

CHINO BASIN WATERMASTER

Financial Statements

Year Ended June 30, 2003
(With Independent Auditor's Report Thereon)

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

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, 2003, 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, 2003 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.

August 29, 2003

CHINO BASIN WATERMASTER
Balance Sheet - All Fund Types and Account Groups
June 30, 2003

<u>Assets</u>	General Fund	General Fixed Assets Account Group	Totals (Memorandum Only)	
			2003	2002
Cash (Note 2)	\$ 116,893		\$ 116,893	\$ 85,082
Short-term investments (Note 2)	4,343,138		4,343,138	4,045,244
Accounts receivable	34,788		34,788	108,905
Prepaid expenses	31,876		31,876	30,976
Property and equipment, at cost (Note 3)		\$ 222,809	222,809	237,434
Total assets	\$4,526,695	\$ 222,809	\$4,749,504	\$4,507,641
 <u>Liabilities and Fund Equity</u>				
Accounts payable and accrued liabilities	\$ 605,103		\$ 605,103	\$ 261,958
Compensated absences payable (Note 4)	82,177		82,177	82,248
Total liabilities	687,280	-	687,280	344,206
 Fund Equity				
Investment in general fixed assets		\$ 222,809	222,809	237,434
Fund balance:				
Reserved for:				
SB222 expenditures (Note 6)	158,251		158,251	158,251
Groundwater replenishment	266,503		266,503	204,948
Appropriative pool	2,780,770		2,780,770	2,936,186
Agricultural pool (Note 7)	466,068		466,068	448,150
Non-agricultural pool	165,291		165,291	175,621
Educational programs	2,532		2,532	2,845
Total fund equity	3,839,415	222,809	4,062,224	4,163,435
Total liabilities and fund equity	\$4,526,695	\$ 222,809	\$4,749,504	\$4,507,641

CHINO BASIN WATERMASTER
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual - General Fund
Year Ended June 30, 2003

	<u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>	<u>Prior Year Actual</u>
Revenues:				
Administrative Assessments (Note 8)	\$ 3,797,572	\$ 4,619,827	\$ 822,255	\$ 4,483,514
Interest	132,890	93,888	(39,002)	118,608
Local Agency Subsidies	-	25,879	25,879	-
Grants	-	-	-	76,151
Miscellaneous Revenue	-	-	-	9,017
Total Revenues	<u>3,930,462</u>	<u>4,739,594</u>	<u>809,132</u>	<u>4,687,290</u>
Expenditures:				
Watermaster Administration	752,208	813,545	(61,337)	999,104
Pool, Advisory & Board Administration	200,174	129,655	70,519	142,214
Education Funds Expenditures	375	375	-	375
Optimum Basin Management Plan	4,215,891	3,866,001	349,890	2,245,137
Mutual Agency Project Costs	2,500	78,158	(75,658)	103,505
Total Expenditures	<u>5,171,148</u>	<u>4,887,734</u>	<u>283,414</u>	<u>3,490,335</u>
Excess of Revenues over/(under) Expenditures	(1,240,686)	(148,140)	525,718	1,196,955
Other Revenues:				
Replenishment Water Assessments	-	1,473,723	1,473,723	48,276
MZ1 Supplemental Water Assessments	2,285,049	1,586,000	(699,049)	1,579,500
Total Other Revenues	<u>2,285,049</u>	<u>3,059,723</u>	<u>774,674</u>	<u>1,627,776</u>
Other Expenditures:				
Replenishment Water Purchases	699,000	1,430,645	(731,645)	-
MZ1 Supplemental Water	1,586,049	1,567,524	18,525	1,567,524
Total Other Expenditures	<u>2,285,049</u>	<u>2,998,169</u>	<u>713,120</u>	<u>1,567,524</u>
Excess of Other Revenues over/(under) Other Expenditures	-	61,554	61,554	60,252
Net Excess of Revenues over/(under) Expenditures	(1,240,686)	(86,586)	1,154,100	1,257,207
Fund Balance at Beginning of Year	3,926,001	3,926,001	-	2,668,794
Fund Balance at End of Year	<u>\$ 2,685,315</u>	<u>\$ 3,839,415</u>	<u>\$ 1,154,100</u>	<u>\$ 3,926,001</u>

**CHINO BASIN WATERMASTER
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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 as "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 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 2002-03 expenses are based on the 2001-02 production volume.

	2001-02	
	Acre Feet	%
Appropriative Pool	120,856	72.849
Agricultural Pool	39,494	23.806
Non-Agricultural Pool	5,548	3.345
Total Production	165,898	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 accounting principles generally accepted in the United States of America 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 year.

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's geographic area and the State of California Treasurer's Local Agency Investment Fund (LAIF).

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, 2003:

	Categories			Bank Balance	Carrying Amount
	1	2	3		
DEPOSITS					
Demand deposits	\$198,064	\$0	\$0	\$198,064	\$116,893
INVESTMENTS					
Pooled funds:					
Local Agency Investment Funds (LAIF)*	0	0	0	4,343,138	4,343,138
Total deposits and investments	<u>\$198,064</u>	<u>\$0</u>	<u>\$0</u>	<u>\$4,541,202</u>	<u>\$4,460,031</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, 2003.

