan Sponsor that is attributable to services performed for the Plan Sponsor and that is includible in the Participant's gross income for the taxable year for federal income tax purposes. Accordingly, a Participant's includible compensation for a taxable year does not include an amount payable by the Plan Sponsor that is excludable from the Participant's gross income under:

(a) Section 457 of the Code;

(b) Section 403(b) of the Code (relating to annuity contracts purchase by non-profit organizations described in Section 501(c)(3) of the Code or public schools);

(c) Section 105(d) of the Code (relating to wage continuation plans);

(d) Section 911 of the Code (relating to citizens or residents of the United States living abroad);

- (e) Section 402(a)(8) or 402(h) (1) (B) of the Code (relating to simplified employee pensions);
 - (f) Section 501(c)(18) of the Code (relating to certain pension trusts);
 - (g) Section 401(k) of the Code (relating to qualified cash or deferred arrangements); or
 - (h) Section 408(p) of the Code (relating to SIMPLE Retirement Accounts).
- (3) In computing includible compensation, total gross compensation as shown on the entity's earnings statements must be reduced by:
- (a) Pre-tax contributions to retirement plans under Section 414(h) of the Code; and
 - (b) Any contributions to cafeteria plans under Section 125 of the Code (including those associated with such items as dependent care salary reduction plans)

before excluding the items listed in subchapters (2) (a) through (h) of this Chapter.

04-4 Catch-up provision. For one or more of the Participant's last three (3) taxable years ending before attaining Normal Retirement Age under the Plan, the maximum deferral shall be the lesser of:

- (1) Fifteen thousand dollars (\$15,000) for the taxable year, reduced in the same manner as the seven thousand five hundred dollars (\$7,500) limitation is reduced in Chapter 04-3, or
- (2) the sum of:
 - (a) The limitations established for purposes of Chapter 04-3 of the Plan for the taxable year (determined without regard to this Chapter), plus
 - (b) So much of the limitation established under Chapter 04-3 for taxable years before the taxable years as has not theretofore been used under Chapter 04-3 or Chapter 04-4. A prior taxable year shall be taken into account only if:

- (i) It begins after December 31, 1978;

(ii) The Participant was eligible to participate in the Plan during all or any portion of the taxable year; and,

(iii) Compensation deferred (if any) under the Plan during the taxable year was subject to a maximum limitation (as established under Chapter 04-3).

A prior taxable year includes a taxable year in which the Participant was eligible to participate in an eligible plan sponsored by another employer. In no event can the Participant elect to have the catch-up provision apply more than once whether or not the full catch-up had been utilized. This catch-up provision may not be used in the year in which the Participant attains age seventy and one-half, and may not be used in any year thereafter.

04-5 Committee May Disallow Deferral. The Participant acknowledges the right of the Committee to disallow deferral of Compensation under the Plan in excess of the limitations in Chapter 04-3 and 04-4. However, the Committee shall have no duty to assure that amounts deferred are in compliance with such limitations.

04-6 Modification Of Deferral Or Funding Option(s). A Participant may change his/her deferral or funding option(s) during an open enrollment period. Funding option(s) may be not be changed more than four(4) times in any calendar year, or a fee may be charged. Changes in the amount of deferral must equal at least ten dollars (\$10) or more per funding option per month. (Beneficiaries entitled to receive Accumulated Deferrals may also change funding options not more than four (4) times per year.) Any combination of a decrease, a transfer, or a change in funding option (s) effective the same date, shall be considered one change. A change (whether counted as such or not) shall be effective for any calendar month only if the Participant signs a new Participation Agreement and it is approved by the Committee or its designee before the beginning of that calendar month. All Participation Agreements indicating changes in funding option(s) must be filed with the Committee no later than fifteen (15) days prior to the established pay date for which the change will occur. The Committee reserves the right to defer the effective date of any change.

04-7 Suspension And Reinstatement Of Deferral.

SUSPENSION. A Participant may at any time direct that deferrals under the Participant's Participation Agreement cease by completing the proper form and filing it with the Committee no later than the last day of the payroll period prior to the payroll period during which the deferrals are to cease; however, Accumulated Deferrals shall only be paid as provided in Chapter 04-9 through 04-14.

REINSTATEMENT. A Participant who has directed the cessation of deferrals may resume deferrals for any calendar month commencing no sooner than the month following the close of next enrollment period by executing a new Participation Agreement to defer Compensation. The

waiting period shall not apply to Participants who are on leave without pay as discussed in Chapter 07.

04-8 Investment Options Election. Each Participant shall designate on his/her Participation Agreement the investment option(s) in which he/she wishes to have deferrals invested. Such designation shall continue unless changed pursuant to Chapter 04-6. The investment option(s) shall be selected from those options made available for this purpose from time to time by the Plan Administrator, in its sole discretion. The Plan Administrator may make available as investment options:

- (1) A fixed rate investment or pool of investments including deposits with a credit union savings and loan association, mutual savings bank and fixed annuities;
- (2) Specified mutual fund shares, shares of an investment company, or variable annuities, or
- (3) Fixed or variable life insurance, or other options permitted by law and selected by the Plan Administrator.

In the event that a selected option experiences a loss, the Participant's Accumulated Deferrals payable hereunder shall likewise reflect a loss for the period.

04-9 Designation Of Beneficiaries. Each Participant shall have the right to designate a Beneficiary or Beneficiaries to receive Accumulated Deferrals in the event of Participant's death. If no such designation is in effect upon the death of a Participant, the Beneficiary shall be the surviving spouse, or if none, then the Beneficiary shall be the Participant's estate. A Participant may change his/her Beneficiary designation at any time by filing a change of beneficiary form with the Committee. A Participant may also change his/her Beneficiary designation by completing the beneficiary designation portion of a Participation Agreement form. The Participation may name:

- (1) A designated organization or person (including without limitation his/her unborn or later adopted children). If unborn or later adopted children are to be included, the designation must so indicate. The date of birth must be furnished for any living person who is named and who is under the age of eighteen.
- (2) His or her estate:
- (3) A trust which is in existence, or which is to be established under the Participant's last will. For an existing trust, the Participant must provide the name of the trust and the date it was established.

The Participant may name contingent Beneficiaries in addition to primary Beneficiaries. Any name Beneficiary must have a tax I.D. number or a social security number.

04-10 Distribution To Participant After Separation From Service. After Separation from Service, Accumulated Deferrals shall be paid to the Participant in one or more installments as elected by the Participant pursuant to Chapter 4-12 through 4-14.

04-11 Distribution In The Event Of Death Of Participant Or Beneficiary.

(1) Should the Participant die at any anytime, Accumulated Deferrals shall be paid to the Beneficiary or Beneficiaries designated by the Participant pursuant to Chapter 04-9. The Accumulated Deferrals shall be paid out as provided in Chapter 04-9 though 04-15. If no Beneficiary is designated as provided in the Participation Agreement, or if the Designated Beneficiary does not survive by a period of thirty (30) days, then a lump sum or series of payments shall be paid, in accordance with Chapter 4-9 through 4-13, to the surviving spouse, or if none, a lump sum shall be paid to the estate of the Participant.

(2) — In the event a Beneficiary becomes entitled to receive Accumulated Deferrals but dies prior to the distribution of the total Accumulated Deferrals, Accumulated Deferrals shall become payable to the Beneficiary's estate on the first day of the third month following the Beneficiary's death, unless Accumulated Deferrals are being paid in the form of an annuity, in which case the disposition of the remaining amount shall be determined by the annuity contract. Such annuity contracts shall be issued pursuant to the rules set forth in Chapter 04-14.

04-12 Elections Regarding Distribution. Each Participant (or in the event of death, each Beneficiary other than an organization, estate, or trust) shall elect when his/her pay-out will begin and the pay-out period.

(1) Election Regarding Time of Payment. The election regarding the time when payment will begin shall be made when a Participant Separates from Service (or dies having Separated from Service and having previously elected when payment will begin)

Once made, the election regarding when pay-out will begin is irrevocable as to the Participant or Beneficiary making the election; provided, however, that after payments under the Plan have been made available to a Participant, but prior to any actual distribution to the Participant, the Participant may make a one-time only election to defer the commencement of payments.

(2) Election Regarding When Payment Will Begin:

(a) By a Participant who Separates from Service other than by reason of death, must be made not later than sixty (60) days after Separation from Service.

Payment may begin on the date nearest the first day of the month in which an election is filed with the Committee on form(s) provided for that purpose, and payment must begin within the time prescribed by Chapter 04-13.

