

CHINO BASIN WATERMASTER

Financial Statements

Year Ended June 30, 2002
(With Independent Auditor's Report Thereon)

CONRAD AND
ASSOCIATES, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

TABLE OF CONTENTS

Page

Financial Section

Independent Auditors' Report on Financial Statements

1

Balance Sheet – All Fund Types and Account Groups

2

Statement of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual – General Fund

3

Notes to the Financial Statements

4

Supplementary Information:

Combining Schedule of Revenue, Expenditures and Changes in Fund Balance –
General Fund

10

Board of Directors
Chino Basin Watermaster
Rancho Cucamonga, California

Independent Auditors' Report

We have audited the accompanying financial statements of the Chino Basin Watermaster as of and for the year ended June 30, 2002, as listed in the accompanying table of contents. These financial statements are the responsibility of the Chino Basin 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 auditing standards generally accepted in the United States of America. 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, 2002 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Conrad and Associates, L.L.P.

September 11, 2002

CHINO BASIN WATERMASTER
Balance Sheet - All Fund Types and Account Groups
June 30, 2002

<u>Assets</u>	General	General Fixed	Totals	
	Fund	Assets Account Group	(Memorandum Only)	
			2002	2001
Cash (note 2)	\$ 85,082		\$ 85,082	\$ 47,538
Short-term investments (note 2)	4,045,244		4,045,244	2,931,513
Accounts receivable	108,905		108,905	49,125
Prepaid expenses	30,976		30,976	26,614
Property and equipment, at cost (note 3)		\$ 237,434	237,434	237,434
Total assets	\$4,270,207	\$ 237,434	\$4,507,641	\$3,292,224
 <u>Liabilities and Fund Equity</u>				
Accounts payable and accrued liabilities	\$ 261,958		\$ 261,958	\$ 313,435
Compensated absences payable (Note 4)	82,248		82,248	72,561
Total liabilities	344,206		344,206	385,996
 Fund Equity				
Investment in general fixed assets		\$ 237,434	237,434	237,434
Fund balance:				
Reserved for:				
SB222 expenditures (Note 6)	158,251		158,251	158,251
Groundwater replenishment	204,948		204,948	192,972
Appropriative pool	2,936,186		2,936,186	1,778,081
Agricultural pool (Note 7)	448,150		448,150	447,193
Non-agricultural pool	175,621		175,621	89,179
Educational programs	2,845		2,845	3,118
Total fund equity	3,926,001	237,434	4,163,435	2,906,228
Total liabilities and fund equity	\$4,270,207	\$ 237,434	\$4,507,641	\$3,292,224

CHINO BASIN WATERMASTER
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual - General Fund
Year Ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>	<u>Prior Year Actual</u>
Revenues:				
Assessment revenue:				
Replenishment water assessments	\$ 48,276	\$ 48,276	\$ -	\$ 140,193
MZ1 supplemental water assessments	1,579,550	1,579,500	(50)	1,573,000
Administrative assessments (Note 8)	3,746,487	4,483,514	737,027	4,604,063
Interest	117,225	118,608	1,383	150,533
Grant revenue	-	76,151	76,151	-
Miscellaneous revenue	-	9,017	9,017	23,439
Total revenues	<u>5,491,538</u>	<u>6,315,066</u>	<u>823,528</u>	<u>6,491,228</u>
Expenditures:				
Replenishment water purchases	48,276	-	48,276	138,041
Pre-purchased replenishment water	-	-	-	7,128
MZ1 supplemental water	1,579,492	1,567,524	11,968	1,565,345
Watermaster administration	1,065,600	999,104	66,496	1,055,532
Pool administration	143,058	142,214	844	136,533
Education funds expenditures	-	375	(375)	375
Optimum Basin Management Plan	3,487,075	2,245,137	1,241,938	2,005,221
Mutual agency project costs	108,505	103,505	5,000	18,334
Total expenditures	<u>6,432,006</u>	<u>5,057,859</u>	<u>1,374,147</u>	<u>4,926,509</u>
Excess of revenues over/(under) expenditures	(940,468)	1,257,207	2,197,675	1,564,719
Fund balance at beginning of year	2,668,794	2,668,794	-	1,104,075
Fund balance at end of year	<u>\$ 1,728,326</u>	<u>\$ 3,926,001</u>	<u>\$ 2,197,675</u>	<u>\$ 2,668,794</u>

**CHINO BASIN WATERMASTER
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE 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. RCV 51010 (formerly Case No. SCV 164327) entitled "Chino Basin Municipal Water District v. City of Chino et al", signed by the Honorable Judge Howard B. Wiener on January 27, 1978. The effective date of this Judgment for accounting and operations was July 1, 1977.