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, 2003 is as follows:

General fixed assets at June 30, 2002, as previously reported	\$237,434
Additions	18,808
Deletions	<u>(33,433)</u>
General fixed assets at June 30, 2003	<u>\$222,809</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 50% of 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 \$12,000 or 33.33% of includible compensation, or 25% of gross compensation. Amounts withheld by Watermaster under this plan are deposited regularly with California Public Employees' Retirement System. The Watermaster makes no contribution under the plan. As of June 30, 2003 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 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, 2003, the proceeds from the sale and related interest earned thereon totaled \$466,068.

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 2001-02 interest revenue was allocated to the Appropriative Pool, resulting in a reduction of the 2002-03 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 \$53,272 for the year ended June 30, 2003. The future minimum lease payments for this lease are as follows:

<u>Year Ending June, 30</u>	<u>Amount</u>
2004	<u>40,365</u>
Total	<u>\$ 40,365</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 12.756% 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, 2003, Watermaster's Annual Pension Cost (APC) of \$117,941 was equal to the Watermaster's required and actual contributions. The required contribution for the year ended June 30, 2003 was determined as part of the June 30, 2000 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 age, service and type of employment, 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 may not be lower than the payment calculated over a 30 year amortization period.

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>
6/30/01	\$ 58,089	100%	-0-
6/30/02	96,279	100%	-0-
6/30/03	117,941	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>
6/30/00	\$ 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%)
6/30/02	294,441	262,540	31,901	89.2%	517,200	(6.2%)

*UAAL refers to unfunded actuarial accrued liability.

NOTE 11 – LEGAL MATTERS

The Watermaster is involved in 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 supplemental water to the Chino Groundwater Basin. In addition, stormwater and recycled water recharge would be increased. Fixed project costs include construction costs, debt service on the related bond financing and reserves for repair, replacement, improvement and debt service.

CHINO BASIN WATERMASTER
 COMBINING SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN WORKING CAPITAL
 FOR THE
 PERIOD JULY 1, 2002 THROUGH JUNE 30, 2003

	WATERMASTER ADMINISTRATION	OPTIMUM BASIN MANAGEMENT	POOL ADMINISTRATION AND SPECIAL PROJECTS APPROPRIATIVE POOL	AGRICULTURAL POOL	NON-AGRIC. POOL	GROUNDWATER OPERATIONS GROUNDWATER REPLENISHMENT	SB222 FUNDS	EDUCATION FUNDS	GRAND TOTALS	BUDGET 2002-03
Administrative Revenues										
Administrative Assessments			4,470,785		149,042				4,619,827	3,797,572
Interest Revenue			79,234	10,168	4,423			62	93,888	132,890
Mutual Agency Project Revenue	25,879								25,879	-
Grant Income									-	-
Miscellaneous Income									-	-
Total Revenues	25,879	-	4,550,019	10,168	153,466	-	-	62	4,739,594	3,930,462
Administrative & Project Expenditures										
Watermaster Administration	813,546								813,546	752,208
Watermaster Board-Advisory Committee	39,415								39,415	60,392
Pool Administration			14,129	71,706	4,404				90,240	139,782
Optimum Basin Mgmt Administration		939,061							939,061	891,634
OBMP Project Costs		2,926,940							2,926,940	3,324,257
Education Funds Use								375	375	375
Mutual Agency Project Costs	78,158								78,158	2,500
Total Administrative/OBMP Expenses	931,119	3,866,001	14,129	71,706	4,404			375	4,887,735	5,171,148
Net Administrative/OBMP Income	(905,240)	(3,866,001)								
Allocate Net Admin Income To Pools	905,240		659,460	215,505	30,276				-	-
Allocate Net OBMP Income To Pools		3,866,001	2,816,349	920,354	129,299				-	-
Agricultural Expense Transfer			1,195,315	(1,195,315)					-	-
Total Expenses			4,685,252	12,250	163,979	-	-	375	4,887,735	5,171,148
Net Administrative Income			(135,233)	(2,082)	(10,513)			(313)	(148,141)	(1,240,686)
Other Income/(Expense)										
Replenishment Water Purchases						1,473,723			1,473,723	615,000
MZ1 Supplemental Water Assessments						1,586,000			1,586,000	1,670,049
Water Purchases									-	-
MZ1 Imported Water Purchase						(1,567,524)			(1,567,524)	(1,586,049)
Groundwater Replenishment						(1,430,645)			(1,430,645)	(699,000)
Net Other Income						61,554			61,554	-
Net Transfers To/(From) Reserves			(135,233)	(2,082)	(10,513)	61,554		(313)	(86,586)	(1,240,686)
Working Capital, July 1, 2002			2,916,003	468,150	175,805	204,948	158,251	2,845	3,926,002	
Working Capital, End Of Period			2,780,770	466,069	165,292	266,502	158,251	2,532	3,839,415	
01/02 Production			120,855.574	39,494.349	5,548.481				165,898.404	
01/02 Production Percentages			72.849%	23.806%	3.345%				100.000%	