(b) By a Beneficiary, other than an organization, estate or trust, where the Participant was not already receiving payments, payments must be made not later than sixty (60) days after the Participant's death. Payment may begin on the date nearest the first day of the month in which the election is filed with the Committee on forms provided for that purpose, and payment must begin within the time prescribed by Chapter 04-13.

(3) **Election Regarding Method of Payment.** The Participant (or Beneficiary other than an organization, estate or trust) who makes an election regarding the date payment will begin, may also elect the period over which payments will be made. The pay-out period election may be made either at the time he/she elects a beginning date for pay-out or at any time not later than sixty (60) days prior to the date pay-out is to begin. Once having made this election, the Participant (or Beneficiary, other than an organization, estate, or trust) may change the pay-out period election not later than sixty days prior to the date pay-out is to begin. Such a Beneficiary may also make this election where the Participant was already receiving payments but, as provided in Chapter 4-13 (3)(a), must receive distribution at least as rapidly as it was being distributed to the Participant. Such a Beneficiary must make the pay-out period election not later than sixty (60) days after the death of the Participant and pay-out will be suspended following the Participant's death until the Beneficiary either makes a pay-out period election or begins receiving payment as provided in subchapter (4) of this chapter. Provided, if the Participant was receiving pay-out in the form of an annuity contract, then the successor's right shall be limited by the terms of that contract.

(4) **How Elections Are Made.** A Participant or Beneficiary make elections allowed under this Chapter by completing and filing applicable payment request forms with the Committee.

(5) **Consequences In Absence Of A Timely Election Regarding Time Of Payment.** Absent a timely election regarding when pay-out is to begin, pay-out will begin on the fifteenth day of the month following the month in which the election period ends, and will be made, in a lump sum if the Accumulated Deferrals as of the end of the election period are less than twenty-five thousand dollars (\$25,000) or, if the Accumulated Deferrals are twenty-five thousand dollars (\$25,000) or more, in the form of a lifetime annuity within a fifteen (15) year certain period or

(a) As may be necessary under the minimum pay-out requirements of Section 457 (d)(2)(B)(i)(I) of the Code, requiring amounts to be paid not later than as determined under Section 401(a)(9)(G) of the Code; or

(b) As may be necessary under Section 457 (d)(2)(B)(i)(II) of the Code, requiring amounts not distributed to the Participant during his/her life to be

distributed at least as rapidly as they were being distributed as of the Participant's death.

(6) **Effects Of Certain Employment Changes.** Transfers from the Plan are allowed in the circumstances described in Chapter 04-2 (2).

(7) **Consequences In Absence Of A Timely Election Regarding Method Of Payment.** In the absence of a timely election regarding the period of time over which payment will be made, payment will be made in the manner described in subchapter (5) of this Chapter.

(8) **Payment To An Organization, Estate, Or Trust.** Any amount payable to an organization, estate, or trust shall be paid in a lump sum as prescribed in Chapter 04-13. (3).

04-13 Distribution Of Deferrals.

(1) **General Rule.** Payment of Accumulated Deferrals will be made in at least annual, substantially nonincreasing amounts. Payments are also subject to the limitations in subchapters (2) through (5) of this Chapter.

(2) **Distribution To Participant.** A Participant must either:

(a) Receive his/her entire interest prior to the latest of:

(i) The April 1st immediately following the close of the Plan year in which the Participant attains age seventy and one-half, or

(ii) The April 1st immediately following the close of the Plan year in which the Participant Separates from Service with the Plan Sponsor, or

(b) Begin receiving his/her interest not later than the time specified in (a) of this Subchapter and receive it over a period not longer than either:

(i) The life of the Participant;

(ii) The life of the Participant and a Beneficiary designated by the Participant;

(iii) The life expectancy of the Participant; or

(iv) The life expectancy of the Participant and a designated Beneficiary.

Payment must be sufficiently rapid to satisfy the requirements of Section 457 (d)(2)(B)(i)(I) and Section 401 (a)(9)(G) of the Code. Provided, that until tables are issued by the Secretary of the Treasury, if provision is made for the payment of a portion of the Accumulated Deferrals to a Beneficiary, the amount payable to the Participant actuarially must exceed two-thirds (2/3) of the maximum amount payable to the Participant had no provision been made for payments to the Beneficiary (determined as of the commencement of the distribution). Once payments to a Participant begin, the Participant may accelerate the payment schedule only in the event of an unforeseeable emergency (and subject to the provisions of Chapter 05 regarding such emergencies).

(3) Distribution To Beneficiaries.

(a) When distribution begins prior to the Participant's death, then pay-out must be made at least as rapidly as it was being made to the Participant. When the Beneficiary is an organization, estate or trust, then payment will be payable in a lump sum.

(b) When distribution does not begin prior to the Participant's death, and is to be made:

(i) To an organization, estate or trust, then payment will be payable in a lump sum on the first day of the third month following the Participant's death;

(ii) To a living Beneficiary designated by the Participant other than the Participant's surviving spouse, and, by election, not to begin within one (1) year of the Participant's death, then the payment must be made within five (5) years of the Participant's death;

(iii) To a living Beneficiary designated by the Participant other than the Participant's surviving spouse, and, by election, beginning within one year of the Participant's death, then payment must be made within fifteen (15) years of the Participant's death;

(iv) To the Participant's surviving spouse, whether as designated Beneficiary, or by default, then payment must begin prior to the April 1st immediately following the later of the close of the Plan year in which the Participant would have attained age seventy and one-half or, if later, the year in which the Participant Separated from Services, and payment may be made over the lifetime of the surviving spouse or over a period not longer than the life expectancy of the surviving spouse.

(4) For purposes of this chapter, life expectancies will be computed by use of the expected return multiples in Treasury Regulation 1.72-9. Where payment is being made over the joint lives of the Participant and the Participant's surviving spouse, the life expectancy of the Participant and the Participant's surviving spouse may be recalculated annually.

(5) Notwithstanding anything in this Plan to the contrary, distributions from the Plan will be made in compliance with the minimum distribution rules of Section 457(d)(2) of the Code, and in compliance with Treasury Regulations issued under Section 401(a)(9) and 457 (d)(2) of the Code as applicable.

04-14 In-Service Distribution. Notwithstanding any other provision in the Plan, if (a) the total amount payable to a Participant under the Plan does not exceed \$3,500, and (b) such Participant has not made any deferrals under the Plan during the preceding two-year period, such Participant's Accumulated Deferrals may be distributed to him, provided that no amounts have been previously distributed to him under this Chapter 04-14.

Chapter 05 UNFORESEEABLE EMERGENCY

05-1 Unforeseeable Emergency. Notwithstanding any other provisions in the Plan, in the event of an unforeseeable emergency, a Participant or a Beneficiary entitled to Accumulated Deferrals may request the Committee to pay out a portion of Accumulated Deferrals. If the Application for payment is approved by the Committee, payment will be made within sixty (60) days following such an approval. The amount paid shall be limited strictly to that amount reasonably necessary to satisfy the emergency need. For purposes of this Plan, an unforeseeable emergency shall be severe financial hardship to the Participant resulting from:

- (1) A sudden and unexpected illness or accident of the Participant or of a dependent (as defined in Section 152 (a) of the Code) of the Participant,
- (2) Loss of the Participant's property due to casualty, or
- (3) Other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

The circumstances that will constitute an unforeseeable emergency will depend upon the facts of each case, but in any case, payment shall not be made to the extent that such hardship is or may be relieved (a) through reimbursement or compensation by insurance or otherwise; (b) by liquidation of the Participant's assets, to the extent liquidation of such assets would not itself cause severe financial hardship; or (c) by cessation of deferrals under the Plan. Examples of what shall not be considered to the unforeseeable emergencies include the need to send a Participant's child to college or the desire to purchase a home.

Chapter 06
PARTICIPANT LOANS

06-1 **Authorization of Loans.** To the extent allowed by applicable law, the Plan Sponsor may authorize the Committee to make loans to Participants pursuant to the terms of this Chapter. Such loans shall be made on the written application of the Participant and on such terms and conditions as are set forth in this Chapter or by the Committee. In making such loans, the Committee shall follow uniform policies and shall not discriminate in favor of or against any Participant or group of Participants.