Pursuant to the Judgment, the Chino Basin Municipal Water District (CBMWD) five (5) member Board of Directors was initially appointed "Watermaster". Their term of appointment as Watermaster was for five (5) years, and the Court, by subsequent orders, provides for successive terms or for a successor Watermaster. Pursuant to a recommendation of the Advisory Committee, the Honorable J. Michael Gunn appointed a nine-member board as Watermaster on September 28, 2000.

Under the Judgment, three (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 or private entities and utilities. The three Pools act together to form the "Advisory Committee".

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

Watermaster expenditures are allocated to the Pools based on the prior year's production volume (or the same percentage used to set the annual assessments). Allocations for fiscal year 2001-02 expenses are based on the 2000-01 production volume.

	2000-01	
	Acre Feet	%
Appropriative Pool	113,437	70.251
Agricultural Pool	39,954	24.743
Non-Agricultural Pool	8,084	5.006
Total Production	161,475	100.000

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

In July of 2000, the principal parties in the Basin signed an agreement, known as the Peace Agreement, which among other things formalized the commitment of the Basin parties to implement an Optimum Basin Management Program. The Peace Agreement was signed by all of the parties, and the Court has approved the agreement and ordered the Watermaster to proceed in accordance with the terms of the agreement. The Court has approved revisions to the Chino Basin Watermaster Rules and Regulations.

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.

Description of Fund and Account Group

General Fund

The General Fund is used to account for all revenues and activities financed by the Watermaster except those required to be accounted for in another fund.

General Fixed Asset Account Group

The General Fixed Asset Account Group is used to account for the cost of fixed assets required to perform general governmental functions.

Cash and investments

Investments are reported in the accompanying balance sheet at fair value. Changes in fair value that occur during a fiscal year are recognized as interest income reported for that fiscal.

Watermaster pools cash and investments of all fund balance reserves. Investment income earned by the pooled investments is allocated quarterly to the various reserves based on each reserve's average cash and investments balance.

Basis of Accounting

The Watermaster financial statements are prepared on the modified accrual basis of accounting. Revenues are accrued when they become both measurable and available. "Available" means collected in the current period or soon enough thereafter to pay for the expenditures incurred during the current period. Expenditures are recorded when the related liability for goods or services received is incurred.

General Fixed Assets

General fixed assets are recorded as expenditures of the General Fund at the time of purchase and are subsequently capitalized for memorandum purposes in the General Fixed Assets Account Group. No depreciation is provided on general fixed assets.

NOTE 2 – CASH, DEPOSITS, SHORT-TERM AND POOLED INVESTMENTS

State statutes and the Watermaster's investment policy authorize the Watermaster to invest in certificates of deposit with financial institutions having an operating branch within the Watermaster geographic area and the State of California Treasurer's Investment pool (L.A.I.F).

The Watermaster's deposits and investments 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 by the Watermaster or its agent 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 and deposits collateralized by an interest in an undivided collateral pool held by an authorized Agent or Depository and subject to certain regulatory requirements under State law.
- 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 pledging financial institution or by its trust department or 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 deposits and investments are categorized as follows for the year ended June 30, 2002:

	Categories			Bank Balance	Carrying Amount
	1	2	3		
DEPOSITS					
Demand deposits	\$179,494	\$0	\$0	\$179,494	\$85,082
INVESTMENTS					
Pooled funds:					
Local Agency Investment Funds (LAIF)*	0	0	0	4,045,244	4,045,244
Total deposits and investments	<u>\$179,494</u>	<u>\$0</u>	<u>\$0</u>	<u>\$4,224,738</u>	<u>\$4,130,326</u>

*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, 2002. As of June 30, 2002, \$79,494 of the amount carried at Bank of America was in excess of federally insured limits.

The Watermaster is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of Watermaster's investment in this pool is reported in the accompanying financial statements at amounts based upon Watermaster's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the investment accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises and corporations.

NOTE 3 – CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets for the year ended June 30, 2002 is as follows:

General fixed assets at June 30, 2001	\$237,434
Additions	0
Deletions	<u>(0)</u>
General fixed assets at June 30, 2002	<u>\$237,434</u>

NOTE 4 – COMPENSATED ABSENCES PAYABLE

Permanent Watermaster employees earn from 10 to 20 days vacation days a year, depending upon their length of employment, and 12 sick days a year. Employees may carry vacation days forward up to the equivalent number of days earned in the immediately preceding twenty-four (24) month period. There is no maximum accumulation of sick leave; and upon retirement or resignation at age 55 or greater, employees with continuous employment for a minimum of twenty (20) years are compensated for all accumulated sick leave at their rate of pay at termination. Other employees are paid based upon length of employment and age at time of retirement or resignation.