06-2 **Maximum Loan Amount.** In no event shall any loan made to a Participant pursuant to this Chapter be in an amount which shall cause the outstanding aggregate balance of all loans made to such Participant under this Plan exceed the lesser of:

- (1) \$50,000, reduced by the excess (if any) of: (i) highest outstanding balance of loans from the Plan to the Participant during the one-year period ending on the day before the date on which the loan is made; over (ii) the outstanding balance of loans from the Plan to the Participant or the Beneficiary on the date on which the loan is made; or
- (2) One-half of the Participant's Accumulated Deferrals.

06-3 **Repayment of Loan.** Each loan made under this Chapter shall mature and be payable, in full and with interest, within five years from the date such loan is made, unless the loan is used to acquire any dwelling unit that within a reasonable time (determined at the time the loan is made) will be used as the principal residence of the Participant.

06-4 **Loan Terms and Conditions.** In addition to such rules and regulations as the Committee may adopt, all loans to Participants shall comply with the following terms and conditions:

- (1) Loans shall be available to all Participants on a reasonably equivalent basis.
- (2) Loans shall bear interest at a reasonable rate to be fixed by the Committee based on interest rates currently being charged by commercial lenders for similar loans. The Committee shall not discriminate among Participants in the matter of interest rates, but loans granted at different times may bear different interest rates based on prevailing rates at the time.
- (3) Each loan shall be made against collateral, including the assignment of no more than one-half of the present value of the Participant's Accumulated Deferrals as security for the aggregate amount of all loans made to such Participant, supported by the Participant's collateral promissory note for the amount of the loan, including interest.

(4) Payments of principal and interest must be made at least quarterly and such payments shall be sufficient to amortize the principal and interest payable pursuant to the loan on a substantially level basis. The Committee will require that loan repayments be made by payroll deduction.

(5) A loan to a Participant or Beneficiary shall be considered an earmarked funding option for such Participant's Accumulated Deferrals.

(6) No distribution shall be made to any Participant, or to a Beneficiary of any such Participant, unless and until all unpaid loans, including accrued interest thereon, have been satisfied. If a Participant terminates employment with the Plan Sponsor for any reason, the outstanding balance of all loans made to him shall become fully payable and, if not paid within thirty days, any unpaid balance shall be deducted from any benefit payable to the Participant or his Beneficiary. In the event of default in repayment of a loan or the bankruptcy of a Participant who has received a loan, the note will become immediately due and payable, foreclosure on the note and attachment of security will occur, the amount of the outstanding balance of the loan will be treated as a distribution to the Participant, and the defaulting Participant's Accumulated Deferrals will be reduced by the amount of the outstanding balance of the loan (or so much thereof as may be treated as a distribution without violating the requirements of the Code).

(7) The loan program under the Plan shall be administered by the Committee in a uniform and nondiscriminatory manner. The Committee shall establish procedures for loans, including procedures for applying for loans, guidelines governing the basis on which loans shall be approved, procedures for determining the appropriate interest rate, the types of collateral which will be accepted as security, any limitations on the types and amount of loans offered, and the events which will constitute default and actions to be taken to collect loans in default.

Chapter 07 LEAVE OF ABSENCE

07 Leave of Absence. If a Participant is on an approved leave of absence from the Plan Sponsor, participation in this Plan shall continue.

Chapter 08 AMENDMENT OR TERMINATION OF PLAN

08-1 Termination Of Plan. The Plan Sponsor or the Committee may at any time terminate the Plan. Upon such termination, Accumulated Deferrals will be paid pursuant to Chapter 04 of the Plan. All Participant's deferrals will cease.

08-2 **Amendment Of Plan.** The Committee may also amend the provisions of this Plan at any time, *provided, however*, that no amendment shall affect the rights of Participants or their Beneficiaries regarding Accumulated Deferrals at the time of the amendment.

08-3 **Reasons For Amendment.** The Plan Sponsor, as may be caused by Treasury Regulations, Federal statute, State law or regulations, or operational experience, may from time to time find it necessary to change or amend this Plan.

08-4 **Procedure For Amendment.** If and when an amendment to the Plan is proposed, the Committee shall notify all Participants, in writing prior to any actual amendment to the Plan, that an amendment will be made, what the proposed amendment will be, why it is being done, and what the likely impact, if any, there will be on the Participants as a result of the proposed amendment. If the proposed Plan amendment will have any adverse affect or impact on any or all Participants, each Participant adversely affected shall have the right to modify his/her Participation Agreement as necessary to reduce or eliminate any foreseen adverse impact on his/her Accumulated Deferrals. No amendment to the Plan shall affect the amount of Accumulated Deferrals which at the time of such amendment shall have accrued for Participants or Beneficiaries, to the extent of any Compensation deferred before the time of amendment and net income thereon accrued to the date of amendment.

Chapter 09 RELATIONSHIP TO OTHER PLANS

09 **Retirement And Social Security Not Reduced.** It is intended that, pursuant to Section 457 of the Code, the amount of Deferred Compensation will not be considered as current compensation for purposes of federal income taxation. Such amounts will, however, be included as compensation in determining benefits or rights under the Plan Sponsor's group insurance, other retirement plans and FICA. Payments under this Plan will supplement retirement and death benefits payable under the Plan Sponsor's group insurance and other retirement plans.

Chapter 10 TRANSFER IN LIEU OF CASH

10 **Assets In Lieu Of Cash.** Upon the occurrence of any event requiring the payment of Accumulated Deferrals under this plan, the Committee may, in its sole discretion, elect to honor a request from the Participant to substitute the transfer in kind and assignment of any asset which the Plan Sponsor has acquired, at fair market value.

Chapter 11
NON-ASSIGNABILITY CLAUSE

11 Accumulated Deferrals Not Assignable. It is agreed that neither the Participant, nor the Participant's Beneficiary or Beneficiaries, nor any other designee, shall have any right to commute, sell, assign, transfer, or otherwise convey the right to receive any payments hereunder, which payments and right thereto are expressly declared to be nonassignable and nontransferable; and in the event of attempt to assign or transfer, the Plan Sponsor shall have no further liability hereunder, nor shall any unpaid Accumulated Deferrals be subject to attachment, garnishment or execution, or be transferable by operation of law in event of bankruptcy, dissolution of marriage, or insolvency, except to the extent otherwise required by law.

Chapter 12
ASSETS

12 Plan Assets. All amounts of Compensation deferred under the Plan, all property and rights to property (including rights as a Beneficiary of a contract providing life insurance protection) purchased with such amounts, and all income attributed to such amounts, property or rights to property, including the deferred compensation revolving fund provided for in Chapter 03-5, shall be held in one or more trusts, and/or custodial accounts or insurance contracts described in section 401(f) of the Code, for the exclusive benefit of Participants and their Beneficiaries.

Chapter 13
PARTICIPATION BY Committee MEMBERS

13 Participation By Committee Members. Members of the Committee, who are otherwise eligible, may participate in the Plan under the same terms and conditions as apply to other Participants but an individual member shall not participate in any Committee action taken with respect to that member's participation.

Chapter 14
PLAN SPONSOR PARTICIPATION

14 Plan Sponsor Contributions. The Plan Sponsor may, pursuant to a changed or new Participation Agreement filed by a Participant as specified in Chapters 04-6 or 04-7, add additional Deferred Compensation for services to be rendered by the Participant to the Plan Sponsor during any calendar month, provided:

- (1) The Participant has elected to have such additional Compensation deferred, invested, and distributed, pursuant to this Plan, prior to the calendar month in which the Compensation is earned; and

(2) Such additional Deferred Compensation, when added to all other Deferred Compensation under the Plan, does not exceed the maximum deferral permitted by Chapter 04.

Chapter 15 INVESTMENT RESPONSIBILITY

15 Investment Responsibility. The Plan Sponsor may, but is not required to, invest funds held pursuant to Participation Agreements between Participant and the Plan Sponsor in accordance with the requests made by each Participant. The Committee shall retain the right to approve or disapprove such investment requests. Any action by the Committee in investing funds, or approving of any such investment of funds, shall not be considered to be either an endorsement or guarantee of any investment, nor shall it be considered to attest to the financial soundness or the suitability of any funding option for the purpose of meeting future obligations.

Chapter 16 COMMITTEE POWERS

16-1 Plan Prevails. In the event any form or other document used in administering this Plan, including but not limited to enrollment forms and marketing materials, conflict with the terms of the Plan, the terms of the Plan shall prevail.

16-2 Decision Binding. The Committee is authorized to determine any matters concerning the rights of any Participant, Beneficiary or any other person under this Plan and such determination shall be binding on all interested persons.

16-3 Committee To Interpret. The Committee is authorized to construe this Plan and resolve any ambiguity in the Plan. The Plan and any form or other document used in administering the Plan shall be interpreted, and this Plan shall be administered, so as to comply with Sections 457 of the Code and the Treasury Regulations promulgated thereunder.

16-4 Tax Status Not Guaranteed. The Committee does not represent or guarantee that any particular federal or state income, payroll, personal property or other tax consequence will occur because of the Participant's participation in this Plan. The Participant should consult with the Participant's own representative regarding all questions of federal or state income, payroll, personal property or other tax consequences arising from participation in this Plan.

16-5 Committee May Require Court Order. The Committee or the Plan Sponsor, if in doubt concerning the correctness of their action in making a payment of Accumulated Deferrals, may suspend payment until satisfied as to the correctness of the payment or the person to receive the payment or to allow the filing in any state court of competent jurisdiction of a civil action seeking a determination of the amounts to be paid and the person to receive them. The Committee and

the Plan Sponsor shall comply with the final orders of the court in any such suit and the Participant, for the Participant and the Participant's Beneficiary or Beneficiaries, consents to be bound thereby. Whenever payment of Accumulated Deferrals is suspended pursuant to this chapter, the time for a Participant or Beneficiary making any election under Chapter 04-12 shall not begin until amount(s) and person(s) entitled are determined either by written agreement of all parties concerned or by a court judgment that has become final.

16-6 Delegation Of Authority. The Committee may delegate its functions to be performed under this Plan to any designee with legal authority to perform such functions.

Chapter 17 APPLICABLE LAW

17 Plan to Conform To Federal And State Laws. The Plan is intended to be an eligible state deferred compensation plan within the meaning of Section 457 of the Code, and Treasury Regulation 1.457-2(a) and to comply with applicable state law, and shall be interpreted accordingly.

Chapter 18 TRUST AGREEMENT

18-01 Acceptance. _____, (the "Trustee"), or any successor or successors which accept appointment under this Chapter 18, accepts the Trust hereby created under the Plan and agrees to perform the obligations imposed. The Trustee's duties and responsibilities stated hereunder shall be performed in accordance with, and as necessary limited to comply with, applicable law.

18-02 Receipt of Contributions. The Trustee shall be accountable to the Plan Sponsor for the funds contributed to it by the Plan Sponsor, but shall have no duty to see that the contributions received comply with the provisions of the Plan. The Trustee shall be neither obliged to collect any contributions from the Plan Sponsor, nor to see that funds deposited with it are deposited according to the provisions of the Plan.

18-03 Full Investment Powers. The Trustee shall have full discretion and authority with regard to the investment of any portion of the Trust fund that is not subject to direction of investment by the Plan Sponsor, Committee or a Participant. The Trustee is authorized and empowered, but not by way of limitation, with the following powers, rights and duties:

- (1) To invest any part or all of the Trust fund in any common or preferred stocks, open-end or closed-end mutual funds, shares of an investment company, variable annuities, put and call options traded on a national exchange, United States retirement bonds, corporate bonds, debentures, convertible debentures, commercial paper, U.S. Treasury bills, U.S. Treasury notes and other direct or indirect obligations of the United States Government or its agencies, improved or unimproved real estate situated in the

United States, limited partnerships, insurance contracts, mortgages, notes or other property of any kind, real or personal, and to buy or sell options on common stock on a nationally recognized options exchange with or without holding the underlying common stock, as a prudent man would do under like circumstances with due regard for the purposes of this Plan.

(2) To retain in cash so much of the Trust fund as it may deem advisable to satisfy liquidity needs of the Plan and to deposit any cash held in the Trust Fund in a bank account at reasonable interest;

(3) To manage, sell, contract to sell, grant options to purchase, convey, exchange, transfer, abandon, improve, repair, insure, lease for any term even though commencing in the future or extending beyond the term of the Trust, and otherwise deal with all property, real or personal, in such manner, for such considerations and on such terms and conditions as the Trustee shall decide;

(4) To credit and distribute the Trust as directed by the Committee. The Trustee shall not be obliged to inquire as to whether any payee or distributee is entitled to any payment or whether the distribution is proper or within the terms of the Plan, or as to the manner of making any payment or distribution. The Trustee shall be accountable only to the Committee for any payment or distribution made by it in good faith on the order or direction of the Committee;

(5) To borrow money, to assume indebtedness, extend mortgages and encumber by mortgage or pledge; to invest in loans to a Participant in accordance with the loan policy established by the Committee (if such loans are to be permitted), provided any loan is adequately secured, bears a reasonable rate of interest, and provides for repayment within a specified time;

(6) To compromise, contest, arbitrate or abandon claims and demands, in its discretion;

(7) To have with respect to the Trust all the rights of an individual owner, including the power to give proxies, to participate in any voting Trusts, mergers, consolidations or liquidations, and to exercise or sell stock subscriptions or conversion rights;

(8) To hold any securities or other property in the name of Trustee or nominee, or in another form as it may deem best, with or without disclosing the Trust relationship;

(9) To perform any and all other acts in its judgment necessary or appropriate for the proper advantageous management, investment and distribution of the Trust;

(10) To retain any funds or property subject to any dispute without liability of the payment of interest, and to decline, when reasonable to do so, to make payment or delivery of the funds or property until final adjudication is made by a court of competent jurisdiction;

(11) To furnish any tax returns or portions thereof required to the Trustee;

(12) To furnish to the Plan Sponsor and the Committee statements of account at least annually showing the condition of the Trust fund and all investments, receipts, disbursements and other transactions effected by the Trustee during the Plan Year covered by the statement and also stating the assets of the Trust held at the end of the Plan Year. The Committee may approve an account by written notice of approval delivered to the Trustee in writing within ninety (90) days from the date upon which the account statement was mailed or otherwise delivered to the Committee. The Committee agrees to use its best efforts to review account statements provided by the Trustee within ninety (90) days from the date the account statement was mailed or delivered to the Committee. Any matters objected to by the Committee shall be communicated to the Trustee in a writing signed by a member of the Committee, and the Trustee shall be given a reasonable opportunity to explain or adjust such matters. In no event shall the Trustee be liable for losses to the extent that the same could have been prevented by a prompt review (within 90 days) of the Trustee's written account by the Committee; and

(13) To begin, maintain, or defend any litigation necessary in connection with the administration of the Plan, except that the Trustee shall not be obliged or required to do so unless indemnified to its satisfaction.

18-04 Records and Statements. The records of the Trustee pertaining to the Plan shall be open to the inspection of the Plan Sponsor and the Committee at all reasonable times and may be audited from time to time by any person or persons as the Plan Sponsor or Committee may specify in writing. The Trustee shall furnish the Committee or the Plan Sponsor with whatever information relating to the Trust fund the Committee or Plan Sponsor considers necessary.

18-05 Fees and Expenses from Fund. The Trustee shall receive reasonable annual compensation as may be agreed upon from time to time between the Plan Sponsor and the Trustee. The Trustee shall pay all expenses reasonably incurred by it or by the Plan Sponsor, the Committee, or other professional advisers or administrators in the administration of the Plan from the Trust fund unless the Plan Sponsor pays the expenses. The Committee shall not treat any fee or expense paid, directly or indirectly, by the Plan Sponsor as a Plan Sponsor contribution.

18-06 Distribution of Cash or Property. The Trustee may make distribution under the Plan in cash or property, or partly in each, at its fair market value as determined by the Trustee.

18-07 Resignation. The Trustee may resign at any time as Trustee of the Plan by giving thirty (30) days' written notice in advance to the Plan Sponsor and to the Committee.

18-08 Removal. The Plan Sponsor, by giving thirty (30) days' written notice in advance to the Trustee, may remove any Trustee.

18-09 Interim Duties and Successor Trustee. In the event of the resignation or removal of a Trustee, the Plan Sponsor shall appoint a successor Trustee if it intends to continue the Plan. During any period of the selection of a Trustee is pending, or during any period a Trustee is unable to serve for any reason, the remaining Trustee or Trustee(s), if any, shall act as the sole Trustee or as the only Trustee(s) of the Trust created under this Agreement. If no Trustee remains during any period the selection of a Trustee is pending, the Plan Sponsor shall act as Trustee until a successor Trustee is selected.