NOTE 5 – DEFERRED COMPENSATION PLAN

The Watermaster has established deferred compensation plans for all employees of Watermaster in accordance with Internal Revenue Code Section 457, whereby employees authorize the Watermaster to defer a portion of their salary to be deposited in individual investment accounts. Participation in the plans is voluntary and may be revoked at any time upon advance written notice. Generally, the amount of compensation subject to deferral until retirement, disability, or other termination by a participant may not exceed the lesser of \$8,500 or 33.33% of includible compensation, or 25% of gross compensation. Amounts withheld by Watermaster under this plan are deposited regularly with ICMA Retirement Corp. The Watermaster makes no contribution under the plan. As of June 30, 2002 the deferred compensation plan assets were held in trust accounts for the sole benefit of the employees and their beneficiaries, and accordingly have been excluded from the Watermaster's reported assets.

NOTE 6 – SB 222 FUNDS

On November 21, 1978, the Chino Basin Watermaster unanimously approved that remaining SB222 funds be utilized primarily to deliver and spread cyclic water and secondarily to purchase and spread replenishment water.

NOTE 7 – AGRICULTURAL POOL SALE OF WATER

In June 1988, 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 for future use as determined by the Agricultural Pool members. At June 30, 2002, the proceeds from the sale and related interest earned thereon totaled \$448,151.

NOTE 8 – 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 2000-01 interest revenue was allocated to the Appropriative Pool, resulting in a reduction of the 2001-02 assessments.

NOTE 9 – OPERATING LEASE

The Watermaster currently has a lease agreement for office space expiring March 31, 2004. The amount paid under this lease was \$42,895 for the year ended June 30, 2002. The future minimum lease payments for this lease are as follows:

<u>Year Ending</u> <u>June, 30</u>	<u>Amount</u>
2003	\$ 52,767
2004	<u>40,365</u>
Total	<u>\$ 93,132</u>

NOTE 10 – EMPLOYEE RETIREMENT PLAN

Plan Description and Provision

The Watermaster contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and Watermaster resolutions. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

Funding Policy

Participants are required to contribute 7% of their annual covered salary. The Watermaster makes the contribution required by the employees on their behalf and for their account. The Watermaster is required to contribute at an actuarially determined rate. The current rate is 12.754% of annual covered payroll. The contribution requirements of plan members and the Watermaster are established and may be amended by PERS.

Annual Pension Cost

For the fiscal year ended June 30, 2002, Watermaster's annual pension cost (APC) of \$96,279 was equal to the Watermaster's required and actual contributions. The contribution required for the year ended June 30, 2002 was based upon the June 30, 1999 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 2% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5%.

The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smoothed market value). PERS' unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis with an average remaining amortization period of 19 years as of June 30, 2001.

Three-Year Trend Information for PERS

Three-Year Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC) (Employer Contribution)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/99	\$ 65,493	100%	-0-
6/30/00	58,089	100%	-0-
6/30/01	96,279	100%	-0-

Required Supplementary Information

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>*UAAL As a % of Payroll</u>
6/30/99	\$ 42,110	41,962	148	99.6%	258,820	(0.1%)
6/30/00	124,832	116,301	8,531	93.2%	333,316	(2.6%)
6/30/01	192,890	178,838	14,052	92.7%	291,502	(4.8%)

*UAAL refers to unfunded actuarial accrued liability.

NOTE 11 – LEGAL MATTERS

The Watermaster is involved in other pending litigation for which a final outcome is not known at this time.

NOTE 12 – PROJECT COMMITMENTS

Under a financing agreement developed pursuant to the OBMP Recharge Master Plan, the Watermaster is obligated to pay for one-half of the fixed project costs for certain recharge facilities in the Chino Basin area that are being constructed to increase the recharge of imported water, storm water, and recycled water to the Chino Groundwater Basin. The recharge facilities being constructed will be owned by the Inland Empire Utilities Agency pursuant to a Recharge Operations Agreement. When complete, the recharge project will enable the Watermaster to increase annual recharge to approximately 80,000 acre-feet of supplemental water to the Chino Groundwater Basin. In addition, stormwater and recycled water recharge could be increased by as much as 20,000 acre-feet each. Fixed project costs include construction costs, debt service on the related bond financing and reserves for repair, replacement, improvement and debt service.