Each successor Trustee shall succeed to the title to the Trust vested in his predecessor by accepting in writing his appointment as successor Trustee and filing the acceptance with the former Trustee and the Committee without the signing or filing of any further statement. The resigning or removed Trustee, upon receipt of acceptance in writing of the Trust by the successor Trustee, shall execute all documents and do all acts necessary to vest the title of record in any successor Trustee. Each successor Trustee shall have and enjoy all of the powers, both discretionary and ministerial, conferred under this Agreement upon his predecessor. No successor Trustee shall be personally liable for any act or failure to act of any predecessor Trustee. With the approval of the Plan Sponsor and the Committee, a successor Trustee, with respect to the Plan, may accept the account rendered and the property delivered to it by a predecessor Trustee without incurring any liability or responsibility for so doing.

18-10 Valuation of Trust. The Trustee shall value the Trust fund as of the last day of each calendar year and at such other times as the Committee may direct to determine the fair market value of each Participant's Accumulated Deferrals, and the Trustee shall value the Trust fund on such other date(s) as directed by the Committee.

18-11 **Exclusive Benefit.** The Trust fund will be held for the exclusive benefit of Participants and their Beneficiaries. Except as otherwise provided in the Plan, it shall be impossible under any circumstances at any time for any part of the corpus or income of the Trust fund to be used for, or diverted to, purposes other than for the exclusive benefit of Participants and their Beneficiaries.

SIGNED AT

DATE

(PLAN SPONSOR)

TRUSTEE

TRUSTEE

TRUSTEE

TRUSTEE

TRUSTEE

TRUSTEE

TRUSTEE

RESOLUTION NO. 97-3

RESOLUTION OF THE CHINO BASIN WATERMASTER,
SAN BERNARDINO COUNTY, CALIFORNIA,
AUTHORIZING THE ADOPTION AND IMPLEMENTATION
OF A SECTION 457 DEFERRED COMPENSATION PLAN.

A resolution of the CHINO BASIN WATERMASTER authorizing the adoption and implementation of a Section 457 Deferred Compensation Plan.

WHEREAS, the CHINO BASIN WATERMASTER, Rancho Cucamonga, California, has considered the establishment of Section 457 Deferred Compensation Plan to be made available to the employees of the Watermaster; and

WHEREAS, said employees are often unable to acquire retirement security under other existing and available retirement plans due to the contingencies of employment mobility; and

WHEREAS, the Watermaster receives benefits under said Plan by being able to assure reasonable retirement security to said employees by being more able to attract competent personnel to its service and by increasing its flexibility in personnel management through elimination of the need for continued employment for the sole purpose of allowing an employee to qualify for retirement benefits.

NOW, THEREFORE, BE IT RESOLVED BY THE CHINO BASIN WATERMASTER, RANCHO CUCAMONGA, CALIFORNIA:

The Watermaster hereby establishes said Section 457 Deferred Compensation Plan for said employees, approves Great Western Bank as a funding provider under the Deferred Compensation program and authorizes its officials to execute all documents necessary to establish the Plan as presented to the Agency.

The Resolution shall be in full force and effect from and after its passage and all necessary approval by the CHINO BASIN WATERMASTER.

*****APPROVED BY THE ADVISORY COMMITTEE BY A GREATER THAN 80% MAJORITY ON FEBRUARY 13, 1997.

THE UNDERSIGNED DO HEREBY ATTEST THAT THIS RESOLUTION IS ADOPTED AND EXECUTED THE 27TH DAY OF FEBRUARY, 1997.

CHINO BASIN WATERMASTER

By _____

Title _____

ATTEST:

Secretary

STATE OF CALIFORNIA)
) SS
COUNTY OF SAN BERNARDINO)

I, _____ Secretary of the Chino Basin Watermaster, DO HEREBY CERTIFY that the foregoing Resolution being No. 97-3 was adopted at a regular meeting of the Chino Basin Watermaster Board by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Secretary

RESOLUTION NO. 97-4

RESOLUTION OF THE CHINO BASIN WATERMASTER,
SAN BERNARDINO COUNTY, CALIFORNIA,
AUTHORIZING THE ADOPTION AND IMPLEMENTATION
OF A SECTION 457 DEFERRED COMPENSATION PLAN.

A resolution of the CHINO BASIN WATERMASTER authorizing the adoption and implementation of a Section 457 Deferred Compensation Plan.

WHEREAS, the CHINO BASIN WATERMASTER, Rancho Cucamonga, California, has considered the establishment of Section 457 Deferred Compensation Plan to be made available to the employees of the Watermaster; and

WHEREAS, said employees are often unable to acquire retirement security under other existing and available retirement plans due to the contingencies of employment mobility; and

WHEREAS, the Watermaster receives benefits under said Plan by being able to assure reasonable retirement security to said employees by being more able to attract competent personnel to its service and by increasing its flexibility in personnel management through elimination of the need for continued employment for the sole purpose of allowing an employee to qualify for retirement benefits.

NOW, THEREFORE, BE IT RESOLVED BY THE CHINO BASIN WATERMASTER, RANCHO CUCAMONGA, CALIFORNIA:

The Watermaster hereby establishes said Section 457 Deferred Compensation Plan for said employees, approves International City Management Association Retirement Corp. (ICMA/RC) as a funding provider under the Deferred Compensation program and authorizes its officials to execute all documents necessary to establish the Plan as presented to the Agency.

The Resolution shall be in full force and effect from and after its passage and all necessary approval by the CHINO BASIN WATERMASTER.

*****APPROVED BY THE ADVISORY COMMITTEE BY A GREATER THAN 80% MAJORITY ON FEBRUARY 13, 1997.

THE UNDERSIGNED DO HEREBY ATTEST THAT THIS RESOLUTION IS ADOPTED AND EXECUTED THE 27TH DAY OF FEBRUARY, 1997.

CHINO BASIN WATERMASTER

By _____

Title _____

ATTEST:

Secretary

STATE OF CALIFORNIA)
) SS
COUNTY OF SAN BERNARDINO)

I, _____, Secretary of the Chino Basin Watermaster, DO HEREBY CERTIFY that the foregoing Resolution being No. 97-4 was adopted at a regular meeting of the Chino Basin Watermaster Board by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Secretary

CHINO BASIN WATERMASTER MEETING
February 27, 1997

AGENDA ITEM 1
CONSENT CALENDAR

M. RESOLUTION NO. 97-1
WATERMASTER
INVESTMENT POLICY

RESOLUTION 97-1

RESOLUTION OF THE CHINO BASIN WATERMASTER,
SAN BERNARDINO COUNTY, CALIFORNIA, ESTABLISHING
A WATERMASTER INVESTMENT POLICY

WHEREAS, the normal and prudent operation of the Watermaster's daily business generates cash balances, operating and fund reserves; and

WHEREAS, the cash management system is designed to accurately monitor and forecast expenditures and revenues on behalf of Watermaster, thus enabling the Watermaster to invest funds to the fullest extent possible; and

WHEREAS, the cash funds are to be placed in investments authorized for public agencies of the State of California (Judgment Paragraph 23); and

WHEREAS, Watermaster deems it to be in the best interests of the parties to the Judgment to delegate the authority to invest and reinvest the funds of Watermaster to the Watermaster Controller subject to the provisions of its investment policy and the ongoing review and control of Watermaster and the Watermaster Advisory Committee.

WHEREAS, it is the Watermaster's policy to periodically review, update, and adopt an investment policy;

NOW, THEREFORE, BE IT RESOLVED, by the Chino Basin Watermaster that:

- Section 1. That the Chino Basin Watermaster Investment Policy dated the 27th day of February, 1997, is adopted.
- Section 2. The authority to invest and reinvest funds of Watermaster is hereby delegated to the Watermaster Controller subject to the provisions of said Investment Policy and the ongoing review and control of Watermaster and the Watermaster Advisory Committee.
- Section 3. This resolution shall take effect from and after its date of adoption.

Approved by the Advisory Committee on February 13, 1997.

THE UNDERSIGNED DO HEREBY ATTEST THAT THIS RESOLUTION IS ADOPTED AND EXECUTED ON THIS 27TH DAY OF FEBRUARY, 1997.

CHINO BASIN WATERMASTER

By _____

Title _____

ATTEST:

Chino Basin Watermaster

STATE OF CALIFORNIA)
) SS
COUNTY OF SAN BERNARDINO)

I, _____, Secretary of the Chino Basin Watermaster, DO HEREBY CERTIFY that the foregoing Resolution being No. 97-1 was adopted at a regular meeting of the Chino Basin Watermaster Board by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Secretary

CHINO BASIN WATERMASTER

INVESTMENT POLICY

Investments shall be made, not for speculation, but considering first the probable safety of capital, then the probable income to be derived and the liquidity of the investment in relationship to Watermaster's ability to meet its financial obligations in a timely manner. All such investments shall be authorized for public agencies for the State of California and shall be made prudently recognizing the Watermaster's fiduciary responsibilities to administer the Judgment and the funds derived therefrom. Any party involved in the investment of Watermaster funds shall refrain from activities that could be interpreted as a conflict of interest and shall act in accordance with generally acceptable rules of ethics and conduct.

A. Watermaster Annual Review Procedures

1. Watermaster staff will annually review the existing Investment Policy Statement and, if necessary, amend it for any changes necessary. A "Draft" Investment Policy Statement (Policy Statement) will then be prepared.
2. The Policy Statement will be reviewed by each Pool Committee. Should any Pool Committee recommend revisions to the Policy Statement, it shall be amended prior to presentation to the Advisory Committee for their review and comment. If necessary the Policy Statement will be further amended to reflect the comments of the Advisory Committee.
3. The final Policy Statement will then be presented to the Watermaster Board for their adoption at their next regularly scheduled meeting. Once adopted, staff will comply strictly by the policies contained therein.
4. All Watermaster meetings are open to the public and noticed by mail at least 96 hours prior to the meeting date.

B. Approved Financial Institutions

Funds shall only be invested as provided in "C" below, with:

1. Financial Institutions or Savings & Loan Associations (Bank(s)) with offices located within the geographical boundaries of the Chino Hydrologic Basin, having an Equity/Asset Ratio of at least 5%; and
2. Local Agency Investment Fund (LAIF) in Sacramento, CA.

C. --- Limitations of Investments placed with Institutions

1. Funds to meet current expenses shall be available in checking, savings and/or money market accounts at all times.
2. Up to \$500,000 may be invested in Time Certificates of Deposit (TCD's) with any one Bank at any period of time.
3. Any other, or all funds, up to the dollar limit set by LAIF or the Watermaster Board, may be placed in an open "floating" investment with LAIF.

D. Placement of Investments

It is not the intent of Watermaster to earn interest on funds received from purchasers of stored water. Such monies will only be kept in Watermaster's Regular Checking Account until they have cleared the issuing bank at which time a check will be forwarded on to the seller

Upon Watermaster's receipt of incoming monies available for investment, either from assessments or maturing investments, approved Banks and LAIF will be contacted to determine where funds should be placed in order to:

1. Achieve maximum security of funds invested; and
2. Achieve the maximum amount of interest available on the date the investment is to be placed; and
3. All TCD's must be collateralized. Collateral must be held by a third party trustee and valued regularly by the State Banking Department's Administrator of Local Agency Security.
 - a. For commercial banks, agreements allowing for the waiver of the collateral requirement for that amount of a deposit covered by the Federal Deposit Insurance Corporation maximum (\$99,000) may be implemented provided the remainder of the deposit is secured by collateral with a market value of at least 10% greater than that remaining amount.
 - b. For savings and loan associations, the collateral requirement is increased to 150%.

E. Period of Investment

A Cash Flow Analysis will be prepared and maintained on a monthly basis by Chief of Watermaster Services and Watermaster Controller to determine the amount(s) to be invested to mature at date(s) the funds will be required to meet Watermaster obligations.

F. Safekeeping of Investment Documents

TCD's, depository agreements, and other originals which require more security than the current offices provide should be kept in Watermaster's Safe Deposit Box.

G. Maturing Investments

Monies received from maturing investments will be immediately deposited in Watermaster's Regular Checking Account unless funds in this account exceed current cash need. Funds available from maturing investments, together with other surplus funds, will be invested or reinvested in accordance with this Investment Policy.

H. Quarterly Investment Reports

The Watermaster Controller shall prepare Quarterly Investment Reports which reflect investment transactions for review by the Pool Committees and the Advisory Committee prior to presentation to the Watermaster Board at their next regularly scheduled meeting. It is recognized that, in order for the Investment Report to be reviewed by the Committees, the Investment Report may not cover normal calendar quarters.

Following formats used in prior years, said Investment Report will reflect the following information:

1. Funds held in each Bank at the beginning and ending of the reporting period; and
2. Investments deposited and/or redeemed by type and by Bank (including interest rates, days invested and maturity yield rates) during the reporting period; and
3. Investments outstanding at the close of the reporting period (including interest rates, days invested and maturity date); and
4. Elements effecting the change in Watermaster's cash position; and
5. A statement signed by the Watermaster Controller as to the ability of the cash on hand to meet foreseen expenditures during the next reporting period.

CHINO BASIN WATERMASTER MEETING
February 27, 1997

AGENDA ITEM 1
CONSENT CALENDAR

O. PRADO OLYMPIC
SHOOTING PARK



CHINO BASIN WATERMASTER

8632 Archibald Ave., Suite 109, Rancho Cucamonga, CA 91730
TEL: (909) 484-3888 • FAX: (909) 484-3890

TRACI STEWART
Chief of Watermaster Services

MEMORANDUM

DATE: February 27, 1997
TO: Watermaster Board Members
FROM: Watermaster Services Staff
SUBJECT: PRADO OLYMPIC SHOOTING PARK

BACKGROUND

As was reported at the Appropriative Pool meeting held January 22, 1997, Prado Olympic Shooting Park is a concession leased on property owned by the County of San Bernardino. Originally the park was known as Prado Tiro.

As part of the meter testing and calibration projects, staff inspected the metering arrangement and determined that the meter multiplier was incorrect. A review of historical production records indicated the error dates back approximately eleven years when the conversion factor (dial reading plus 2 zeroes) that was initially assigned to the well was dropped. A calibration flow test verified that two (2) zeroes must be added to the meter dial reading. Subsequent to the January 22, 1997 meetings, staff contacted the County of San Bernardino. For several years the concessionaires were responsible for reporting production, however, the County now has staff available and will become the responsible party for production reporting. Site contacts (concessionaires) will still be utilized for routine inspections etc.

DISCUSSION

The Overlying (Agricultural) and (Non-Agricultural) Pool Committees were presented with the information at their meetings held on January 22, 1997. However, since the item only impacted the Appropriative Pool action was not necessary.

The Appropriative Pool took action to recommend to the Advisory Committee, and the Advisory Committee approved, that the corrected production of 15.48 acre-feet, for the County of San Bernardino (which includes Prado Olympic Shooting Park and the Oranco Bowmen's Association) be used, and that any increase or decrease to other appropriators' assessments per the attached table resulting from the corrected production, be adjusted on the Fiscal Year 1997-98 Assessment.

md\2137prdo:lr

NET EFFECT OF CHANGE IN PRODUCTION FROM S.B. COUNTY
 Supplement to Agenda Item 5, January 22, 1997 Pool Committee Meetings

<u>Producer</u>	<u>Total Revised 1996/1997 Assessments</u>	<u>Total Invoiced 1996/1997 Assessments</u>	<u>Net Change in Assessments</u>
Chino Basin Mun Water Dist.	\$690.02	\$690.03	(\$0.01)
City of Chino	\$174,517.56	174,570.87	(53.31)
Cucamonga Co. Water Dist.	\$132,220.65	132,262.30	(41.65)
Fontana Union Water Co.	\$48,253.72	48,249.88	3.84
Fontana Water Co.	\$60,213.20	60,253.56	(40.36)
Jurupa Community Services	\$202,188.04	202,255.61	(67.57)
Marygold Mutual Water Co.	(\$80,913.04)	(80,913.44)	0.40
Monte Vista Water District	\$147,099.20	147,151.54	(52.34)
Monte Vista Irrigation Co.	(\$8,974.96)	(8,973.83)	(1.13)
M/W Co./Glen Avon Heights	\$15,188.79	15,194.32	(5.53)
City of Norco	\$227,264.28	227,277.37	(13.09)
City of Ontario	\$2,859,612.52	2,859,817.29	(204.77)
City of Pomona	\$144,733.59	144,721.91	11.68
San Antonio Water Co.	\$11,390.61	11,389.71	0.90
S.B. County (Olympic +)	\$3,263.49	8,069.75	(4,806.26)
City of Chino Hills	\$80,214.63	80,239.40	(24.77)
Santa Ana River Water Co.	(\$40,041.51)	(40,036.35)	(5.16)
Southern Calif. Water Co.	\$6,894.83	6,896.48	(1.65)
City of Upland	(\$102,437.10)	(102,414.24)	(22.86)
West End Consol. Water Co.	\$7,175.23	7,174.66	0.57
West San Bernardino CWD	(\$29,469.57)	(29,469.96)	0.39
Arrowhead MTN. Spring Water Co.	\$5,472.92	5,472.91	0.01
Los Serranos Country Club	\$9,155.49	9,155.48	0.01
Pyrite Canyon Group	\$13,844.90	13,844.89	0.01
Metro. W.D. So. Ca.	\$5.00	5.00	0.00
Repl. Exchange Reimbursement	\$0.00	0.00	0.00
Total Acre Feet	<u>\$3,887,562.49</u>	<u>\$3,892,885.14</u>	<u>(\$5,322.65)</u>

CHINO BASIN WATERMASTER MEETING
February 27, 1997

AGENDA ITEM 2

RESOLUTION 97-5
DESIGNATING
SIGNATURE
AUTHORITY

RESOLUTION 97-6

RESOLUTION OF THE CHINO BASIN WATERMASTER,
AUTHORIZING AND DESIGNATING SIGNATORIES OF
DEPOSITORY AGREEMENTS, DEPOSITORY CARDS AND
DEPOSITS, TRANSFERS AND WITHDRAWALS OF FUNDS

WHEREAS, certain Depository Agreements and Depository Signatories were authorized which now need to be revised; and

WHEREAS, Watermaster proposes to hire an outside firm to provide payroll services, using a separate bank checking account established for this purpose; and

WHEREAS, two separate checking accounts and one savings account will be required in order to maintain the proper controls over all liquid assets.

NOW, THEREFORE, BE IT RESOLVED, by the Watermaster as follows:

Section 1. Depository Agreements - Checking Accounts. The Watermaster Controller is hereby authorized to enter into and execute agreements for deposit of Watermaster funds in two (2) bank accounts. In so doing Watermaster Controller will act in accordance with Section 53630 et seq. of the Government Code as applicable.

- A. Regular Checking Account - all receipts of Watermaster funds will be deposited in this Checking Account; and all checks, other than payroll or payroll-related checks, will be drawn against this account.
- B. Payroll Account - funds sufficient to cover bi-weekly payroll costs including net wages, related payroll taxes and employee authorized deductions, will be deposited bi-weekly in this account in accordance with the agreement entered into between Watermaster and the contractor.

Section 2. Depository Cards - All Accounts. That the persons authorized and directed to execute depository cards for all bank accounts of the Chino Basin Watermaster are designated as follows:

A. Watermaster Officers:

Chairman
Vice-Chairman
Secretary/Treasurer

B. Watermaster Services Representatives:

Controller
Chief of Watermaster Services

- Section 3. Signing of Checks. That checks of the Chino Basin Watermaster may be signed by certain persons as follows. Facsimile signatures are not acceptable.
- A. Any check up to \$600 may be signed by any one person authorized under Section 2 above.
 - B. Any check over \$600, but less than \$10,000 must be signed by any two persons authorized above.
 - C. Any check over \$10,000 must be signed by two persons authorized under Section 2 above; however one signature must be that of a Watermaster Officer as indicated in Section 2A above.
- Section 4. Credit Card Use. The issuance of up to two (2) credit cards for incidental Watermaster expenses may be approved by a person authorized under Section 2 above. Each credit card shall have a credit limit of \$600 or the minimum credit limit of the issuing entity, whichever is higher. Credit cards may be used up to a limit of \$600 by any one person listed under Section 2 above.
- Section 5. Intra-bank Transfers. That written authorization to transfer funds between the Chino Basin Watermaster checking accounts and savings accounts may be signed by any person listed under Section 2.
- Section 6. Newly issued Time Certificates of Deposit. That any signatory listed under Section 2, may sign receipts for "Notices to Depository - Penalty for Early Withdrawal of Time Deposit" covering new Time Certificates of Deposit issued to the Chino Basin Watermaster.
- Section 7. Maturing Time Certificates of Deposit. That any signatory listed under Section 2 may endorse a maturing Certificate of Deposit when such an endorsement is required by the issuing financial institution at redemption.
- Section 8. Rescission of Resolution. Upon adoption of this resolution, Resolution No. 96-2, as amended, and any preceding resolution authorizing and designating signatories of depository agreements, depository cards and deposits, transfers and withdrawals of funds are hereby rescinded in their entirety.

ADOPTED this 27th day of February, 1997.

Chino Basin Watermaster

ATTEST:

Chino Basin Watermaster

STATE OF CALIFORNIA

SECRETARY

COUNTY OF SAN BERNARDINO

W
ad. _____, Secretary of the Chino Basin
ster, DO HEREBY CERTIFY that the foregoing Resolution being No. 97-6, was
at a regular meeting of the Chino Basin Watermaster Board by the following vote:

AYE

NOES

ABSE:

ABSTA

CHINO BASIN WATERMASTER

RECEIVED

MAR - 7 1997

CHINO BASIN MUNICIPAL
WATER DISTRICT

SECOND NOTICE OF MEETING

A MEETING OF THE
**CHINO BASIN WATERMASTER
BOARD OF DIRECTORS**

WILL BE HELD ON

Thursday, March 13, 1997
10:30 A.M.

(Revised to include additional items to the Agenda)

*To be held at the offices of the
Chino Basin Municipal Water District
9400 Cherry Avenue, Building A
Fontana, CA
(909) 357-0241*

REVISED AGENDA

A MEETING OF THE
CHINO BASIN WATERMASTER BOARD OF DIRECTORS
FONTANA, CA
WEDNESDAY, MARCH 13, 1997
10:30 AM

In an effort to conserve paper as well as minimize costs, detailed information pertaining to agenda items, if any, is available upon request. In an effort to provide more advance notice of meetings, any supporting documentation that was unavailable at the time of notice may be handed out at the meeting.

Chino Basin Municipal Water District's board secretary previously provided an agenda for the March 13, 1997 Watermaster meeting to discuss one item, "Audit Results". Additionally, all items presented to the Watermaster Board on February 27, 1997, (except item 3) were held over until March 13, 1997. The items held over included the entire "Consent Calendar", which was presented to the Watermaster Board for ratification of mandated actions from the Advisory Committee meetings held between October 16, 1996 and February 13, 1997. Materials relating to the agenda items listed below that were mailed with the February 27, 1997 meeting agenda will not be remailed in an effort to reduce costs.

Watermaster Rules & Regulations, Article 2, paragraph 2.06 state that "All meetings of the Chino Basin Watermaster, whether regular or special, shall be open to the public". As such, the public is invited to be heard at any time during a Watermaster meeting. Watermaster Rules & Regulations, Article 2, paragraph 2.09 state that "Every member of a board acting as Watermaster, in attendance, unless disqualified by reason of a conflict of interest, shall be required to vote."

CALL TO ORDER

1. CONSENT CALENDAR

NOTICE: ALL MATTERS LISTED UNDER THE CONSENT CALENDAR ARE CONSIDERED TO BE ROUTINE AND NON-CONTROVERSIAL AND WILL BE ACTED UPON BY THE BOARD WITH ONE MOTION. THERE WILL BE NO SEPARATE DISCUSSION ON THESE ITEMS PRIOR TO THE TIME THE BOARD VOTES UNLESS A BOARD MEMBER, STAFF OR MEMBER OF THE PUBLIC REQUESTS SPECIFIC ITEMS BE DISCUSSED AND/OR REMOVED FROM THE CONSENT CALENDAR FOR SEPARATE ACTION.

A. MINUTES

The Watermaster will be asked to approve the minutes, as presented, of the following Chino Basin Watermaster meetings:

- (1) Minutes of the November 6, 1996 meeting.
- (2) Verbatim minutes of the January 9, 1997 meeting.
- (3) Verbatim minutes of the January 14, 1997 meeting.
- (4) Verbatim minutes of the January 23, 1997 meeting.
- (5) Minutes of the February 27, 1997 meeting.

All consent calendar items listed below were approved by a greater than 80% majority at the Advisory Committee meeting held February 13, 1997. Per Section 38(b)(1) of the Judgment, the Watermaster is mandated to ratify the following:

- B. NOTICE OF SALE OR TRANSFER OF RIGHT TO WATER IN STORAGE
 - (1) West End Consolidated Water Company to the City of Upland, under Local Storage Agreement Numbers 13, 13.1 and 13.2, in the amount of 11,876.800 acre-feet.
 - (2) City of Upland to the Chino Basin Watermaster, under Local Storage Agreement Numbers 24 and 24.1 in the amount of 10,000.000 acre-feet.
 - (3) West San Bernardino County Water District to the Chino Basin Watermaster, under Local Storage Agreement Number 25, in the amount of 2,000.000 acre-feet.
 - (4) Jurupa Community Services District to the San Antonio Water Company, under Local Storage Agreement No. 30, in the amount of 4,880.000 acre-feet.
 - (5) West End Consolidated Water Company to the Southern California Water Company under Local Storage Agreement Number 13.2, in the amount of 1,123.200 acre-feet.

- C. PETITION IN INTERVENTION
 - (1) The California Speedway Corporation request to intervene into the Judgment as a member of the Overlying (Non-agricultural) Pool.
 - (2) Ambrosia Farms request to intervene into the Judgment as a member of the Overlying (Agricultural) Pool.

- D. FINANCIAL REPORT
 - (1) Voucher List for the period October 1, 1996 through December 31, 1996
 - (2) Actual YTD Revenue & Expense Budget Comparison
 - (3) Combining Schedule of Revenue, Expenses and Changes in Working Capital
 - (4) Watermaster's Report of Financial Affairs for the period ended December 31, 1996

- E. CHINO BASIN WATERMASTER FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 1996

- F. RESOLUTION OF INTENTION DECLARING THE WATERMASTER'S INTENT TO ENTER INTO A CONTRACT WITH CalPERS.

- G. INCLUSION OF \$500 MONTH VEHICLE ALLOWANCE IN FUTURE WATERMASTER BUDGETS FOR THE CHIEF OF WATERMASTER SERVICES, AND A PROVISION FOR MILEAGE REIMBURSEMENT OF PERSONAL VEHICLE USAGE WHILE CONDUCTING WATERMASTER BUSINESS.

- H. AN EXTENSION TO THE CYCLIC STORAGE AGREEMENT THROUGH DECEMBER 31, 1997.

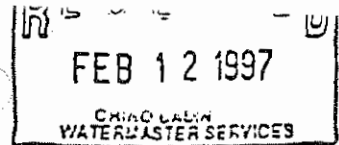
- I. PARTICIPATION IN A BASIN WATER QUALITY TESTING PROGRAM WITH THE CHINO BASIN WATER CONSERVATION DISTRICT FOR AN AMOUNT UP TO \$5,700.

- J. PARTICIPATION IN PHASE 1B OF THE TDS/NITROGEN STUDY IN THE AMOUNT OF \$5,100.

- K. CITY OF NORCO'S INTENT TO INJECT APPROXIMATELY 400 ACRE-FEET OF TEMESCAL BASIN WATER INTO THE CHINO BASIN, FOR SUBSEQUENT WITHDRAWAL, DURING 1997.
 - L. THE AD HOC FINANCE COMMITTEE'S RECOMMENDATION THAT STAFF IMMEDIATELY BEGIN THE PROCESS OF SELECTING AN AUDITOR TO PERFORM WATERMASTER'S F.Y. 1996-1997 FINANCIAL AUDIT, WITH AN EXPANDED SCOPE OF WORK TO INCLUDE THE EVENTS REGARDING THE FORGERY THAT OCCURRED IN DECEMBER, 1996; AND THAT STAFF IMPLEMENT THE PROCEDURAL RECOMMENDATIONS SUBMITTED BY THE COMMITTEE WHERE AVAILABLE AND FEASIBLE.
 - M. RESOLUTION NO. 97-1 ESTABLISHING A WATERMASTER INVESTMENT POLICY, AS APPROVED BY THE ADVISORY COMMITTEE OCTOBER 16, 1997.
 - N. RESOLUTION NOS. 97-2, 97-3 AND 97-4 AUTHORIZING THE ADOPTION AND IMPLEMENTATION OF THREE SEPARATE SECTION 457 DEFERRED COMPENSATION PLANS.
 - O. RATIFY THE ADJUSTMENT OF NEXT YEAR'S ASSESSMENTS TO CORRECT A REPORTING ERROR IN PRADO OLYMPIC SHOOTING PARK'S CURRENT YEAR ASSESSMENTS, AND RE-BILL PRADO OLYMPIC SHOOTING PARK FOR THE CORRECT AMOUNT.
2. **RESOLUTION NO. 97-6**
Resolution 97-6 is being presented in order to change Resolution No. 96-2 to eliminate all reference to the "Exception Checking Account" and update it due to the recent change in Watermaster officers. The Watermaster will be asked to adopt Resolution No. 97-6 as presented
3. **AUDIT RESULTS**
"The Board will be asked to review and possibly take action regarding the results of the audit conducted by Soren "McAdam" Bartells, Certified Public Accountants, Inc. of Riverside, CA." (The attached agenda was submitted for a March 13, 1997 Watermaster meeting by Chino Basin Municipal Water District's board secretary. The audit report was mailed to active and interested parties by Cihigoyenette, Grossberg & Clouse as an attachment to their Opposition to Motion for Order of Court that Audit Commissioned by the Chino Basin Municipal Water District Board is not a Watermaster Expense, hearing date March 3, 1997).
4. **STAFF REPORT**
- A. Chino Basin Groundwater Monitoring Program re Draft Report.
 - B. Chino Basin Groundwater Recharge Master Plan Update re Draft Report.
 - C. AGWA Meeting, January 28, 1997.
 - D. RWQCB Water Management Initiative workshop presentation.
 - E. Next Watermaster meeting date, time and location.

MEETING ADJOURN

(03137.wm)



AGENDA

CHINO BASIN WATERMASTER BOARD OF DIRECTORS MEETING
CHINO BASIN MUNICIPAL WATER DISTRICT
DISTRICT HEADQUARTERS, FONTANA, CALIFORNIA
THURSDAY, MARCH 13, 1997
10:30 A.M.

CALL TO ORDER

FLAG SALUTE

PUBLIC COMMENT

Members of the public may address the Board on any item that is within the jurisdiction of the Board; however, no action may be taken on any item not appearing on the agenda unless the action is otherwise authorized by Subdivision (b) of Section 54954.2 of the Government Code.

ADDITIONS TO THE AGENDA

In accordance with Section 54954.2 of the Government Code (Brown Act), additions to the agenda require two-thirds vote of the legislative body, or, if less than two-thirds of the members are present, a unanimous vote of those members present that there is a need to take immediate action and that the need for action came to the attention of the local agency subsequent to the agenda being posted.

1. AUDIT RESULTS

The Board will be asked to review and possibly take action regarding the results of the audit conducted by Soren *McAdam* Bartells, Certified Public Accountants, Inc. of Riverside, CA.

ADJOURN

DECLARATION OF POSTING

I, Patti Bonawitz, Board Secretary of the Chino Basin Municipal Water District, hereby certify that a copy of this agenda has been posted by 5:30 p.m. in the foyer at the District's main office, 9400 Cherry Avenue, Building A, Fontana and at the Offices of Watermaster Services, 8632 Archibald Avenue, Suite 109, Rancho Cucamonga, on Friday, February 7, 1997.

Patti Bonawitz
Patti Bonawitz

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2 **Jean Cihigoyenette (Bar No. 105227)**
3 3602 Inland Empire Boulevard, Suite C-315
4 Ontario, CA 91764
5 (909) 483-1850

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8 Attorneys for Plaintiff,
9 **CHINO BASIN MUNICIPAL WATER DISTRICT**

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SUPERIOR COURT OF THE STATE OF CALIFORNIA
FOR THE COUNTY OF SAN BERNARDINO

11 CHINO BASIN MUNICIPAL WATER)
12 DISTRICT,)
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Plaintiff(s),)
vs.)
CITY OF CHINO, et al.,)
Defendant(s).)

CASE NO. RCV 51010
PROOF OF SERVICE BY MAIL

I am employed in the County of San Bernardino, State of California and am over the age of 18 years. I am not a party to the within action. My business address is 3602 Inland Empire Boulevard, Suite C315, Ontario, California.

On or before April 15, 1997, I served the documents described as: **NOTICE OF MOTION AND MOTION FOR COURT REVIEW OF ADVISORY COMMITTEE MANDATED ACTION; MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT THEREOF; DECLARATION OF JEAN CIHIGOYENETCHE** on the interested parties to this action in the manner described below and addressed as indicated on the attached list.

I caused the documents to be enclosed in a sealed envelope with postage thereon fully paid, and to be deposited in the United States mail in Ontario, California. The documents were to be deposited with the United States Postal Service on the same day.

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I declare that I am employed in the office of a member of the bar of this court at whose direction the service was made. I declare under penalty of perjury that the foregoing is true and correct, and that this declaration was executed on April 15, 1997, at Ontario, California.



KIM PEREZ

AAAAA AAAAA
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